Globaltrans Investment Plc

Directors' report and consolidated financial statements for the year ended 31 December 2009

Directors' report and consolidated financial statements for the year ended 31 December 2009

Contents

Board of Directors and other officers

Board of Directors

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

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

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

Mr. Sergey Maltsev
Executive Director
Chief Executive Officer

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

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

Mr. Konstantin Shirokov
Executive Director

Board support

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

Company Secretary

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

Registered office
20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2009. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

Market conditions during 2009 proved to be challenging and volatile. As the fall out of the global financial crisis spread, more and more parts of the world economy were affected, including Russia's main industrial sectors. This inevitably had a knock on effect on Russia's dominant freight rail sector, which transports much of the country's output. In 2009 we witnessed sharp falls in freight volumes in the first part of the year, followed by steady recovery over the rest of the year.

Against this volatile backdrop, the Group produced a pleasing operational performance, outperforming the overall market both in the downturn and, again, as markets moved into the recovery phase.

In line with its commitment to maintain a balanced fleet, in 2009 the Group completed the acquisition of LLC BaltTransServis, one of Russia's leading private freight rail operators, acquiring a controlling stake in exchange for shares in the Company. LLC BaltTransServis specialises in the shipment of oil products and oil and operates a fleet of over 9,000 railcars. LLC BaltTransServis represents an excellent strategic fit with the rest of our business portfolio, providing a strong customer base and stable revenues. With its purchase, the Group became the largest private player in the oil products and oil freight rail transportation business in Russia by size of owned fleet.

The Group has expanded its presence in the shipment of ferrous metals sector and in the oil products and oil sector where its respective market shares have improved.

Reviewing the Group's financial performance in 2009, adjusted revenue decreased by 12% compared to the previous year. Net profit fell by 15%, while operating profit decreased by 21%.

The net profit of the Group for the year ended 31 December 2009 was US$121,173 thousand (2008: US$142,565 thousand). On 31 December 2009 the total assets of the Group were US$1,264,968 thousand (2008: US$1,231,426 thousand) and net assets were US$711,568 thousand (2008: US$559,038 thousand).

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

Principal risks and uncertainties

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

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

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

Future developments

The Board of Directors does not expect any significant changes in the activities of the Group for the foreseeable future. The Group's strategic objective is to strengthen its leading rail freight transportation market position in Russia by further utilising its scalable business model.

Results

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

Dividends

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

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

No interim dividends were declared by the Board of Directors during the year ended 31 December 2009.

The Board of Directors of the Company recommends a payment of dividend in relation to prior periods in the amount of US$24,000 thousand.

Share capital

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

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

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

As at 31 December 2009 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share (2008: 116,959,064 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 2009 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2009.

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 2009 amounted to US$395 thousand (2008: US$305 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 2009 is shown below:

	Type of holding	Shares/Global Depositary Receipts held at 31 December 2009[1]	Shares/Global Depositary Receipts held at 31 December 2008[2]
Alexander Eliseev	Through shareholding in Envesta Investments Ltd and other entities controlled by him	11,318,909	11,201,262
Sergey Maltsev	Through shareholding in Envesta Investments Ltd	11,658,456	11,658,456
Johann Franz Durrer	GDRs of Globaltrans Investment Plc	100,000	100,000

[1] Total number of issued shares of the Company as at 31 December 2009 was 158,135,533
[2] Total number of issued shares of the Company as at 31 December 2008 was 116,959,064.

Events after the balance sheet date

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

Board performance

The Board held 18 meetings in 2009. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	10
Michael Zampelas	18
Hans Durrer	18
Sergey Maltsev	4
Mikhail Loganov	17
Elia Nicolaou	17
Konstantin Shirokov	18

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, and the effectiveness of the Company's internal controls and risk management systems;
- auditors' reports; and
- the terms of appointment and remuneration of the auditor.

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

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

Board and Management Remuneration

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

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

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 3 September 2009.

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

Branches

The Group operates through branches and representative offices, maintaining ten branches and nineteen representative offices during 2009, ten branches and fifteen representative offices during 2008.

Treasury shares

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

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2010, 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

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Alexander Eliseev
Chairman of the Board of Directors
Limassol
9 April 2010

Directors' responsibility

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

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

Each of the Director's confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 9 to 60) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the financial position, financial performance and cash flows the Company and the undertakings included in the consolidation taken as a whole.

By order of the Board

Sergey Maltsev	Mikhail Loganov
Director	Director

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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 on pages 9 to 60 which comprise the consolidated balance sheet as at 31 December 2009 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 notes.

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 (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

PRICEWATERHOUSECOOPERS

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 Globaltrans Investment Plc and its subsidiaries as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 5 is consistent with the consolidated financial statements.

Other Matter

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

PricewaterhouseCoopers

PricewaterhouseCoopers Limited
Chartered Accountants

Limassol, 9 April, 2010

Consolidated income statement

for the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Revenue	5	**1,163,407**	1,445,030
Cost of sales	6	**(874,152)**	(1,088,116)
Gross profit		**289,255**	356,914
Selling and marketing costs	6	**(2,181)**	(3,064)
Administrative expenses	6	**(58,793)**	(66,646)
Other gains – net	7	**785**	1,150
Operating profit		**229,066**	288,354
Finance income	9	**5,886**	5,366
Finance costs	9	**(84,559)**	(120,231)
Finance costs – net	9	**(78,673)**	(114,865)
Share of profit of associates	14	**461**	556
Profit before income tax		**150,854**	174,045
Income tax expense	10	**(29,681)**	(31,480)
Profit for the year		**121,173**	142,565
Attributable to:			
Equity holders of the Company		**88,057**	115,639
Minority interest		**33,116**	26,926
		121,173	142,565
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	**0.74**	1.04

The notes on pages 15 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	2009	2008
	US$'000	US$'000
Profit for the year	**121,173**	142,565
Other comprehensive income:		
Currency translation differences	**(9,788)**	(116,887)
Other comprehensive loss for the year, net of tax	**(9,788)**	(116,887)
Total comprehensive income for the period	**111,385**	25,678
Total comprehensive income attributable to:		
- owners of the Company	**79,315**	12,510
- minority interest	**32,070**	13,168
	111,385	25,678

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

The notes on pages 15 to 60 are an integral part of these consolidated financial statements.

Consolidated balance sheet

at 31 December 2009

	Note	2009 US$'000	2008 US$'000
Assets			
Non-current assets			
Property, plant and equipment	12	**905,475**	914,488
Intangible assets	13	**507**	-
Trade and other receivables	18	**54,534**	28,023
Investment in associate	14	**1,386**	926
		961,902	943,437
Current assets			
Inventories	19	**5,759**	5,766
Trade and other receivables	18	**128,758**	133,391
Current income tax assets		**5,469**	11,706
Cash and cash equivalents	20	**160,253**	137,126
		300,239	287,989
Non-current assets held for sale	15	**2,827**	-
Total assets		**1,264,968**	1,231,426
Equity and liabilities			
Equity attributable to the owners of the Company			
Share capital	21	**15,814**	11,696
Share premium	21	**621,227**	279,145
Common control transaction reserve		**(368,476)**	(118,485)
Translation reserve		**(80,557)**	(71,815)
Capital contribution		**90,000**	90,000
Retained earnings		**332,253**	281,456
Total equity attributable to the owners of the Company		**610,261**	471,997
Minority interest		**101,307**	87,041
Total equity		**711,568**	559,038
Net assets attributable to minority participants in redeemable shares	32/33	-	16,164
Other non-current liabilities			
Borrowings	24	**295,679**	337,920
Trade and other payables	26	**11,105**	26,315
Deferred gains	23	**178**	508
Deferred tax liabilities	25	**27,955**	23,673
Total non-current liabilities, excluding net assets attributable to minority participants in redeemable shares		**334,917**	388,416
Total non-current liabilities		**334,917**	404,580
Current liabilities			
Borrowings	24	**153,452**	159,807
Trade and other payables	26	**64,084**	104,968
Deferred gains	23	**338**	920
Current tax liabilities		**609**	2,113
Total current liabilities		**218,483**	267,808
Total liabilities		**553,400**	672,388
Total equity and liabilities		**1,264,968**	1,231,426

On 9 April 2010 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Maltsev, Director

Mikhail Loganov, Director

The notes on pages 15 to 60 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity
for the year ended 31 December 2009

	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve (1) US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000	Minority interest US$'000	Total US$'000
		Attributable to the owners of the Company								
Balance at 1 January 2008		10,000	61,560	(47,966)	31,314	90,000	195,823	340,731	96,262	436,993
Comprehensive income										
Profit for the year		-	-	-	-	-	115,639	115,639	26,926	142,565
Other comprehensive loss										
Currency translation differences		-	-	-	(103,129)	-	-	(103,129)	(13,758)	(116,887)
Total comprehensive income for 2008		**-**	**-**	**-**	**(103,129)**	**-**	**115,639**	**12,510**	**13,168**	**25,678**
Transactions with owners										
Issue of shares	21	1,696	223,012	-	-	-	-	224,708	-	224,708
Expenses directly related to issue of new shares	21	-	(5,427)	-	-	-	-	(5,427)	-	(5,427)
Interim dividend for 2008	22	-	-	-	-	-	(8,900)	(8,900)	-	(8,900)
Dividends paid to shareholders of LLC BaltTransServis prior to common control transaction(2)	32	-	-	-	-	-	(21,106)	(21,106)	(16,885)	(37,991)
Common control transaction	32	-	-	(76,023)	-	-	-	(76,023)	-	(76,023)
Minority interest on acquisition		-	-	5,504	-	-	-	5,504	(5,504)	-
Total transactions with owners		**1,696**	**217,585**	**(70,519)**	**-**	**-**	**(30,006)**	**118,756**	**(22,389)**	**96,367**
Balance at 31 December 2008/ 1 January 2009		**11,696**	**279,145**	**(118,485)**	**(71,815)**	**90,000**	**281,456**	**471,997**	**87,041**	**559,038**
Comprehensive income										
Profit for the year		-	-	-	-	-	88,057	88,057	33,116	121,173
Other comprehensive loss										
Currency translation differences		-	-	-	(8,742)	-	-	(8,742)	(1,046)	(9,788)
Total comprehensive income for 2009		-	-	-	(8,742)	-	88,057	79,315	32,070	111,385
Transactions with owners										
Issue of shares	21	4,118	345,882	-	-	-	-	350,000	-	350,000
Expenses directly related to issue of new shares	21	-	(3,800)	-	-	-	-	(3,800)	-	(3,800)
Dividends paid to shareholders of LLC BaltTransServis prior to common control transaction(2)	32	-	-	-	-	-	(37,260)	(37,260)	(29,809)	(67,069)
Exchange of liability to minority participants in redeemable shares for equity instruments(3)	33	-	-	-	-	-	-	-	12,005	12,005
Common control transaction	32	-	-	(249,991)	-	-	-	(249,991)	-	(249,991)
Total transactions with owners		**4,118**	**342,082**	**(249,991)**	**-**	**-**	**(37,260)**	**58,949**	**(17,804)**	**41,145**
Balance at 31 December 2009		**15,814**	**621,277**	**(368,476)**	**(80,557)**	**90,000**	**332,253**	**610,261**	**101,307**	**711,568**

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

In December 2008, the Company acquired from its parent entity 61% share of AS Spacecom and 65% share of AS Intopex Trans. The acquisition of AS Spacecom and AS Intopex Trans has been accounted as a common control transaction using the predecessor basis (Note 2 and 32).

