# Globaltrans Investment PLC

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

# Contents

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



## Notes to the consolidated financial statements

# Board of Directors and other officers

## Board of Directors

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

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

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

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

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

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

Mr. Konstantin Shirokov
Executive Director

## Board support

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

## Company Secretary

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

*Assistant secretary: Mr. Marios Tofaros*

## Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

# Report of the Board of Directors

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

## Principal activities

The principal activity of the Group is the provision of railway transportation services using own and leased rolling stock as well as fleet engaged from third party rail operators, operating lease of rolling stock and freight forwarding (agency) services.

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

The net profit of the Group for the year ended 31 December 2012 was US$311,578 thousand (2011: US$317,226 thousand). On 31 December 2012 the total assets of the Group were US$2,949,817 thousand (2011: US$1,467,848 thousand) and net assets were US$1,605,860 thousand (2011: US$989,055 thousand).

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

On 15 May 2012, the group has completed the purchase of 100% of the share capital of LLC Ferrotrans ("FT") (formerly LLC Metalloinvesttrans), the freight rail transportation operator, for a total consideration of US$573,471 thousand. The core business of FT is to manage rail logistics of Metalloinvest, a leading global iron ore and hot briquetted iron producer based in Russia, using its owned and leased-in railcar fleet as well as fleet engaged from third-party operators.

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

## Principal risks and uncertainties

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

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

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

## Future developments

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

## Results

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

## Dividends

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

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

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

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

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

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2012 in the amount of 70 US cents per ordinary share, amounting to a total dividend of US$125,118,641.

## Share capital

Following the offering on 12 July 2012 of Global Depository Receipts, on 17 July 2012, the Company has issued 20,605,383 new ordinary shares out of the authorized share capital as fully paid at a price of US$16.50 (including a premium of US$16.40 per share). In the context of the offering, the Company has sold 3,637,117 ordinary shares held in treasury and the existing shareholders have also sold 7,257,500 shares to the public.

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

As at 31 December 2012 the issued share capital of the Company comprised 178,740,916 ordinary shares with a par value of US$0.10 per share.

## The role of the Board of Directors

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

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

## Members of the Board of Directors

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

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

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

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

## Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors as at 31 December 2012 and 31 December 2011 are shown below:

| Name | Type of holding | 2012 | 2011 |
|---|---|---|---|
| Alexander Eliseev | Indirect holding of ordinary shares and GDRs | 11,318,909 | 11,318,909 |
| Sergey Maltsev | Indirect holding of ordinary shares and GDRs | 8,021,339 | 11,658,456 |
| Johann Franz Durrer | Holding of GDRs | 160,606 | 100,000 |

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

## Events after the balance sheet date

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

## Board performance

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

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

## The Board Committees

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

*Audit Committee*

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

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

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

*Nomination Committee*

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

*Remuneration Committee*

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

## Corporate governance

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

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

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

## Board and Management Remuneration

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

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

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

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

## Branches

The Group operates through branches and representative offices, maintaining ten branches and twelve representative offices during 2012 (eleven branches and seventeen representative offices during 2011).

## Treasury shares

On 2 January 2012 pursuant to the approval of the Extraordinary General Meeting of shareholders which took place on 20 December 2011, the Company completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579. All of such treasury shares were sold by the Company in the context of the offering in July 2012 at the price of US$16.50 per share for the total value of US$60,012,430.

## Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2013, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

## Auditors

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

By Order of the Board

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

# Directors' responsibility

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 9 to 52) give a true and fair view of the financial position of Globaltrans Investment PLC and its subsidiaries (together with the Company, the "Group") as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

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

By order of the Board

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Mikhail Loganov
Director

# Independent Auditor's Report

## To the Members of Globaltrans Investment PLC

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated balance sheet as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the consolidated financial statements*

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

*Auditor's responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

*Report on other legal requirements*

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

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

*PricewaterhouseCoopers Ltd, City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus*
*P O Box 53034, CY-3300 Limassol, Cyprus*
*T: +357 25 - 555 000, F:+357 - 25 555 001, www.pwc.com/cy*

*Other matter*

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

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 22 March 2013

# Consolidated income statement

for the year ended 31 December 2012

| | Note | 2012 US$'000 | 2011 US$'000 |
|---|---|---|---|
| Revenue | 5 | 2,114,295 | 1,733,056 |
| Cost of sales | 6 | (1,450,215) | (1,210,827) |
| Gross profit | | 664,080 | 522,229 |
| Selling and marketing costs | 6 | (4,003) | (3,088) |
| Administrative expenses | 6 | (124,744) | (90,317) |
| Other gains – net | 7 | 1,153 | 3,140 |
| Operating profit | | 536,486 | 431,964 |
| Finance income | 9 | - | 7,362 |
| Finance costs | 9 | (124,545) | (39,935) |
| Finance costs – net | 9 | (124,545) | (32,573) |
| Share of profit of associates | 14 | 339 | 428 |
| Profit before income tax | | 412,280 | 399,819 |
| Income tax expense | 10 | (100,702) | (82,593) |
| Profit for the year | | 311,578 | 317,226 |
| *Attributable to:* | | | |
| Owners of the Company | | 258,016 | 266,423 |
| Non-controlling interest | | 53,562 | 50,803 |
| | | 311,578 | 317,226 |
| Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share) | 27 | 1.56 | 1.68 |

