# Globaltrans Investment PLC

## Russia's Leading Private Freight Rail Group

Annual Report and Accounts 2009

Globaltrans

# Globaltrans Highlights

- The largest[1] private freight rail transportation group operating in Russia, the CIS countries and the Baltics
- Focused on servicing blue chip customers in key sectors of the economy (metals and mining, oil products, etc.)
- Business model based on operation of a balanced fleet of gondola cars and rail tank cars
- Robust customer value proposition built around deep understanding of customer needs and advanced destination management systems
- Experienced management team with proven track record
- Listed on London Stock Exchange's Main Market since May 2008

# Contents



1. By the size of Owned Fleet. Based on the publicly available sources.

# 2009 Highlights

## Increased Freight Rail Turnover and market share

FREIGHT RAIL TURNOVER GREW BY

+3%

whilst overall Freight Rail Turnover in Russia dropped by 12% year on year in 2009

INCREASED MARKET SHARE BY

+21%

Globaltrans' market share of overall volume of freight transported by rail in Russia increased from 3.9% in 2008 to 4.8% in 2009

## Seized opportunities to expand the business

TOTAL FLEET OF ROLLING STOCK INCREASED BY

+38%

including the Total Fleet of acquired LLC BaltTransServis and rolling stock delivered in 2009

NEW GONDOLA AND RAIL TANK CARS CONTRACTED

+6,500 units

with 1,775 units of rolling stock delivered in 2009 and the rest to be delivered in 2010

## Maintained strong financial position

ADJUSTED EBITDA MARGIN REMAINED SOLID

42%*

down only by 2 percentage points compared to 2008

MAINTAINED STRONG BALANCE SHEET, PROVIDING FLEXIBILITY TO PURSUE GROWTH

1.0x*

Net Debt to Adjusted EBITDA ratio as of the end of 2009

### SUMMARY OF PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All financial information presented in this Annual Report is derived from the consolidated financial statements of Globaltrans Investment PLC ("the Company" or, together with its subsidiaries, "Globaltrans" or "the Group") for the year ended 31 December 2009 and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS"). Certain financial information which is derived from the management accounts is marked in this Annual Report with an asterisk {*}.

In accordance with the Group's accounting policies, **the acquisition of LLC BaltTransServis ("BTS") has been accounted for as a common control transaction** using the predecessor basis of accounting. Under this method financial statements of the acquiree are included in the consolidated financial statements using pre-acquisition IFRS carrying amounts and uniform accounting policies, on the assumption that the Group (in such a composition) was in existence for all periods presented (2008 and 2009). Therefore also all operational information reported for years ended 31 December 2009 and 2008 includes operational information for BTS.

Due to depreciation of USD/RUR exchange rate **certain financial figures derived from management accounts are presented in Russian Roubles** to better illustrate the underlying dynamics of the business.

In this Annual Report the Group has used the certain **non-GAAP measures** (not recognised by EU IFRS or IFRS) as supplemental measures of the Group's operating performance.

Information (non-GAAP measures, operational statistics) requiring additional explanation or defining is marked with capital letters with definitions provided on page 40 of this Annual Report.

For a detailed description of presentation of financial and other information please see page 41 of this Annual Report.

# Chairman's statement

**Alexander Eliseev**
*Chairman of the Board of Directors*

NEW GONDOLA AND RAIL TANK CARS CONTRACTED

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TOTAL FLEET OF ROLLING STOCK INCREASED BY

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**The past year was a testing period for Globaltrans and the whole freight railway industry in Russia as the economy grappled with the effects of major economic downturn. Global end user demand for Russian industrial commodities as well as internal demand evaporated rapidly during the early part of the year, forcing many industrial producers to cut back production drastically. Although, as the year progressed, key sectors of the Russian economy showed signs of steady improvement, last year was the most challenging trading environment that many of us have witnessed.**

What is pleasing to report is that Globaltrans outperformed the market in 2009, both in the depths of the downturn and as markets recovered. Whilst overall Freight Rail Turnover in Russia fell by 12%, the Group grew its turnover by 3%. Moreover, we increased our Total Fleet by 38% to 37,217 units[2] in 2009, through a combination of organic growth and acquisitions. The fact that Globaltrans produced such a resilient performance demonstrates the soundness of our business model, and shows that our strategy of building a balanced universal fleet and providing our customers with a robust value proposition works.

We were quick to recognise the magnitude of the downturn and responded accordingly, initiating a series of measures to safeguard the business. These included relocation of railcars, reconfiguration of routes and the imposition of stringent credit controls along with other cost saving initiatives. Taken together, these actions helped Globaltrans withstand the worst of the recession and come through 2009 relatively well. The Group's Adjusted EBITDA in Rouble terms increased by 5% whilst decreasing by 18% in US Dollars terms to USD 284.5* million. The latter was driven by the depreciation of the Rouble, our functional currency, against the US Dollar. I consider it as an excellent result, given the challenging operating and market environment.

Globaltrans is committed to a strategy of opportunistic growth, and in 2009 we continued to pursue opportunities to expand the business. As demand began to stabilise during the second quarter and Freight Rail Turnover picked up, we felt confident enough to resume our capital expenditure programme. Our strong financial position enabled us to take advantage of a market where prices for new railcars had dropped more than 40% from the peak levels seen in 2008. As a result, we were able to contract 6,000 new gondola cars and 500 new rail tank cars in the second half of the year at very attractive rates. The first transaction will increase our owned gondola fleet by more than 40%, reinforcing our market position in the transportation of various bulk cargoes and ensuring that the Group is well positioned to capitalise on any sustained market recovery.

In line with our commitment to maintain a balanced fleet, we completed the purchase of one of Russia's leading private freight

2. Including the Total Fleet of BTS acquired in December 2009 and rolling stock delivered in 2009.

rail companies, in December 2009 acquiring a controlling stake[3] in exchange for shares in Globaltrans, in a deal valued at USD 250 million. BTS specialises in the shipment of oil products and oil and operates a fleet of about 9,000 units of rolling stock. BTS represents an excellent strategic fit with the rest of our business portfolio, providing a strong customer base and stable revenues. With its purchase, in addition to being the largest private owner of gondola cars in Russia, the Group became the largest[4] private owner of rail tank cars.

We successfully completed a follow-on offering of global depositary receipts ("GDRs") representing ordinary shares of the Company raising approximately USD 100 million in gross proceeds to finance future growth. The offering was oversubscribed which, given the difficult market conditions, represented a vote of confidence from investors in the future prospects for Globaltrans.

The Board recommended shareholders to approve the distribution by the Company of final dividends in relation to prior periods in the total amount of USD 24.0 million (15.177 US cents per ordinary share). The respective resolution will be considered by the Annual General Meeting of shareholders on May 3rd, 2010.

A "can do" culture and experienced employees have always been cornerstones of our business. The fact that we achieved so much despite the very challenging environment is down to the professionalism and commitment of the entire team at Globaltrans. On behalf of the Board, I would like to thank all of our employees for their continued hard work and commitment.

Notwithstanding the challenges of 2009, the fundamental attractions of the Russian rail industry remain unchanged. Rail continues to be the predominant mode of transport for freight in Russia, the private sector remains highly fragmented, and the rolling stock fleet operated by OAO Russian Railways ("RZD") is ageing. These factors, together with ongoing rail sector reform, and the prospect of an economic rebound, should mean that there continue to be interesting opportunities for Globaltrans to consolidate its position as Russia's pre-eminent private freight rail transportation group.

As we look ahead, we know 2010 will be another challenging year. The recovery at a macroeconomic level is gradual and may not prove robust. Nevertheless we believe that with its flexible business model, strong customer franchise, and financial position, Globaltrans is well positioned to progress in 2010.

**Alexander Eliseev**
*Chairman of the Board of Directors*

"A 'can do' culture and experienced employees have always been cornerstones of our business. The fact that we achieved so much despite the very challenging environment is down to the professionalism and commitment of the entire team at Globaltrans. On behalf of the Board, I would like to thank all of our employees for their continued hard work and commitment."

3. A 50% effective economic interest, BTS is controlled by the Group via majority shareholding held by the Company in intermediary holding companies of BTS.
4. Based on the publicly available sources.

# CEO's review

**Sergey Maltsev**
*Chief Executive Officer*

FREIGHT RAIL TURNOVER GREW BY

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whilst overall Freight Rail Turnover in Russia dropped by 12% year on year in 2009

INCREASED MARKET SHARE BY

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Globaltrans' market share of overall volume of freight transported by rail in Russia increased from 3.9% in 2008 to 4.8% in 2009

**In our 2008 annual report, I remarked on the potential impact of the global financial crisis on Russia and our business, and sounded a note of caution for the year ahead. I am pleased to report that, despite hugely challenging conditions in 2009, we were able to trade successfully through the downturn and, indeed, use the opportunity to expand our operations.**

We successfully steered the business through 2009, precisely because we were quick to adapt to the new business environment, taking advantage of our universal fleet of gondola cars, by migrating from affected market sectors and developing new transportation patterns more suitable for the new business climate. Our acquisition of BTS increased our exposure to the stable oil products and oil transportation sector, increased the stability of the business and provided a platform for growth in gondola cars. And we capitalised fully on the depressed state of the freight railcars production market, by entering into contracts for 6,000 new gondola cars and 500 new rail tank cars on very attractive terms.

Market conditions over 2009 proved to be every bit as challenging and volatile as we had expected. As the fall out of the global financial crisis spread, more and more parts of the world economy were affected, including Russia's main industrial sectors. This inevitably had a knock on effect on Russia's dominant freight rail sector, which transports much of the country's output. The story of 2009 was one of sharp falls in freight volumes in the first part of the year, followed by steady recovery over the rest of the year. By December, overall monthly Freight Rail Turnover had recovered sufficiently strongly to show an 11% year on year improvement; though it was still some 12% below the levels recorded in 2007.

Against this volatile backdrop, Globaltrans produced a pleasing operational performance, outperforming the overall market both in the downturn and, again, as markets moved into the recovery phase. For the full year our Freight Rail Turnover increased by 3% against an overall market decline of 12%.

We also expanded our presence in those sectors where we have been historically strong: in the shipment of ferrous metals where our market share exceeded 14%, and in the oil products and oil sector where we achieved a 13% share of the overall volume of related cargoes transported by rail in Russia in 2009.

Although both revenues and profits fell in US Dollar terms, they both improved in Rouble terms, the Company's functional currency, pointing to a good underlying operational performance over the period. Our key financial performance highlights are set out below:

- Net Revenue from Operation of Rolling Stock (the key component of the Group's Adjusted Revenue) increased by 13% in Rouble terms, decreasing 12% in US Dollar terms to USD 618.5* million in 2009 compared to the previous year;
- Revenue from leasing of rolling stock, reflecting a strong performance of our Estonian subsidiaries (AS Spacecom and AS Intopex Trans) acquired at the end of 2008, demonstrated a good degree of resilience, having declined in 2009 by only 3% to USD 65.4 million;

- Operating Cash Costs net of Empty Run Costs decreased year on year by USD 50.7* million;
- Adjusted EBITDA increased year on year by 5% in Rouble terms implying a 18% decrease in US Dollar terms to USD 284.5* million;
- Underlying profitability of our business remained strong with Adjusted EBITDA Margin of 42%* in 2009, a decrease from 44%* in 2008;
- We continued to operate with a strong balance sheet and modest financial gearing with the Net Debt to Adjusted EBITDA ratio at 1.0x* as at the end of 2009.

The past year has, we believe, shown that our strategy, of maintaining a balanced railcar fleet consisting of rail tank cars and universal gondola cars, is the right one. Whilst in 2009 the oil products and oil transportation market proved to be remarkably stable, the other segments of the market experienced a severe downturn. By operating universal gondola cars rather than specialised rolling stock bound to one cargo or a single customer, we could switch capacity away from distressed segments and allocate it to healthier sectors quickly and with minimal disruption.

Our ability to switch our fleet in this way was one of the key reasons for our market outperformance in 2009. This, in turn, was only possible because of our longstanding customer relationships, our outstanding service offerings and our expertise in route management that enabled us to reconfigure our routing schemes at short notice.

In 2009 we were also focused on tight cost control. Whilst our Empty Run Costs increased because of the changes in operating and marketing environment, nevertheless we were still able to reduce Operating Cash Costs net of Empty Run Costs by USD 50.7* million. Increased Empty Runs of our fleet in 2009 were mainly a consequence of the changed macroeconomic picture in Russia. The three main factors that accounted for the change were: a drop-off in construction activity, falling imports, and the deteriorating financial position of some of our small and medium enterprise customers. Consequently, the Empty Run Ratio for gondola cars rose in the first half of 2009 to 54%, but improved significantly in the third quarter of 2009 to 40%, and averaged out over the full year at 46%. We remain committed to improving Empty Runs, both to reduce our Empty Run Costs and generate additional revenue (as railcars could spend more time travelling loaded). However we recognise that matters are not entirely in our hands, and much depends on the overall macroeconomic situation. In a further effort to cut costs we also froze the base salaries at year end 2008 levels, and continued the introduction of a mileage-based rolling stock repair and maintenance system.

Another area where we took action was to adjust the profile of borrowings in our credit portfolio. We increased the share of Rouble-denominated borrowings within the portfolio in order to mitigate the currency risk. Accordingly, the share of Rouble-denominated borrowings increased from 12% at the end of 2008 to 36% at the end of 2009, without major impact on maturity of our loan book, while the weighted average effective interest rate even decreased.

As the market stabilised and volumes began to grow in the second half of 2009, we decided the time was right to take advantage of our strong financial position and access to international capital markets, and start to identify expansion opportunities. In line with our strategy of a balanced fleet, we began to look for acquisitions in the oil products and oil transportation segment whilst, at the same time, launching negotiations to contract new railcars.

In December 2009 we completed the all-share acquisition of BTS. The acquisition was strategically important for a number of reasons. First, it added significant scale to our existing business, making Globaltrans the largest[5] private owner of rail tank cars in Russia. Second, it gave us more exposure to the stable oil products transportation market which, along with low leverage of BTS, is expected to improve our capacity to finance future growth. Finally, we acquired a company whose operating model is already largely integrated into customers' logistics processes and which has extensive experience operating "block trains[6]".

To fund the acquisition of new railcars, we launched a follow-on offering on the London Stock Exchange in December 2009, successfully raising approximately USD 100 million in gross proceeds. Utilising the momentum, we contracted 6,000 new gondola cars and 500 new rail tank cars on very favorable terms, completing the last deals in the final days of 2009. The total value of the contracted railcars amounted to around USD 260* million (excluding VAT), representing an attractive price per unit. We believe the long term outlook for the bulk cargo transportation market is excellent and it will be one of the first sectors to benefit from an economic revival. Furthermore, the major investments we made at the very beginning of the cycle should enable us to perform well when growth returns to the economy.