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

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

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

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

The notes on pages 15 to 60 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2009

	Note	2009 US$'000	2008 US$'000
Cash flows from operating activities			
Profit before tax		**150,854**	174,045
Adjustments for:			
Depreciation of property, plant and equipment	12	**53,193**	60,588
Amortisation of intangible assets	13	**14**	-
Loss/(gain) on sale of property, plant and equipment	12	**1,679**	(2,640)
Amortisation of financial guarantees	9	**(1,798)**	(1,252)
Write off of excess of acquirer's interest in the net fair	28	**(15)**	-
Impairment charge on property, plant and equipment	12	**1,291**	-
Interest income	9	**(4,088)**	(4,114)
Interest expense	9	**47,506**	56,028
Share of profit of associates	14	**(461)**	(556)
Exchange losses/(gains) on financing activities	9	**21,104**	59,982
Distribution to minority participants in redeemable shares	9	**7,451**	4,221
Loss on exchange of financial liabilities	9	**8,498**	-
Recognised deferred gain	7	**(904)**	(1,737)
Other		**(216)**	
		284,108	344,565
Changes in working capital:			
Inventories		**7**	(270)
Trade and other receivables		**12,830**	8,157
Trade and other payables		**(6,744)**	(55,824)
Cash generated from operations		**290,201**	296,628
Tax paid		**(18,003)**	(47,044)
Net cash from operating activities		**272,198**	249,584
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	28/32	**(71,667)**	-
Loans granted to third parties		**-**	(54)
Loans repayments received from related parties	31	**-**	3,128
Loans repayments received from third parties		**-**	300
Purchases of property, plant and equipment		**(106,655)**	(144,788)
Purchases of intangible assets	13	**(497)**	-
Proceeds from disposal of property, plant and equipment	12	**3,923**	2,347
Interest received		**4,102**	4,110
Receipts from finance lease receivable		**3,335**	21,228
Net cash used in investing activities		**(167,459)**	(113,729)
Cash flows from financing activities			
Proceeds from borrowings		**309,028**	454,810
Repayments of borrowings		**(288,288)**	(554,390)
Finance lease principal payments		**(94,280)**	(81,159)
Interest paid		**(49,682)**	(57,260)
Proceeds from sale and finance leaseback transactions		**20,788**	40,880
Proceeds from issue of shares - net		**96,209**	209,087
Dividends paid to shareholders of BTS prior to common		**(67,069)**	(37,991)
Distribution to minority participants in redeemable shares		**(7,451)**	(4,221)
Dividends paid to Company's shareholders		**-**	(19,542)
Net cash (used in)/from financing activities		**(80,745)**	(49,786)
Net (decrease)/increase in cash and cash equivalents		**23,994**	86,069
Exchange (losses)/gains on cash and cash equivalents		**(1,815)**	(6,025)
Cash and cash equivalents at beginning of year	20	**136,914**	56,870
Cash, cash equivalents and bank overdrafts at end of	20	**159,093**	136,914

Principal non-cash investing and financing transactions

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

(a) Finance leases as a lessor (Note 18)
(b) Finance leases as a lessee (Note 24)
(c) Common control transaction financed by the issue of shares (Note 32)

The notes on pages 15 to 60 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Country of incorporation

The Company was incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113. The address of the Company's registered office is 20 Omirou Street, Limassol, Cyprus. The Group's principal place of business is at 16 Spartakovskaya Sqr., Moscow, Russia.

On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment Plc and the Company was converted into a public limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113.

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 9 April 2010.

Principal activities

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

Group structure

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

				Effective % interest held	
Name	**Status**	**Country of incorporation**	**Principal activities**	**2009**	**2008**
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	100	100
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	100	100
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	100
BaltTransServis, LLC	Subsidiary	Russia	Railway transportation	50	-
Ingulana Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	55.56	-
Ultracare Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	50	-
Spacecom AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	61	61
Skinest Veeremi AS	Subsidiary	Estonia	Operating lease of rolling stock	61	61
Hoover SIA	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	61	61
Ekolinja Oy	Subsidiary	Finland	Operating sub-lease of rolling stock	61	-
Intopex Trans AS	Subsidiary	Estonia	Operating lease of rolling stock	65	65

In December 2009 the Company acquired a 55.56% shareholding in Ingulana Holdings Limited, a special purpose vehicle holding an effective 90% shareholding in LLC BaltTransService, Russia. As at 31 December 2009 Ingulana Holdings Limited holds 90% share of Ultracare Holdings Limited, Cyprus who in turn holds 100% share in LLC BaltTransServis, Russia, a private Russian railway transportation services operator, specialising in shipping oil products and oil for Russian oil majors and other oil companies active in the Russian downstream and upstream sector. The acquisition has been accounted for as a common control transaction using the predecessor basis and the consolidated financial statements for the year ended 31 December 2008 have been restated in order to reflect the acquisition (Note 2 and 32).

Ultracare Holdings Limited and LLC BaltTransServis are controlled by the Group via majority shareholding held by the Company in Ingulana Holdings Limited, the parent entity of Ultracare Holdings Limited which in turn is the 100% shareholder of LLC BaltTransServis.

In December 2009, AS Spacecom has acquired a 100% shareholding in Ekolinja OY, a Finnish entity engaged in a sub-lease of rolling stock (Note 28).

In December 2008, the Company acquired from its parent entity 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans. AS Spacecom is engaged in operating lease of rolling stock and provision of freight forwarding services, whereas AS Intopex Trans is engaged in operating lease of rolling stock only. The acquisition of both companies has been accounted for as a common control transaction using the predecessor basis.

AS Skinest Veeremi and Hoover SIA are wholly owned subsidiaries of AS Spacecom, thus 61% indirect shareholding in AS Skinest Veeremin and 61% indirect shareholding in Hoover SIA was acquired via the acquisition of 61% shareholding in AS Spacecom.

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 2009 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.

In addition, the following interpretations have been endorsed, however their effective dates are not the same, although an entity may choose to early adopt them:

i. IFRIC 12 "Service Concession Arrangements";
ii. IFRIC 15 "Agreements for the construction of real estate"; and
iii. IFRIC 16 "Hedges of a Net Investment in a Foreign Operation".

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

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

New standards, interpretations and amendments to published standards

(a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2009:

- IFRS7 "Financial instruments – Disclosures" (amendment) (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Group is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Group also has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IAS 1 (Revised 2007) Presentation of Financial Statements" (effective 1 January 2009) - The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduced a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group has elected to present two statements: an income statement and a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Amendment had no impact on the recognition or measurement of specific transactions and balances.

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) - IFRS 8 replaces IAS 14, "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented and some changes in their composition. Major differences between segment information presented under IAS 14 and IFRS 8 are described in Note 5. 'Segmental information'.

  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision- maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.

  The change in reportable segments has not resulted in any impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have been restated to reflect the adopted methodology.

- IAS 23 (Amendment) "Borrowing Costs" (effective from 1 January 2009) - It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. This Standard does not have any impact on the Group's financial statements, as the Group has adopted the allowed alternative treatment in IAS 23 prior to its amendment and is already capitalising borrowing costs directly attributable to the acquisition or production of qualifying assets.

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have any material effect on the Group's financial statements.

- IFRIC 18, "Transfers of asset by customers" (effective for transactions occurring on or after 1 July 2009) – addresses the accounting of an asset received from a customer in return for connection to a network or ongoing access to goods and services. The new standard did not have any effect of the Group's financial statements as no such transactions occurred in 2009.

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

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

- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.

- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements" (effective for accounting periods beginning on or after 1 July 2009) - The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply these improvements when they become effective.

- IAS 24, "Related Party Disclosures"* (Amendments) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements. The Group will adopt the Amendments when they become applicable subject to the endorsement by the European Union.

- IFRS 9, "Financial Instruments Part 1: Classification and Measurement."* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

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

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

- IFRS 1 (revised) 'First-time adoption' (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009) - The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

- Improvements to International Financial Reporting Standards (issued in May 2008). The change in relation to classification as held for sale under IFRS5 in case of a loss of control over a subsidiary is effective for annual periods beginning on or after 1 July 2009. This improvement is not expected to have a material effect on the Group's consolidated financial statements.

- IAS 32, "Classification of Rights Issues" (Amendment) (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group will apply the Amendment from 1 January 2011 but it is not expected to have any impact on the Group's consolidated financial statements

- IFRIC 17, Distributions of non-cash assets to owners (effective for annual periods beginning on or after 1 July 2009) - Clarifies how an entity should measure distribution of assets, other than cash, when it pays dividends to its owners. The Group will apply the Standard from 1 January 2010 but it is not expected to have any impact on the Group's consolidated financial statements.

- Amendment to IAS 39, 'Financial Instruments: 'Recognition and measurement-Eligible hedged items'. (effective for annual periods beginning on or after 1 July 2009) - This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the Amendment from 1 January 2010 but it is not expected to have any impact on the Group's consolidated financial statements.

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"* (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The expected impact is still being assessed in detail by management and the impact is not yet known nor can it be reasonably estimated.

- IFRS 2, "Share-based Payment" (Amendments) (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

- IFRS 1 (Amendments), "Additional Exemptions for First-time Adopters"* (effective for annual periods beginning on or after 1 January 2010) The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

- IFRS 1 (Amendments), "Limited Exemption from Comparative IFRS7 disclosures for First Time Adopters"* (effective for annual periods beginning on or after 1 July 2010). The amendments will not have any impact on the Group's consolidated financial statements.

- IFRIC14 (Amendments), "Prepayments of a Minimum Funding Requirement"* (effective for annual periods beginning on or after 1 January 2011). The amendments will not have any impact on the Group's financial statements.

- IFRIC12, "Service concession arrangements" (effective for annual periods beginning on or after 30 March 2009). This interpretation is not relevant to the Group's operations.

- IFRIC 15, "Agreements for the construction of real estate" (effective for annual periods beginning on or after 31 December 2009). The interpretation clarifies whether IAS18, "Revenue", or IAS11, "Construction contracts", should be applied to particular transactions. It is likely to result in IAS18 being applied to a wider range of transactions. IFRIC15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS18 and not IAS11.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 30 June 2009). IFRIC16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS21, "The effects of changes in foreign exchange rates", do apply to the hedged item. IFRIC16 is not relevant to the Group's operations.

  ** Standards and interpretations which have not yet been endorsed by the European Union.*

Basis of consolidation

(a) Subsidiaries

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

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

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

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

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

(b) Transactions with minority interest

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Associates

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

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

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

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

Segment reporting

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

Revenue recognition

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

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

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

(a) Revenue from railway transportation services

The Group operates the following services:

1. Revenues from railway transportation – using own or leased rolling stock

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

   There are three types of operator's services:

   - The Group has a contractual relationship with the client and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is borne by the Group. Total proceeds from clients are included in the Group's revenue (Note 5).

   - The Group has a contractual relationship with the client and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is paid by the Group and recharged to the customer as a reimbursement. Under these arrangements the Group recognises turnover net of OAO "Russian Railways" tariff.

   - The Group has a contractual relationship with the customer and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The tariff is paid directly by the customer to OAO "Russian Railways".

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

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

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

(b) Revenues from leasing

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

(c) Revenues from sale of wagons and locomotives

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

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

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

(d) Interest income

Interest income is recognised on a time proportion basis using the effective interest and 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 Company's functional currency is the Russian Rouble (RUR). However, the consolidated financial statements are presented in United States dollars (US$) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

(b) Transactions and balances

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

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

(c) Group companies

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

- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items at the average monthly rate, which approximates the exchange rate existing at the date of transactions; and,
- Share capital, share premium and all other reserves are translated using the historic rate.

All exchange differences resulting from the above translation are recognised in translation reserve in equity.

On consolidation, exchange differences arising from the transaction of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

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

Property, plant and equipment

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

Land is not depreciated.

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

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

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

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

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

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

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

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

Intangible assets

(a) Computer software

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

Impairment of non-financial assets

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

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

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

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

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

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

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

When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Extinguishment of the original financial liability

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

Inventories

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

Cash and cash equivalents

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

Cash flow statement

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

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

Trade receivables

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

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

Share capital

Ordinary shares are classified as equity.