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

# Consolidated statement of comprehensive income

for the year ended 31 December 2012

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

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

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

# Consolidated balance sheet

at 31 December 2012

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

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

By order of the Board

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Mikhail Loganov, Director Konstantin Shirokov, Director

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

# Consolidated statement of changes in equity

for the year ended 31 December 2012

| | Note | Share capital US$'000 | Share premium US$'000 | Common control transaction reserve US$'000 | Treasury shares US$'000 | Translation reserve US$'000 | Capital contribution US$'000 | Retained earnings US$'000 | Total US$'000 | Non-controlling interest US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to the owners of the Company | | | | | | | | | |
| Balance at 1 January 2011 | | 15,814 | 621,227 | (368,476) | - | (90,281) | 90,000 | 485,575 | 753,859 | 130,106 | 883,965 |
| *Comprehensive income* | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 266,423 | 266,423 | 50,803 | 317,226 |
| *Other comprehensive loss* | | | | | | | | | | | |
| Currency translation differences | | - | - | - | - | (49,506) | - | - | (49,506) | (9,093) | (58,599) |
| Total comprehensive income for 2011 | | - | - | - | - | (49,506) | - | 266,423 | 216,917 | 41,710 | 258,627 |
| *Transactions with owners* | | | | | | | | | | | |
| Dividends to owners of the Company | 23 | - | - | - | - | - | - | (58,510) | (58,510) | - | (58,510) |
| Dividends to non-controlling interest | 23 | - | - | - | - | - | - | - | - | (24,915) | (24,915) |
| Total contributions by and distributions to owners of the Company | | - | - | - | - | - | - | (58,510) | (58,510) | (24,915) | (83,425) |
| Acquisition of non-controlling interest in subsidiaries | 16 | - | - | - | - | - | - | (54,205) | (54,205) | (15,907) | (70,112) |
| Total transactions with owners | | - | - | - | - | - | - | (112,715) | (112,715) | (40,822) | (153,537) |
| Balance at 31 December 2011 / 1 January 2012 | | 15,814 | 621,227 | (368,476) | - | (139,787) | 90,000 | 639,283 | 858,061 | 130,994 | 989,055 |
| *Comprehensive income* | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 258,016 | 258,016 | 53,562 | 311,578 |
| *Other comprehensive loss* | | | | | | | | | | | |
| Currency translation differences | | - | - | - | - | 83,250 | - | - | 83,250 | 7,904 | 91,154 |
| Total comprehensive income for 2012 | | - | - | - | - | 83,250 | - | 258,016 | 341,266 | 61,466 | 402,732 |
| *Transactions with owners of the Company* | | | | | | | | | | | |
| Issue of shares | 22 | 2,061 | 337,928 | - | - | - | - | - | 339,989 | - | 339,989 |
| Expenses related to issue of shares | 22 | - | (9,684) | - | - | - | - | - | (9,684) | - | (9,684) |
| Purchase of treasury shares | 22 | - | - | - | (43,173) | - | - | - | (43,173) | - | (43,173) |
| Sale of treasury shares | 22 | - | - | - | 43,173 | - | - | 16,839 | 60,012 | - | 60,012 |
| Dividends to owners of the Company | 23 | - | - | - | - | - | - | (98,879) | (98,879) | - | (98,879) |
| Dividends to non-controlling interest | 23 | - | - | - | - | - | - | - | - | (34,192) | (34,192) |
| Total contributions by and distributions to owners of the Company | | 2,061 | 328,244 | - | - | - | - | (82,040) | 248,265 | (34,192) | 214,073 |
| Total transactions with owners of the Company | | 2,061 | 328,244 | - | - | - | - | (82,040) | 248,265 | (34,192) | 214,073 |
| Balance at 31 December 2012 | | 17,875 | 949,471 | (368,476) | - | (56,537) | 90,000 | 815,259 | 1,447,592 | 158,268 | 1,605,860 |

