

Globaltrans Investment PLC

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

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for the year ended 31 December 2011

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Board of Directors and other officers

Board of Directors

Mr. Alexander Eliseev
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee
Alternate director: Ms. Ekaterina Golubeva

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

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

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

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

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

Mr. Konstantin Shirokov
Executive Director

Board support

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

Company Secretary

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

Assistant secretary: Mr. Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2011. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

The net profit of the Group for the year ended 31 December 2011 was US\$317,226 thousand (2010: US\$225,940 thousand). On 31 December 2011 the total assets of the Group were US\$1,467,848 thousand (2010: US\$1,515,341 thousand) and net assets were US\$989,055 thousand (2010: US\$883,965 thousand).

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

Principal risks and uncertainties

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

The Group's contingencies are disclosed in Note 28 to the consolidated financial statements.

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

Future developments

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

Results

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

Dividends

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

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

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

In May 2011 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2010 in the amount of 37 US cents per ordinary share, amounting to a total dividend of US\$58,510,147.

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

Share capital

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

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

The role of the Board of Directors

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

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

Members of the Board of Directors

The Board comprises seven members, four of whom are non-executive directors (including the Chairman). Two of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business 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 2011 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2011.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors paid by the Company in 2011 amounted to US\$397 thousand (2010: US\$384 thousand).

Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors as at 31 December 2011 and 31 December 2010 are shown below:

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

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

Events after the balance sheet date

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

Board performance

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

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

The Board Committees

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

Audit Committee

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

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

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

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

Globaltrans' corporate governance policies and practices are designed to ensure that the Group upholds its responsibilities to shareholders. As such, all employees are required to comply with these guidelines and the Group's management team takes responsibility for ensuring that all departments adhere to these standards. These key principles are promoted and applied across all levels of the Group in order to establish effective and transparent corporate governance. In January 2010, the Board supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders; this aims to ensure fair treatment of the rights of non-controlling shareholders of the Company.

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

Board and Management Remuneration

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

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

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 13 May 2011.

Refer to Note 30 of the consolidated financial statements for details of remuneration of directors and other key management personnel.

Branches

The Group operates through branches and representative offices, maintaining eleven branches and seventeen representative offices during 2011 (one of the representative offices was converted into a branch in 2011), ten branches and eighteen representative offices during 2010.

Treasury shares

During the year ended 31 December 2011 the Company did not acquire either directly or through a person in his own name but on the Company's behalf any of its own shares. On 2 January 2012 pursuant to the approval of the Extraordinary General Meeting of shareholders which took place on 20 December 2011, the Company completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US\$11.87 per share for the total value of US\$43,172,579. The shares will be held as treasury shares for a maximum period of two years.

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2012, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By Order of the Board



Alexander Eliseev
Chairman of the Board of Directors
Limassol, 11 April 2012

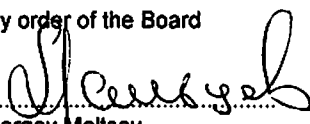
Directors' responsibility

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

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 8 to 53) and report of the Board of Directors (pages 2 to 5) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the financial position, financial performance and cash flows the Company and the undertakings included in the consolidation taken as a whole.

By order of the Board


.....
Sergey Maltsev
Director


.....
Mikhail Logarov
Director



Independent auditor's report

To the Members of Globaltrans Investment PLC

Report on the consolidated financial statements

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

Board of Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

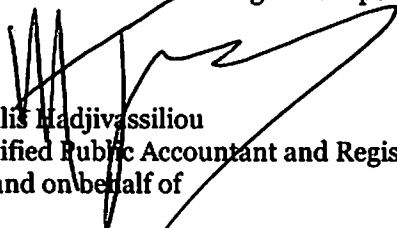
Report on other legal requirements

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

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

Other matter

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


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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 11 April 2012