We have made significant progress over 2009 in a challenging environment. Although economic prospects for 2010 remain uncertain, we believe that Globaltrans is well placed to expand and take advantage of new opportunities as markets recover. We will continue to manage our business to create sustainable shareholder value, identifying and executing prospects for opportunistic growth, while at the same time focusing on our operating efficiency.

**Sergey Maltsev**
*Chief Executive Officer*

5. Based on the publicly available sources.
6. Block train means a train comprising of only rolling stock operated by a single company which is bound for the same destination.

# Delivering our strategy

Our strategic objective is to strengthen the Group's position as the leading private freight rail transportation group operating in Russia, the CIS countries and the Baltics. We will achieve this by capitalising on the advantages of our business model.

Our aim is to deliver sustainable long-term profitable growth, throughout the economic cycle.

We intend to achieve this by pursuing a strategy involving the following key elements.

STRATEGY COMPONENT

## Return-oriented expansion

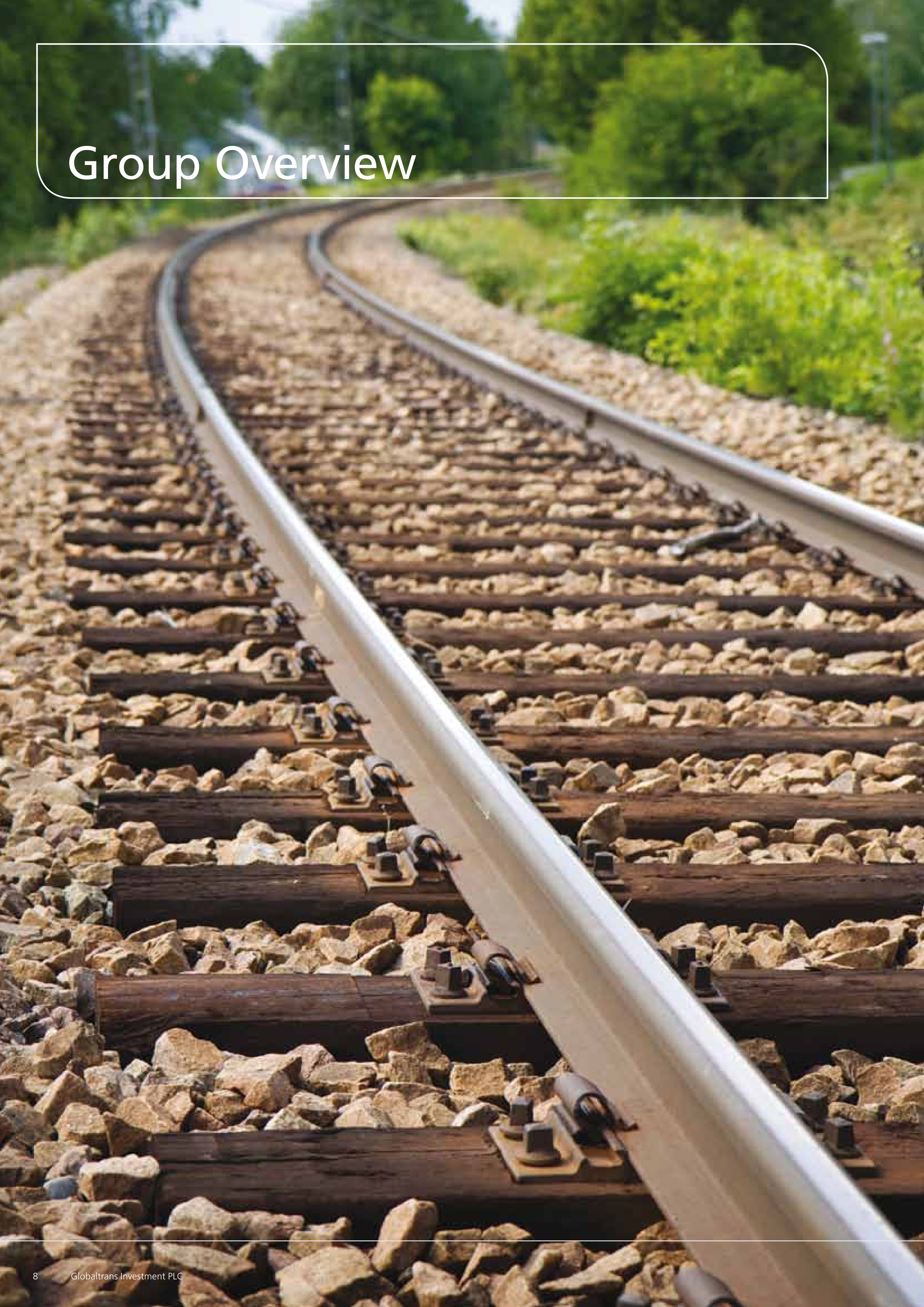
## Balanced fleet and focus on freight rail transportation

## Efficient operations

| | DELIVERED IN 2009 |
|---|---|
| Increase the size of our fleet when market conditions are favorable, in particular in periods when assets are reasonably priced and freight rail market fundamentals are strong.<br>Carefully evaluate expansion opportunities to extract maximum value from acquired assets and maintain sustainable rates of return. | 38% or 10,250[7] unit growth in Total Fleet as of the end of 2009 compared to the end of the previous year.<br>6,000 new gondola cars and 500 new rail tank cars contracted in the second half of 2009 at attractive prices to capture the momentum of improving economic conditions.<br>1,775 units of the newly ordered railcars delivered in 2009. |
| Ensure that the fleet composition strikes the right balance between rail tank cars and universal gondola cars to have exposure to stable oil products and oil transportation market as well as the more cyclical gondola cargoes market.<br>Focus service offerings on freight rail transportation in order to extract maximum possible value from effective fleet management, complemented by leasing with its more predictable revenue streams and sustainable margins. | With the acquisition of BTS, Russia's leading oil products and oil freight rail transportation company, the share of rail tank cars increased to 51% of Total Fleet, thus establishing a platform for expansion in gondola cars.<br>As of the end of 2009, 48% of the Group's Total Fleet consisted of gondola cars.<br>Freight rail transportation contributed 90% of the Group's Adjusted Revenue in 2009 while the leasing business accounted for 10%. |
| Emphasise route optimisation and fleet management to reduce Empty Runs and drive profitability.<br>Increase use of "block trains[8]" on high cargo volume routes.<br>Optimise system of repair and maintenance works. | Following the significant deterioration of the Empty Run Ratio for gondola cars caused by the economic downturn in the first half of the year, the ratio improved in the second half of 2009 reaching 46% for the full year.<br>With the acquisition of BTS, Globaltrans substantially increased its use of "block trains[8]".<br>As of the end of 2009, 68% of the Owned Fleet had been transferred to a mileage-based repair and maintenance system, leading to significant related cost savings. |

7. Including the Total Fleet of BTS acquired in December 2009 and rolling stock delivered in 2009.
8. Block train means a train comprising of only rolling stock operated by a single company which is bound for the same destination.

# Group Overview



# Who we are

Globaltrans is the largest[9] privately owned freight rail transportation group operating in Russia by number of Owned Fleet. The Group provides freight rail transportation, railcar leasing and certain ancillary services in Russia, the CIS countries and the Baltics.

**In 2009, Globaltrans increased its share of overall freight rail volumes in Russia from 3.9% in 2008 to 4.8%. The Group's freight rail turnover amounted to 80.9 billion tonnes-km – up by 3% on the previous year. In 2009 the Group transported 52.8 million tonnes of freight.**

Globaltrans serves Russia's core industrial sectors like metals and mining, oil and others. The Group provides services to more than 450 customers, and has longstanding relationships with a number of large industrial blue chip companies in Russia and the CIS countries including TNK-BP, MMK, Evraz, Lukoil, Gazpromneft, Rosneft, Severstal and others.

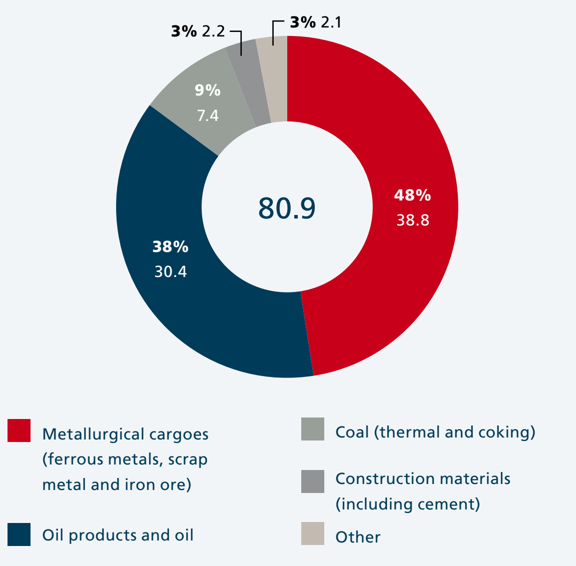
The Group's primary business is freight rail transportation (or operation of rolling stock) which contributed 90% of the Group's Adjusted Revenue in 2009. The Group also provides railcar leasing services which accounted for 10% of the Group's Adjusted Revenue in 2009. The Group's Adjusted Revenue in 2009 amounted to USD 685.3* million, whilst Adjusted EBITDA amounted to USD 284.5* million.

The cornerstone of Globaltrans' business model is its advanced destination and traffic management systems. With its detailed market knowledge and sophisticated computer systems designed to match routes based on individual customer need, Globaltrans is one of the few companies in Russia equipped to manage dispatch and routing of its rolling stock on a 24/7 basis. It helps to ensure that both outbound and inbound journeys are as commercially efficient as possible.

The Group's Total Fleet amounted to 37,217 units as of the end of 2009, demonstrating an increase of 10,250 units[10] or 38% compared to the end of the previous year.

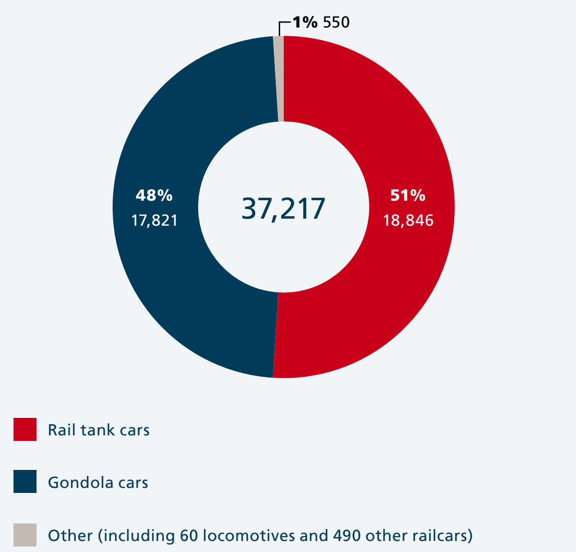
Globaltrans is the first private freight rail group operating in Russia to have gone public on the international capital markets. GDRs representing ordinary shares of Globaltrans have been listed on the Main Market of the London Stock Exchange since May 2008. Globaltrans successfully completed a follow-on public offering in December 2009. As of the end of 2009, the free-float of Globaltrans amounted to 35.31% of the outstanding share capital.

GLOBALTRANS' FREIGHT RAIL TURNOVER BY TYPE OF CARGO, 2009 (BILLION TONNES-KM)




Source: Globaltrans

GLOBALTRANS' TOTAL FLEET BY TYPE OF ROLLING STOCK AS OF THE END OF 2009




Source: Globaltrans

9. Based on the publicly available sources.
10. Including the Total Fleet of BTS acquired in December 2009 and rolling stock delivered in 2009.

# Our business model

Our aim is to deliver sustainable long-term profitable growth, throughout the economic cycle. Our business model has supported us in delivering strong results in 2009. The key elements of our business model are:

| | |
|---|---|
| TO MAINTAIN A LARGE FLEET OF ROLLING STOCK | Enables us to service the largest rail transportation customers by freight volume.<br>Allows us to provide a one-stop-shop to customers that have production facilities and cargo destinations in multiple locations.<br>Enables us to deliver the highest levels of reliability and to manage complex logistics challenges through our ability to quickly source additional railcars from our Owned Fleet. |
| TO HAVE A BALANCED FLEET OF ROLLING STOCK | Maintaining a balance between gondola cars, which are more exposed to cyclical demand, and rail tank cars, which are less affected by the economic cycle, helps optimise the overall business portfolio of the Group.<br>▪ Universal gondola cars represented 48% of our Total Fleet as of the end of 2009. Gondola cars are enabling us to benefit from cyclical growth whilst we have been historically able to react to sudden adverse shifts in demand by migrating away from affected segments.<br>▪ Rail tank cars represented 51% of our Total Fleet as of the end of 2009, providing stability to our business though exposure to the more stable oil products and oil rail transportation sector. |
| TO UTILISE ADVANCED DESTINATION MANAGEMENT IN ORDER TO INCREASE EFFICIENCY AND RESPOND QUICKLY TO CUSTOMER DEMAND | We are able to manage the dispatch and routing of our rolling stock on a 24/7 basis to ensure that (i) both our outbound and inbound journeys are as commercially efficient as possible, and (ii) we are able to react quickly to changes in the market.<br>Our goal is to reduce rolling stock Empty Runs and in so doing eliminate the costs incurred by our fleet when travelling empty (costs of usage of the infrastructure and locomotive traction provided by RZD).<br>Route optimisation is made possible by our sophisticated centralised logistics management systems, our vast geographical coverage and by having customers with production facilities, origins of supply and cargo destinations in multiple regions of Russia and the CIS countries. |
| TO MAINTAIN AND DEVELOP STRONG RELATIONSHIPS WITH KEY CUSTOMERS | Our key customers[11] are large Russian industrial blue chip companies, such as TNK-BP, MMK, Evraz, Lukoil, Gazpromneft, Rosneft, Severstal, etc.<br>Working in partnership with our customers over many years, has given us a deep understanding of their individual transportation needs. And so we are increasingly viewed as an integral part of their logistics chain. This enables us to leverage our advanced destination management systems in order to configure sophisticated logistics solutions for our customers.<br>We are also concentrating on attracting small and medium enterprise customers in order to widen our geographical customer base and so get greater route diversification and a further reduction of Empty Runs. |

11. Key customer groups including their affiliates and suppliers.

# Adding value to our customers

Long term relationships are fundamental to our business. At Globaltrans we strive to create close, working partnerships with our customers that add real business value. The closer we are to our customers' businesses, the better able we are to understand their needs, and the better placed we are to provide the right solutions. The majority of our business is built on these long term partnerships.