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

# Consolidated cash flow statement

for the year ended 31 December 2012

| | Note | 2012 US$'000 | 2011 US$'000 |
|---|---|---|---|
| *Cash flows from operating activities* | | | |
| Profit before tax | | 412,280 | 399,819 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 12 | 113,043 | 75,052 |
| Amortisation of intangible assets | 13 | 7,733 | 179 |
| Loss on sale of property, plant and equipment | 12 | 2,120 | 1,244 |
| Reversal of impairment charge on property, plant and equipment | 12 | - | (172) |
| Interest and other finance income | 9 | (5,643) | (7,362) |
| Interest expense | 9 | 97,990 | 36,726 |
| Share of profit of associates | 14 | (339) | (428) |
| Foreign exchange losses on finance income/costs | | 32,198 | 2,046 |
| Recognised deferred gain | 7 | - | (156) |
| Finance cost on liability for minimum dividend distribution | 9 | - | 1,163 |
| | | 659,382 | 508,111 |
| *Changes in working capital:* | | | |
| Inventories | | (4,178) | (1,586) |
| Trade and other receivables | | (24,703) | 3,748 |
| Trade and other payables | | 19,401 | (5,074) |
| Cash generated from operations | | 649,902 | 505,199 |
| Tax paid | | (81,821) | (63,441) |
| Net cash from operating activities | | 568,081 | 441,758 |
| *Cash flows from investing activities* | | | |
| Acquisition of subsidiaries-net of cash acquired | 15 | (572,888) | - |
| Advance payment for acquisition of subsidiary – restricted cash | 21 | (10,000) | - |
| Purchases of property, plant and equipment | | (736,911) | (173,941) |
| Proceeds from disposal of property, plant and equipment | 12 | 900 | 4,526 |
| Interest received | | 5,682 | 7,317 |
| Receipts from finance lease receivable | | - | 35,925 |
| Net cash used in investing activities | | (1,313,217) | (126,173) |
| *Cash flows from financing activities* | | | |
| Proceeds from borrowings | | 1,398,298 | 112,156 |
| Repayments of borrowings | | (666,787) | (179,401) |
| Finance lease principal payments | | (47,450) | (58,630) |
| Interest paid | | (90,172) | (36,519) |
| Acquisitions of non-controlling interests | 15 | - | (81,700) |
| Proceeds from the issue of shares – net of expenses | 22 | 330,305 | - |
| Proceeds from the sale of treasury shares | 22 | 60,012 | - |
| Purchase of treasury shares | 22 | (43,173) | - |
| Dividends paid to Company's shareholders | 23 | (98,879) | (58,510) |
| Dividends paid to non-controlling interests | 23 | (34,192) | (26,078) |
| Net cash from/(used in) financing activities | | 807,962 | (328,682) |
| Net increase/(decrease) in cash and cash equivalents | | 62,826 | (13,097) |
| Exchange losses on cash and cash equivalents | | (4,356) | (4,141) |
| Cash, cash equivalents and bank overdrafts at beginning of year | 21 | 119,720 | 136,958 |
| Cash, cash equivalents and bank overdrafts at end of year | 21 | 178,190 | 119,720 |

Principal non-cash investing and financing transactions

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

(a) Finance leases as a lessor (Note 19)

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

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

# Notes to the consolidated financial statements

## 1. General information

### Country of incorporation

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

### Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 22 March 2013.

### Global Depositary Receipts

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

### Principal activities

The principal activity of the Group, which is unchanged from last year, is the provision of railway transportation services using own and leased rolling stock as well as the fleet engaged from other operators and operating lease of rail cars.

### Group structure

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

| Name | Status | Country of incorporation | Principal activities | Effective % interest held 2012 | 2011 |
|---|---|---|---|---|---|
| Sevtekhnotrans, OOO | Subsidiary | Russia | Railway transportation | 100 | 100 |
| New Forwarding Company, OJSC | Subsidiary | Russia | Railway transportation | 100 | 100 |
| Ferrotrans, OOO (formerly Metalloinvesttrans, OOO) | Subsidiary | Russia | Railway transportation | 100 | - |
| Ukrainian New Forwarding Company LLC | Subsidiary | Ukraine | Railway transportation | 100 | 100 |
| BaltTransServis, LLC | Subsidiary | Russia | Railway transportation | 60 | 60 |
| RemTransServis, OOO | Subsidiary | Russia | Repair and maintenance of rolling stock | 59.4 | 59.4 |
| Ingulana Holdings Limited | Subsidiary | Cyprus | Intermediary holding company | 60 | 60 |
| Ultracare Holdings Limited | Subsidiary | Cyprus | Intermediary holding company | 60 | 60 |
| Spacecom AS | Subsidiary | Estonia | Operating lease of rolling stock and provision of forwarding services | 65.25 | 65.25 |
| Ekolinja Oy | Subsidiary | Finland | Operating sub-lease of rolling stock | 65.25 | 65.25 |
| Spacecom Trans AS | Subsidiary | Estonia | Operating lease of rolling stock | 65 | 65 |

## 2. Basis of preparation and summary of significant accounting policies

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

### Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2012 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

*(a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2012:*

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

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

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

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

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

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

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

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

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

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

- IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.

- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is currently assessing the impact of the amended standard on its financial statements.

- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013)*. The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. Whereas the amendment to IFRS1 and IAS 1 are not expected to have an effect on the Group's consolidated financial statements, the Group is currently assessing the impact of the amendments to IAS16, 32 and 34 on its consolidated financial statements and interim condensed financial statements. The amendments will be applied by the Group upon endorsement of these by the European Union.

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013)*. The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 "Consolidated Financial Statements" is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10 "Consolidated Financial Statements" , IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

## Basis of consolidation

*(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

The acquisition method of accounting is used for the acquisitions of subsidiaries that do not involve entities or businesses under common control by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, equity instruments issued by the Group and liabilities incurred to the former owners of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

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

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

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

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

*(b) Transactions with non-controlling interests*

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

*(c) Disposal of subsidiaries*

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

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

*(d) Associates*

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

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

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

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

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

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

## Segment reporting

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

## Revenue recognition

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

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

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

*(a) Revenue from railway transportation services*

The Group operates the following services:

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

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

   There are three types of operator's services:

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

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

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

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

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

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

*(b) Revenues from leasing*

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

*(c) Revenues from sale of wagons and locomotives*

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

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

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

*(d) Interest income*

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

*(e) Dividend income*

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

## Foreign currency translation

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

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

*(c) Group companies*

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

- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items at the average monthly rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- Share capital, share premium and all other reserves are translated using the historic rate.