Consolidated income statement

for the year ended 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
Revenue	5	1,733,056	1,382,670
Cost of sales	6	(1,210,827)	(981,428)
Gross profit		522,229	401,242
Selling and marketing costs	6	(3,088)	(2,692)
Administrative expenses	6	(90,317)	(72,225)
Other gains – net	7	3,140	3,048
Operating profit		431,964	329,373
Finance income	9	7,362	7,203
Finance costs	9	(39,935)	(53,109)
Finance costs – net	9	(32,573)	(45,906)
Share of profit of associates	14	428	206
Profit before income tax		399,819	283,673
Income tax expense	10	(82,593)	(57,733)
Profit for the year		317,226	225,940
<i>Attributable to:</i>			
Owners of the Company		266,423	177,322
Non-controlling interests		50,803	48,618
		317,226	225,940
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US\$ per share)	27	1.68	1.12

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2011

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

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

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Consolidated balance sheet

at 31 December 2011

	Note	2011 US\$'000	2010 US\$'000
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	12	1,106,171	1,112,212
Intangible assets	13	150	331
Trade and other receivables	18	75,777	64,365
Investment in associate	14	1,845	1,494
Total non-current assets		1,183,943	1,178,402
<i>Current assets</i>			
Inventories	19	8,002	6,918
Trade and other receivables	18	150,955	184,358
Current income tax assets		4,191	7,960
Cash and cash equivalents	20	120,757	137,703
Total current assets		283,905	336,939
TOTAL ASSETS		1,467,848	1,515,341
EQUITY AND LIABILITIES			
<i>Equity attributable to the owners of the Company</i>			
Share capital	21	15,814	15,814
Share premium	21	621,227	621,227
Common control transaction reserve		(368,476)	(368,476)
Translation reserve		(139,787)	(90,281)
Capital contribution		90,000	90,000
Retained earnings		639,283	485,575
Total equity attributable to the owners of the Company		858,061	753,859
Non-controlling interests		130,994	130,106
Total equity		989,055	883,965
<i>Non-current liabilities</i>			
Borrowings	24	208,381	327,890
Trade and other payables	26	-	10,467
Deferred tax liabilities	25	35,247	32,430
Total non-current liabilities		243,628	370,787
<i>Current liabilities</i>			
Borrowings	24	170,731	191,149
Trade and other payables	26	63,959	67,203
Deferred gains	23	-	150
Current tax liabilities		475	2,087
Total current liabilities		235,165	260,589
TOTAL LIABILITIES		478,793	631,376
TOTAL EQUITY AND LIABILITIES		1,467,848	1,515,341

On 11 April 2012 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.


Sergey Maltsev, Director


Mikhail Loganov, Director

The notes on pages 13 to 53 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Note	Attributable to the owners of the Company							Non-controlling interests	Total
		Share capital	Share premium	Common control transaction reserve	Translation reserve	Capital contribution	Retained earnings	Total		
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		
Balance at 1 January 2010		15,814	621,227	(368,476)	(80,557)	90,000	332,253	610,261	101,307	711,568
<i>Comprehensive income</i>										
Profit for the year		-	-	-	-	-	177,322	177,322	48,618	225,940
<i>Other comprehensive loss</i>										
Currency translation differences		-	-	-	(9,724)	-	-	(9,724)	(693)	(10,417)
Total comprehensive income for 2010		-	-	-	(9,724)	-	177,322	167,598	47,925	215,523
<i>Transactions with owners</i>										
Dividends to owners of the Company	22	-	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Dividends to non-controlling interests	22	-	-	-	-	-	-	-	(19,154)	(19,154)
Contribution by non-controlling interests		-	-	-	-	-	-	-	28	28
Total transactions with owners		-	-	-	-	-	(24,000)	(24,000)	(19,126)	(43,126)
Balance at 31 December 2010 / 1 January 2011		15,814	621,227	(368,476)	(90,281)	90,000	485,575	753,859	130,106	883,965
<i>Comprehensive income</i>										
Profit for the year		-	-	-	-	-	266,423	266,423	50,803	317,226
<i>Other comprehensive loss</i>										
Currency translation differences		-	-	-	(49,506)	-	-	(49,506)	(9,093)	(58,599)
Total comprehensive income for 2011		-	-	-	(49,506)	-	266,423	216,917	41,710	258,627
<i>Transactions with owners of the Company</i>										
Dividends to owners of the Company	22	-	-	-	-	-	(58,510)	(58,510)	-	(58,510)
Dividends to non-controlling interests	22	-	-	-	-	-	-	-	(24,915)	(24,915)
Total contributions by and distributions to owners of the Company		-	-	-	-	-	(58,510)	(58,510)	(24,915)	(83,425)
Acquisition of non-controlling interests in subsidiaries	15	-	-	-	-	-	(54,205)	(54,205)	(15,907)	(70,112)
Total transactions with owners of the Company		-	-	-	-	-	(112,715)	(112,715)	(40,822)	(153,537)
Balance at 31 December 2011		15,814	621,227	(368,476)	(139,787)	90,000	639,283	858,061	130,994	989,055