**Pavel Lebedev**
*Logistic Director, EvrazHolding*

"New Forwarding Company ("NFC"), a subsidiary of Globaltrans, is a reliable and long-standing partner of EvrazHolding. NFC arranges the transportation of metal products from three of our major steel plants, Zapsib, NKMK and NTMK, and the coal products of EvrazHolding. NFC resolves all issues and handles all our requests efficiently and with maximum diligence. It also has sufficient rolling stock to ensure efficient handling of our transportation service orders. We hope that our cooperation will continue in the future."

**Valery Marchevsky**
*Deputy Head of the Transport Management Department, Lukoil*

"Lukoil and NFC have been successful business partners for the last several years and we intend to continue our cooperation over the long-term. NFC is a reliable service provider, committed to working with us to resolve any issues that may arise. Its information systems enable it to monitor the movement and status of our cargo, which leads to improvements in the transportation patterns. We would like to thank NFC for its help in arranging the transportation of finished products from Lukoil's refineries and we hope that our companies will continue our close working relationship."

**Dmitry Korovyakov**
*Deputy General Director, Mechel-Trans*

"NFC operates a substantial fleet of gondola cars, which enables it to provide a dependable service for our transportation schedule. It also means that, in the event that we suffer rolling stock shortages, due to failures by third parties or for other reasons, NFC can step in with fleet back up support for our shipments at very short notice and at virtually any location. We also greatly value the professional round-the-clock dispatcher services which help to ensure that operations are continuously and reliably managed."

**Alexander Belyaev**
*Head of the Transportation Logistics Center, Severstal*

"There are a number of reasons why we value our cooperation with NFC. First, we like their customer-oriented approach which provides us with bespoke transportation solutions. Second, NFC is very reliable in terms of guaranteeing railcar availability. Third, their advanced dispatch-centre offers us the broadest possible transportation coverage and meets our various transportation needs. Fourth, NFC is quick to respond to our requests, both in terms of fleet operation and general enquiries. Finally, the way they make use of information technology adds value to their services."

**Khurshid Ruziev**
*Deputy Managing Director, Metalloinvesttrans*

"What we value most is the NFC's customer-oriented approach, its ability to consistently match and exceed agreed service levels contractual terms, and the availability of a substantial gondola car fleet which is the third largest fleet after RZD and its subsidiary Freight One. NFC's broad geographical coverage together with its large fleet of gondola cars available at the South-Eastern, Moscow, South-Urals regional railways ensures there is the flexibility to provide the appropriate quantity of railcars to our production facilities. We hope that our successful cooperation will continue."

# People are our key assets

Our people are our key assets at Globaltrans. Their individual achievements and innovative approach to problem solving within an entrepreneurial corporate culture contribute to the success of the Group. Below there are examples of individuals who, amongst others, contributed to the success of Globaltrans in 2009.

**Valery Shpakov**
*First Deputy CEO of Globaltrans*
*CEO of New Forwarding Company*

## "CREATING WIN-WIN SITUATIONS"

**Our aim has always been to create long-term relationships with customers based on mutual trust. Some of our key metallurgical customers operate substantial internal rail networks of their own, for example, the internal rail network of EvrazHolding plants amounts to 1,100 kilometres and contains 26 internal railway stations. It is vital that these operations are run efficiently which is where we often step in to help our customers. For instance, in 2009, we sent our specialists into the logistics departments of a number of our key metallurgical customers to help them on how best to manage their internal railcar traffic systems at their plants. Our expertise enabled our customers to ship products quicker and in so doing to improve product turnover. We also benefited from this as we were able to better predict the level of customer demand for our railcars and so to better plan our logistics.**

**Roman Goncharov**
*Head of Treasury*
*Globaltrans*

## "IN DEPTH ANALYSIS OF FLEET MOVEMENT HELPS US TO CUT COSTS"

**We were one of the first freight rail operators to start analysing traffic movement in detail and looking in depth at where railcars went. This enables us to determine when it makes sense to repair railcars based on mileage rather than age as is customary in the industry. By basing the repair schedule on mileage we have more current repairs but fewer scheduled repairs, producing cost savings in maintenance but without compromising the safety of our fleet. As of the end of 2009 more than 68% of our Owned Fleet was transferred to a mileage-based repair schedule.**

**Sergey Afanasiev**
*Head of gondola cars operation division*
*New Forwarding Company*

## "ADVANCED DESTINATION MANAGEMENT SYSTEMS BROUGHT US MORE BUSINESS IN 2009"

**In the first few months of 2009 the freight rail market was extremely volatile. Our customers used every opportunity to achieve additional sales, resulting in irregularity and shortened prior notice of transportation orders. Thanks to our advanced destination management systems, we were much quicker than our competitors in responding to customer requests for transportation quotes, resulting in additional business for us.**

**Sergey Vaselenko**
*Chief Information Officer*
*Globaltrans*

## "IT SOLUTIONS ASSIST US IN MAKING THE FLEET MANAGEMENT MORE EFFICIENT"

**We implemented an upgraded destination management programme in 2009. This is integrated into our marketing database which makes it easier for us to plan where our fleet needs to be and lets us better understand the profitability of our routes. This application was configured using our proprietary know how.**

# Corporate structure and ownership

Globaltrans Investment PLC is a Cyprus-registered company which operates through its subsidiaries in Russia, Ukraine and the Baltics. Globaltrans was established in 2004 and in March 2008 it was converted into a public limited liability company.

## GROUP STRUCTURE

### New Forwarding Company, OJSC

OJSC New Forwarding Company ("NFC") is one of Russia's leading freight rail operators specialising in the rail transportation of various bulk cargoes, including metallurgical cargoes, coal, construction materials, and oil products and oil. NFC is Globaltrans' key operating centre of gondola cars. NFC operates through its nine branches and ten representative offices across Russia and its headquarters in Moscow.

### BaltTransServis, LLC

LLC BaltTransServis ("BTS") is one of Russia's leading freight rail operators specialising in the rail transportation of oil products and oil. BTS focuses on operating rail tank cars. BTS was one of the first private companies in Russia to focus on this market. It specialises in shipping oil products and oil, notably fuel oil, diesel and gasoline, and provides various logistics services and distribution to shipping terminals. Globaltrans acquired a 50% economic interest and controlling stake in BTS in December 2009. BTS operates through its headquarters in St. Petersburg, one branch and eight representative offices across Russia.

### Sevtekhnotrans, OOO

OOO Sevtekhnotrans is another Russian subsidiary of Globaltrans. Sevtekhnotrans is mainly engaged in freight forwarding and rolling stock leasing services. Sevtekhnotrans was established in 2000.

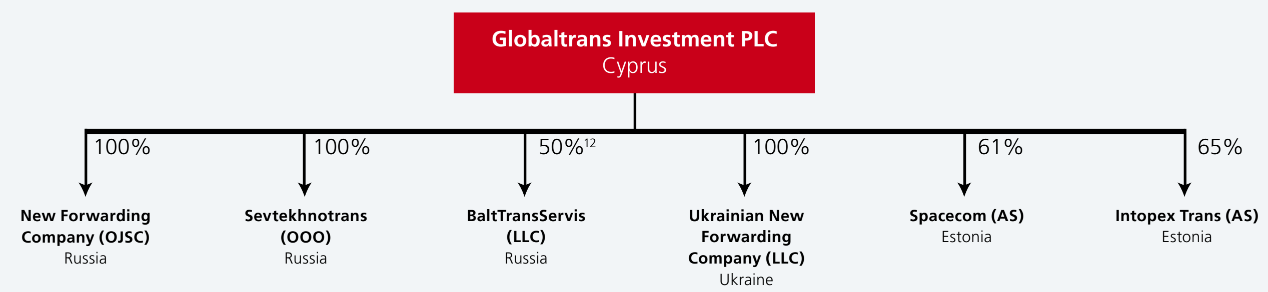
### AS Spacecom and AS Intopex Trans

AS Spacecom and AS Intopex Trans are the Estonia registered companies engaged in the rail tank car leasing business in Russia and the CIS countries. Globaltrans acquired stakes in AS Spacecom and AS Intopex Trans in December 2008.

### Ukrainian New Forwarding Company, LLC

Ukrainian New Forwarding Company LLC ("UNFC") is a Ukrainian subsidiary of Globaltrans. It was established in September 2008 to provide freight rail transportation and certain ancillary services to Ukrainian companies and industrial groups active in the steel, iron ore and coal sectors as well as to minimize Empty Runs by sourcing cargoes for gondola cars returning from Ukrainian destinations. UNFC was not engaged in any significant business operations in 2008 and 2009.

GROUP STRUCTURE (AS OF THE END OF 2009)




Source: Globaltrans

12. A 50% effective economic interest, BTS is controlled by the Group via majority shareholding held by the Company in intermediary holding companies of BTS.

## OWNERSHIP STRUCTURE

After the follow-on public offering and all-share acquisition of a 50% economic interest and controlling stake of BTS in December 2009, the issued share capital of Globaltrans consists of 158,135,533 ordinary shares with a nominal value of USD 0.10 each.

GDRs of Globaltrans representing one ordinary share each are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The Bank of New York Mellon is a depositary bank for Globaltrans' GDR Programme.

| Principal shareholders | % of shares (as of December 31,2009) |
|---|---|
| Transportation Investments Holding Limited | 50.10% |
| Envesta Investments Limited | 14.45%[13] |
| Entities controlled by Directors of Globaltrans in the form of GDRs | 0.14% |

The free-float of Globaltrans amounted to 35.31% of the outstanding share capital as of the end of 2009.

**Transportation Investments Holding Limited** (TIHL) is one of the largest privately-owned transportation groups in Russia, the CIS and the Baltic Region with strategic interests in rail transportation and port operations and carries on business under the name of N-Trans. Nikita Mishin, Konstantin Nikolaev and Andrey Filatov jointly control TIHL.

**Envesta Investments Limited** (EIL) is beneficially owned by the management of Globaltrans. Sergey Maltsev, Chief Executive Officer, member of the Board of Directors of Globaltrans, Executive Director beneficially owns 51% of the shares of EIL; Alexander Eliseev, Chairman of the Board of Directors of Globaltrans, Non-Executive Director beneficially owns 49%.

13. Including GDRs owned by Envesta Investments Limited.

# Performance in 2009

## DIRECTORS' RESPONSIBILITY

Each of the Directors confirm that to the best of his or her knowledge the Management report (section "Performance in 2009") includes a fair review of the development and performance of Globaltrans Investment PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Sergey Maltsev
Chief Executive Officer

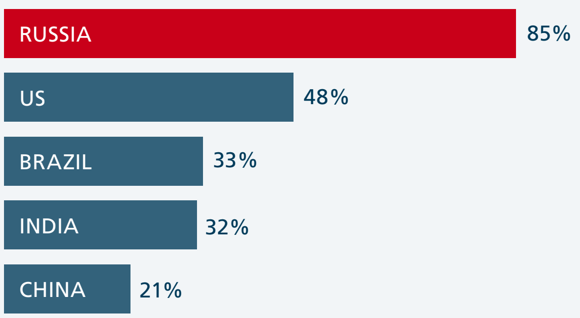
Mikhail Loganov
Director

# Key industry developments

Rail forms the backbone of freight transportation in Russia, accounting for approximately 42% of the country's overall freight turnover in 2009, and for approximately 85% excluding pipeline traffic. This is significantly higher than in other countries, as shown below.

## DOMINANT POSITION OF RAIL MAINTAINED

SHARE OF FREIGHT RAIL TRANSPORTATION IN BRIC COUNTRIES AND US EXCLUDING PIPELINE TRAFFIC, 2009




*Source: Rosstat, Business Monitor International (Q4 2009)*

The rail industry's dominance over other means of transport is driven by the structure of the Russian economy, as well as the vast distances between production and consumption centres. As the rail industry is so crucial for Russia's economic development it continues to attract high levels of attention from all major stakeholders including the state, regulators and market participants.

## LIBERALISATION ONGOING

A key factor, accounting for much of the recent growth of the private freight rail industry, is the ongoing structural reform of the sector, which started in 2001. Private enterprises gained non-discriminatory access to the railway infrastructure in 2003. Since then, private companies have rapidly increased their share of Russia's overall railcar fleet from approximately 27% in 2003 to more than 40% as at the end of 2009.

Whilst RZD pricing is regulated by the Federal Tariff Service, private operators provide their services based on unregulated prices. Freight One, a subsidiary of RZD, operates as privately held freight rail operators on an unregulated basis.

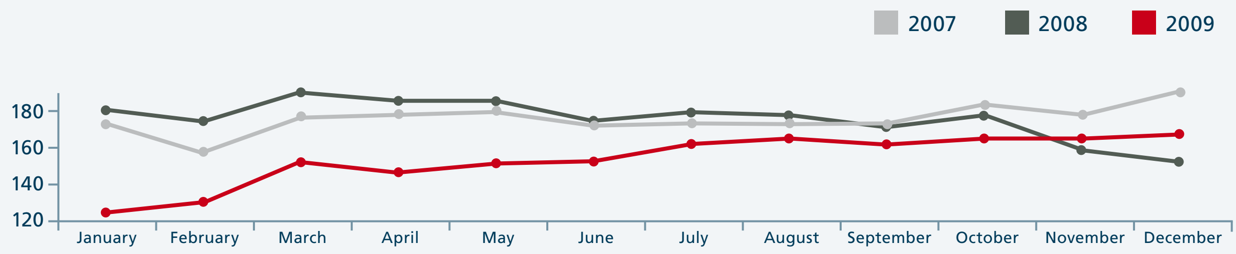
The next stage of liberalisation is expected to include the creation of Freight Two, a rail cargo transportation subsidiary of RZD. Once this has taken place, RZD is expected to be left with quite a small fleet of commercial freight railcars.

## RAIL FREIGHT MARKET RECOVERED RAPIDLY IN 2009

The Russian economy was significantly affected by the global economic downturn, resulting in a sharp decline in demand for freight rail transportation services. The chart below illustrates the change of the sector over 2008 and 2009. The sector first experienced a fall in freight turnover in November 2008, and turnover continued to fall, reaching their lowest point in January 2009. However, as the chart shows, the first signs of recovery were already being seen one month later, in February 2009, while from May 2009 on, Freight Rail Turnover steadily recovered to more normal levels of trading. By the year end, monthly Freight Rail Turnover stood some 11% ahead of 2008 though still not at the pre-crisis levels of 2007.