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

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

Trade payables

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

Non-current assets held for sale

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

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

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

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee and amortisation income is recognised in the income statement within finance income. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Current and deferred income tax

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

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

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

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

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

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

Value Added Tax (VAT)

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

Employee benefits

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

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

Dividend distribution

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

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

Net assets attributable to minority participants in redeemable shares

The equity participants in the share capital of limited liability companies incorporated in Russia have a right to request redemption of their interests in such entity in cash. Consequently, the share of net assets of the Group's subsidiaries which is not attributable to the Group gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the entity. As a practical expedient, the Group measures the liability presented as Net assets attributable to minority participants in redeemable shares at the IFRS carrying value of such entity's net assets attributable to minority shareholders holding such redeemable shares. The liability is classified as non-current because the Group has an unconditional right to defer redemption for at least twelve months after the balance sheet date.

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

Comparatives

The acquisition of 55.56% shareholding in Ingulana Holdings Limited and consequently of 50% controlling interest in LLC BaltTransServis is a common control transaction and accounted for using the predecessor basis of accounting. Necessary changes have been made to the comparative balances to conform with the Group's accounting policy (Note 32).

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 substantial amount of long-term borrowings and lease liabilities denominated in US dollars, whereas a large proportion of the Group's expenses and revenues are denominated and settled in Russian Roubles.

The strengthening of the Russian rouble in real terms relative to the US dollar in recent years has been favourable to the Group by reducing the cost of its US dollar denominated borrowings. However, the depreciation in value of the Russian rouble against the US dollar from September 2008 until May 2009 led to the Group realising a foreign exchange loss on its US dollar denominated borrowings. From May 2009 onwards the Russian rouble stabilised at the level approximating that at the end of 2008. The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Rouble, which could have a material effect on its results of operations and financial condition. The Group is also exposed to the effects of currency fluctuations between the US Dollar and the Euro to which the Estonian kroons, which is the functional currency of the Estonian subsidiary, is fixed.

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2009 and 31 December 2008 are as follows:

	2009	2008
	US$'000	US$'000
Assets	**169,521**	124,966
Liabilities	**297,756**	515,933
Capital commitments	**-**	-

Had US dollar exchange rate strengthened/weakened by 10% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2009, would have decreased/increased by US$5,336 thousand (2008: 33% change, effect US$104,190 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US dollars for the Russian subsidiaries of the Group. Profit was less sensitive to fluctuations of the exchange rate of Russian rouble to US dollar for the year ended 31 December 2009 compared to 2008 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2009 (Note 24).

Had US dollar exchange rate strengthened/weakened by 10% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2009, would have decreased/increased by US$4,198 thousand (2008: 25% change, effect US$17,126 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US Dollar for the Estonian subsidiaries of the Group.

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 is also undergoing an initiative to re-finance some of its US Dollar denominated liabilities by obtaining long term debt denominated in Russian Roubles. However, as the US dollar interest rates continue to be relatively attractive compared to the Russian Rouble interest rate, a substantial portion of the Group's long term borrowings continue to be in US dollars.

(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 lease liabilities and lease receivables with fixed interest rate. However, any potential change in the market rates of interest will not have an impact on the carrying amount of the fixed rate financial instruments and hence on the Group's post tax profit or equity as these instruments are carried at amortised cost.

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

Had US dollar, Euro and Russian rouble lease and credit interest rates 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$2,506 thousand for the year ended 31 December 2009 (2008: 1% change in US dollar and Euro lease and credit interest rates, effect US$2,965 thousand; 2% change in Russian rouble lease and credit interest rates, effect US$672 thousand).

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

(c) Credit risk

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

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. 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 54.68% of the Group's trade and other receivables as at 31 December 2009 (2008: 69.53%).

These figures include trade and other receivables arising from business with related parties which account for 29.36% as at 31 December 2009 (2008: 15.85%).

In addition, current and non-current finance lease receivables arise from business with two customers only (one in 2008).

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 2009 and 31 December 2008:

	Fully performing	Past due	Impaired	Impairment provision	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2009					
Trade receivables	22,254	15,221	3,285	(3,285)	37,475
Loans to third parties	21	-	-	-	21
Other receivables[(1)]	4,713	932	544	(544)	5,645
Finance lease receivables	40,499	-	-	-	40,499
	67,487	**16,153**	**3,829**	**(3,829)**	**83,640**
As of 31 December 2008					
Trade receivables	15,458	26,888	2,634	(2,634)	42,346
Loans to third parties	120	-	-	-	120
Other receivables[(1)]	3,930	13,837	-	-	17,767
Finance lease receivables	6,993	-	-	-	6,993
	26,501	**40,725**	**2,634**	**(2,634)**	**67,226**

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

(d) Liquidity risk

The Group has a net working capital surplus of US$81,756 thousand (2008: US$20,181 thousand) as at 31 December 2009.

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$64,076 thousand for 2009 (2008: US$32,417 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 2009 and 31 December 2008. 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	Between one month and three months	Between three and six months	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over five years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2009								
Borrowings	13,291	49,655	37,062	84,189	177,284	148,202	-	509,683
Trade and other payables[(1)]	21,893	444	7,964	2,468	2,033	6,098	10,675	51,574
Financial guarantee contracts[(2)]	-	1,723	21,847	2,368	23,621	21,298	-	70,857
	35,184	**51,822**	**66,873**	**89,025**	**202,938**	**175,598**	**10,675**	**632,114**
As of 31 December 2008								
Borrowings	13,501	50,845	53,482	75,827	155,488	228,102	11,541	588,786
Trade and other payables[(1)(3)]	37,245	13,788	9,625	12,331	30,562	-	-	103,551
Financial guarantee contracts[(2)]	-	8,006	36,994	-	45,000	90,000	-	180,000
Net assets attributable to minority participants in redeemable shares	-	-	-	-	16,164	-	-	16,164
	50,746	**72,639**	**100,101**	**88,158**	**247,214**	**318,102**	**11,541**	**888,501**

[(1)] Statutory liabilities are excluded as the analysis is provided for financial liabilities only

[(2)] The maximum possible amount of obligation under financial guarantee contracts is disclosed

[(3)] The Group has recognised a liability for minimum distribution of 25% of the distributable profits of LLC BaltTransServis to minority shareholder of that subsidiary, which is payable at six monthly intervals. The amounts included in the liquidity risk table in relation to this liability are the undiscounted cash flows expected to be paid by the Group to the minority shareholder, based on the projected profitability of the relevant subsidiary for the next 5 years. For periods after 5 years, the amount disclosed in the liquidity risk table is the relative proportion of the terminal value, as estimated in the discounted cash flow valuation of the relevant subsidiary, which is attributable to the proportion of the minority for which there is liability for minimum dividend distribution. Management is of the opinion that this provides the most useful information to the users of the financial statements to enable them to assess the impact of this liability on the liquidity position of the Group, as opposed to disclosing undiscounted cash flows to perpetuity

(e) Capital risk management

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

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

The Group manages the capital based on borrowings to total capitalisation ratio. Borrowings include lease liabilities and loan liabilities. To maintain or change 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 net assets at the date of calculation. 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 2009 and 31 December 2008 are as follows:

	2009	2008
	US$'000	US$'000
Total borrowings	**449,131**	497,727
Total capitalisation	**1,059,392**	969,724
Total borrowings to total capitalisation ratio (percentage)	**42.40%**	51.33%

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. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

In order to maintain or change its capital structure, the Group may vary the amount of dividends paid or sell assets to decrease its debt.

(f) Fair value estimation

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

Net assets attributable to minority participants in redeemable shares carried at fair value

The financial liability for the share of net assets attributable to minority participants in redeemable shares is carried at fair value. The fair value is determined to be the net assets attributable to the minority participants in redeemable shares at the IFRS carrying value of such entity's assets. This valuation is determined based on level 3 in the valuation hierarchy as entity specific inputs are used in determining the fair value of this liability. This valuation is considered a very close approximation to the amount payable in cash on exercise of the right by the participants to put the shares back to the relevant company.

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

ii) Treatment of expenses related to the follow-on offering of shares in the Company

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

In the context of the issue of shares and the secondary public offering, including the sale of shares by existing shareholders to the market, the Company has incurred transaction costs amounting to a total of US$7,612 thousand. Of these, costs amounting to US$6,636 thousand were determined to qualify as transaction costs directly attributable to the issue of shares and have been allocated between those relating to the issue of new shares and those relating to the sale of existing shares based on relative number of new shares to the existing shares sold. As a result, the Company has recognised as transaction costs relating to the issue of shares an amount of US$3,800 thousand, with the remaining US$3,812 being recognised in the income statement.

The Company is of the opinion that the basis of the allocation of transactions costs to those directly attributable to the issue of new shares and those relating to the sale of secondary shares on the basis of the relative number of shares involved is reasonable.

iii) Impairment of assets

The Group reviews long-lived assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. If the total of the discounted future cash flows is less than the carrying amount of the asset or group of assets, the asset is not recoverable and an impairment loss is recognised for the difference between the estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) and the carrying value of the asset or group of assets. Long-lived assets are assessed for possible impairment upon the occurrence of a triggering event. Events that can trigger assessments for possible impairments include, but are not limited to (a) significant decreases in the market value of an asset, (b) significant changes in the extent or manner of use of an asset, and (c) a physical change in the asset. Estimating discounted future cash flows requires us to make judgments about long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain as they require assumptions about demand for our services, future market conditions' and future technological developments. Significant and unanticipated changes in these assumptions could require an additional provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, the Group cannot reasonably quantify the impact of changes in these assumptions.

Due to the absence of prior experience in utilising certain types of rolling stock (universal platforms and container platforms) and absence of permanent customers for containers' transportation services, the Group performed a test of the estimated recoverable amount of those cash generating units compared to their carrying value. There were no triggering events that could indicate possible impairment of other types of rolling stock. The impairment review took account of the recoverable amount of this cash generating unit which was based on a value in use calculation utilising the unit's annual budget for the forthcoming year and forecasts for the following years up to the end of their useful lives for universal platforms and on the recoverable amount for container platforms. Projected cash flows have been discounted using a pre-tax discount rate of 15%.

As a result of the tests performed an impairment charge of US$812 thousand arose in container-platforms CGU (does not constitute a reportable segment) during 2009, resulting in the carrying amount of the CGU being written down to its recoverable amount, being fair value less costs to sell. No deficit of value in use over the net carrying value of universal platforms CGU has been identified.

iv) Finance lease receivable

For the purpose of determining net investment in finance lease for lease agreements concluded in 2009 where the Group acts as the lessor, the Group has used the weighted average rate of 16.7% per annum to discount future lease payments. Due to significant uncertainty existing with the estimation of the appropriate market rate for the similar type of finance lease arrangements, the sensitivity analysis of the changes in net present value of the finance lease receivable balance as at 31 December 2009 has been performed. Should the interest rate implicit in finance lease arrangements for the finance lease of rolling stock, concluded in 2009 be higher or lower by 100 basis points, carrying value of finance lease receivable as at 31 December 2009 would have been approximately US$1,075 thousand lower or US$1,124 thousand higher respectively.

v) Net assets attributable to minority participant in redeemable shares

The liability for the redemption right held by the minority participants in the equity of the Group's subsidiaries which are limited liability companies registered in Russia is classified as "at fair value through profit or loss" under IAS 39, "Financial Instruments: Recognition and Measurement". It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and if minority participants will withdraw from such subsidiary of the Group. The Group's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 2. The net assets attributable minority participants of LLC BaltTransServis where such right exists determined in accordance with the Russian Accounting Regulations as at 31 December 2008 were US$16,584 thousand. This amount would have been payable if the non-controlling participants had exercised their redemption rights at the respective balance sheet date.