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2011

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

Principal non-cash investing and financing transactions

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

- (a) Finance leases as a lessor (Note 18)
- (b) Finance leases as a lessee (Note 24)

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Country of incorporation

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

Approval of the consolidated financial statements

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

Global Depository Receipts

Global Depository Receipts each representing one ordinary share of the Company are listed on the London Stock Exchange International Main Market.

Principal activities

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

Group structure

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

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

*Liquidated.

2. Basis of preparation and summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements, unless otherwise stated.

Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2011 have been adopted by the EU through the endorsement procedure established by the European

Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

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

- **Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties. This amendment was adopted previously by the Group in its prior year's financial statements.
- **Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").
- **Other revised standards and interpretations effective for the current period.** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

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

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

- **IFRS 9, Financial Instruments: Classification and Measurement*.** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

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

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

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

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

- **IAS 28, Investments in Associates and Joint Ventures***, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment is not expected to have an impact on the Group's financial statements. The amendment is subject to endorsement by the European Union.
- **IFRS 11, Joint Arrangements***, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The amendment is not expected to have an impact on the Group's consolidated financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)**. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have an impact on the Group's consolidated financial statements.
- **Amended IAS 19, Employee Benefits*** (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect that the adoption of this amendment will have any impact on the financial statements as the Group does not operate any defined benefit pension plans. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*** (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*** (Issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments. The timing of the adoption of the amendment by the Group is subject to endorsement of the amendment by the European Union.
- **Amendment to IAS 12 "Income Taxes"** on deferred tax relating to recovery of underlying assets (issued in September 2010 and effective for annual periods beginning on or after 1 January 2012). IAS 12 "Income Taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS40 "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 "Income taxes – recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards"** on severe hyperinflation and removal of fixed dates for First Time Adopters (issued in August and September 2010 and effective for annual periods beginning on or after 1 July 2011). These amendments include two changes to IFRS1 "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provide

guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

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

Basis of consolidation

(a) Subsidiaries

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

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

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

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

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

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

(b) Transactions with non-controlling interests

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

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

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

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

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

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

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Segment reporting

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

Revenue recognition

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

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

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

(a) Revenue from railway transportation services

The Group operates the following services:

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

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

There are three types of operator's services:

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

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

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

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

(b) Revenues from leasing

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

(c) Revenues from sale of wagons and locomotives

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

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

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

(d) Interest income

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

(e) Dividend income

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

Property, plant and equipment

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

Land is not depreciated.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

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

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

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

Intangible assets

(a) Computer software

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

Impairment of non-financial assets

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

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

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

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

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

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

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

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

Extinguishment of the original financial liability

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

Inventories

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

Cash and cash equivalents

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

Cash flow statement

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

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

Trade receivables

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

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

Share capital

Ordinary shares are classified as equity.

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

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

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

Trade payables

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

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

Non-current assets held for sale

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

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

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

Financial guarantees

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

Current and deferred income tax

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

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

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

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

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

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

Value Added Tax (VAT)

In the Russian Federation, output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable

against output VAT upon receipt of the VAT invoice except for export sales related input VAT which is reclaimable upon confirmation of export. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for impairment of receivables, impairment loss is recognised for the gross amount of the debtor, including VAT. The lease liabilities are disclosed net of VAT. While the leasing payment includes VAT, the amount of VAT from the lease payment made is reclaimable against sales VAT.