For the whole 2009, overall Russian Freight Rail Turnover fell by 12% compared to the previous year. By contrast, Globaltrans resisted the general downward market trend, managing to grow its Freight Rail Turnover by 3% in 2009 compared to 2008.

OVERALL RUSSIAN MONTHLY FREIGHT RAIL TRANSPORTATION TURNOVER IN BILLION TONNES-KM




*Source: Rosstat*

# Key industry developments (continued)

OVERALL RUSSIAN FREIGHT RAIL TRANSPORTATION VOLUMES BY TYPE OF CARGO


*Source: Rosstat*

## DEVELOPMENT OF THE KEY FREIGHT RAIL TRANSPORTATION SECTORS

In 2009, 64% of the overall freight rail transportation volumes in Russia comprised of transportation of key commodities such as coal, oil products and oil, and metallurgical cargoes (including ferrous metals, scrap metal, iron and non-ferrous ores; here and after referred to as "Metallurgical cargoes"). The rest was made up of construction materials (14%) and various other cargoes (21%) such as fertilizers, grain and timber. In 2008, the key commodities mentioned earlier accounted for 59%, with construction materials responsible for a further 18% of the overall freight rail transportation volumes.

The recovery of the freight rail transportation sector in 2009 was primarily driven by a recovery in metals and mining and coal transportation, while the sector for oil products and oil remained practically unaffected throughout 2009.

### Oil products and oil

Oil products and oil transportation accounted for 21% of the overall freight rail transportation volumes in Russia in 2009. It is one of the most important cargo groups for Globaltrans, contributing 56%[14] of the total volume of freight transported by the Group in 2009.

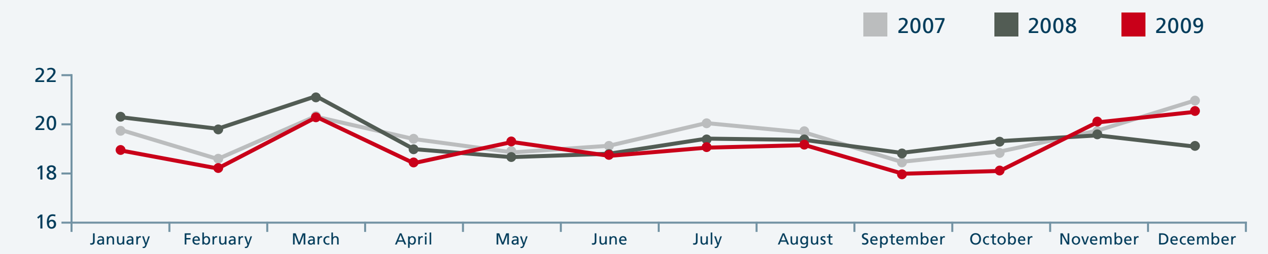
Its continued resilience throughout the economic downturn, reflects the highly inelastic supply and demand of oil as well as a practically absent correlation between oil price fluctuations and oil products and oil freight rail market volumes. Therefore overall freight rail transportation volumes of oil products and oil in Russia in 2009 remained largely unaffected, posting a small decline of 2% compared to the previous year.

### Metallurgical cargoes

Metallurgical cargoes accounted for 18% of the overall freight rail transportation volumes in Russia in 2009. Metallurgical cargoes, which are the one of the most important cargo groups for Globaltrans, accounted for 24%[15] of the total volume of freight transported by the Group in 2009.

The worldwide collapse of demand for metallurgical products and subsequent de-stocking directly affected the demand for freight rail transportation services of that industry. By contrast, increased production levels in the Russian metallurgical sector combined with customers re-stocking were the primary drivers behind the steady surge in freight rail transportation volumes of metallurgical cargoes seen from the second through to the fourth quarter of 2009.

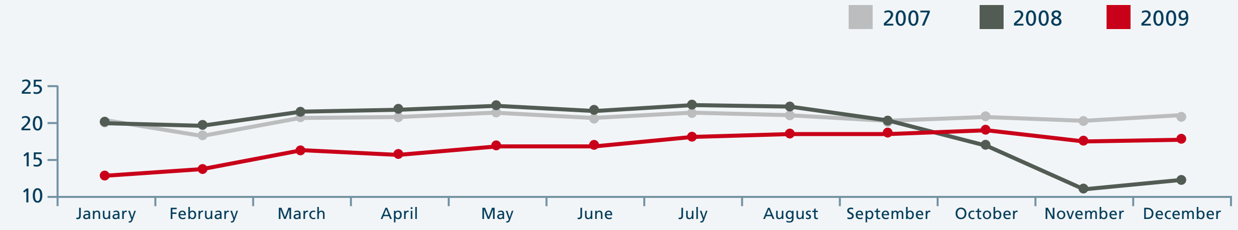
OVERALL RUSSIAN MONTHLY FREIGHT RAIL TRANSPORTATION VOLUMES OF OIL PRODUCTS AND OIL IN MILLION TONNES




*Source: Rosstat*

14. 38% of the Group's Freight Rail Turnover for 2009.
15. 48% of the Group's Freight Rail Turnover for 2009.

OVERALL RUSSIAN MONTHLY FREIGHT RAIL TRANSPORTATION VOLUMES OF METALLURGICAL CARGOES IN MILLION TONNES




*Source: Rosstat*

In December 2009 freight rail transportation volumes of metallurgical cargoes in Russia exceeded December 2008 volumes by approximately 44% but still lagged behind the December 2007 volume figures. For the full year of 2009 the overall freight rail transportation volumes of metallurgical cargoes posted a 13% decrease compared to the previous year.

## Coal

Coal transportation is the largest segment of Russia's freight railway industry, accounting for 26% of the overall freight rail transportation volumes in 2009. However, coal made up only 11%[16] of Globatrans' total volume of freight transported in 2009.

Thermal coal accounted for approximately 96% of the overall freight rail transportation of coal in Russia in 2009 with coking coal accounting for the rest. Demand drivers differ considerably between the two types of coal. Electricity demand, being the key determinant of thermal coal production levels, fell in 2009, resulting in a 7% decline in thermal coal freight rail transportation volumes. Demand for coking coal, used in metallurgical production, is driven by the metallurgical industry, so production of coking coal tracks that of the major Russian steel producers, rising and falling in line with their production volumes.

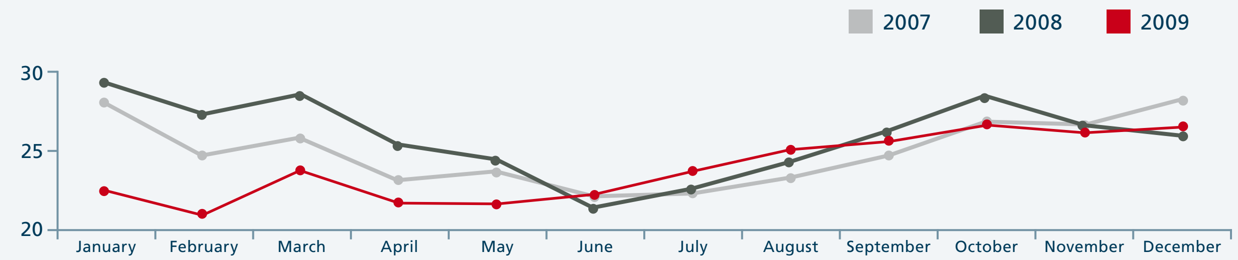
For the full year of 2009 the overall freight rail transportation volumes of coal (thermal and coking) in Russia posted a 7% decrease compared to the previous year.

## Construction materials

Strong growth in the domestic construction industry prior to the economic downturn drove the increase in the freight rail transportation volumes of key construction materials including cement and crushed stone. The significant reduction in construction activity since the beginning of the economic downturn was caused primarily by the credit crunch as well as by falling demand for residential and commercial property.

The share of construction materials (including cement) in the overall volume of freight transported by rail in Russia contracted from 18% in 2008 to 14% in 2009. Freight rail transportation of construction materials (including cement) was the most severely affected railway transportation sector in Russia, with overall freight rail volumes of construction materials (including cement) down by 32% in 2009 compared to the previous year. Construction materials (including cement) accounted for only 4%[17] of the total volume of freight transported by Globaltrans in 2009.

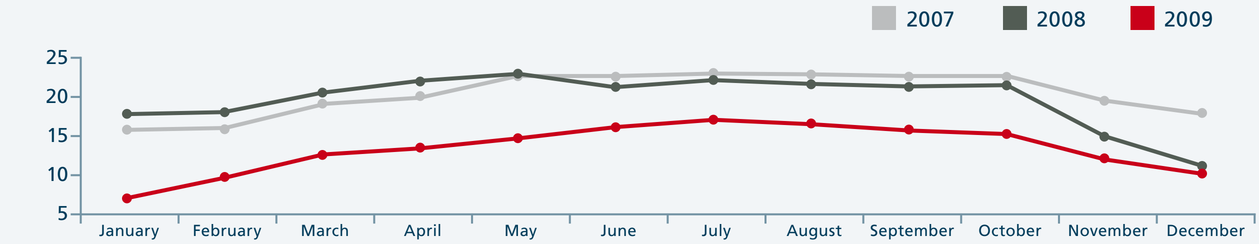
OVERALL RUSSIAN MONTHLY FREIGHT RAIL TRANSPORTATION VOLUMES OF COAL (THERMAL AND COKING) IN MILLION TONNES




*Source: Rosstat*

16. 9% of the Group's Freight Rail Turnover for 2009.
17. 3% of the Group's Freight Rail Turnover for 2009.

OVERALL RUSSIAN MONTHLY FREIGHT RAIL TRANSPORTATION VOLUMES OF CONSTRUCTION MATERIALS (INCLUDING CEMENT) IN MILLION TONNES

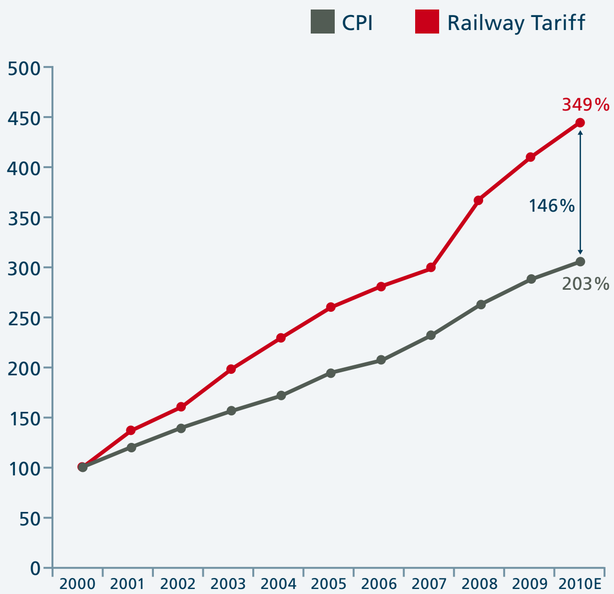



*Source: Rosstat*

## PRICING ENVIRONMENT

Presently, RZD is the sole operator of the Russian railway network, with the legal status of a regulated natural monopoly. It also remains the largest provider of freight rail transportation as well as related services, by number of rolling stock operated directly or through its subsidiaries. Tariffs charged by RZD are fixed by the Federal Tariff Service, with revisions to take account of inflation and other factors taking place generally every year. Although the prices charged by Globaltrans as a privately owned freight rail transportation services provider are not regulated, the Group is subject to the regulated tariff for the use of RZD' infrastructure and locomotive services, which constitutes the Group's significant cost item and is borne by the Group when incurred in relation to Empty Runs and for loaded trips under certain customer contracts.

CUMULATIVE GROWTH OF REGULATED FREIGHT RAIL TRANSPORTATION TARIFF OF RZD VS. CPI IN RUSSIA




*Source: Rosstat, Federal Tariff Service, Global Insight*

Also, for most cargo segments regulated tariffs charged by RZD often serve as an effective benchmark for unregulated prices charged by privately owned freight rail transportation services providers. Freight One, a subsidiary of RZD, operates on the same basis as privately held freight rail operators with unregulated railcar charges.

In recent years, the cumulative regulated freight rail transportation tariff of RZD has outstripped the consumer price index ("CPI"). Above-CPI tariff increases were intended to enable RZD to generate funds for its investment program as well as to attract private investment into the sector.

RZD's regulated tariff was increased twice in 2009, with a 5% increase from 1 January 2009 and an additional 5.7% increase from 1 July 2009. The Federal Tariff Service implemented a further 9.4% increase in RZD's regulated tariff from 1 January 2010.

## COMPETITION AND OVERALL FLEET DEVELOPMENT

As of the end of 2009, the total size of the railcar fleet in Russia stood at approximately 1 million units and consisted predominantly of gondola cars, accounting for approximately 38%, and rail tank cars, accounting for approximately 24% of the overall fleet.

The share of private fleet operators exceeded 40% of the total Russian railcar fleet as at the end of 2009. Despite this, the private railcar sector remains highly fragmented. The top 10 private players are estimated to have a 40% share of the total private fleet[18] of railcars in Russia. Apart from Globatrans, the key private freight rail market participants include other independent operators such as Transoil, Transgarant, Far East Transportation Group, as well as a number of "captive" freight rail operators owned by large industrial groups, such as Metalloinvesttrans and MMK-Trans.

RZD together with its subsidiary Freight One remains the leader in many cargo segments of the Russian freight rail market. The establishment of Freight Two, the other operational subsidiary of RZD, is expected in 2010.

The fleet of RZD is relatively old, with an average age of approximately 22 years[19] as of the end of 2008. Its gondola cars have an average age of about 19 years while the useful life of gondola cars is 22 years (excluding potential extension).

The overall size and configuration of Russia's railcar fleet in coming years will depend as much on the scale of investment made into new railcars by market participants as RZD's need to scrap part of its fleet.

18. As of the end of 2008; Globaltrans estimates on the information sourced from RZD-Partner (#12, June 2009).
19. Source: Annual Report of OAO Russian Railways for 2008.

# Operational performance

Globaltrans' core service offering is the operation of rolling stock, or freight rail transportation. As of the end of 2009, 84% of the Group's Total Fleet was engaged in the freight rail transportation business. Freight rail transportation generated 90% of Adjusted Revenue in 2009.

## FREIGHT RAIL TRANSPORTATION

Driven by a temporary halt in the capital expenditure program during the first three quarters of 2009, the Average Rolling Stock Operated in 2009 remained fairly flat at 28,406 units, growing by just 2% compared to 2008[20]. The Average Number of Loaded Trips per Railcar also remained broadly flat at 30.4 trips with an average distance of loaded trip increasing by 2% to 1,537.8 kilometres in 2009.