In December 2009, an intermediary holding company, Ultracare Holdings Limited was created and the participants in the share capital of LLC BaltTransServis transferred their respective shares to that intermediary holding company, resulting in Ultracare Holdings Limited holding 100% of the participatory interest in the equity of LLC BaltTransServis, thus eliminating the financial liability in respect of the redemption right of non-controlling participant.

vi) Liability for minimum dividend distribution

In December 2009, following the creation of Ultracare Holdings Limited, the minority shareholder of the LLC BaltTransServis exchanged its direct shareholding in LLC BaltTransServis with equivalent shareholding in Ultracare Holdings Limited. Following this restructuring, a shareholders' agreement has been put in place between the intermediary holding companies of LLC BaltTransServis and the minority shareholder, pursuant to which the minority shareholder is entitled to a minimum dividend income distribution of 25% of distributable reserves of the relevant subsidiary. This minimum dividend distribution to the minority shareholder creates a financial liability for the Group, as the distribution of these dividends is not at the discretion of the Group. In determining the fair value of this liability on initial recognition, the Group has used the transaction price at which the Company and the minority shareholders agreed upon for the acquisition of LLC BaltTransServis which took place in December 2009. This valuation has been reviewed by external valuers who have concluded that the transaction was carried out at a fair price.

If the valuation of this liability was performed based on discounted cash flows of LLC BaltTransServis, using a discount rate of 12,7% and a terminal growth rate of 2%, the liability would have been estimated at about US$7.9 million higher than its carrying amount as of 31 December 2009 and as a result, the loss on the exchange of the liability for the net assets of the minority participants in puttable shares with the obligation for minimum dividend distribution to the minority would have been higher by the same amount.

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

i) Revenue recognition

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

(i) The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by US$478,152 thousand for the year ended 31 December 2009 (US$665,638 thousand for the year ended 31 December 2008).

(ii) The Group agrees with the customer the transport fee as above, excluding the OAO "Russian Railways" tariff which is paid by the Group and re-invoiced to the client as reimbursement. Management believes that OAO "Russian Railways" tariff should not be included in revenue and cost of sales as any variation in the tariff will be borne by the client. Had this OAO "Russian Railways" tariff been included in revenues and cost of sales, both would have increased by US$1,981 thousand for the year ended 31 December 2009 (US$2,013 thousand for the year ended 31 December 2008).

5. Segmental information

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

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

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

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

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

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

The Group does not have transactions between different business segments.

BaltTransServis LLC ("BTS") is presented as a separate segment since it was acquired by the Group at the end of 2009 and its results were not reviewed by the chief operating decision maker throughout the periods presented, however it is included in the results of the Group for both periods presented due to the application of Group's accounting policies in respect of the common control transaction (Note 32).

	Open wagons	Tank cars	BTS	All other segments	**Total**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Year ended 31 December 2009					
Total revenue – operator's services	234,263	136,714	706,953	18,700	**1,096,630**
Total revenue – operating lease	710	52,687	8,610	3,376	**65,383**
Inter-segment revenue	-	-	-	-	**-**
Revenue (from external customers)	234,973	189,401	715,563	22,076	**1,162,013**
less Infrastructure and locomotive tariffs - loaded trips	(14,710)	(45,633)	(416,297)	(1,512)	**(478,152)**
Adjusted revenue for reportable segments	220,263	143,768	299,266	20,564	**683,861**
Depreciation and amortisation	(22,528)	(14,060)	(11,405)	(3,508)	**(51,501)**
Impairment charge on property, plant and equipment	-	-	-	(1,291)	**(1,291)**
Additions to non-current assets (included in reportable segment assets)	74,519	11,674	-	11,760	**97,953**
Reportable segment assets	422,940	281,396	152,230	35,870	**892,436**
Year ended 31 December 2008					
Total revenue – operator's services	337,455	210,526	783,478	30,879	**1,362,338**
Total revenue – operating lease	2,801	44,854	13,579	5,834	**67,068**
Inter-segment revenue	-	-	-	-	**-**
Revenue (from external customers)	340,256	255,380	797,057	36,713	**1,429,406**
less Infrastructure and locomotive tariffs - loaded trips	(58,368)	(78,486)	(517,640)	(11,144)	**(665,638)**
Adjusted revenue for reportable segments	281,888	176,894	279,417	25,569	**763,768**
Depreciation and amortisation	(25,340)	(16,299)	(14,881)	(3,903)	**(60,423)**
Additions to non-current assets (included in reportable segment assets)	96,484	-	52	47,436	**143,972**
Reportable segment assets	379,491	284,390	168,212	71,684	**903,777**

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

	2009	**2008**
	US$'000	US$'000
Adjusted revenue for reportable segments	**683,861**	763,768
Other revenues	**1,394**	15,624
Total adjusted revenue	**685,255**	779,392
Cost of sales (excl. Infrastructure and locomotive tariffs - loaded trips, impairments and depreciation of property, plant and equipment)	**(342,420)**	(363,155)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(58,632)**	(66,703)
Depreciation	**(53,193)**	(60,588)
Impairments	**(2,729)**	(1,742)
Other gains – net	**785**	1,150
Operating profit	**229,066**	288,354
Finance income	**5,886**	5,366
Finance costs	**(84,559)**	(120,231)
Share of profit of associates	**461**	556
Profit before income tax	**150,854**	174,045

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

Year ended 31 December 2009

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

Year ended 31 December 2008

	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	903,777	-
Unallocated:		
Deferred tax	-	23,673
Current tax	11,706	2,113
Investment in associates	926	-
Inventories	5,766	-
Assets of disposal group classified as held for sale	-	-
Intangible assets	-	-
Current borrowings	-	159,807
Non-current borrowings	-	337,920
Deferred gains	-	1,428
Property, plant and equipment	10,711	-
Receivables	161,414	-
Payables	-	131,283
Net assets attributable to minority participants in redeemable shares	-	16,164
Cash and cash equivalents	137,126	-
Total	**1,231,426**	**672,388**

Geographic information
Revenues from external customers

	2009 US$'000	2008 US$'000
Revenue		
Russia	**1,115,716**	1,396,501
Estonia	**47,636**	48,529
Ukraine	**55**	-
	1,163,407	**1,445,030**

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

	2009		2008	
	US$'000	**% revenue**	**US$'000**	% revenue
Revenue				
Customer A	**414,089**	**36**	461,466	32
Customer B	**113,035**	**10**	127,923	9

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

	2009	2008
	US$'000	US$'000
Non-current assets		
Russia	**779,960**	788,534
Estonia	**146,886**	149,445
Ukraine	**66**	4
Latvia	**1,386**	926
Cyprus	**49**	11
	928,347	**938,920**

Analysis of revenue by category:

	2009	2008
	US$'000	US$'000
Railway transportation – operators services (tariff borne by the Group) [(1)]	**815,998**	1,024,902
Railway transportation – operators services (tariff borne by the client)	**280,632**	337,436
Railway transportation – freight forwarding	**265**	5,412
Operating leasing of rolling stock	**65,383**	67,068
Sale of wagons and locomotives	**189**	9,726
Other	**940**	486
Total revenue	**1,163,407**	**1,445,030**

[(1)] Includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2009 amounting to US$478,152 thousand (for the year ended 31 December 2008: US$665,638 thousand)

6. Expenses by nature

	2009	2008
	US$'000	US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**478,152**	665,638
Empty run trips, other tariffs and services provided by other transportation organisations	**195,224**	167,894
Operating lease rentals – rolling stock	**38,791**	44,258
Employee benefit expense	**11,204**	14,031
Repair and maintenance	**62,223**	84,150
Depreciation of property, plant and equipment	**52,289**	59,323
Amortisation of intangible assets	**14**	-
Fuel and spare parts - locomotives	**17,033**	29,345
Engagement of locomotive crews	**10,120**	11,837
Loss/(gain) on sale of property, plant and equipment	**1,533**	(2,523)
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	**186**	8,967
Impairment charge for property, plant and equipment	**1,291**	-
Other expenses	**6,092**	5,196
	874,152	1,088,116

	2009 US$'000	2008 US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**904**	1,265
Loss/(gain) on sale of property, plant and equipment	**146**	(117)
Employee benefit expense	**23,510**	24,516
Impairment charge of receivables	**1,438**	1,742
Operating lease rental – office	**4,682**	4,871
Auditors' remuneration	**1,449**	1,783
Legal, consulting and other professional fees	**6,637**	9,941
Advertising and promotion	**574**	828
Communication costs	**1,007**	1,252
Information services	**1,360**	1,604
Taxes (other than income tax and value added taxes)	**11,007**	12,646
Other expenses	**8,260**	9,379
	60,974	69,710

	2009 US$'000	2008 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**53,193**	60,588
Amortisation of intangible assets (Note 13)	**14**	-
Loss/(gain) on sale of property, plant and equipment (Note 12)	**1,679**	(2,640)
Employee benefit expense (Note 8)	**34,714**	38,547
Impairment charge for receivables (Note 18)	**1,438**	1,742
Impairment charge for property, plant and equipment	**1,291**	-
Operating lease rentals – rolling stock	**38,791**	44,258
Operating lease rentals – office	**4,682**	4,871
Repairs and maintenance	**62,223**	84,150
Fuel and spare parts - locomotives	**17,033**	29,345
Engagement of locomotive crews	**10,120**	11,837
Infrastructure and locomotive tariffs:		
Loaded trips	**478,152**	665,638
Empty run trips, other tariffs and services provided by other transportation organisations	**195,224**	167,894
Auditors' remuneration	**1,449**	1,783
Legal, consulting and other professional fees	**6,637**	9,941
Advertising and promotion	**574**	828
Communication costs	**1,007**	1,252
Information services	**1,360**	1,604
Taxes (other than income tax and value added taxes)	**11,007**	12,646
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	**186**	8,967
Other expenses	**14,352**	14,575
Total cost of sales, selling and marketing costs and administrative expenses	**935,126**	1,157,826

7. Other gains – net

	2009 US$'000	2008 US$'000
Write off of excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (Note 28)	**15**	-
Other gains	**2,470**	2,625
Other losses	**(2,088)**	(2,683)
Recognised deferred gains	**904**	1,737
Net foreign exchange losses (Note 11)	**(516)**	(529)
	785	1,150

8. Employee benefit expense

	2009 US$'000	2008 US$'000
Wages and salaries	**23,063**	28,115
Termination benefits	**25**	-
Bonuses	**8,240**	6,196
Social insurance costs	**3,386**	4,236
	34,714	38,547
Average number of employees	**958**	865

9. Finance income and costs

	2009 US$'000	2008 US$'000
Interest expense:		
Bank borrowings	**(20,225)**	(20,497)
Finance leases	**(21,536)**	(29,817)
Loans from:		
Related parties (Note 31)	**(638)**	(5,186)
Third parties	**(273)**	(528)
Other interest - related parties (Note 31)	**(4,722)**	-
Other finance costs	**(112)**	-
Total interest expense	**(47,506)**	(56,028)
Net foreign exchange transaction (losses)/gains on financing activities (Note 11)	**(21,104)**	(59,982)
Loss on exchange of financial liabilities (Note 33)	**(8,498)**	-
Distribution to minority participants in redeemable shares (Note 33)	**(7,451)**	(4,221)
Finance costs	**(84,559)**	(120,231)
Interest income:		
Bank balances	**118**	1,842
Short term deposits	**933**	1,016
Finance leases – third parties	**3,027**	1,161
Finance leases – related parties (Note 31)	**-**	86
Loans to:		
Related parties (Note 31)	**-**	9
Third parties	**10**	-
Amortisation of financial guarantees	**1,798**	1,252
Finance income	**5,886**	5,366
Net finance costs	**(78,673)**	(114,865)

10. Income tax expense

	2009 US$'000	2008 US$'000
Current tax:		
Corporation tax	**24,975**	35,602
Withholding tax	**-**	653
Defence contribution	**-**	2
Deferred tax (Note 25)	**4,706**	(4,777)
	29,681	31,480

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

	2009	2008
	US$’000	US$’000
Profit before tax	**150,854**	174,045
Tax calculated at the applicable tax rates	**25,634**	35,890
Tax effect of expenses not deductible for tax purposes	**4,401**	2,837
Tax effect of allowances and income not subject to tax	**(178)**	(3,470)
Tax effect of utilisation of previously unrecognised tax losses	**(323)**	(596)
Tax effect of tax losses for which no deferred tax asset was recognised	**2**	12
Defence contribution	**-**	2
Tax effect of re-measurement of deferred tax liabilities at current tax rates - Russian subsidiaries	**-**	(3,576)
Other	**145**	381
Tax charge	**29,681**	31,480

The weighted average applicable tax rate was 17.0% in 2009 (2008: 20.6%). The change in the weighted average tax rate is mainly due to the fact that in Russia income tax rate of 20% has been enacted in November 2008 which became effective starting from 1 January 2009; in 2008 a tax rate of 24% was applicable to the income earned by the Russian subsidiaries of the Group.