Employee benefits

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

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

Dividend distribution

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

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

3. Financial risk management

Financial risks factors

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

Market risk

(a) Foreign exchange risk

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

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

During 2010 the Russian Ruble was relatively stable against the US Dollar, however, its fluctuation within the period has resulted in foreign exchange losses for the Group for the year ended 31 December 2010. During 2011 the Russian Ruble has weakened against the US Dollar, which resulted in further foreign exchange losses for the Group for the year ended 31 December 2011. Such losses were minimized due to lower net US Dollar denominated liabilities as of the end of 2011 compared to 2010. The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Ruble, which could have a material effect on its results of operations and financial condition. The Group is also exposed to the effects of currency fluctuations between the US Dollar and the Euro, which is the functional currency of the Estonian subsidiaries and US Dollar and the Ukrainian Hryvna, which is the functional currency of the Ukrainian subsidiary of the Group.

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

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

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

Had US dollar exchange rate strengthened/weakened by 15% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have decreased/increased by US\$4,586 thousand (2010: 10% change, effect US\$3,323 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Estonian subsidiaries of the Group. Profit was less sensitive to fluctuations of the exchange rate of Euro to US dollar for the year ended 31 December 2011 due to decrease in borrowings of the Estonian subsidiaries of the Group.

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

(b) Cash flow and fair value interest rate risk

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

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

Had US dollar, Euro and Russian Ruble lease and credit interest rates shift by 1% (in the case of floating interest rates) and all other variables remained unchanged, the post-tax profit of the Group would have changed by US\$412 thousand for the year ended 31 December 2011 (2010: US\$2,443).

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

(c) Credit risk

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

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

However, the Group's business is heavily dependent on a few large key customers, accounting for 71.62% of the Group's trade and other receivables (excluding prepayments and finance lease receivables as at 31 December 2010 (2010: 63.63%).

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

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2011 and 31 December 2010:

	Fully performing US\$'000	Past due US\$'000	Impaired US\$'000	Impairment provision US\$'000	Total US\$'000
<i>As of 31 December 2011</i>					
Trade receivables	35,907	16,307	1,467	(1,467)	52,214
Other receivables	823	231	406	(406)	1,054
	36,730	16,538	1,873	(1,873)	53,268
<i>As of 31 December 2010</i>					
Trade receivables	35,360	18,676	1,645	(1,645)	54,036
Other receivables	3,693	290	676	(676)	3,983
Finance lease receivables	35,906	-	-	-	35,906
	74,959	18,966	2,321	(2,321)	93,925

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

(d) Liquidity risk

The Group has a net working capital surplus of US\$48,740 thousand as at 31 December 2011 (2010: US\$76,350).

The Group has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to US\$112,464 thousand for 2011 (2010: US\$68,667 thousand), together with long-term borrowings (Note 24) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2011 and 31 December 2010. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month US\$'000	Between one month and three months US\$'000	Between three and six months US\$'000	Less than one year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over five years US\$'000	Total US\$'000
<i>31 December 2011</i>								
Borrowings	15,536	30,352	67,243	81,424	94,798	138,477	2,442	430,272
Trade and other payables	11,582	412	125	125	-	-	-	12,243
	27,118	30,764	67,368	81,549	94,798	138,477	2,442	442,515
<i>31 December 2010</i>								
Borrowings	16,924	27,796	54,595	127,579	162,593	202,479	6,298	598,624
Trade and other payables	17,176	314	113	2,332	2,398	6,315	10,675	39,323
	34,100	28,110	54,708	129,911	165,351	208,794	16,973	637,947