### Globaltrans outperformed the overall Russian freight railway market and gained market share

In contrast to an overall Russian freight rail transportation market that contracted by 12%, Globaltrans' Freight Rail Turnover increased by 3% in 2009, amounting to 80.9 billion tonnes-km. The total volume of freight transported by the Group increased by 3% compared to 2008 and amounted to 52.8 million tonnes.

One of the key reasons that Globaltrans outperformed the market lay in its ability to redeploy gondola cars away from distressed segments to segments less affected by the downturn. This resulted in Globaltrans strengthening its market share in 2009, growing its share of overall volume of freight transported in Russia by rail to 4.8% from 3.9% in the previous year.

The Group also expanded its presence in the sectors where it has been historically strong: in the transportation of ferrous metals its market share increased from 11.4% in 2008 to 14.4% in 2009, while in the oil products and oil sector its market share rose from 11.9% in 2008 to 13.0% in 2009. In the freight rail transportation of coal (thermal and coking) Globaltrans' market share in 2009 rose to 2.0% of the overall volume of coal transported by rail in Russia compared to 1.4% in 2008.

**GLOBALTRANS' MARKET SHARE[21] IN THE KEY FREIGHT RAIL TRANSPORTATION SECTORS IN RUSSIA IN 2009**

| | 2008 | 2009 |
|---|---|---|
| **Metallurgical cargoes** | **5.9%** | **6.4%** |
| Ferrous metals | 11.4% | 14.4% |
| Ore | 1.3% | 1.8% |
| Scrap metal | 11.8% | 8.1% |
| **Oil products and oil** | **11.9%** | **13.0%** |
| **Coal (thermal and coking)** | **1.4%** | **2.0%** |
| **Construction materials** | **1.3%** | **1.4%** |
| Cement | 3.4% | 2.0% |
| **Total Russian freight rail transportation volume** | **3.9%** | **4.8%** |

*Source: Globaltrans estimations based on Rosstat data*

### Growth in metallurgical cargoes

The two largest business segments for Globaltrans are transportation of metallurgical cargoes (including ferrous metals, scrap metal and iron ore), and oil products and oil, which accounted for respectively 48% and 38% of the Group's Freight Rail Turnover in 2009.

**GLOBALTRANS' FREIGHT RAIL TURNOVER BY TYPE OF CARGO IN 2008 AND 2009 (BILLION TONNES-KM)**

| | 2008 | % of total for 2008 | 2009 | % of total for 2009 | Change in % |
|---|---|---|---|---|---|
| **Metallurgical cargoes** | **32.2** | **41%** | **38.8** | **48%** | **21%** |
| Ferrous metals | 25.6 | 33% | 33.0 | 41% | 29% |
| Scrap metal | 3.3 | 4% | 1.2 | 2% | -63% |
| Iron ore | 3.3 | 4% | 4.5 | 6% | 38% |
| **Oil products and oil** | **29.2** | **37%** | **30.4** | **38%** | **4%** |
| **Coal (thermal and coking)** | **8.3** | **11%** | **7.4** | **9%** | **-11%** |
| **Construction materials** | **4.9** | **6%** | **2.2** | **3%** | **-54%** |
| Crushed stone | 1.2 | 2% | 0.8 | 1% | -36% |
| Cement | 2.4 | 3% | 0.6 | 1% | -75% |
| Other | 1.3 | 2% | 0.9 | 1% | -34% |
| **Other cargoes** | **4.0** | **5%** | **2.1** | **3%** | **-48%** |
| **Total** | **78.5** | **100%** | **80.9** | **100%** | **3%** |

*Source: Globaltrans*

20. 2008 fleet data was restated to include Total Fleet of BTS acquired in December 2009.
21. Calculated as a percentage of the overall freight rail transportation volume in Russia.

During 2009 Globaltrans significantly increased its Freight Rail Turnover of metallurgical cargoes, achieving a year on year increase of 21%, reaching 38.8 billion tonnes-km. The key contributing cargoes were ferrous metals and iron ore, which demonstrated 29% and 38% year on year increases respectively in terms of Freight Rail Turnover. This strong performance was supported by a rebound in production volumes of metallurgical plants together with strong customer relationships through which Globaltrans expanded its share of the total transportation volumes of a number of its key metallurgical customers.

The fall in Freight Rail Turnover of scrap metal was driven by several factors – the depressed market environment, metallurgical producer switching from scrap metal to iron ore, and the high levels of scrap metal stocks in customers' inventories at the beginning of 2009.

The Group's Freight Rail Turnover of oil products and oil increased year on year by 4% and reached 30.4 billion tonnes-km in 2009, primarily driven by a 4% increase in the average number of rail tank cars in operation.

In 2009 the Group's Freight Rail Turnover of coal (thermal and coking) fell year on year by 11%, although the volumes of coal transported by the Group in 2009 increased by 39% as a result of the shorter average distance of coal-loaded trips.

The decline in the Group's Freight Rail Turnover of construction materials was due to significant falls in construction activity in Russia over the period as a result of the economic downturn.

## Strong customer focus maintained

The Group's freight rail transportation customers are concentrated among large industrial groups in the metals and mining and in the oil products and oil sectors of the Russian economy. Key customers include TNK-BP, MMK, Evraz, Lukoil, Gazpromneft, Rosneft, Severstal, Ural steel, RITEK[22] and Mechel. Sales of the Group's services to the members of these key industrial groups and their suppliers represented approximately 73% of the Group's Net Revenue from Operation of Rolling Stock in 2009. The remainder was comprised primarily of other corporate customers, particularly small and medium enterprises, which are essential for improving the efficiency of the gondola cars operation business.

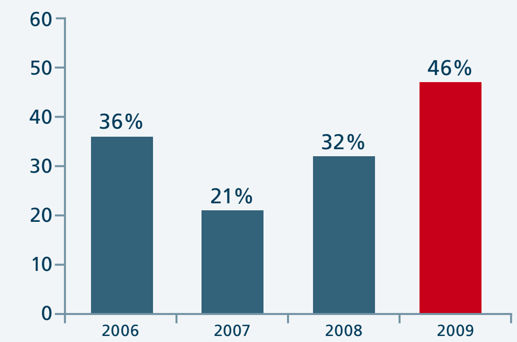
## Route optimisation is the cornerstone of the business model

The efficient management of gondola cars is the cornerstone of Globaltrans' business model and the driver for the Group's profitability.

By capitalising on an expanded geographic coverage, developing new customer relationships and having favorable economic conditions, Globaltrans has managed to improve its Empty Run Ratio for gondola cars significantly in recent years. The highest level of operating efficiency was achieved in the first six months of 2008 when an Empty Run Ratio for gondola cars was as low as 19%.

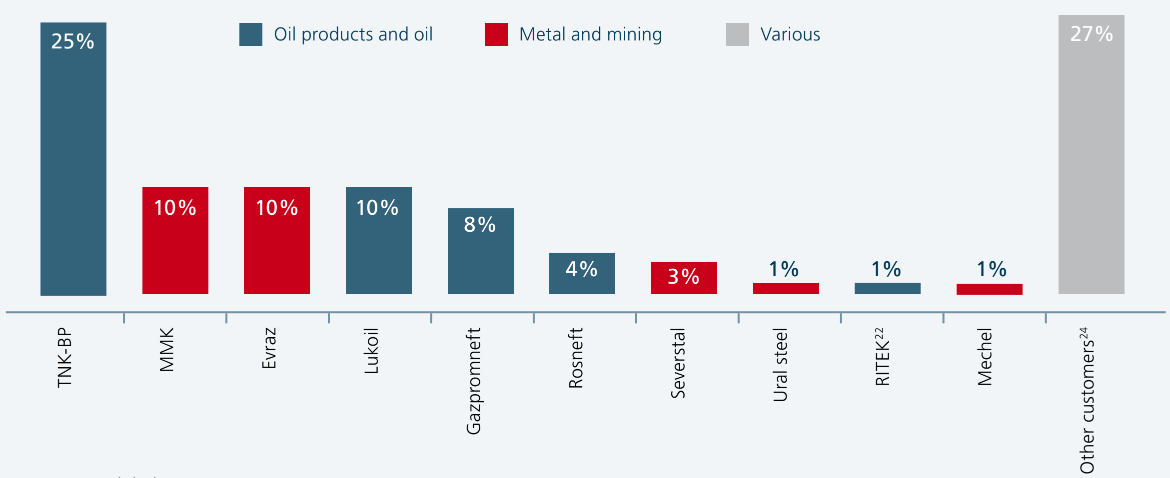
Unfavorable economic conditions in the fourth quarter of 2008 affected the operational efficiency of gondola cars, resulting in an

EMPTY RUN RATIO FOR GONDOLA CARS




Source: Globaltrans

GLOBALTRANS' KEY CUSTOMERS[23] AS A PERCENTAGE OF NET REVENUE FROM OPERATION OF ROLLING STOCK FOR 2009




Source: Globaltrans

22. Affiliate of Lukoil.
23. Key customer groups including their affiliates and suppliers.
24. Particularly small and medium enterprises.

increased Empty Run Ratio of 32% for the full year of 2008. This deterioration in operational efficiency in the second half of 2008 was primarily due to:

- reduced inbound traffic to metallurgical producers, particularly for shipments of scrap metal and coking coal;
- a significant decline in construction activity in Russia;
- a reduction in the volume of freight shipped for customers, particularly for small and medium enterprises whose businesses and creditworthiness were affected by the downturn; and
- a fall in imports to Russia.

The impact of all these factors continued into 2009, and indeed worsened in the first months, resulting in an Empty Run Ratio for gondola cars averaged at 54% for the first half of 2009. In the second half of the year a gradual economic recovery led to an improvement in operational efficiency leading to a better Empty Run performance with an Empty Run Ratio for gondola cars averaging at 46% for the full year 2009.

## RAILCAR LEASING

The second major service offered by Globaltrans is railcar leasing. As of the end of 2009, 16% of the Group's Total Fleet or 6,007 units were involved in railcar leasing. The majority of the Group's leased-out fleet comprises rail tank cars.

Globaltrans leases out its rolling stock to the freight rail transportation markets in Russia, the CIS countries and the Baltics. The Group's key leasing business customers include PetroKazakhstan Kumkol Resources (Kazakhstan) and CNPC-Aktobemunaigaz (Kazakhstan).

The leasing business became a significant component of the Group's business portfolio in 2008, with the acquisition of rail tank car leasing companies, AS Spacecom and AS Intopex Trans, whose combined Total Fleet amounted to 4,288 units of rolling stock as at the end of 2008. These acquisitions, with mostly US Dollar denominated revenues, enabled the Group to strengthen its business portfolio and maintain the stability of operations during the downturn.

## FLEET DEVELOPMENT

### Fleet overview

Globaltrans' Owned Fleet is the largest[25] of any private operator in Russia. As of the end of 2009 the Total Fleet numbered 37,217 units of rolling stock, an increase of 10,250 units[26] or 38% compared to the end of 2008. Globaltrans' Owned Fleet is relatively young with an average age of 6.2 years compared to a useful life for a gondola car of 22 years and a rail tank car of 32 years.

As of the end of 2009, 32,384 units of rolling stock or 87% of the Group's Total Fleet were owned or leased under finance leases. The number of leased-in rolling stock amounted to 4,833 units or 13% of the Group's Total Fleet as of the end of 2009. Globaltrans relies on leasing in rolling stock from third parties, as a reliable way to quickly react to changes in demand for freight rail transportation services without significant capital expenditure.

As of the end of 2009, gondola cars accounted for approximately 48% of the Group's Total Fleet, or 17,821 railcars. The general-purpose gondola cars are used to carry a variety of cargoes, including ferrous metals, scrap metal, ores, crushed stone, coal, timber and pipes.

As of the end of 2009, rail tank cars, which are used predominantly for the transportation of oil products and oil, accounted for approximately 51% of the Group's Total Fleet, or 18,846 railcars. Approximately 13% of the Group's total rail tank car fleet or 2,536 units are steam jacket rail tank cars, which enable faster loading and unloading times of oil products during winter months, thus helping to improve fleet utilisation. The Group's fleet of rail tank cars also includes 270 LPG railcars.

Globaltrans also operated 370 hopper cars, primarily used to transport cement, as of the end of 2009, compared to 1,113 units as of the end of 2008. The reduction in the number of hopper cars in use was resulting from the Group's decision to significantly cut back its involvement in the cement transportation market and to give bulk of its hopper cars to financial lease.

The Group's fleet of locomotives consisted of 60 units as of the end of 2009. These locomotives are used primarily for traction of "block trains[28]". Consisting only of the Group's rolling stock bound

GLOBALTRANS' ROLLING STOCK FLEET STRUCTURE AS OF THE END OF 2009

| | Owned and leased-in under finance leases | Leased-in under operating leases | Total | % of total |
|---|---|---|---|---|
| Gondola cars | 15,464 | 2,357 | 17,821 | 48% |
| Rail tank cars | 16,372 | 2,474 | 18,846 | 51% |
| Other railcars[27] | 490 | 0 | 490 | 1% |
| Locomotives | 58 | 2 | 60 | 0.2% |
| **Total** | **32,384** | **4,833** | **37,217** | **100%** |

*Source: Globaltrans*

25. Based on the publicly available information.
26. Including the Total Fleet of BTS acquired in December 2009 and new rolling stock delivered in 2009.
27. Other railcars include hopper cars, flat cars and other.
28. Block train means a train comprising of only rolling stock operated by a single company which is bound for the same destination.

# Operational performance (continued)

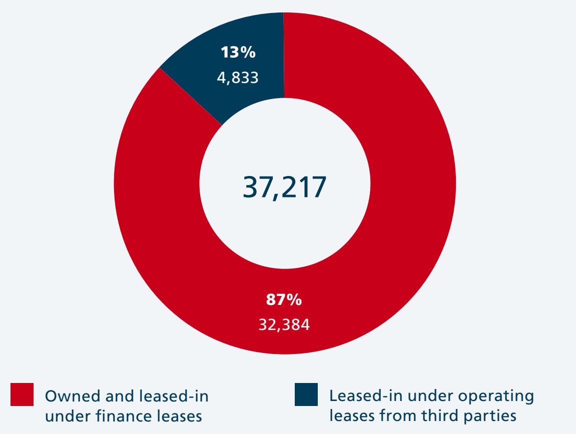
for the same destination, and in contrast to trains consisting of rolling stock operated by various parties and/or heading to various destinations, "block trains[28]" do not require the time-consuming attachment and detachment of rolling stock at stations, thus improving delivery time and increasing railcar utilisation and overall efficiency.