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

During 2008 the Russian subsidiaries (Note 1) were subject to a tax rate of 24%. An income tax rate of 20% has been enacted in November 2008 which became effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities has been recognised in 2008.

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

For subsidiaries in Estonia the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 21/79 (until 31 December 2008: 21/79) of net dividend paid. Therefore, the applicable tax rate for Estonian subsidiaries is zero per cent.

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

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

11. Net foreign exchange losses

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

	2009	2008
	US$’000	US$’000
Net finance costs (Note 9)	**(21,104)**	(59,982)
Other gains – net (Note 7)	**(516)**	(529)
	(21,620)	(60,511)

12. Property, plant and equipment

	Rolling stock	Land and buildings	Motor vehicles	Assets under construction	Other	Total
	US$'000	US$'000	US$'000	US$' 000	US$'000	US$'000
At 1 January 2008						
Cost	1,116,027	3,270	3,294	-	3,888	1,126,479
Accumulated depreciation	(136,925)	(287)	(1,459)	-	(1,367)	(140,038)
Net book amount	979,102	2,983	1,835	-	2,521	986,441
Year ended 31 December 2008						
Opening net book amount	979,102	2,983	1,835	-	2,521	986,441
Additions	143,972	304	786	84	587	145,733
Acquired through business combination (Note 28)	-	2,133	-	-	1,996	4,129
Disposals	(5,042)	-	(194)	-	(109)	(5,345)
Depreciation charge	(58,973)	(210)	(657)	-	(748)	(60,588)
Exchange difference	(154,484)	(475)	(284)	(13)	(626)	(155,882)
Closing net book amount	904,575	4,735	1,486	71	3,621	914,488
At 31 December 2008						
Cost	1,077,687	5,004	2,941	71	5,282	1,090,985
Accumulated depreciation	(172,112)	(269)	(1,455)	-	(1,661)	(176,497)
Net book amount	904,575	4,735	1,486	71	3,621	914,488
Year ended 31 December 2009						
Opening net book amount	904,575	4,735	1,486	71	3,621	914,488
Additions	103,904	139	497	2,076	1,127	107,743
Disposals	(41,162)	-	(217)	-	(43)	(41,422)
Depreciation charge	(51,542)	(255)	(488)	-	(908)	(53,193)
Transfers to disposal group classified as held for sale	(278)	(2,453)	-	-	-	(2,731)
Transfers	-	-	-	(66)	66	-
Impairment charge on property, plant and equipment	(1,291)	-	-	-	-	(1,291)
Exchange difference	(18,005)	(85)	(72)	100	(57)	(18,119)
Closing net book amount	896,201	2,081	1,206	2,181	3,806	905,475
At 31 December 2009						
Cost	1,115,161	2,605	2,952	2,181	6,290	1,129,189
Accumulated depreciation	(218,960)	(524)	(1,746)	-	(2,484)	(223,714)
Net book amount	896,201	2,081	1,206	2,181	3,806	905,475

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

	2009	2008
	US$'000	US$'000
Net book amount	**41,422**	5,345
(Loss)/profit on sale of property, plant and equipment (Note 6)	**(1,679)**	2,640
Consideration from sale of property, plant and equipment	**39,743**	7,985

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

	2009	2008
	US$'000	US$'000
Cash consideration:		
- Received within year	**3,923**	2,347
- Received after year end	**3**	6
Property, plant and equipment disposed through finance lease transactions	**35,832**	-
Movement in advances received in accounts payable for sales of property, plant and equipment	**(15)**	-
Consideration for the disposal of property, plant and equipment via reduction of prepayment made by the buyer	**-**	5,632
	39,743	7,985

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

	2009	2008
	US$'000	US$'000
Cost – capitalised finance leases	**446,489**	522,664
Accumulated depreciation	**(82,592)**	(71,893)
	363,897	450,771

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

	2009	2008
	US$'000	US$'000
Rolling stock	**363,727**	450,438
Motor vehicles	**158**	289
Other	**12**	44
	363,897	450,771

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 are as follows (Note 24):

	2009	2008
	US$'000	US$'000
Rolling stock	**321,664**	182,392

Depreciation expense of US$52,289 thousand in 2009 (2008: US$59,323 thousand) have been charged to "cost of sales" and US$904 thousand in 2009 (2008: US$1,265 thousand) have been charged to administrative expenses.

13. Intangible assets

	Computer software	Total
	US$'000	US$'000
At 1 January 2008 / 31 December 2008 / 1 January 2009		
Cost	-	-
Accumulated amortisation and impairment	-	-
Net book amount	-	-
Year ended 31 December 2009		
Opening net book amount	-	-
Additions	497	497
Amortisation charge (Note 6)	(14)	(14)
Exchange difference	24	24
Closing net book amount	507	507
At 31 December 2009		
Cost	521	521
Accumulated amortisation and impairment	(14)	(14)
Net book amount	507	507

14. Investment in associate

	2009	2008
	US$'000	US$'000
At beginning of year	**926**	399
Share of profit/(loss) after tax	**461**	556
Foreign exchange difference (loss)/gain	**(1)**	(29)
At end of year	**1,386**	926

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	Liabilities	Revenue	Profit/(Loss)	% Interest held
2009						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	27,604	15,461	22,160	(388)	25.27
2008						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	30,044	16,591	38,604	2,198	25.27

15. Non-current assets held for sale

As at 31 December 2009 two locomotives owned by Estonian subsidiary of the Group, included within the Rolling stock category of property, plant and equipment have been presented as held for sale following the decision to dispose them. Those assets did not constitute a reportable segment and were previously included in All other segments category. These assets are measured at the fair value less costs to sell amounting to US$278 thousand. An impairment charge of US$117 thousand was recognised on such reclassification to bring the carrying amount of such assets to their fair value less costs to sell. The sale is expected to be concluded in April 2010.

As at 31 December 2009 Iru depot, owned by Estonian subsidiary of the Group, included within Land and buildings category of property, plant and equipment have been presented as held for sale following the decision to dispose of it. Those assets were not allocated to any segment. These assets were measured at the fair value less costs to sell amounting to US$2,453 thousand which approximates its carrying amount. No impairment charge was recognised on such reclassification. The sale is expected to be concluded in April 2010.

16. Financial instruments by category

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

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

31 December 2008	Loans and receivables	Total
	US$'000	US$'000
Financial assets as per balance sheet		
Trade and other receivables(1)	67,226	67,226
Cash and cash equivalents	137,126	137,126
Total	204,352	204,352

	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
	US$'000	US$'000	US$'000
Financial liabilities as per balance sheet			
Borrowings	-	497,727	497,727
Trade and other payables[(2)]	-	98,189	98,189
Net assets attributable to minority participants in redeemable shares	16,164	-	16,164
Total	16,164	595,916	612,080

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

17. Credit quality of financial assets

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

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

	2009	2008
	US$'000	US$'000
Trade and other receivables		
Counterparties with external credit rating		
Moody's* (Aa3)	**-**	2,982
Moody's*(Baa3)	**3,048**	-
Standard & Poor's*** (BBB-)	**2,676**	2,459
	5,724	5,441

	2009	2008
	US$'000	US$'000
Counterparties without external credit rating		
Group 1	**24,839**	19,143
Group 2	**36,924**	1,917
	61,763	21,060
Total trade receivables	**67,487**	26,501

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

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

Agency	Rating	**2009** US$'000	2008 US$'000
Fitch **	A-	**-**	179
Fitch **	B+ - B-	**548**	327
Moody's *	Aa - A1	**104,873**	90,701
Moody's *	Baa1 - B3	**35,857**	31,845
Standard & Poor's ***	A	**-**	11
Standard & Poor's ***	BBB+ - BBB-	**18,955**	13,836
Other non-rated banks		**18**	223
		160,251	137,122

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

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

18. Trade and other receivables

	2009 US$'000	2008 US$'000
Trade receivables – third parties	**26,291**	35,009
Trade receivables – related parties (Note 31)	**14,469**	9,971
Less: Provision for impairment of trade receivables	**(3,285)**	(2,634)
Trade receivables – net	**37,475**	42,346
Other receivables	**6,208**	15,918
Other receivables – related parties (Note 31)	**19**	1,937
Less: Provision for impairment of other receivables	**(544)**	-
Other receivables – net	**5,683**	17,855
Loans to third parties	**21**	120
Prepayments - related parties (Note 31)	**1,656**	1,932
Prepayments – third parties	**43,664**	56,586
Finance lease receivables - third parties	**40,499**	6,993
VAT recoverable	**54,294**	35,582
	183,292	161,414

	2009 US$'000	2008 US$'000
Less non-current portion:		
Prepayments [(1)]	**19,907**	21,092
Finance lease receivables - third parties	**33,555**	4,443
Other receivables – third parties	**-**	74
VAT Recoverable	**1,072**	2,414
Total non-current portion	**54,534**	28,023
Current portion	**128,758**	133,391

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

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

All non-current receivables are due until 2017.

Receivables amounting to US$67,487 thousand (2008: US$26,501 thousand) as of 31 December 2009 were fully performing.

Receivables of US$16,153 thousand (2008: US$40,725 thousand) as of 31 December 2009 were past due but not impaired. These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

	2009 US$'000	2008 US$'000
Less than 1 month	**10,102**	20,025
From 1 to 3 months	**2,885**	18,605
From 3 to 6 month	**285**	1,467
From 6 months to 1 year	**2,128**	337
Over one year	**753**	291
	16,153	40,725

Trade receivables amounting to US$3,285 thousand (2008: US$2,634 thousand) as of 31 December 2009, were impaired and provided for in full. The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Other receivables amounting to US$544 thousand (2008: nil) as of 31 December 2009, were impaired and provided for in full. 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:

	2009	2008
	US$'000	US$'000
Currency:		
US dollar	52,884	14,898
Russian Roubles	126,411	142,301
Euro	3,698	4,140
Other	299	75
	183,292	161,414

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

	2009			2008	
	Trade receivables	**Other receivables**	**Total**	Trade receivables	Total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000
At 1 January	**2,634**	**-**	**2,634**	2,900	2,900
Provision for receivables impairment (Note 6)	**1,298**	**518**	**1,816**	1,742	1,742
Bad debt written off	**(242)**	**-**	**(242)**	(2,519)	(2,519)
Unused amounts reversed (Note 6)	**(378)**	**-**	**(378)**	-	-
Translation reserve	**(27)**	**26**	**(1)**	511	511
At 31 December	**3,285**	**544**	**3,829**	2,634	2,634

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

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

The finance lease receivables are scheduled as follows:

	Less than 1 year	Between 1 to 5 years	Over 5 years	**Total**
	US$'000	US$'000	US$'000	**US$'000**
At 31 December 2009				
Minimum lease receivable	13,056	33,564	22,160	**68,780**
Less: Unearned finance income	(6,112)	(17,844)	(4,235)	**(28,281)**
Present value of minimum lease receivables	6,944	15,720	17,835	**40,499**
At 31 December 2008				
Minimum lease receivable	3,321	4,773	-	**8,094**
Less: Unearned finance income	(771)	(330)	-	**(1,101)**
Present value of minimum lease receivables	2,550	4,443	-	**6,993**

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

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

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

The net investment in finance leases is analysed as follows:

	2009	2008
	US$'000	US$'000
Receivable within one year	**6,944**	2,550
Receivable later than one year and not later than 5 years	**15,720**	4,443
Receivable later than 5 years	**17,835**	-
Total	**40,499**	6,993

Average effective interest rate implicit in finance lease agreements at 31 December 2009 is 16.4% (2008: 15.1%).