Note: statutory liabilities are excluded as the analysis is provided for financial liabilities only. Trade and other payables as of 31 December 2010 include liability for the minimum distribution of 25% of the distributable profits of LLC BaltTransServis to non-controlling shareholder of that subsidiary. The amounts included in the liquidity risk table in relation to this liability are the undiscounted cash flows expected to be paid by the Group to the non-controlling shareholder, based on the projected profitability of the relevant subsidiary for the next 5 years. For periods after 5 years, the amount disclosed in the liquidity risk table is the relative proportion of the terminal value, as estimated in the discounted cash flow valuation of the relevant subsidiary, which is attributable to the proportion of the non-controlling for which there is liability for minimum dividend distribution. Management is of the opinion that this provides the most useful information to the users of the financial statements to enable them to assess the impact of this liability on the liquidity position of the Group, as opposed to disclosing undiscounted cash flows to perpetuity. Such liability was extinguished in 2011 when such non-controlling interest was acquired by the Group (Note 15).

(e) Capital risk management

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

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

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

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

The rate of borrowings to total capitalisation as at 31 December 2011 and 31 December 2010 are as follows:

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

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2011 and 2010. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(f) Fair value estimation

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

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

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by US\$556,030 thousand for the year ended 31 December 2011 (US\$479,671 thousand for the year ended 31 December 2010).

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

5. Segmental information

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

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

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

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

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

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

The Group does not have transactions between different business segments.

	Open wagons US\$'000	Tank cars US\$'000	All other segments US\$'000	Total US\$'000
<i>Year ended 31 December 2011</i>				
Total revenue – operator's services	624,608	1,009,572	17,615	1,651,795
Total revenue – operating lease	11,577	62,810	2,168	76,555
Inter-segment revenue	-	-	-	-
Revenue (from external customers)	636,185	1,072,382	19,783	1,728,350
less Infrastructure and locomotive tariffs - loaded trips	(5,188)	(549,036)	(1,806)	(556,030)
Adjusted revenue for reportable segments	630,997	523,346	17,977	1,172,320
Depreciation and amortisation	(41,690)	(26,910)	(2,526)	(71,126)
Reversal of impairment charge on property, plant and	-	-	172	172
Additions to non-current assets (included in reportable	81,244	36,781	192	118,217
Reportable segment assets	638,429	415,416	29,290	1,083,135
<i>Year ended 31 December 2010</i>				
Total revenue – operator's services	399,556	887,587	22,570	1,309,713
Total revenue – operating lease	5,771	62,876	1,892	70,539
Inter-segment revenue	-	-	-	-
Revenue (from external customers)	405,327	950,463	24,462	1,380,252
less Infrastructure and locomotive tariffs - loaded trips	(9,378)	(468,580)	(1,713)	(479,671)
Adjusted revenue for reportable segments	395,949	481,883	22,749	900,581
Depreciation and amortisation	(32,946)	(24,834)	(2,510)	(60,290)
Reversal of impairment charge on property, plant and	-	-	650	650
Additions to non-current assets (included in reportable	243,389	34,729	102	278,220
Reportable segment assets	634,938	425,489	35,553	1,095,980

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

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

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

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

Geographic information

Revenues from external customers

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

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

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

	2011		2010	
	US\$'000	% revenue	US\$'000	% revenue
<i>Revenue</i>				
Customer A	577,805	33	496,503	36

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

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

Analysis of revenue by category

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

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

6. Expenses by nature

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

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

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

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

7. Other gains – net

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

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

8. Employee benefit expense

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

9. Finance income and costs

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

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

10. Income tax expense

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

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

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

The weighted average applicable tax rate was 18.4% in 2011 (2010: 17.8%). The increase in the average applicable tax rate is caused by the increased profitability of the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate.

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

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

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

For the subsidiary in Ukraine the annual profit was taxed at a tax rate 25% until 31 March 2011 and at a tax rate of 23% thereafter.