## Repair and maintenance

As it is critical to have reliable and functioning rolling stock, high quality maintenance and repair are key components of the Group's success. The Group's rolling stock undergoes rigorous and regular repair and maintenance as prescribed by the applicable rules and regulations. The Group applies strict standards to ensure that its fleet is well maintained.

Whilst most of the repair and maintenance work is outsourced, BTS also operates its own railcar repair and maintenance depot at Ivanovo (Russia). The depot is located close to, and on, the transportation route to the Yaroslavl oil refinery, one of the largest refineries serviced by BTS. As a result, no additional transportation time is required for routine repairs and preventative maintenance. By carrying out its own repair and maintenance of rail tank cars in Ivanovo, BTS is better able to control the quality, efficiency and cost of repairs.

GLOBALTRANS' TOTAL FLEET BY TYPE OF OWNERSHIP AS OF THE END OF 2009




*Source: Globaltrans*

# Financial review

## FINANCIAL HIGHLIGHTS

- The Group's business in the Company's functional currency (Roubles) demonstrated a robust performance during 2009. A 28% depreciation of the average exchange rate of the Rouble against the US Dollar in 2009 has significantly affected the results in the Group's presentation currency (US Dollars). In accordance with the Group's accounting policies, the financial results include the impact from the consolidation of BTS for 2008 and 2009.
- Adjusted Revenue increased in Rouble terms by 12% while in US Dollar terms it decreased by 12% from USD 779.4* million in 2008 to USD 685.3* million in 2009.
- Operating Cash Costs decreased in US Dollar terms by USD 33.1 million or by 8% to USD 399.4* million. In Rouble terms Operating Cash Costs increased by 18% driven mostly by an increase in Empty Run Costs. Operating Cash Costs excluding Empty Run Costs increased only by 5% in Rouble terms.
- Adjusted EBITDA increased in Rouble terms by 5%, and in US Dollar terms it declined by 18% to USD 284.5* million. Adjusted EBITDA, net of transfer and consolidation of BTS, amounted to USD 171.9* million in 2009.
- Adjusted EBITDA Margin remained robust at 42%* in 2009 compared to 44%* in the previous year driven by increase in Empty Run Costs.
- Profit for the year decreased by 15% to USD 121.2 million in 2009 from USD 142.6 million in 2008.
- Net Debt decreased by 20% or by USD 71.7 million to USD 288.9* million in 2009 compared to the previous year. The Net Debt to Adjusted EBITDA ratio remained unchanged at the level of 1.0x* at the end of 2009 compared to the end of 2008.

## RESULTS OF OPERATIONS

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2009 and 2008.

| | Restated 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Revenue | 1,445.0 | 1,163.4 | (281.6) | -19% |
| Cost of sales | (1,088.1) | (874.2) | (214.0) | -20% |
| **Gross profit** | **356.9** | **289.3** | **(67.7)** | **-19%** |
| Selling and marketing costs | (3.1) | (2.2) | (0.9) | -29% |
| Administrative expenses | (66.6) | (58.8) | (7.9) | -12% |
| Other gains – net | 1.2 | 0.8 | (0.4) | -32% |
| **Operating profit** | **288.4** | **229.1** | **(59.3)** | **-21%** |
| Finance income | 5.4 | 5.9 | 0.5 | 10% |
| Finance costs | (120.2) | (84.6) | (35.7) | -30% |
| Finance costs – net | (114.9) | (78.7) | (36.3) | -32% |
| Share of profit of associates | 0.6 | 0.5 | (0.1) | -17% |
| **Profit before income tax** | **174.0** | **150.9** | **(23.2)** | **-13%** |
| Income tax expense | (31.5) | (29.7) | (1.8) | -6% |
| **Profit for the year** | **142.6** | **121.2** | **(21.4)** | **-15%** |
| Attributable to: | | | | |
| Equity holders of the Company | 115.6 | 88.1 | (27.6) | -24% |
| Minority interest | 26.9 | 33.1 | 6.2 | 23% |
| | **142.6** | **121.2** | **(21.4)** | **-15%** |
| **Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)** | **1.04** | **0.74** | **-0.3** | **-29%** |

### Revenue, Adjusted Revenue and Net Revenue from Operation of Rolling Stock

In 2009 the Group's revenue amounted to USD 1,163.4 million, demonstrating a decrease of USD 281.6 million or 19% from USD 1,445.0 million in 2008. This decrease was driven by several factors described in detail below, primarily by depreciation of the Rouble, the Company's functional currency, against the US Dollar.

The principal driver of the Group's revenue is railway transportation – operators services. Other revenues are generated mainly from leasing of rolling stock and from certain ancillary services such as freight forwarding and sale of wagons and locomotives.

The following table sets forth revenue, broken down by revenue-generating activity for the years ended 31 December 2009 and 2008.

| | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Railway transportation – operators services (tariff borne by the Group) | 1,024.9 | 816.0 | (208.9) | -20% |
| Railway transportation – operators services (tariff borne by the client) | 337.4 | 280.6 | (56.8) | -17% |
| Railway transportation – freight forwarding | 5.4 | 0.3 | (5.1) | -95% |
| Operating leasing of rolling stock | 67.1 | 65.4 | (1.7) | -3% |
| Sale of wagons and locomotives | 9.7 | 0.2 | (9.5) | -98% |
| Other | 0.5 | 0.9 | 0.5 | 93% |
| **Total revenue** | **1,445.0** | **1,163.4** | **(281.6)** | **-19%** |

### Adjusted Revenue

For the purpose of further discussion and analysis of the Group's revenue, a non-GAAP financial measure "Adjusted Revenue" has been introduced which is defined as total revenue less infrastructure and locomotive tariffs: loaded trips. Infrastructure and locomotive tariffs: loaded trips are payments which customers pay to RZD through the Group and which are reflected in equal amounts in the Group's revenue as well as in cost of sales.

Adjusted Revenue amounted to USD 685.3* million in 2009, decreasing by USD 94.1 million or 12% compared to USD 779.4*million in the previous year. In Rouble terms Adjusted Revenue increased by 12% in 2009 compared to 2008.

The principal components of Adjusted Revenue include:

- Net Revenue from Operation of Rolling Stock;
- revenue from operating leasing of rolling stock;
- revenue from railway transportation – freight forwarding;
- revenue from the sale of wagons and locomotives; and
- other revenue.

The following table sets forth Adjusted Revenue for the years ended 31 December 2009 and 2008 and its reconciliation to revenue.

| | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| **Revenue** | **1,445.0** | **1,163.4** | **(281.6)** | **-19%** |
| *Minus* | | | | |
| Infrastructure and locomotive tariffs: loaded trip | 665.6 | 478.2 | (187.5) | -28% |
| **Adjusted Revenue** | **779.4*** | **685.3*** | **(94.1)** | **-12%** |

The following table sets forth the breakdown of Adjusted Revenue for the years ended 31 December 2009 and 2008.

| | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Net Revenue from Operating of Rolling Stock | 699.8* | 618.5* | (81.3) | -12% |
| Operating leasing of rolling stock | 67.1 | 65.4 | (1.7) | -3% |
| Railway transportation – freight forwarding | 5.4 | 0.3 | (5.1) | -95% |
| Sale of wagons and locomotives | 9.7 | 0.2 | (9.5) | -98% |
| Other | 0.5 | 0.9 | 0.5 | 93% |
| Adjustment for Estonian subsidiaries[29] | (3.1)* | - | 3.1 | NM |
| **Adjusted Revenue** | **779.4*** | **685.3*** | **(94.1)** | **-12%** |

29. This adjustment reflects the impact of the consolidation of AS Spacecom and AS Intopex Trans and is associated with freight rail transportation services previously rendered by AS Spacecom and discontinued in the first half of 2008.

### Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock is the major component of Adjusted Revenue and accounted for 90% of it in 2009. Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure characterising the net revenue generated from freight rail transportation and is defined as revenue from railway transportation – operators services less infrastructure and locomotive tariffs: loaded trip.

The following table sets forth Net Revenue from Operation of Rolling Stock for the years ended 31 December 2009 and 2008, and its reconciliation to revenue from railway transportation – operators services.

| | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Railway transportation – operators services[30] | 1,362.3 | 1,096.6 | (265.7) | -20% |
| *Minus* | | | | |
| Infrastructure and locomotive tariffs: loaded trip | 665.6 | 478.2 | (187.5) | -28% |
| Adjustment for Estonian subsdiaries[29] | (3.1)* | - | 3.1 | NM |
| **Net Revenue from Operation of Rolling Stock** | **699.8*** | **618.5*** | **(81.3)** | **-12%** |

In 2009 Net Revenue from Operation of Rolling Stock amounted to USD 618.5* million, a decrease of USD 81.3 million or 12% compared to USD 699.8* million in the previous year. In Rouble terms Net Revenue from Operation of Rolling Stock increased by 13% in 2009 compared to 2008. Such an increase was primarily driven by the following factors:

- Average Price per Trip increased in Rouble terms by 11% year on year while in US Dollar terms it declined by 13% to USD 716.9* in 2009 from USD 828.1* in 2008. The average distance of loaded trip increased at the same time by 2%. Average Price per Trip of the Group excluding BTS was broadly flat in Rouble terms; the respective increase in the consolidated figure was driven by BTS's performance. Increase of the Average Price per Trip of BTS resulted from implementation of RZD price increases, change of route configuration comprising more internal traffic and an increase in the volume of freight transported with the use of the Group's own locomotives.
- Average Number of Rolling Stock Operated increased year on year by 2% or 609 units, amounting to 28,406 units of rolling stock in 2009.
- Average Number of Loaded Trips per Railcar was broadly flat year on year, with 30.4 trips in 2009.

Transfer and consolidation of BTS contributed USD 290.7* million to Net Revenue from Operation of Rolling Stock compared to USD 265.8* million contributed in 2008, demonstrating a year on year growth of 9%.

### Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock, which accounted for 10% of Adjusted Revenue in 2009, amounted to USD 65.4 million in 2009, demonstrating a decrease of USD 1.7 million or 3% on the previous year. This result was primarily driven by the strong performance of AS Spacecom and AS Intopex Trans whose US Dollar-denominated revenues from the leasing of rail tank cars demonstrated a good degree of resilience to the economic downturn.

### Railway transportation – freight forwarding, sale of wagons and locomotives and other revenue

Revenue from railway transportation – freight forwarding, which is a non-core business for the Group, decreased in 2009 by USD 5.1 million to USD 0.3 million, reflecting limited market opportunities. Revenue from the sale of wagons and locomotives, which is an additional non-core business for the Group[31], contributed USD 9.7 million to the Group's revenue in 2008, but in 2009 it had a minimal impact because no attractive opportunities arose.

30. Sum of the following line items: "railway transportation – operators services (tariff borne by the Group)" and "railway transportation – operators services (tariff borne by the client)".
31. In the year ended 31 December 2008 the Group took advantage of its strong purchasing power with rolling stock manufacturers to purchase rolling stock in excess of its current needs with subsequent resale to the third parties. In the future the Group does not expect to engage in significant resales of rolling stock on an ongoing basis, although it may consider engaging in such resales on an opportunistic basis from time to time.

## Cost of sales, selling and marketing costs and administrative expenses

In 2009 the Group's total cost of sales, selling and marketing costs and administrative expenses amounted to USD 935.1 million, demonstrating a decrease of USD 222.7 million or 19% compared to USD 1,157.8 million in the previous year.

The following table sets forth a breakdown of cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2009 and 2008.

| | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Cost of sales | 1,088.1 | 874.2 | (214.0) | -20% |
| Selling and marketing costs | 3.1 | 2.2 | (0.9) | -29% |
| Administrative expenses | 66.6 | 58.8 | (7.9) | -12% |
| **Total cost of sales, selling and marketing costs and administrative expenses** | **1,157.8** | **935.1** | **(222.7)** | **-19%** |

For the purpose of better presenting the dynamics and nature of the Group's cost base, the line items of total cost of sales, selling and marketing costs and administrative expenses have been regrouped as presented below.

| | 2009 % of total | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|---|
| **Infrastructure and locomotive tariffs: loaded trips** | **51%** | **665.6** | **478.2** | **(187.5)** | **-28%** |
| **Operating Cash Costs** | **43%** | **432.5*** | **399.4*** | **(33.1)** | **-8%** |
| Empty Run Costs | | 150.3* | 167.9* | 17.6 | 12% |
| Repairs and maintenance | | 84.2 | 62.2 | (21.9) | -26% |
| Operating lease rentals – rolling stock | | 44.3 | 38.8 | (5.5) | -12% |
| Employee benefit expense | | 38.5 | 34.7 | (3.8) | -10% |
| Other Tariffs and Services Provided by Other Transportation Organisations | | 17.6* | 27.3* | 9.8 | 56% |
| Fuel and spare parts – locomotives | | 29.3 | 17.0 | (12.3) | -42% |
| Engagement of locomotive crews | | 11.8 | 10.1 | (1.7) | -15% |
| Legal, consulting and other professional fees | | 9.9 | 6.6 | (3.3) | -33% |
| Other Operating Cash Costs | | 46.5* | 34.6* | (11.9) | -26% |
| **Operating Non-Cash Costs** | **6%** | **59.7*** | **57.6*** | **(2.1)** | **-3%** |
| Depreciation of property, plant and equipment | | 60.6 | 53.2 | (7.4) | -12% |
| Amortisation of intangible assets | | - | 0.01 | 0.0 | NM |
| Impairment charge for receivables | | 1.7 | 1.4 | (0.3) | -17% |
| Loss/(gain) on sale of property, plant and equipment | | (2.6) | 1.7 | 4.3 | 164% |
| Impairment charge for property, plant and equipment | | - | 1.3 | 1.3 | NM |
| **Total cost of sales, selling and marketing costs and administrative expenses** | **100%** | **1,157.8** | **935.1** | **(222.7)** | **-19%** |

### Infrastructure and locomotive tariffs: loaded trip

Infrastructure and locomotive tariffs: loaded trip is in principle a "pass-through" cost item for the Group and is reflected in equal amounts in the Group's revenue, as well as in cost of sales. Infrastructure and locomotive tariffs: loaded trip decreased by USD 187.5 million or 28% from USD 665.6 million in 2008 to USD 478.2 million in 2009. This decrease was driven primarily by depreciation of the Rouble against the US Dollar in the period under review.

### Operating Cash Costs

Operating Cash Costs (a non-GAAP financial measure) include cost items of cost of sales as well as selling and marketing costs and administrative expenses payable in cash. The Group's Operating Cash Costs amounted to USD 399.4* million in 2009, demonstrating a decrease of USD 33.1 million or 8% from USD 432.5* million in the previous year.