19. Inventories

	2009	2008
	US$'000	US$'000
Raw materials and consumables	**5,759**	5,766

All inventories are stated at cost.

20. Cash and cash equivalents

	2009	2008
	US$'000	US$'000
Cash at bank and in hand	**120,946**	119,807
Short term bank deposits	**39,307**	17,319
	160,253	137,126

The effective interest rate on short-term deposits was 3.14% (2008: 4.02%) in 2009 and these deposits have a maturity of 11 to 30 days (2008: 1 to 12 days).

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

	2009	2008
	US$'000	US$'000
Cash and cash equivalents	**160,253**	137,126
Bank overdrafts (Note 24)	**(1,160)**	(212)
	159,093	136,914

The effective interest rate on bank overdrafts in 2009 was 5.6% (2008: 10%).

21. Share capital and share premium

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2008	10,000,000	10,000	61,560	71,560
Change of nominal value	90,000,000	-	-	-
Issue of shares	16,959,064	1,696	223,012	224,708
Incremental costs directly attributable to the issue of new shares	-	-	(5,427)	(5,427)
At 31 December 2008 / 1 January 2009	116,959,064	11,696	279,145	290,841
Issue of shares	41,176,469	4,118	345,882	350,000
Incremental costs directly attributable to the issue of new shares	-	-	(3,800)	(3,800)
At 31 December 2009	158,135,533	15,814	621,227	637,041

The total authorised number of ordinary shares is 233,918,128 shares (2008: 116,959,064 shares) with a par value of US$0.10 per share (2008: US$0.10 per share). All issued shares are fully paid.

Year ended 31 December 2009

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

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

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

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

Year ended 31 December 2008

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$ 13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares in the Company to the public.

The expenses directly attributable to the new shares issued amounting to US$5,427 thousand were capitalised against share premium.

22. Dividends

No dividends were paid or declared to the shareholders of the Company during the year ended 31 December 2009 in respect of 2009 or prior periods.

On 4 March 2008, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2008 of US$0.89 per share amounting to a total of US$8,900,000. The dividend was paid in the period from 31 March 2008 to 30 April 2008.

The Board of Directors of the Company recommends a payment of a dividend in relation to prior years in the amount of US$24,000 thousand.

23. Deferred gains

	2009	2008
	US$'000	US$'000
Current	**338**	920
Non-current	**178**	508
	516	1,428

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

24. Borrowings

	2009	2008
	US$'000	US$'000
Current		
Bank overdrafts (Note 20)	**1,160**	212
Bank borrowings	**101,789**	87,301
Loans from third parties	**-**	318
Loans from related parties (Note 31)	**-**	2,817
Finance lease liabilities	**50,503**	69,159
	153,452	159,807
Non-current		
Bank borrowings	**147,608**	115,530
Loans from third parties	**-**	2,618
Loan from related parties (Note 31)	**-**	15,562
Finance lease liabilities	**148,071**	204,210
	295,679	337,920
Total borrowings	**449,131**	497,727
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**91,323**	85,235
Between 2 and 5 years	**56,285**	48,475
	147,608	133,710

	2009 US$'000	2008 US$'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	**64,492**	104,444
Later than 1 year and not later than 5 years	**164,278**	216,351
Later than 5 years	**-**	11,625
Future finance charges of finance leases	**(30,196)**	(59,051)
Present value of finance lease liabilities	**198,574**	273,369
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**50,503**	69,159
Later than 1 year and not later than 5 years	**148,071**	193,169
Later than 5 years	**-**	11,041
	198,574	273,369

Bank borrowings

Bank borrowings mature by 2014 and bear average interest of 8.7% per annum (2008: 10.4% per annum).

There were no defaults or breaches of loan terms during the year ended 31 December 2009.

Year ended 31 December 2009

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

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

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

Year ended 31 December 2008

The current and non-current bank borrowings amounting to US$84,468 thousand and US$112,728 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$5,635 thousand are unsecured.

The current and non-current bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to US$20,433 thousand as at 31 December 2008 which as of 31 December 2007 was secured by pledge of the 26% of charter capital (participation interest) of OOO Sevtekhnotrans.

With effect from 15 April 2008 the pledge agreement in favour of International Finance Corporation for the pledge of 26% of charter capital of OOO Sevtekhnotrans has been terminated. The pledge agreement was replaced by a share retention agreement whereby the parent company is obliged to retain at least 26% of the share capital of the Company free and clean of any lien and additionally the Company to maintain 100% of the share capital of OOO Sevtekhnotrans free and clear of any lien.

In accordance with the terms of the loan facility with Cargill Financial Services International, Inc., one of the Company's subsidiaries must observe certain ratios, which are calculated on the quarterly basis. As at 30 September 2008 due to substantial devaluation of Russian Rouble against US Dollar, the subsidiary failed to comply with certain ratios and has applied to the lender for waiver of this temporary noncompliance. Appropriate waiver was received in December 2008. In anticipation of a similar breach as at 31 December 2008 the subsidiary submitted an early request for waiver of potential noncompliance with ratios calculated based on annual results, utilising the 30 day remedy period specified in loan agreement, when noncompliance might be cured or waived by the borrower. Appropriate waiver has been received in February 2009. Consequently, no event of default occurred as at the balance sheet date.

The bank and financial institutions loans of a total amount of US$197,196 thousand are secured by property, plant and equipment at the carrying net book value of US$182,392 thousand (Note 12).

The current and non-current related parties borrowings are unsecured.

Furthermore, borrowings amounting to US$86,771 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$49,494 thousand are guaranteed by related parties (Note 31).

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

	2009	**2008**
	US$'000	**US$'000**
6 months or less	343,887	362,835
6 to 12 months	13,654	47,706
1 to 5 years	91,590	87,186
	449,131	497,727

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

	Carrying amount		**Fair value**	
	2009	2008	**2009**	**2008**
	US$'000	US$'000	**US$'000**	**US$'000**
Bank borrowings	**147,608**	115,530	**147,608**	115,530
Loans from third parties	**-**	2,618	**-**	2,709
Loans from related parties	**-**	15,562	**-**	17,245
Finance lease liabilities	**148,071**	204,210	**143,832**	198,848
	295,679	337,920	**291,440**	334,332

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

The fair values are based on cash flows discounted using a rate based on the appropriate Libor and MosPrime (1) rates.

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

	2009	2008
	US$'000	US$'000
US Dollar	**287,788**	439,376
Russian Rouble	**159,909**	57,712
Euro	**1,434**	26
Estonian Kroons	**-**	613
	449,131	497,727

The Group has the following undrawn borrowing facilities:

	2009	2008
	US$'000	US$'000
Floating rate:		
Expiring within one year	**31,892**	24,929
Expiring beyond one year	**-**	-
Fixed rate:		
Expiring within one year	**4,298**	7,488
Expiring beyond one year	**27,886**	-
	64,076	32,417

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

	2009	**2008**
	%	**%**
Bank overdrafts	**5.6**	10.0
Bank borrowings	**9.3**	10.4
Loans from third parties	**-**	8.8
Loans from related parties	**-**	8.6
Finance lease liabilities	**8.7**	10.2

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

25. Deferred income tax

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

	2009	2008
	US$'000	US$'000
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	**29,257**	24,150
- Deferred tax liability to be recovered within 12 months	**(1,302)**	(477)
Deferred tax liabilities (net)	**27,955**	23,673

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

	2009	2008
	US$'000	US$'000
Beginning of year	**23,673**	33,054
Exchange differences	**(351)**	(4,414)
Income statement charge (Note 10)	**4,633**	(4,967)
End of year	**27,955**	23,673

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

Deferred tax liabilities	Property, plant and equipment US$'000	Lease liability US$'000	Tax losses US$'000	Trade and other payables US$'000	Withholding tax provision US$'000	Other assets US$'000	Other liabilities US$'000	Total US$'000
At 1 January 2008	66,587	(53,583)	-	(2,319)	9,047	(3,777)	17,099	33,054
Charged/(credited) to:								
Income statement (Note 10)	(3,021)	6,035	(638)	1,576	379	(10,770)	1,662	(4,777)
Translation differences	(10,971)	7,891	98	244	(1,547)	19,185	(19,504)	(4,604)
At 31 December 2008/ 1 January 2009	52,595	(39,657)	(540)	(499)	7,879	4,638	(743)	23,673
Charged/(credited) to:								
Income statement (Note 10)	(10,113)	9,377	(765)	(111)	145	6,460	(287)	4,706
Translation differences	(2,008)	1,553	(23)	9	(218)	206	57	(424)
At 31 December 2009	40,474	(28,727)	(1,328)	(601)	7,806	11,304	(973)	27,955

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

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

The Group did not recognize deferred income tax assets of USS$2 thousand in 2009 (2008: US$12 thousand) in respect of cumulative tax losses amounting to US$20 thousand (2008: US$48 thousand) as it is uncertain whether taxable profits will be earned in the future which would offset the taxable losses incurred. There is no time limit for the utilization of these tax losses.

26. Trade and other payables

	2009	2008
	US$'000	US$'000
Current		
Trade payables to third parties	**18,125**	16,189
Trade payables to related parties (Note 31)	**993**	452
Other payables to related parties (Note 31)	**7,070**	51,924
Other payables to third parties(2)	**9,220**	3,309
Accrued expenses	**4,976**	4,018
Advances from customers (1)	**20,156**	23,613
Advances from related parties (Note 31) (1)	**3,544**	5,463
	64,084	104,968
Non-current		
Other payables to related parties (Note 31)	**-**	24,129
Other payables to third parties(2)	**11,105**	2,186
	11,105	26,315

(1) Advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services.
(2) Includes liability for minimum dividend distribution obligation to minority shareholders which are not at the discretion of the Group.

The fair value of trade and other payables approximates their carrying amount at the balance sheet date.

27. Earnings per share

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
	US$'000	US$'000
Profit attributable to equity holders of the company	**88,057**	115,639
Weighted average number of ordinary shares in issue (thousand)	**118,990**	111,074
Basic and diluted earnings per share (expressed in US$ per share)	**0.74**	1.04

28. Business combinations

Year ended 31 December 2009

On 30 December 2009, the Group acquired a 100% shareholding in Ekolinja OY, a Finish entity engaged in sub-lease of rolling stock mainly to clients in Russia for the total consideration of US$14 thousand. Since the acquisition occurred at the year end, the acquired business did not contribute any revenue and net profit in 2009. Fair values of identifiable net assets acquired were estimated at US$29 thousand, consequently negative goodwill of US$15 thousand was recognised in these financial statements (Note 7).

Year ended 31 December 2008

On 1 August 2008, the Group acquired wagon repair depot "Ivanovo" from OAO Russian Railways. This business combination did not represent acquisition of a legal entity. The depot provides wagon repair services.

The acquired business contributed revenue of US$273 thousand and net profit of US$5 thousand to the Group for the period from the date of acquisition to 31 December 2008. Had the acquisition occurred on 1 January 2008, the Group's revenue for 2008 would have been US$383 thousand, and net profit for 2008 would have been US$6 thousand higher.

The purchase consideration comprises cash paid of US$4,589 thousand (including input VAT of US$460 thousand recoverable from budget). The consideration paid by the Group (net of VAT) equaled estimated fair values of the identifiable assets acquired, represented by Property Plant and Equipment (no other assets or liabilities either current or contingent were purchased).