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

11. Net foreign exchange losses

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

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

12. Property, plant and equipment

	Rolling stock	Land and buildings	Motor vehicles	Assets under construction	Other	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<i>At 1 January 2010</i>						
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
<i>Year ended 31 December 2010</i>						
Opening net book amount	896,201	2,081	1,206	2,181	3,806	905,475
Additions	286,199	45	985	2	1,019	288,250
Disposals	(2,125)	-	(30)	-	(46)	(2,201)
Depreciation charge	(61,243)	(192)	(569)	-	(1,013)	(63,017)
Transfers	2,171	-	-	(2,171)	-	-
Reversal of impairment charge on property, plant and equipment	650	-	-	-	-	650
Currency translation differences	(16,823)	(40)	(9)	(10)	(63)	(16,945)
Closing net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212
<i>At 31 December 2010</i>						
Cost	1,375,596	2,588	3,705	2	6,933	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	-	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212

	Rolling stock US\$'000	Land and buildings US\$'000	Motor vehicles US\$'000	Assets under construction US\$' 000	Other US\$'000	Total US\$'000
<i>At 1 January 2011</i>						
Cost	1,375,596	2,588	3,705	2	6,933	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	-	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212
Additions	131,598	7	827	6	471	132,909
Disposals	(5,561)	-	(57)	-	(145)	(5,763)
Depreciation charge	(73,176)	(204)	(658)	-	(1,014)	(75,052)
Transfers	539	-	-	-	(539)	-
Reversal of impairment charge on property, plant and equipment	172	-	-	-	-	172
Currency translation differences	(58,036)	(77)	(89)	(1)	(104)	(58,307)
Closing net book amount	1,100,566	1,620	1,606	7	2,372	1,106,171
<i>At 31 December 2010</i>						
Cost	1,415,495	2,480	3,471	7	5,456	1,426,909
Accumulated depreciation	(314,929)	(860)	(1,865)	-	(3,084)	(320,738)
Net book amount	1,100,566	1,620	1,606	7	2,372	1,106,171

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Intangible assets

	Computer software US\$'000	Total US\$'000
<i>At 1 January 2010</i>		
Cost	521	521
Accumulated amortisation and impairment	(14)	(14)
Net book amount	507	507
<i>Year ended 31 December 2010</i>		
Opening net book amount	507	507
Amortisation charge (Note 6)	(173)	(173)
Currency translation differences	(3)	(3)
Closing net book amount	331	331
<i>At 31 December 2010</i>		
Cost	518	518
Accumulated amortisation and impairment	(187)	(187)
Net book amount	331	331
<i>Year ended 31 December 2011</i>		
Opening net book amount	331	331
Amortisation charge (Note 6)	(179)	(179)
Currency translation differences	(2)	(2)
Closing net book amount	150	150
<i>At 31 December 2011</i>		
Cost	490	490
Accumulated amortisation and impairment	(340)	(340)
Net book amount	150	150

14. Investment in associate

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

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

Name	Country of incorporatio	Assets US\$'00	Liabilities US\$'000	Revenu US\$'00	Profit/(Loss) US\$'000	% Interest held
<i>2011</i>						
Daugavpils Lokomotivju Remonta	Latvia	6,484	3,490	8,472	428	25.27
<i>2010</i>						
Daugavpils Lokomotivju Remonta	Latvia	5,009	3,515	7,054	206	25.27

15. Transactions with non-controlling interests

(a) Acquisition of non-controlling interests in subsidiaries

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

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

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

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

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

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

16. Financial instruments by category

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

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

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

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

17. Credit quality of financial assets

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

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

	2011 US\$'000	2010 US\$'000
Trade and other receivables		
Counterparties with external credit rating		
Fitch's (B+)	-	4,407
Moody's (A2)	-	2,828
Standard & Poor's (BBB-)	7,806	6,928
	7,806	14,163
	2011 US\$'000	2010 US\$'000
Counterparties without external credit rating		
Group 1	28,092	59,588
Group 2	832	1,208
	28,924	60,796
Total trade and other receivables	36,730	74,959

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

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

Cash at bank and short-term bank deposits

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

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

⁽²⁾ International rating agency Moody's Investors Service

⁽³⁾ International rating agency Standard & Poor's

⁽⁴⁾ International rating agency Fitch Rating

18. Trade and other receivables

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

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

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

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

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

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

Receivables of US\$16,538 thousand as of 31 December 2011 were past due but not impaired (2010: US\$18,966 thousand). These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