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income,

### Property, plant and equipment

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

Land is not depreciated.

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

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

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

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

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

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

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

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

### Intangible assets

*(a) Goodwill*

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

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

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

*(b) Customer relationships*

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

*(c) Computer software*

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

### Impairment of non-financial assets

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

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

### Leases

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

*The Group is the lessee*

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

*The Group is the lessor*

(a) Finance leases

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

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

(b) Operating leases

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

## Financial assets

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

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

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

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

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

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

## Extinguishment of the original financial liability

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

## Inventories

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

### Cash and cash equivalents

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

### Restricted cash

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

### Cash flow statement

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

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

### Trade receivables

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

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

### Share capital

Ordinary shares are classified as equity.

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

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

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

### Trade payables

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

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

### Provisions and contingent liabilities

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

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

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

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

### Borrowings

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

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

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

### Borrowing costs

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

### Financial guarantees

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

### Current and deferred income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

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

### Value Added Tax (VAT)

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

### Employee benefits

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

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

### Dividend distribution

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

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

### Transactions with equity owners

The Group enters into transactions with its shareholders. When consistent with the nature of the transaction, the Group's accounting policy is to recognise any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contribution or the payment of dividends. Similar transactions with non-equity holders, are recognised through the income statement in accordance with IAS39, Financial Instruments: Recognition and Measurement.

### Comparative information

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

## 3. Financial risk management

### Financial risks factors

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

### Market risk

*(a) Foreign exchange risk*

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

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

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

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2012 and 31 December 2011 are as follows:

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---:|---:|
| Assets | 111,559 | 73,802 |
| Liabilities | 103,970 | 84,644 |

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

Had US dollar exchange rate strengthened/weakened by 15% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2012, would have decreased/increased by US$8,676 thousand (2011: 15% change, effect US$4,586 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Estonian subsidiaries of the Group. Profit was more sensitive to fluctuations of the exchange rate of Euro to US dollar for the year ended 31 December 2012 due to increase in US Dollar denominated borrowings of the Estonian subsidiaries of the Group.

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

*(b) Cash flow and fair value interest rate risk*

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

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

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

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

*(c) Credit risk*

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

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

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

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

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2012 and 31 December 2011:

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

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

*(d) Liquidity risk*

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

The Group has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to US$187,189 thousand for 2012 (2011: US$112,464 thousand), together with long-term borrowings (Note 24) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2012 and 31 December 2011. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | Less than one month | Between one month and three months | Between three and six months | Less than one year | Between 1 and 2 years | Between 2 and 5 years | Over five years | Total |
|---|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| *31 December 2012* | | | | | | | | |
| Borrowings | 22,067 | 62,084 | 74,962 | 155,501 | 298,049 | 653,992 | - | 1,266,655 |
| Trade and other payables | 35,833 | 461 | 129 | 663 | - | - | - | 37,086 |
| | 57,900 | 62,545 | 75,091 | 156,164 | 298,049 | 653,992 | - | 1,303,741 |
| *31 December 2011* | | | | | | | | |
| Borrowings | 15,536 | 30,352 | 67,243 | 81,424 | 94,798 | 138,477 | 2,442 | 430,272 |
| Trade and other payables | 11,582 | 412 | 125 | 125 | - | - | - | 12,244 |
| | 27,118 | 30,764 | 67,368 | 81,549 | 94,798 | 138,477 | 2,442 | 442,516 |

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

*(e) Capital risk management*

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

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

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

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

The rate of borrowings to total capitalisation as at 31 December 2012 and 31 December 2011 are as follows:

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

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

*(f) Fair value estimation*

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

## 4. Critical accounting estimates and judgements

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

*(a) Critical accounting estimates and assumptions*

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

i) Tax legislation

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

ii) Determination of fair values in business combinations

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

Fair values are estimated based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Critical estimates in valuing certain assets acquired and liabilities assumed include but are not limited to: future expected cash flows from transportation contracts, market railcar prices, repair and maintenance costs and discount rates.

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

Fair value of customer relationships was determined by independent valuers using the multi-period excess earnings method within the income approach. Projected cash flows were estimated for the existing three-year contract and for the two years thereafter. This is based on the assumption that after the expiry of the original contract the cooperation between the Group and Metalloinvest will not terminate since the relationship is based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the client. Other key assumptions included into cash flow calculations are growth of transportation volumes and prices, railway tariffs, structure of the fleet, costs associated with repairs and maintenance and staff costs. The assumptions were based on industry and management forecasts. Cash flows attributed to the customer relationships were discounted using discount rate of 16.91% for the term of the three-year contract and 20.05% for the two years thereafter.

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

iii) Assessment of recoverability of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. However, if the goodwill was acquired in a business combination during the current annual period, it is tested for impairment before the end of the current annual period. Management has assessed that in view of the fact that the acquisition of LLC Ferrotrans gives rise to synergies benefiting more than a single cash generating unit, the activities of the individual legal entities of the Group involve intra-group transactions of leasing the rolling stock, and there are also ongoing restructuring of activities between the Group entities, allocation of goodwill to individual cash-generating units would not be possible on a non-arbitrary basis. Therefore, the management has assessed impairment of goodwill at the group of CGUs which represent the lowest level which is expected to benefit from the synergies arising on the acquisition of LLC Ferrotrans and the level at which goodwill is monitored by management, which is represented by the Russian open wagons/operator's services group of CGUs. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 13). Goodwill has been allocated for impairment testing purposes to Russian open wagons/operator's services group of CGUs. The Group prepared value-in-use calculations and as a result of such calculations no impairment was identified.