In Rouble terms Operating Cash Costs increased by 18% in 2009, driven primarily by an increase in Empty Run Costs. Operating Cash Costs excluding Empty Run Costs increased by only 5% in Rouble terms in the same period.

The following table sets forth a breakdown of Operating Cash Costs for the years ended 31 December 2009 and 2008.

| | 2009 % of total | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|---|
| Empty Run Costs | 42% | 150.3* | 167.9* | 17.6 | 12% |
| Repairs and maintenance | 16% | 84.2 | 62.2 | (21.9) | -26% |
| Operating lease rentals – rolling stock | 10% | 44.3 | 38.8 | (5.5) | -12% |
| Employee benefit expense | 9% | 38.5 | 34.7 | (3.8) | -10% |
| Other Tariffs and Services Provided by Other Transportation Organisations | 7% | 17.6* | 27.3* | 9.8 | 56% |
| Fuel and spare parts – locomotives | 4% | 29.3 | 17.0 | (12.3) | -42% |
| Engagement of locomotive crews | 3% | 11.8 | 10.1 | (1.7) | -15% |
| Legal, consulting and other professional fees | 2% | 9.9 | 6.6 | (3.3) | -33% |
| Other Operating Cash Costs | 9% | 46.5* | 34.6* | (11.9) | -26% |
| **Operating Cash Costs** | **100%** | **432.5*** | **399.4*** | **(33.1)** | **-8%** |

### Empty Run Costs
Empty Run Costs (a non-GAAP financial measure) accounted for 42% of Operating Cash Costs in 2009. Empty Run Costs amounted to USD 167.9* million in 2009, posting an increase of USD 17.6 million or 12% compared to 2008. In Rouble terms Empty Run Costs increased by 43%, primarily driven by the following factors:

- Increase of Freight Rail Turnover of the Group;
- An increase in RZD regulated infrastructure and locomotive tariffs by 10.6%[32] in 2009 resulting in increased charges for the traction of empty railcars;
- Growth in the Empty Run Ratio for gondola cars from 32% in 2008 to 46% in 2009;
- An increase in the Share of Empty Run Kilometres Paid by Globaltrans from 80% in 2008 to 83% in 2009;
- A change in cargo mix along with transporting more metallurgical cargoes.

Increased Empty Runs for gondola cars in 2009 were largely a consequence of the changed macroeconomic situation in Russia which led to reduced opportunities for sourcing return cargoes including:

- reduced capacity utilisation of steel mills resulting in a sharp decrease in inbound traffic (especially the shipment of scrap metal and iron ore);
- a decline in construction activity with lower transportation volumes for various construction materials;
- decreased imports to Russia which limited inbound traffic opportunities from ports; and
- deterioration in the financial standing of small and medium enterprises which became unable to make advanced payments (frequently a feature of the Group’s payment terms).

The Empty Run Ratio for gondola cars improved in the second half of 2009 driven by the rebound of the economy.

### Repairs and maintenance
Repairs and maintenance accounted for 16% of Operating Cash Costs in 2009. Repairs and maintenance costs amounted to USD 62.2 million in 2009, demonstrating a decrease of USD 21.9 million or 26% compared to USD 84.2 million in 2008. In Rouble terms, repairs and maintenance costs demonstrated a 6% year on year decrease. These cost reductions were largely attributable to the cost saving initiative to transfer rolling stock to a mileage-based repairs system. By basing the repair schedule on mileage the Group has more current repairs but fewer scheduled repairs, producing cost savings in maintenance without compromising the safety of operations. Approximately 68% of the Owned Fleet has been successfully transferred to the mileage-based repairs and maintenance schedule as of the end of 2009.

### Operating lease rentals – rolling stock
Operating lease rentals – rolling stock costs amounted to USD 38.8 million in 2009, down by USD 5.5 million or 12% compared to USD 44.3 million in the previous year. In Rouble terms this cost item increased by 12%, primarily due to the growth in the number of rolling stock leased-in under operating leases by 373 units to 4,833 units of rolling stock as of the end of 2009.

### Employee benefit expense
Employee benefit expense decreased by USD 3.8 million or 10% from USD 38.5 million in 2008 to USD 34.7 million in 2009, while in Rouble terms this cost item increased by 15%, driven primarily by the growth in the average number of employees by 11% (resulting from repair depot acquisition by BTS in August 2008) combined with higher incentive payments.

### Other Tariffs and Services Provided by Other Transportation Organisations
Other Tariffs and Services Provided by Other Transportation Organisations (a non-GAAP financial measure), which is presented as part of the ‘‘empty run trips, other tariffs and services provided by other transportation organisations’’ component of cost of sales reported under EU IFRS, increased in 2009 by USD 9.8 million or 56% to USD 27.3* million compared to USD 17.6* million in the previous year. This was primarily driven by the following:

- An increase in costs associated with relocation of railcars to repair depots and from repair depots due to (i) arbitrage opportunities in prices for repair services in different regions; (ii) increased number of current repairs.
- An increase in costs associated with relocation of leased-in rolling stock (taking railcars to lease and giving back from lease).

32. According to Rosstat; comparing December of 2009 to December 2008.

### Fuel and spare parts – locomotive

Fuel and spare parts – locomotive expenses amounted to USD 17.0 million in 2009, a decrease of USD 12.3 million or 42% compared to the previous year. This decrease was primarily a result of depreciation of the Rouble against the US Dollar along with savings from a decline in fuel prices.

### Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD decreased in US Dollar terms by USD 1.7 million or 15% from USD 11.8 million in 2008 to USD 10.1 million in 2009. In Rouble terms this cost item increased by 9%, reflecting RZD's price increases for these services.

### Legal, consulting and other professional fees

Legal, consulting and other professional fees decreased by USD 3.3 million or 33% to USD 6.6 million in 2009 compared to USD 9.9 million in the previous year. In 2008 legal, consulting and other professional fees had included expenses associated with the listing and initial public offering of GDRs of Globaltrans. In 2009 this cost item included expenses associated with the follow-on public offering of GDRs of Globaltrans.

### Other Operating Cash Costs

Other Operating Cash Costs (a non-GAAP financial measure), which include "operating lease rentals – office", "auditors' remuneration", "advertising and promotion", "communication costs", "information services", "taxes (other than income tax and value added taxes)", "cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)" and "other expenses", decreased by USD 11.9 million or 26% from USD 46.5* million in 2008 to USD 34.6* million in 2009. This decrease was driven principally by a decrease in the cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment) by USD 8.8 million from USD 9.0 million in 2008 to USD 0.2 million in 2009, because only minimal rolling stock sales took place in 2009.

### Operating Non-Cash Costs

Operating Non-Cash Costs (a non-GAAP financial measure ) amounted to USD 57.6* million in 2009, posting a decrease of USD 2.1 million or 3% compared to the previous year. The main non-cash expense item – "depreciation of property plant and equipment" decreased in 2009 by USD 7.4 million or 12% from USD 60.6 million in 2008 to USD 53.2 million in 2009. In Rouble terms, depreciation of property plant and equipment increased by 12% reflecting an increase in the number of Owned Fleet in the period under review accounted in Roubles.

## Other gains – net

Other gains – net decreased by USD 0.4 million or 32% to USD 0.8 million, reflecting mostly a decrease in recognized deferred gains.

## Operating profit

The Group's operating profit decreased by USD 59.3 million or 21% to USD 229.1 million in 2009, as a result of the factors described above.

## EBITDA and Adjusted EBITDA (non-GAAP financial measures)

EBITDA decreased by USD 27.9 million or 10% in 2009 to USD 261.6* million compared to the previous year. Adjusted EBITDA amounted to USD 284.5* million, posting a decrease of USD 60.7 million or 18% compared to the previous year. The difference between EBITDA and Adjusted EBITDA arises mostly from net foreign exchange losses on financing activities eliminated from Adjusted EBITDA. In Rouble terms Adjusted EBITDA increased by 5% reflecting a robust performance of the underlying business along with the factors described above.

Adjusted EBITDA of Globaltrans, net of transfer and consolidation of BTS amounted to USD 171.9* million in 2009.

The following table sets forth EBITDA and Adjusted EBITDA for the years ended 31 December 2009 and 2008, and its reconciliation to profit for the year.

| | Restated 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| **Profit for the year** | **142.6** | **121.2** | **(21.4)** | **-15%** |
| *Plus (Minus)* | | | | |
| Income tax expense | 31.5 | 29.7 | (1.8) | -6% |
| Finance costs – net | 114.9 | 78.7 | (36.2) | -32% |
| Net foreign exchange transaction (losses)/gains on financing activities | (60.0) | (21.1) | (38.9) | -65% |
| Amortisation of intangible assets | - | 0.0[33] | 0.0 | NM |
| Depreciation of property, plant and equipment | 60.6 | 53.2 | (7.4) | -12% |
| **EBITDA** | **289.5*** | **261.6*** | **(27.9)** | **-10%** |
| *Minus (Plus)* | | | | |
| Net foreign exchange transaction (losses)/gains on financing activities | (60.0) | (21.1) | (38.9) | -65% |
| Share of profit of associates | 0.6 | 0.5 | (0.1) | -17% |
| Other gains – net | 1.2 | 0.8 | (0.4) | -32% |
| (Loss)/gain on sale of property, plant and equipment | 2.6 | (1.7) | (4.3) | -164% |
| Impairment charge for property, plant and equipment | - | (1.3) | (1.3) | NM |
| **Adjusted EBITDA** | **345.2*** | **284.5*** | **(60.7)** | **-18%** |

33. USD 14 thousand.

## Finance income

Finance income increased by USD 0.5 million or 10% to USD 5.9 million in 2009 compared to the previous year. This increase was primarily due to an increase in interest income from finance leases-third parties of USD 1.9 million in 2009 compared to 2008, driven by the Group leasing out hopper cars under finance leases.

## Finance costs

Finance costs decreased by USD 35.7 million or 30% from USD 120.2 million in 2008 to USD 84.6 million in 2009. The decrease in finance costs was chiefly due to a decrease in net foreign exchange transaction losses on financing activities from USD 60.0 million in 2008 to USD 21.1 million in 2009 driven by slowed pace of depreciation of the Rouble against the US Dollar in 2009 compared to 2008, as well as by decrease of the share of US Dollar-denominated borrowings from 88% at the end of 2008 to 64% at the end of 2009.

Total interest expense decreased by USD 8.5 million or 15% from USD 56.0 million in 2008 to USD 47.5 million in 2009, driven by a smaller loan and financial lease portfolio and a decrease in the weighted average effective interest rate from 10.24%* as of the end of 2008 to 9.04%* as of the end of 2009.

## Share of profit of associates

The share of profit of associates decreased by USD 0.1 million or 17% from USD 0.6 million in 2008 to USD 0.5 million in 2009, reflecting the Group's share of its associates' post-acquisition profits.

## Profit before income tax

Profit before income tax decreased by USD 23.2 million or 13%, from USD 174.0 million in 2008 to USD 150.9 million in 2009. This decrease was primarily due to a decrease in operating profit by USD 59.3 million along with a decrease in finance cost of USD 35.7 million.

The following table sets forth a breakdown of finance costs for the years ended 31 December 2009 and 2008.

| | Restated 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Interest expense: | | | | |
| Bank borrowings | (20.5) | (20.2) | (0.3) | -1% |
| Finance leases | (29.8) | (21.5) | (8.3) | -28% |
| Loans from: | | | | |
| Related parties | (5.2) | (0.6) | (4.5) | -88% |
| Third parties | (0.5) | (0.3) | (0.3) | -48% |
| Other interest – related parties | - | (4.7) | 4.7 | NM |
| Other finance costs | - | (0.1) | 0.1 | NM |
| **Total interest expense** | **(56.0)** | **(47.5)** | **(8.5)** | **-15%** |
| Net foreign exchange transaction (losses)/gains on financing activities | (60.0) | (21.1) | (38.9) | -65 |
| Loss on exchange of financial liabilities | - | (8.5) | 8.5 | NM |
| Distribution to minority participants in redeemable shares | (4.2) | (7.5) | 3.2 | 77% |
| **Finance costs** | **(120.2)** | **(84.6)** | **(35.7)** | **-30%** |

## Income tax expense

Income tax expense decreased by USD 1.8 million or 6% from USD 31.5 million in 2008 to USD 29.7 million in 2009. 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. The weighted average applicable tax rate was 17.0% in 2009 (2008: 20.6%). The change in the weighted average tax rate is mainly due to the fact that in Russia an income tax rate of 20% was enacted in November 2008 which became effective starting from 1 January 2009; in 2008 a tax rate of 24% was applicable to the income earned by the Russian subsidiaries of the Group.

# Financial review (continued)

## LIQUIDITY AND CAPITAL RESOURCES

### General

The business of freight rail transportation is capital-intensive. In the period under review, the Group has been able to meet its liquidity and capital expenditure needs from operating cash flow, supplemented by funds provided by shareholders (including the proceeds from the initial and follow-on public offerings of GDRs) and borrowings from financial institutions.

Management controls current liquidity based on expected cash flows. As at the end of 2009, the Group had positive Net Working Capital of USD 83.6* million.

The Group believes that it has sufficient working capital for the next 12 months and that the combination of proceeds from the 2009 follow-on public offering, cash generated from operations and borrowings will enable it to operate and expand its business as the market continues to improve and when appropriate opportunities arise.

### Cash flows

The following table sets forth the principal components of the Group's consolidated cash flow statement for the years 2009 and 2008.

| | 2008 USD mln | 2009 USD mln | Change USD mln | Change % |
|---|---|---|---|---|
| Net cash from operating activities | 249.6 | 272.2 | 22.6 | 9% |
| Net cash used in investing activities | (113.7) | (167.5) | 53.7 | 47% |
| Net cash (used in)/from financing activities | (49.8) | (80.7) | 31.0 | 62% |
| **Net (decrease)/increase in cash and cash equivalents** | **86.1** | **24.0** | **(62.1)** | **-72%** |
| **Cash, cash equivalents and bank overdrafts at end of year[34]** | **136.9** | **159.1** | **22.2** | **16%** |

#### Net cash from operating activities

Net cash generated from operating activities increased by USD 22.6 million or 9% from USD 249.6 million in 2008 to USD 272.2 million in 2009.

The decrease of operating cash flows before working capital changes of USD 60.5 million was offset by minimal changes in the level of working capital in 2009 compared to a significant increase in working capital in 2008 driven by a decrease in trade and other payables in 2008. In addition the increase in net cash generated from operating activities was due to a USD 29.0 million decrease in taxes paid during 2009 compared to 2008, driven by a reduction of taxable income resulting from foreign exchange losses on the loan book and reduction of the weighted average tax rate.