29. Contingencies

Operating environment

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

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
(ii) The rise in Russian and emerging markets risk premium resulted in a steep increase in foreign financing costs, however, the Group managed to decrease it effective interest rates on borrowings compared to the end of 2008.
(iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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

The Group's business is heavily dependent on services provided by OAO "Russian Railways" and the ageing railway infrastructure operated by it. OAO "Russian Railways" plays a monopolistic role as the sole railway infrastructure operator and it enjoys a near monopoly in locomotives services in the Russian Federation. The Group depends on the railway infrastructure operated, and for traction and other services provided, as well as on operational data generated, by OAO "Russian Railways". In addition, the physical infrastructure and the rail network had been inadequately maintained and there can be no assurance that it will not lead to material disruption of the Group's business in the future.

The volume of financing available in particular from overseas has significantly reduced since August 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions

Debtors and borrowers of the Group, including counterparties for finance lease receivables and suppliers to whom advances have been made for delivery of property, plant and equipment may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers, debtors, lessees and suppliers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Reduced revenue budgets and more challenging economic conditions for he Group are considered as to whether they trigger indication of impairment for the Group's property, plant and equipment. Refer to Note 4 for the items of property, plant and equipment for which indicators of impairment were identified and therefore impairment test were carried out and information in relation to impairment charges recognised.

Finally, the Group's business is heavily dependent on a few large key customers. The Group does not have long term contracts with any of these customers and although it has enjoyed good working relations with these customers to date, there can be no assurance that it will retain their custom in the future or that their custom, if lost, could be easily replaced by that of other customers on comparable terms and volume.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Tax legislation in Russia

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Based on the results of tax inspection for 2004, 2006 and 2007 of the Company’s subsidiary tax authorities have claimed additional VAT in the amount of US$5,078 thousand and US$19,101 thousand respectively. This claim is based on the tax authorities’ interpretation of legislation and suggests that the subsidiary's activities related to export transactions do not qualify as zero rated for VAT purposes. No similar claim has been raised in the course of tax inspection for 2005 which was completed earlier. The subsidiary has received a positive decision from Court in respect of 2004 tax claim and the inspection’s right of appeal has expired. In March 2010 the tax inspection recalled the claim in respect of VAT for 2006 and 2007, thus the risk was eliminated.

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 2009 (Note 24).

Insurance policies

The Group holds insurance policies in relation to all vehicles (rolling stock and motor vehicles) and in respect of public third party liability. The Group does not have full insurance for business interruption or third party liability in respect of environmental damage.

Environmental matters

The enforcement of environmental regulation in the countries in which the Group operates is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. During the year ended 31 December 2007 the LLC BaltTransServis, a subsidiary of the Company, provided a guarantee to Sberbank RF for a long-term loan received by a third party. Guarantee is free of charge, is limited to US$45,000 thousand per year and was issued for a period of 5 years. Guarantee was initially recognised at estimated fair value of US$3,536 thousand.

Maximum possible exposure under the financial guarantee is disclosed in Note 3(d).

As at 31 December 2009 the carrying value of the guarantee was US$965 thousand (2008: US$2,938 thousand).

Amortisation of the guarantee in amount of US$1,798 thousand was recorded in the income statement for the year ended 31 December 2009 (2008: US$1,252 thousand).

Legal proceedings

During the year ended 31 December 2009, the Group was involved as a claimant in a number of court proceedings.

During the year ended 31 December 2009, a subsidiary of the Company was involved in a number of court proceedings as defendant on claims of its customers and as a third party between the tax authorities and certain of its clients. The subsidiary has charged 18% VAT for transporting cargos to seaport terminals located in the Russian Federation for further export from the terminals that had not been placed under export regime prior to being delivered to the terminal. Tax authorities challenged the recoverability of such VAT by a number of the subsidiary’s clients on the grounds that the transportation should have been subject to 0% VAT. If the tax authorities are successful in claiming this approach, the subsidiary's customers could be successful in claiming to pay back amounts equal to VAT previously charged on transportation services and potentially associated penalties the customers suffered. In this case the subsidiary of the Company could claim to refund the relevant output VAT paid to the budget.

The subsidiary of Company is involved as defendant in the litigations with its customers in respect of VAT in the total amount of RR 569,760 thousand (US$18,839 at the exchange rate prevailing on 31 December 2009). The subsidiary is also involved as a third party in its customers' litigations with the tax authorities in respect of VAT in the total amount of RR 148,618 thousand (US$4,914 at the exchange rate prevailing on 31 December 2009).

Total amount of VAT starting from 1 January 2007 and up to 31 December 2009 (prior to this period the subsidiary of the Company applied 0% VAT rate as was prescribed by relevant tax legislation valid at that time) charged by the subsidiary for the similar type of transportation services is RR 2,304,554 thousand (US$76,198 thousand at the exchange rate prevailing on 31 December 2009).

Based on its interpretation of tax legislation and analysis of court practice management believes that it is not probable that the Group will incur outflow of economic resources as a result of the existing and potential claims from its customers to pay back amounts equal to VAT previously charged, consequently, no provision has been recorded in these consolidated financial statements.

AS Eesti Raudtee (Estonian Railways) has filed a claim against AS Spacecom, a subsidiary of the Company, for reimbursement of unpaid invoices in the total amount of EEK 119,497 thousand (approximately USD 10,998 thousand at 31 December 2009 exchange rates) and a late payment interest of EEK 122,368 thousand (approximately USD 11,262 thousand at 31 December 2009 exchange rates) for the period from 31 May 2004 to 31 May 2005. The Group has recognized the full amount of the unpaid invoices as liabilities under current trade payables but has made no provision for the late payment interest. The Group is indemnified for up to 61% of any potential losses arising from this case over and above the amounts already provided in the consolidated financial statements of the Group pursuant to the indemnification clauses included in the share purchase agreements in relation to this litigation. Management believes that there is no need for any further provision in relation this legal case. Refer to Note 34 for the recent developments in this case.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2009 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.

30. Commitments

(a) Capital commitments

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

	2009	2008
	US$'000	US$'000
Property, plant and equipment	**209,833**	10,760

(b) Operating lease commitments – Group as lessee

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between seven to twelve months and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease terms are generally between two months to one year. The lease expenditure charged to the income statement during the years is disclosed in Note 6.

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

	2009	2008
	US$'000	US$'000
Not later than 1 year	**20,041**	17,500
Later than 1 year not later than 5 years	**-**	11,400
	20,041	28,900

The majority of future minimum lease payments under non-cancellable operating leases is with related parties (Note 31).

(c) Operating lease commitments – Group as lessor

	2009	2008
	US$'000	US$'000
Not later than 1 year	**11,813**	55,086
Later than 1 year not later than 5 years	**-**	18,699
	11,813	73,785

The majority of future minimum lease payments under non-cancellable operating leases is with related parties (Note 31).

The Group leases out rolling stock and locomotives under cancellable and non-cancellable operating lease agreements. The lease terms are generally 12 months and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group is required to give up to a three-month notice for the termination of these agreements.

Contingent-based rents recognised in the income statement were US$nil for the year ended 31 December 2009 (2008: US$nil).

31. Related party transactions

The Group is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 14.5% (including the holding of GDRs of the Company) of the Company's shares. Further, the Directors of the Company control 0.1% of the Company's shares through their holdings of GDRs. The remaining 35.3% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Group is Mirbay International Inc., which is registered in Bahamas.

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

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2009	2008
	US$'000	US$'000
Sales of services:		
Associate	**-**	58
The Parent	**10**	-
Other related parties	**118,807**	108,842
	118,817	108,900

Transactions with 'other related parties' amounting to US$28,845 (2008: US$37,227 thousand) were carried with entities under common control and the remaining transactions with "other related parties" were carried out with entities under common significant influence.

(b) Purchases of goods and services

	2009	2008
	US$'000	US$'000
Purchases of services:		
Associate	**391**	6
Other related parties	**27,772**	29,123
	28,163	29,129

Transactions with 'other related parties' amounting to US$4,403 thousand (2008: US$3,100 thousand) were carried with entities under common control and the remaining transactions with "other related parties" were carried out with entities under common significant influence.

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

	2009	2008
	US$'000	US$'000
Additions:		
Other related parties	**692**	10,446
Disposals:		
Other related parties	**17**	7,583

Additions from 'other related parties' amounting to US$373 thousand (2008: US$3,885 thousand) were obtained from entities under common control and the remaining additions from "other related parties" were obtained from entities under common significant influence.

All disposal transactions were carried out with "entities under common control".

(d) Interest income and expenses

	2009 US$'000	2008 US$'000
Interest income (Note 9):		
Loans to:		
Other related parties	-	9
Finance leases:		
Other related parties	-	86
	-	95
Interest expense (Note 9):		
The parent	(5,360)	(5,186)
	(5,360)	(5,186)

Interest income on loans to 'other related parties' was received from entities under common control. Interest income on finance leases was received from entities under common significant influence.

Interest expense to the parent in the year ended 31 December 2009 consists of interest expense on loans for the amount of US$638 thousand (2008: US$5,186 thousand), interest on consideration payable for the acquisition of Estonian subsidiaries of the Group for the amount of US$2,296 thousand (2008: nil) and unwinding of discounting effect on such liability for the amount of US$2,426 thousand (2008: nil).

(e) Directors and key management compensation

	2009 US$'000	2008 US$'000
Directors' remuneration(1)	731	592
Key management salaries and other short term employee benefits(2)	8,551	5,871
	9,282	6,462

(1) Includes remuneration of executive directors paid by the subsidiaries of the Group
(2) Key management salaries and other short term employee benefits above include bonuses amounting to US$4,247 thousand for the year ended 31 December 2009 (2008: US$2,010 thousand).

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

	2009 US$'000	2008 US$'000
Trade receivable from related parties (Note 18):		
Other related parties	14,459	9,960
The Parent	10	11
	14,469	9,971
Other receivables from related parties (Note 18):		
Other related parties	17	1,934
Associate	2	3
	19	1,937
Prepayments to related parties (Note 18):		
Other related parties	1,656	1,932

The receivable balances with "other related parties" amounting to US$13,216 thousand (2008: US$12,289 thousand) arise from transactions with entities are common significant influence; the remaining receivable balances with "other related parties" arise from transactions with entities under common control.

	2009	2008
	US$'000	US$'000
Trade payables to related parties (Note 26):		
Other related parties	**993**	452

Other payables to related parties (Note 26):		
Current:		
The parent	**7,064**	51,894
Key management personnel	**-**	8
Other related party	**6**	22
	7,070	51,924
Non-current:		
The parent	**-**	24,129

Advances from related parties (Note 26):		
Other related parties	**3,544**	5,463

The payable balances with "other related parties" amounting to US$2,038 thousand (2008: US$566 thousand) arise from transactions with entities are common significant influence; the remaining payable balances with "other related parties" arise from transactions with entities under common control.

(g) Loans to related parties

	2009	2008
	US$'000	US$'000
Other related parties (Note 18):		
Beginning of year	**-**	3,363
Loans repayments received	**-**	(3,128)
Interest charged	**-**	9
Interest received	**-**	(185)
Foreign exchange loss	**-**	(59)
End of year	**-**	-

The loans to related parties have the following terms and conditions:
The loan that was repaid in January 2008 carried interest at 12.5%.
The above loans to "other related parties" arise from transactions with entities under common control.

(h) Loans from related parties

	2009	2008
	US$'000	US$'000
The parent:		
Beginning of year	**18,379**	78,726
Loans advanced during the year	**30,000**	7,000
Loans repaid during the year	**(46,265)**	(63,943)
Interest charged	**639**	5,186
Interest repaid	**(3,376)**	(5,488)
Foreign exchange (loss)/gain	**623**	(3,102)
End of year	**-**	18,379

The loans from the parent have the following terms and conditions:
The balance at the year end of 2008 carries an average interest of 10.43% and was payable on June 2012. All of the loans were settled ahead of schedule. No penalties or rewards were incurred as a result of early settlement except for the interest savings. Loan advanced in 2009 carried an interest of 1% and was provided for up to 10 days.