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

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

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

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

	2011 US\$'000	2010 US\$'000
<i>Currency:</i>		
US dollar	26,679	68,737
Russian Rubles	194,611	175,361
Euro	667	3,834
Other	4,775	791
	226,732	248,723

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

	2011			2010		
	Trade receivable	Other receivable	Total	Trade receivables	Other receivables	Total
	US\$'000	US\$'000	US\$'00	US\$'000	US\$'000	US\$'000
At 1 January	1,645	676	2,321	3,285	544	3,829
Provision for receivables impairment	199	160	359	1,233	249	1,482
Bad debt written off	(174)	(312)	(486)	(2,815)	(112)	(2,927)
Unused amounts reversed (Note 6)	(130)	(104)	(234)	(8)	-	(8)
Currency translation differences	(73)	(14)	(87)	(50)	(5)	(55)
At 31 December	1,467	406	1,873	1,645	676	2,321

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

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

The finance lease receivables are scheduled as follows:

	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000
<i>At 31 December 2011</i>				
Minimum lease receivable	-	-	-	-
Less: Unearned finance income	-	-	-	-
Present value of minimum lease receivables	-	-	-	-
<i>At 31 December 2010</i>				
Minimum lease receivable	7,774	32,790	13,478	54,042
Less: Unearned finance income	(4,504)	(12,221)	(1,411)	(18,136)
Present value of minimum lease receivables	3,270	20,569	12,067	35,906

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

The amount of the unguaranteed residual values accruing to the benefit of the Group is US\$nil (2010: US\$ nil).

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

The net investment in finance leases is analysed as follows:

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

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

19. Inventories

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

All inventories are stated at cost.

20. Cash and cash equivalents

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

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

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

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

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

Cash and cash equivalents are denominated in the following currencies:

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

21. Share capital and share premium

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

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

22. Dividends

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

At the Annual General Meeting which will take place in May 2012, a final dividend in respect of the profit for the year ended 31 December 2011 of 64 US cents per ordinary share, amounting to a total dividend of US\$98,878,986 based on the number of shares issued (excluding treasury shares) as of the date of authorisation of these financial statements is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2012.

During the year ended 31 December 2011, the Group declared and paid US\$26,078 thousand (2010: US\$21,157 thousand) of dividends in favour of non-controlling interests. Pursuant to the obligation for minimum dividend distribution by Ultracare Holdings Limited and LLC BaltTransServis US\$1,163 thousand (2010: US\$2,003 thousand) was recognised as finance cost and the remaining US\$24,915 thousand (2010: US\$19,154 thousand) was recognised as dividends.

23. Deferred gains

	2011	2010
	US\$'000	US\$'000
Current	-	150
Non-current	-	-
	-	150

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

24. Borrowings

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

Finance lease liabilities

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

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

Bank borrowings

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

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

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

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

Non-convertible bonds

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

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

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

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

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

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

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

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

⁽²⁾ Moscow Interbank Currency Exchange

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

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

The Group has the following undrawn borrowing facilities:

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

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

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

25. Deferred income tax

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

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

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

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

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

	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
Deferred tax liabilities								
At 1 January 2010	40,474	(28,727)	(1,328)	(601)	7,806	11,304	(973)	27,955
Charged/(credited) to:								
Income statement (Note 10)	(12,617)	19,799	1,322	(980)	4,209	(5,240)	486	6,979
Withholding tax on actual dividend distribution	-	-	-	-	(2,337)	-	-	(2,337)
Currency translation differences	(261)	153	6	7	(8)	(70)	6	(167)
At 31 December 2010 / 1 January 2011	27,596	(8,775)	-	(1,574)	9,670	5,994	(481)	32,430
Charged/(credited) to:								
Income statement (Note 10)	2,339	7,423	-	1,032	4,316	(6,977)	(307)	7,826
Withholding tax on actual dividend distribution	-	-	-	-	(2,859)	-	-	(2,859)
Currency translation differences	(1,691)	(180)	-	(5)	(618)	289	55	(2,150)
At 31 December 2011	28,244	(1,532)	-	(547)	10,509	(694)	(733)	35,247

Deferred tax assets are 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 US\$16 thousand in 2010 in respect of cumulative tax losses amounting to US\$160 thousand as it is uncertain whether taxable profits will be earned in the future which would offset the taxable losses incurred. There is no time limit for the utilization of these tax losses.