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

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by US$681,681 thousand for the year ended 31 December 2012 (US$556,030 thousand for the year ended 31 December 2011).

The above include contracts with several customers where under the legal form of these contracts the Group acts as an agent in respect of Russian Railway tariff and services provided by other transportation organisations and recharges such costs to its customers. Management believes that despite the legal form of the contracts the substance of the relationship with the customers is such that the Group acts as a principal, because the Group's customers do not interact with Russian Railways nor with the operators supplying the engaged fleet but have a contractual relationship with the Group, the Group has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Group bears the credit and price risk and controls the flow of receipts and payments. The Group accounts for full amounts of receipts from customers as revenue and the Russian Railways tariff and the services provided by other operators are included in cost of sales. Had the Russian Railways loaded trip tariff and services provided by other transportation organisations directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by US$810,041 thousand for the year ended 31 December 2012 (US$550,923 thousand for the year ended 31 December 2011).

ii) Determination of the acquisition date in business combinations

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

iii) Intention for the distribution of dividends by subsidiaries

Withholding tax at the rate of 5% is applied to the dividends distributed by the Russian subsidiaries of the Group to the Company. In case the dividends are distributed by the Estonian subsidiaries the tax of 21% will be applied to such distributions. Recognition of the provisions for such taxes by the Group is based on the management's intention for future dividend distribution by each respective subsidiary. Deferred income tax liabilities of US$60,143 thousand (2011: US$55,602 thousand) have not been recognised for the withholding taxes that would be payable in case unremitted earnings of certain subsidiaries are distributed to the Company in the form of dividends as it is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled US$553,778 thousand as at 31 December 2012 (2011: US$501,313 thousand).

iv) Changes in fair value of consideration in business combinations

The final consideration payable by the Group for the acquisition of LLC Ferrotrans (formerly Metalloinvesttrans) which was completed in May 2012, was finally determined in October 2012 based on the actual amounts of net debt and deviation of working capital of Ferrotrans compared to normalised values. This resulted in an adjustment increasing preliminary consideration and goodwill arising on such acquisition by US$6,677 thousand. The Group considers this adjustment to the provisional consideration payable for this acquisition as measurement period adjustment as it (i) reflects new information on facts and circumstances that existed as of the acquisition date; and (ii) has an effect on the measurement of identifiable assets and liabilities recognised at that date.

## 5. Segmental information

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

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

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

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

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

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

The Group does not have transactions between different business segments.

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

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

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

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

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

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

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

Geographic information
*Revenues from external customers*

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

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

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

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

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

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

Analysis of revenue by category

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

Note: Revenue from railway transportation – operators services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2012 amounting to US$681,681 thousand (for the year ended 31 December 2011: US$556,030 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to US$110,635 thousand (2011: US$27,481 thousand).

## 6. Expenses by nature

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

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

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

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

## 7. Other gains – net

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

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

## 8. Employee benefit expense

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

## 9. Finance income and costs

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

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

## 10. Income tax expense

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

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

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

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

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

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

For Russian subsidiaries, the annual profit is taxed at 20%. Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected. Dividend withholding tax provision is recognised in the respective periods for the withholding taxes that would be payable by subsidiaries where there is an intention that earnings will be distributed to the Company in the form of dividends.

For subsidiaries in Estonia, the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 21% (until 31 December 2011: 21%) of net dividend paid. The tax rate will be reduced to 20% in 2015. Therefore, the applicable income tax rate for Estonian subsidiaries is zero per cent as the Group currently has no intention to distribute dividends from the Estonian subsidiaries.

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

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

## 11. Net foreign exchange losses

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

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

## 12. Property, plant and equipment

| | Rolling stock<br>US$'000 | Land and buildings<br>US$'000 | Motor vehicles<br>US$'000 | Other<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|---|
| *At 1 January 2011* | | | | | |
| Cost | 1,375,596 | 2,588 | 3,705 | 6,935 | 1,388,824 |
| Accumulated depreciation | (270,566) | (694) | (2,122) | (3,230) | (276,612) |
| Net book amount | 1,105,030 | 1,894 | 1,583 | 3,705 | 1,112,212 |
| *Year ended 31 December 2011* | | | | | |
| Opening net book amount | 1,105,030 | 1,894 | 1,583 | 3,705 | 1,112,212 |
| Additions | 131,598 | 7 | 827 | 477 | 132,909 |
| Disposals | (5,561) | - | (57) | (145) | (5,763) |
| Depreciation charge | (73,176) | (204) | (658) | (1,014) | (75,052) |
| Transfers | 539 | - | - | (539) | - |
| Reversal of impairment charge on property, plant and equipment | 172 | - | - | - | 172 |
| Currency translation differences | (58,036) | (77) | (89) | (105) | (58,307) |
| Closing net book amount | 1,100,566 | 1,620 | 1,606 | 2,379 | 1,106,171 |
| *At 31 December 2011* | | | | | |
| Cost | 1,415,495 | 2,480 | 3,471 | 5,463 | 1,426,909 |
| Accumulated depreciation | (314,929) | (860) | (1,865) | (3,084) | (320,738) |
| Net book amount | 1,100,566 | 1,620 | 1,606 | 2,379 | 1,106,171 |