	2009	2008
	US$'000	US$'000
Other related parties:		
Beginning of year	**-**	195
Interest repaid	**-**	(195)
End of year	**-**	-

The loans were repaid in 2007 and carried interest at 12% and 12.5%
The above loan from "other related parties" arise from transactions with entities under common control.

	2009	2008
	US$'000	US$'000
Total loans:		
Beginning of year	**18,379**	78,921
Loans advanced during the year	**30,000**	7,000
Loans repaid during the year	**(46,265)**	(63,943)
Interest charged	**639**	5,186
Interest repaid	**(3,376)**	(5,683)
Foreign exchange loss	**623**	(3,102)
End of year	**-**	18,379

Current	**-**	2,817
Non-current	**-**	15,562
End of year	**-**	18,379

(i) Other transactions with related parties

Year ended 31 December 2009:

- In November 2009 the Company has entered into a contribution and subscription agreement with its Parent entity. The contribution and subscription agreement provided for the transfer to the Company by the Parent of an effective 55.56 per cent share in Ingulana Holdings Limited, a Cypriot holding company, owning effective 90 per cent economic interest and a majority controlling interest in OOO BaltTransServis ("BTS") in exchange for 29,411,764 new ordinary shares issued by the Company with a total value of US$250 million.

- In February 2009 the Company entered into additional agreements to the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle instalments ahead of schedule. These early repayments result in a gain of US$216 thousand for the Company.

- In September 2009, the Company concluded an additional agreement with the Parent entity whereby the schedule of payments of consideration for the purchase from the Parent entity of the Group's share in the Estonian Subsidiaries was amended as the Group was able to partially re-finance this interest-bearing liability on more favourable terms. Pursuant to the amended payment schedule, in September 2009 the Company settled US$25 million which was due in 2010 plus interest accrued on that amount and a further payment of US$7 million plus interest accrued on that amount was made in October 2009. According to the amended schedule, the remaining balance of US$7 million plus interest is payable by 1 May 2010. This early repayment did not result in a significant gain/loss for the Company except for the saving on the future interest that would have been accrued on such liability.

- As at 31 December 2009, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 24):

	US$'000
Borrowings guaranteed by:	
The parent and the entity with significant influence over the Group	18,491
The parent	29,699
	48,190
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	19,919
The parent and other related parties	3,373
The parent	37,390
	60,682

The majority of the above guarantees from "other related parties" are provided by entities under common control.

Year ended 31 December 2008:

- In December 2008 the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of US$64,000,000 and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000,000 (Note 32). The total consideration and interest accrued shall be paid in instalments until November 2010 according to the following schedule:

Term	**US$'000**
On or before 10 January 2009	30,000
On or before 1 May 2009	10,000
On or before 1 November 2009	13,000
On or before 1 May 2010	13,000
On or before 1 November 2010	13,000
Total consideration	**79,000**

- As at 31 December 2008, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 24):

	US$'000
Borrowings guaranteed by:	
The parent and the entity with significant influence over the Group	50,389
The parent	36,382
	86,771
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	25,896
The parent and other related parties	5,361
The parent	16,198
Other related parties	2,039
	49,494

The majority of the above guarantees from "other related parties" are provided by entities under common control.

(j) Operating lease commitments – Group as lessee

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

	2009	2008
	US$'000	US$'000
Not later than 1 year	**12,393**	11,808
Later than 1 year and not later than 5 years	**-**	11,205
	12,393	23,013

(k) Operating lease commitments – Group as lessor

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

	2009	2008
	US$'000	US$'000
Not later than one year	**8,894**	5,255

32. Common control transaction

Year ended 31 December 2009

In December 2009, the parent entity of the Company has contributed its 55.56% shareholding in Ingulana Holdings Limited, Cyprus to the Company for the consideration of 29,411,764 ordinary shares of the Company that were issued to the parent entity at the same time at the price of US$8.50 per share including a share premium of US$8.40 per share. The total consideration for the acquisition amounted to US$250,000 thousand. Ingulana Holdings Limited is a special purpose vehicle holding 90% share and a majority controlling interest in LLC BaltTransServis, Russia, one of the leading private operators in the Russian railway transportation industry, specializing in shipping oil products and oil, mostly fuel oil, diesel and gasoline. It also provides logistics services for oil product delivery and distribution to shipping terminals.

The acquisition of 55.56% of Ingulana Holdings Limited, and consequently 50% controlling interest in LLC BaltTransServis, has been accounted for as a common control transaction using the predecessor basis (Note 2). The carrying value of its net assets as of 1 December 2004 were used to account for the common control transaction reserve, since these are the dates common control has been established.

On acquisition of LLC BaltTransServis by Transportation Investments Holding Limited on 1 December 2004, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the purchase method of accounting.

The acquired business contributed revenues of US$710,398 thousand and net profit of US$69,811 thousand in 2009, revenues of US$784,160 thousand and net profit of US$45,189 thousand in 2008. These amounts have been calculated using the Group's accounting policies.

The carrying amounts of assets and liabilities of LLC BaltTransServis were as follows:

	01 December 2004 US$'000	01 January 2008 US$'000	31 December 2008 US$'000	31 December 2009 US$'000
Cash and cash equivalents	42,077	25,846	25,524	23,003
Property, plant and equipment	141,256	216,917	172,573	156,527
Inventories	1,569	4,952	5,106	4,765
Trade and other receivables	47,930	31,072	33,032	38,983
Current income tax assets	-	64	546	29
Trade and other payables	(15,669)	(26,831)	(22,732)	(21,464)
Borrowings	(127,763)	(65,589)	(52,099)	(40,913)
Deferred income tax liabilities	(1,291)	(638)	(230)	(352)
Current income tax liabilities	(2,683)	-	(79)	(512)
less Net assets attributable to minority participants in redeemable shares	(8,543)	(18,579)	(16,164)	-
less Minority interest in net assets acquired	(34,170)	(74,318)	(64,657)	(80,033)
Carrying value of net assets acquired	42,713	92,896	80,820	80,033

Year ended 31 December 2008

In December 2008, the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of US$64,000 thousand and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000 thousand (Note 29(i)). Both companies are engaged in operating lease of rolling stock and AS Spacecom is also engaged in railway freight forwarding.

In accordance with the accounting policies of the Group, the liability for the consideration payable for the acquisition of AS Spacecom was recognised at the fair value of US$61,660 and AS Intopex Trans at the fair value of US$14,363 by discounting future payments to be made using the weighted average cost of capital.

The acquisition of 65% of AS Intopex Trans and 61% of AS Spacecom has been accounted for as a common control transaction using the predecessor basis (Note 2). The carrying value of their net assets as of 1 October 2004 and 14 November 2006 respectively, were used to account for the common control transaction reserve, since these are the dates common control has been established.

(a) AS Spacecom

On acquisition of AS Spacecom by Transportation Investments Holding Limited on 1 October 2004, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the predecessor basis of consolidation, i.e. using book values from ventures applied at the date of the formation of the joint venture, as this transaction was accounted as a formation of joint-venture.

The acquired business contributed revenues of US$40,679 thousand and net profit of US$12,609 thousand in 2008, revenues of US$51,562 thousand and net profit of US$10,641 thousand in 2007 These amounts have been calculated using the Group's accounting policies.

The carrying amounts of assets and liabilities of AS Spacecom were as follows:

	01 October 2004	01 January 2007	31 December 2007	31 March 2008*	31 December 2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	4,846	158	1,905	306	2,620
Property, plant and equipment	109,920	132,741	138,335	137,730	122,822
Investments in associates	1,199	991	399	1,075	926
Other non-current assets	2,045	-	-		-
Trade and other receivables	7,134	15,781	9,013	15,894	8,378
Trade and other payables	(4,710)	(16,672)	(22,190)	(25,785)	(12,827)
Borrowings	(101,857)	(95,994)	(75,788)	(71,628)	(60,557)
Deferred gains	(8,422)	(4,552)	(3,046)	(2,556)	(1,324)
Current income tax liabilities	(115)	(344)	-		-
less Minority interest in net assets acquired	(4,920)	(15,733)	(23,828)	(49,532)	(23,415)
Carrying value of net assets acquired	5,120	16,376	24,800	5,504	36,623

* The assets and liabilities of AS Spacecom as of 31 March 2008, when an additional 10% shareholding was acquired by the parent entity from the minority shareholders of AS Spacecom, which was subsequently transferred to the Company as part of the common control transaction.

(b) AS Intopex Trans

On acquisition of AS Intopex Trans by Transportation Investments Holding Limited on 14 November 2006, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the purchase method of accounting.

The acquired business contributed revenues of US$7,850 thousand and net profit of US$2,365 thousand in 2008 and revenues of US$4.146 thousand and net profit of US$4,016 thousand in 2007 These amounts have been calculated using the Group's accounting policies.

The carrying amounts of assets and liabilities of AS Intopex Trans were as follows:

	14 November 2006	1 January 2007	31 December 2007	31 December 2008
	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	133	52	321	519
Property, plant and equipment	14,949	22,344	28,379	26,535
Trade and other receivables	176	1,667	2,040	1,895
Trade and other payables	(2,424)	(391)	(2,547)	(792)
Borrowings	(8,383)	(18,682)	(617)	(617)
Deferred tax liabilities	(617)	(617)	(19,968)	(19,228)
Current income tax liabilities		(1)	-	-
less Minority interest in net assets acquired	(1,342)	(1,530)	(2,663)	(2,909)
Carrying value of net assets acquired	2,492	2,842	4,945	5,403

33. Net assets attributable to minority participants in redeemable shares

	Net assets attributable to minority participants in redeemable shares
	US$'000
At 1 January 2008	**18,579**
Share of net profit attributable to minority participant	4,979
Distributions to minority participants (Note 9)	(4,221)
Exchange difference	(3,173)
At 31 December 2008 / 1 January 2009	**16,164**
Share of net profit attributable to minority participant	7,741
Distributions to minority participants (Note 9)	(7,451)
Exchange of liability to minority participants in redeemable shares for equity instruments	(12,005)
Exchange of liability to minority participants in redeemable shares for new financial liability for minimum dividends distribution	(4,002)
Exchange difference	(447)
At 31 December 2009	**-**

Following restructuring in December 2009, the Group exchanged the liability to the minority participant in puttable instruments of LLC BaltTransServis with a new liability, being the minimum dividend income distribution of 25% of distributable reserves of the relevant subsidiaries and an equity element for the remaining part of the participatory interest of that minority shareholder in this subgroup for which there is no liability for minimum dividend distribution.

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

34. Events after the balance sheet date

In January – April 2010 the Group received the following borrowings:

- RR1 billion (US$33 million at 31 December 2009 exchange rates) under the credit line agreement with ZAO Raiffeisenbank, repayable in January 2013;

- RR446 million (US$14.7 million at 31 December 2009 exchange rates) under the credit line agreement with OAO "Sberbank" of RR2.5 billion (US$82.7 million at 31 December 2009 exchange rates) contracted, repayable in March 2015;

- RR300 million (US$9.9 million at 31 December 2009 exchange rates) of RR350 million (US$11.6 million at 31 December 2009 exchange rates) contracted under the short-term loan agreement with ZAO UniCredit Bank;

The Group received 1,671 gondola cars previously contracted.

In February 2010, the Estonian court of first instance decided against AS Spacecom, a subsidiary of the Company, in the amount of EEK250,664 thousand (USD23,071 thousand at 31 December 2009 exchange rates) for the unpaid invoices and late payment, plus costs and legal fees. The Group has filed an appeal and the management expects that the outcome will be favourable for the Group; consequently no provision in addition to the amounts already provided for this matter was made in these financial statements.

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

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