Deferred income tax liabilities of US\$55,602 thousand (2010: US\$44,546 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings totaled US\$501,313 thousand as at 31 December 2011 (2010: US\$387,749 thousand).

26. Trade and other payables

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

Note: advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services. 'Other payables' as at 31 December 2010 include liability for minimum dividend distribution obligation to non-controlling shareholders which are not at the discretion of the Group.

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

27. Earnings per share

Basic and diluted

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

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

28. Contingencies

Operating environment

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

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

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

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

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

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Debtors and borrowers of the Group and suppliers to whom advances have been made for delivery of property, plant and equipment may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers, debtors, lessees and suppliers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

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

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

Tax legislation in Russia

Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Based on the results of tax inspection of OOO Sevtekhnotrans, a subsidiary of the Company, for 2008-2009 which was carried out in 2010 tax authorities have claimed additional income tax and VAT. The tax authorities argued that the above underpayment occurred due to the fact that OOO Sevtekhnotrans leased out tank wagons to OJSC New Forwarding Company, another subsidiary of the Company, applying rent rates below market level. OOO Sevtekhnotrans has filed an objection and in July 2011 received a positive ruling from the Ministry of Finance of Russia in respect of this claim, therefore no provision has been recognised in respect of this claim in these financial statements.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2011 and 31 December 2010 (Note 24).

Insurance policies

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

Environmental matters

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

Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. During the year ended 31 December 2007 LLC BaltTransServis, a subsidiary of the Company, provided a guarantee to Sberbank RF for a long-term loan received by a third party. The guarantee was provided free of charge, was limited to US\$45,000 thousand per year and was issued for a period of 5 years. The guarantee was initially recognised at estimated fair value of US\$3,536 thousand. The obligation of the third party was settled in full in May 2010; consequently, the guarantee to Sberbank RF was cancelled at the same time. Amortisation of the guarantee in amount of US\$961 thousand was recorded in the income statement for the year ended 31 December 2010.

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

Legal proceedings

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

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

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

The net book value of the railcars involved in the above claim as at 31 December 2011 was RR230,684 thousand (US\$7,165 thousand at 31 December 2011 exchange rates). Based on current facts and circumstances, management believes that it is not probable that the Group will incur outflow of economic resources as a result of this claim, consequently, no provision has been recorded in these consolidated financial statements.

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

29. Commitments

(a) Capital commitments

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

	2011	2010
	US\$'000	US\$'000
Property, plant and equipment	205,595	-

(b) Operating lease commitments – Group as lessee

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

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

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

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

(c) *Operating lease commitments – Group as lessor*

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

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

Contingent-based rents recognised in the income statement were US\$nil for the year ended 31 December 2011 (2010: US\$nil).

30. Related party transactions

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

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

The following transactions were carried out with related parties:

(a) *Sales of goods and services*

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

(b) *Purchases of goods and services*

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

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

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

(d) *Interest income and expenses*

	2011 US\$'000	2010 US\$'000
<i>Interest expense (Note 9):</i>		
The parent	-	(899)
	-	(899)

Interest expense to the parent in the year ended 31 December 2010 consists of interest on consideration payable for the acquisition of Estonian subsidiaries of the Group for the amount of US\$348 thousand and unwinding of discounting effect on such liability for the amount of US\$551 thousand included in Other finance costs.

(e) *Key management compensation*

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

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

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

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

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

(g) Other transactions with related parties

Year ended 31 December 2011

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

Year ended 31 December 2010

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

(h) Operating lease commitments – Group as lessee

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

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

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

(i) Operating lease commitments – Group as lessor

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

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

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

31. Events after the balance sheet date

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

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

In January – April 2012 the Group:

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

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

Independent Auditor's Report on pages 7 to 8.