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

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

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

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

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

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

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

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

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

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

(a) The lease transfers ownership of property, plant and equipment to the Group at the end of the lease term;

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

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

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Rolling stock | 625,375 | 303,894 |

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

## 13. Intangible assets

| | Goodwill<br>US$'000 | Computer software<br>US$'000 | Customer relationships<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| *At 1 January 2011* | | | | |
| Cost | - | 518 | - | 518 |
| Accumulated amortisation and impairment | - | (187) | - | (187) |
| Net book amount | - | 331 | - | 331 |
| *Year ended 31 December 2011* | | | | |
| Opening net book amount | - | 331 | - | 331 |
| Amortisation charge (Note 6) | - | (179) | - | (179) |
| Currency translation differences | - | (2) | - | (2) |
| Closing net book amount | - | 150 | - | 150 |
| *At 31 December 2011* | | | | |
| Cost | - | 490 | - | 490 |
| Accumulated amortisation and impairment | - | (340) | - | (340) |
| Net book amount | - | 150 | - | 150 |
| *Year ended 31 December 2012* | | | | |
| Opening net book amount | - | 150 | - | 150 |
| Acquired through business combinations | 142,328 | 14 | 63,340 | 205,682 |
| Amortisation charge (Note 6) | - | (158) | (7,575) | (7,733) |
| Currency translation differences | (504) | 5 | (556) | (1,055) |
| Closing net book amount | 141,824 | 11 | 55,209 | 197,044 |
| *At 31 December 2012* | | | | |
| Cost | 141,824 | 533 | 63,117 | 205,474 |
| Accumulated amortisation and impairment | - | (522) | (7,908) | (8,430) |
| Net book amount | 141,824 | 11 | 55,209 | 197,044 |

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

In May 2012, the Group completed the acquisition of LLC Ferrotrans (formerly Metalloinvesttrans) (note 15). The goodwill of USD142,328 thousand arose on this acquisition from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars and detailed understanding of transportation requirements of metals and mining companies.

As a part of the acquisition the Group have agreed a three-year transportation contract. In accordance with this contract, the Group will provide rail freight transportation and logistics services to Metalloinvest, handling 100% of all its rail transportation cargo volumes in year one based on agreed pricing terms and at least 60% in the following two years. The Group has recognised an intangible asset ‘customer relationships’ relating to this arrangement in the amount of US$63,340 thousand, which is amortised over 5 years. Amortisation period is based on the assumption that after the expiry of the original contract the cooperation between the Group and Metalloinvest will not terminate since the relationship is based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the client.

As at 31 December 2012 the remaining useful live for customer relationships was estimated at 4.5 years.

Goodwill in the amount of US$141,824 thousand is allocated to Russian open wagons/operator's services group of cash generating units.

### Impairment test for goodwill

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

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

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

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

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

## 14. Investment in associate

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

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

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

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

## 15. Business combination

*(a) Acquisition of LLC Ferrotrans*

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

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

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

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

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

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

Purchase consideration in cash:

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

The goodwill of USD142,328 thousand arises from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars and detailed understanding of transportation requirements of metals and mining companies.

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

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

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

Had FT been consolidated from 1 January 2012, the consolidated income statement for the year ended 31 December 2012 would show pro-forma revenue of US$2,369,468 thousand and pro-forma profit of USD333,417 thousand. Estimates of the contribution of revenue and profit to the Group are based on unaudited information.

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

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

*(b) Acquisition of LLC MMK-Trans*

On 18 December 2012 the Group has signed an agreement to acquire 100 per cent interest in LLC MMK-Trans, the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. Estimated consideration for 100 per cent share amounts to US$250 million assuming net debt and working capital of US$85 million and no capital commitments. MMK-Trans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal. As part of the transaction, Globaltrans entered into a five-year contract guaranteed by MMK Group to supply it with rail transportation services for at least 70% of MMK's rail cargo flows.

As a security for the performance of its obligations under the acquisition agreement, on 19 December 2012 the Company has placed US$10,000 thousand into the escrow account. These funds are treated as restricted cash and are classified as a current asset based on the estimated remaining length of the restriction. The funds are expected to be released to the vendor at completion of the acquisition.

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

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

## 16. Transactions with non-controlling interests

*(a) Acquisition of non-controlling interests in subsidiaries*

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

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

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

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

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

## 17. Financial instruments by category

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Loans and receivables | Total | Loans and receivables | Total |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| *Financial assets as per balance sheet* | | | | |
| Trade and other receivables | 91,360 | 91,360 | 53,268 | 53,268 |
| Cash and cash equivalents | 178,190 | 178,190 | 120,757 | 120,757 |
| Restricted cash | 10,000 | 10,000 | - | - |
| Total | 279,550 | 279,550 | 174,025 | 174,025 |

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Financial liabilities measured at amortised cost | Total | Financial liabilities measured at amortised cost | Total |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| *Financial liabilities as per balance sheet* | | | | |
| Borrowings | 1,075,108 | 1,075,108 | 379,112 | 379,112 |
| Trade and other payables | 37,086 | 37,086 | 12,244 | 12,244 |
| Total | 1,112,194 | 1,112,194 | 391,356 | 391,356 |

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

## 18. Credit quality of financial assets

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

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

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

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

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

Cash at bank and short-term bank deposits

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

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

## 19. Trade and other receivables

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

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

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

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

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

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

Receivables of US$45,069 thousand as of 31 December 2012 were past due but not impaired (2011: US$16,538 thousand). These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

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

Trade receivables amounting to US$655 thousand as of 31 December 2012, were impaired and provided for in full (2011: US$1,467 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Other receivables amounting to US$776 thousand as of 31 December 2012, were impaired and provided for in full (2011: US$406 thousand). It was assessed that no portion of these receivables is expected to be recovered.

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

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

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

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

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

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

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

## 20. Inventories

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---:|---:|
| Raw materials, spare parts and consumables | 13,675 | 8,002 |
| | 13,675 | 8,002 |

All inventories are stated at cost.

## 21. Cash and cash equivalents

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

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

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

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---:|---:|
| Cash and cash equivalents | 178,190 | 120,757 |
| Bank overdrafts (Note 24) | - | (1,037) |
| Total cash and cash equivalents | 178,190 | 119,720 |

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

Cash and cash equivalents are denominated in the following currencies:

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

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

## 22. Share capital, share premium and treasury shares

| | Number of shares | Share capital US$'000 | Share premium US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 1 January 2011 / 31 December 2011/1 January 2012 | 158,135,533 | 15,814 | 621,227 | 637,041 |
| Issue of new shares | 20,605,383 | 2,061 | 337,928 | 339,989 |
| Incremental costs directly attributable to the issue of new shares | - | - | (9,684) | (9,684) |
| At 31 December 2012 | 178,740,916 | 17,875 | 949,471 | 967,346 |

The total authorised number of ordinary shares at 31 December 2012 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2011: 233,918,128 shares with a par value of US$0.10 per share). All issued shares are fully paid.

On 2 January 2012 pursuant to the approval of the Extraordinary General Meeting of shareholders which took place on 20 December 2011, the Company completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579.

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

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

## 23. Dividends

Dividends paid in 2012 and 2011 were US$98,878,986 (US$0.64 per share) and US$58,510,147 (US$0.37 per share) respectively.

At the Annual General Meeting which will take place in May 2013, a final dividend in respect of the profit for the year ended 31 December 2012 of 70 US cents per ordinary share, amounting to a total dividend of US$125,118,641 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2013.

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

## 24. Borrowings

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

### Finance lease liabilities

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

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

### Bank borrowings

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

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

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

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

### Non-convertible bonds

Non-convertible Russian ruble denominated bonds issued by OJSC New Forwarding Company ("NFC") in 2010 for a total amount of RUB3 billion (US$98 million) carry a coupon rate of 9.25% and have an amortising structure with final maturity in 2015.

Additionally, in March 2012, NFC, a Russian subsidiary of the Company, has issued 3-year Russian rouble denominated exchange-traded bonds for a total amount of RUB10 billion (US$341,423 thousand) at a coupon rate of 10.00% per annum. Bonds are traded on MICEX SE in Moscow.

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

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

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

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

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

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

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

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

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

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

The Group has the following undrawn borrowing facilities:

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

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

| | 2012<br>% | 2011<br>% |
|---|---|---|
| Bank overdrafts | - | 2.2 |
| Bank borrowings | 9.5 | 8.8 |
| Non-convertible unsecured bonds | 9.9 | 9.3 |
| Finance lease liabilities | 2.9 | 5.0 |

## 25. Deferred income tax

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

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

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

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

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

| Deferred tax liabilities | Property, plant and equipment US$'000 | Lease liability US$'000 | Trade and other payables US$'000 | Withholding tax provision US$'000 | Intangible assets US$'000 | Other assets/ liabilities US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2011 | 27,596 | (8,775) | (1,574) | 9,670 | - | 5,513 | 32,430 |
| Charged/(credited) to: | | | | | | | |
| Income statement (Note 10) | 2,339 | 7,423 | 1,032 | 4,316 | - | (7,284) | 7,826 |
| Withholding tax on actual dividend distribution | - | - | - | (2,859) | - | - | (2,859) |
| Currency translation differences | (1,691) | (180) | (5) | (618) | - | 344 | (2,150) |
| At 31 December 2011 / 1 January 2012 | 28,244 | (1,532) | (547) | 10,509 | - | (1,427) | 35,247 |
| Charged/(credited) to: | | | | | | | |
| Income statement (Note 10) | (1,544) | 1,267 | 1,139 | 6,229 | (1,516) | (1,132) | 4,443 |
| Acquisition of subsidiaries and joint ventures | 65,546 | - | (2,352) | 4,975 | 12,671 | 38 | 80,878 |
| Change in intention for distribution of dividends by subsidiary (Note 10) | - | - | - | 11,059 | - | - | 11,059 |
| Withholding tax on actual dividend distribution | - | - | - | (8,873) | - | - | (8,873) |
| Currency translation differences | 1,399 | (60) | 32 | 1,191 | (111) | (131) | 2,320 |
| At 31 December 2012 | 93,645 | (325) | (1,728) | 25,090 | 11,044 | (2,652) | 125,074 |

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

Deferred income tax liabilities of US$60,143 thousand (2011: US$55,602 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled US$553,778 thousand as at 31 December 2012 (2011: US$501,313 thousand).

## 26. Trade and other payables

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

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

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

## 27. Earnings per share

### Basic and diluted

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

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

## 28. Contingencies

### Operating environment

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

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

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

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

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

Finally, the Group's business is heavily dependent on a few large key customers. Historically, the Group did not have long term contracts with any of these customers and although it has enjoyed good working relations with these customers to date, there can be no assurance that it will retain their custom in the future or that their custom, if lost, could be easily replaced by that of other customers on comparable terms and volume. In 2012, as part of the acquisition of LLC Ferrotrans, the Group has signed three-year service contract with Metalloinvest Group (Note 15). Moreover, in December 2012 as part of the agreement for the acquisition of LLC MMK-Trans the Group has agreed a five-year service contract with MMK (Note 15).

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

### Tax legislation in Russia

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

Amendments to Russian transfer pricing legislation are effective from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation and expects that the Group will comply with the requirements of the new legislation by the deadline set.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

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

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

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

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2012 and 31 December 2011 (Note 24).

Insurance policies

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

Environmental matters

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

Legal proceedings

During the year ended 31 December 2012, the Group was involved as a claimant and defendant in a number of court proceedings.

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

In July 2011 the Group received a notice of a claim in relation to 240 railcars, which a subsidiary of the Company acquired through finance lease in July 2010. The claim suggests that such railcars were not released from pledge by the lessor upon transfer to the Group and due to the fact that the lessor defaulted on its obligations to the pledgee, the claim was brought against the subsidiary of the Company being the current owner of the pledged railcars. Two law suits were in progress in relation to this matter, one in Moscow City Arbitration Court in Russia and a second one in the Moldova Republic. In February 2012 the subsidiary of the Company has received a positive ruling from Moscow City Arbitration Court in respect of this claim. Following this decision the pledgee's right in relation to pledged assets was confirmed as non-negotiable. This decision, however, was set aside by the Court of Appeals in July 2012. In October 2012, Federal Arbitration Court amended this decision of Court of Appeals and pledgee's right on pledged assets was recognised as void again. In the court hearing in Moldova in December 2012 the claimant withdrawn his claim and the court proceedings were terminated.

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

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

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

## 29. Commitments

*(a) Capital commitments*

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

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---:|---:|
| Property, plant and equipment | 676 | 205,595 |

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

*(b) Operating lease commitments – Group as lessee*

The Group leases offices under non-cancellable operating lease agreements.

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease expenditure charged to the income statement during the years is disclosed in Note 6.

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

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

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

The Group leases out rolling stock and locomotives under cancellable and non-cancellable operating lease agreements. The future aggregate minimum lease payments receivable under non-cancellable operating leases in which the Group is acting as the lessor are as follows:

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

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

## 30. Related party transactions

Until 17 July 2012, the Group was controlled by Transportation Investments Holding Limited ("TIHL") incorporated in Cyprus, which owned 50.1% of the Company's shares. Envesta Investments Limited ("EIL") owned 12.3% (including the holding of GDRs of the Company) of the Company's shares until 17 July 2012. Further, the Directors of the Company controlled 0.1% of the Company's shares through their holdings of GDRs with the remaining 35.3% of the shares representing the free market-float. Until 17 July 2012, the ultimate controlling party of the Group was Mirbay International Inc., which is registered in Bahamas.

Following the issue and sale of shares by the Company and sale of shares by the existing shareholders on 17 July 2012, the Group no longer has an ultimate controlling party. Following the above event, as well as the additional sale of shares of the Company by TIHL in October 2012 shares held by its major shareholders, TIHL and EIL together with their affiliated entities as at 31 December 2012 are 34.5% and 10.8% respectively. 54.5% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The remaining 0.2% of the shares of the Company are controlled by Directors and management of the Group.

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

For the purposes of these financial statements TIHL is considered as the Parent of the Group until 17 July 2012 and an entity exercising significant influence over the Group thereafter.

The following transactions were carried out with related parties:

*(a) Sales of goods and services*

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

*(b) Purchases of goods and services*

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

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

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

*(d) Key management compensation*

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

Note: 'key management salaries and other short term employee benefits' include directors' remuneration paid to the directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to US$7,935 thousand (2011: US$2,388 thousand).

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

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

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

*(g) Operating lease commitments – Group as lessee*

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

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

Operating lease commitments with 'other related parties' amounting to US$8,630 thousand were to entities under significant influence of members of key management (2011: US$20,311), with the rest of the commitments were to entities under control of TIHL.

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

The future minimum lease payments receivable under operating leases with other related parties (entities under joint-control by TIHL) are as follows:

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

## 31. Events after the balance sheet date

### Business combinations

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

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

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

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

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

The goodwill of USD65,487 thousand arises from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars as well as access to MMK cargo base enabling the Group to develop a more efficient gondola car logistics configurations with low empty runs.

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

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

Independent Auditor's Report on pages 7 to 8.