#### Net cash used in investing activities

Net cash used in investing activities increased by USD 53.7 million or 47% from USD 113.7 million in 2008 to USD 167.5 million in 2009. Net cash used in the Group's investing activities is largely dependent on the level of expenditure on property, plant and equipment. The decrease of USD 38.1 million in the purchases of property, plant and equipment to USD 106.7 million in 2009 reflected the suspension of the Group's capital expenditure programme, whilst the Group entered into several agreements in the second half of 2009 to purchase new railcars.

The decrease in capital expenditures was offset by cash outflows associated with deferred payments for the acquisition of AS Spacecom and AS Intopex Trans (the transaction closed in December 2008) in the amount of USD 71.7 million in 2009.

In addition, receipts from finance lease receivable decreased by USD 17.9 million from USD 21.2 million in 2008 to USD 3.3 million in 2009.

#### Net cash (used in)/from financing activities

Net cash used in financing activities increased by USD 31.0 million from USD 49.8 million in 2008 to USD 80.7 million in 2009 consisting primarily from the following:

- Net cash outflows from borrowings and financial leases[35] of USD 52.8 million in 2009;
- Interest paid of USD 49.7 million in 2009 (decrease of USD 7.6 million compared to 2008);
- Proceeds from the issue of shares of USD 96.2 million in 2009;
- Dividends paid to shareholders of BTS prior to the BTS acquisition in December 2009 of USD 67.1 million in 2009 and distribution to minority participants in redeemable shares in the amount of USD 7.5 million in 2009. This relates to the distribution of dividends by BTS to its shareholders prior to its acquisition by the Group. Due to the fact that the acquisition of BTS was accounted for as the common control transaction, restated cashflows of the Group reflect the payments made before the acquisition.

34. Includes "bank overdrafts" in amount of USD 0.2 million and USD 1.2 million as of the end of 2008 and 2009 respectively.
35. Defined as the sum of "proceeds from borrowings", "repayment from borrowings", "finance lease principal repayments", "proceeds from sale and finance lease transactions".

## Capital Expenditures

The Group's capital expenditures have principally been made to fund the acquisition of rolling stock. Following a strategy of opportunistic growth, the Group continued to pursue opportunities to expand the business in 2009. As demand for freight rail transportation services began to stabilise from the second quarter of 2009 and freight rail turnover started to recover, the Board of Directors approved the resumption of the Group's capital expenditure program.

In 2009 the Group took advantage of a market where prices for new railcars had dropped more than 40% from the peak levels seen in 2008. In the second half of 2009 the Group entered into agreements to purchase 6,000 new gondola cars from vendors including Russian producers, such as Uralwagonzavod, Armavirsky and Roslavlsky, and 500 new oil rail tank cars from Ruzkhimmash. Total value of these contracts amounted to approximately USD 260* million (excluding VAT), representing an attractive price per unit.

During 2009 the Group's capital expenditure on acquisition of rolling stock[36], including rolling stock leased under finance leases, amounted USD 103.9 million compared to USD 144.0 million in the previous year.

In 2009 the Group took delivery of 2,310 railcars comprising 1,885 gondola cars (including 1,775 gondola cars contracted in the second half of 2009), 55 new and 250 second hand rail tank cars and 120 flat cars.

## Capital Resources

The Group's financial indebtedness as of the end of 2009 consisted of bank overdrafts, bank borrowings, loans from related and third parties and finance lease liabilities at an aggregate principal amount of USD 449.1 million (including accrued interest of USD 2.1* million), representing a decrease of USD 48.6 million or 10% when compared to the end of 2008.

Cash and cash equivalents increased by USD 23.1 million or 17% from USD 137.1 million at the end of 2008 to USD 160.3 million as of the end of 2009.

Net Debt of the Group decreased in 2009 by 20% or by USD 71.7 million from USD 360.6* million as of the end of 2008 to USD 288.9* million as of the end of 2009.

The Group continued to operate in 2009 with a strong balance sheet and modest financial gearing, and the Net Debt to Adjusted EBITDA ratio remained unchanged at the level of 1.0x* as of the end of 2009 compared to the end of the previous year.

In light of a deteriorating US Dollar/Rouble exchange rate, the Group took steps to increase the share of Rouble-denominated borrowings within the debt portfolio. As a result, the share of Rouble-denominated borrowings increased from 12% at the end of 2008 to 36% at the end of 2009.

The carrying amounts (including accrued interest of USD 2.1* million) of the Group's borrowings were denominated in the following currencies as of the end of 2008 and 2009:

| | as of 31 December 2008 USD mln | % of total | as of 31 December 2009 USD mln | % of total |
|---|---|---|---|---|
| US Dollar | 439.4 | 88% | 287.8 | 64% |
| Russian Rouble | 57.7 | 12% | 159.9 | 36% |
| Euro | 0.0[37] | 0.01% | 1.4 | 0.3% |
| Estonian Kroons | 0.6 | 0.12% | - | - |
| | **497.7** | **100%** | **449.1** | **100%** |

Despite the significant increase in Rouble-denominated borrowings, the Group's weighted average effective interest rate reduced to 9.04%* at the end of 2009 compared to 10.24%* at the end of the previous year.

As of the end of 2009, 30%* of the Group's borrowings had a fixed interest rate while the remaining 70%* had a floating interest rate.

The following table sets forth the maturity profile of the Group's borrowings (excluding accrued interest of USD 2.1* million) as of the end of 2009.

| | as of 31 December 2009 USD mln |
|---|---|
| 1th quarter of 2010 | 53.5* |
| 2nd quarter of 2010 | 28.6* |
| 3rd quarter of 2010 | 35.9* |
| 4th quarter of 2010 | 33.3* |
| 2011 | 159.3* |
| 2012 | 80.6* |
| 2013-2014 | 55.8* |
| **Total** | **447.0*** |

36. Additions of rolling stock in 2009 as well capitalised repairs.
37. 26 thousand Euro.

## COMMON CONTROL AND RELATED PARTY TRANSACTIONS

### Common control transaction

In December 2009, the parent entity of the Company (Transportation Investments Holding Limited ) has contributed its 55.56% shareholding in Ingulana Holdings Limited, Cyprus to the Company for the consideration of 29,411,764 ordinary shares of the Company that were issued to the parent entity at the same time at the price of USD 8.50 per share including a share premium of USD 8.40 per share. The total consideration for the acquisition amounted to USD 250 million. Ingulana Holdings Limited is a special purpose vehicle which held a 90% share and a majority controlling interest in BTS.

The acquisition of 55.56% of Ingulana Holdings Limited, and consequently a 50% economic interest and majority controlling interest in BTS, has been accounted for as a common control transaction using the predecessor basis. The carrying value of its net assets as of 1 December 2004 was used to account for the common control transaction reserve, since this was the date common control has been established.

Further, in December 2009 Ingulana Holdings Limited transferred its 90% share in BTS to its 90% subsidiary, Ultracare Holdings Limited, a special purpose vehicle incorporated in Cyprus. At the same time the 10% minority shareholder of BTS (a 10% shareholder of Ultracare Holdings Limited) also transferred its 10% share in BTS to this holding company. This transaction did not result in any gain or loss of control for Globaltrans in relation to BTS, nor did it result in any gain or loss on the transfer of shares of BTS. Following the transaction and as at 31 December 2009, Globaltrans held an effective 50% controlling stake in BTS.

For further details please refer to Note 32 of the consolidated financial statements on page 57 of Appendix 1 "Directors' report and consolidated financial statements" of this Annual report.

### Related party transactions

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

The following table sets forth the summary of transactions which were carried out with related parties for the years ended 31 December 2009 and 2008.

| | 2008 USD mln | 2009 USD mln |
|---|---|---|
| Sales of services | 108.9 | 118.8 |
| Purchase of goods and services | 29.1 | 28.2 |
| Acquisitions of property, plant and equipment | 10.4 | 0.7 |
| Disposals of property, plant and equipment | 7.6 | 0.0[38] |
| Interest income | 0.1 | - |
| Interest expense | 5.2 | 5.4 |
| Directors salaries/fees[39] | 0.6 | 0.7 |
| Key management salaries and other short term employee benefits | 5.9 | 8.6 |

The following table sets forth the year-end balances with related parties.

| | 2008 USD mln | 2009 USD mln |
|---|---|---|
| Trade receivables | 10.0 | 14.5 |
| Other receivables | 1.9 | 0.0[40] |
| Prepayments | 1.9 | 1.7 |
| Loans from related parties | 18.4 | - |
| Trade payables | 0.5 | 1.0 |
| Other payables: | | |
| The parent (consideration payable for the acquisition of AS Spacecom and AS Intopex Trans) | 76.0 | 7.1 |
| Other | 0.0[41] | 0.0[42] |
| Advances received | 5.5 | 3.5 |

The following table sets forth the Group's borrowings and finance leases guaranteed by related parties.

| | 2008 USD mln | 2009 USD mln |
|---|---|---|
| Borrowings guaranteed by related parties | 86.8 | 48.2 |
| Finance lease and sale leaseback contracts guaranteed by related parties | 49.5 | 60.7 |

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

| | 2008 USD mln | 2009 USD mln |
|---|---|---|
| Group as lessor | 5.3 | 8.9 |
| Group as lessee | 23.0 | 12.4 |

38. USD 17 thousand.
39. Includes renumerations of executive directors paid by the subsidiaries of the Group.
40. USD 19 thousand.
41. USD 30 thousand.
42. USD 6 thousand.

# Principal risks and uncertainties



Effective risk management is critical to achieve the Group's strategic objectives. Globaltrans has comprehensive risk control and management systems in place to prevent potential adverse effects of changes in its environment or situation.

The Board of Directors has adopted a formal process to identify, evaluate and manage significant risks faced by the Group, and systematically monitors and undertakes an assessment of risks critical to the Group's performance and strategic delivery.

The Group's business involves a certain number of risks, the most notable of which are presented below. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects.

The description of the risks set forth below is presented in the prospectus dated 4 March 2010 ("Risk Factors", pages 8 – 36), available for viewing on the corporate website of Globaltrans (http://www.globaltrans.com/uploads/media/Globaltrans_prospectus__as_of_4_March_2010_.pdf) or at the UK Listing Authority's Document Viewing Facility, 25 The North Colonnade, Canary Wharf, London E14 5HS, United Kingdom.

## Risks relating to the Group's business and industry

- The Group is dependent on demand in the Russian rail transportation market, which in turn depends on certain key economic sectors, and accordingly, on economic growth.
- The Group's business is heavily dependent on services provided by RZD and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine.
- The Group's customer base is heavily dependent on a few large industrial groups and their suppliers.
- The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs.
- The Group may be subject to increasing competition from other transportation and logistics companies.
- Expansion of the Group's business may place a strain on its resources.
- The Group's relationship with RZD and government authorities may deteriorate.
- The Group's business, financial condition and results of operations are dependent on tariffs set by the Federal Tariff Service.
- The Group is subject to risks relating to the potential postponement or cancellation of certain steps towards the reform of the Russian rail transportation market.
- Insufficient supply of, or increases in the price of, rolling stock may limit the Group's expansion.
- The Group's competitive position and prospects depend on the expertise and experience of its key managers.
- The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel.
- Expansion through acquisition entails certain risks, and the Group may experience problems in integrating and managing such new acquisitions.
- Adverse determination of pending and potential legal actions involving the Company's subsidiaries could have an adverse effect on the Group's business, revenues, cash flows and the price of the GDRs.
- A major accident or derailment could result in substantial property loss, business disruption or reputational damage to the Group.
- The Group's insurance policies may be insufficient to cover certain losses.
- The Group's information technology systems may fail or be perceived to be insecure.
- The information technology software systems used by the Group could cease to be available.
- The Group's ownership of a railcar repair and maintenance depot exposes the Group to greater risk with respect to licenses, uncoupling fees, railcar breakdowns, earlier than scheduled repairs, cargo delivery delays and railcar owners' resulting lost profits.
- The Group is dependent on RZD for the availability and performance of locomotive crews and for the issuance of locomotive permits and approvals.
- The Group faces exposure to risks related to VAT recovery issues.
- There is a shareholders' agreement in relation to LLC BaltTransServis ("BTS") which limits the Group's ability to direct the affairs of BTS in certain ways and which exposes the Group to risk of detrimental actions by the minority BTS shareholder.

## Risks relating to the Group's financial condition

- The Group's indebtedness, particularly under current market conditions, could adversely affect the Group's operational and financial condition.
- The Group's growth strategy requires significant funding.
- Because most of the Group's borrowings are denominated in US Dollars and most of its expenses and revenue are denominated in Roubles, the Group is subject to foreign exchange risk.
- The Group may be subject to interest rate risk due to floating rate liabilities in relation to its leases and long-term borrowings.
- The Group may be subject to credit risk due to its dependence on key customers and suppliers.
- The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries.

## Risks relating to the Group's presence in the Russian Federation and other emerging markets

The Group's business, and substantially all of its assets, are located in Russia and certain other emerging markets. Emerging markets, such as the Russian Federation, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political and social, and legal and legislative risks, and the global financial and economic crisis could have a particularly significant adverse effect on emerging markets such as Russia, Kazakhstan and Ukraine.

# Selected operational information

The following table sets forth the selected consolidated operational information for the years ended 31 December 2008 and 2009.

## 1. ROLLING STOCK FLEET

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 1.1. | **Owned Fleet (at period end)** | | | |
| | Gondola (open top) cars | 13,592 | 15,464 | 14% |
| | Rail tank cars | 16,071 | 16,372 | 2% |
| | Hopper cars | 1,101 | 370 | -66% |
| | Locomotives | 60 | 58 | -3% |
| | Flat cars | 0 | 120 | NM |
| | Other cars | 0 | 0 | NM |
| | | **30,824** | **32,384** | **5%** |

| | | | | |
|---|---|---|---|---|
| 1.2. | **Rolling stock leased-in under operating leases (at period end)** | | | |
| | Gondola (open top) cars | 1,875 | 2,357 | 26% |
| | Rail tank cars | 2,572 | 2,474 | -4% |
| | Hopper cars | 12 | 0 | NM |
| | Locomotives | 1 | 2 | 100% |
| | Flat cars | 0 | 0 | NM |
| | Other cars | 0 | 0 | NM |
| | | **4,460** | **4,833** | **8%** |

| | | | | |
|---|---|---|---|---|
| 1.3. | **Total Fleet (at period end)** | **35,284** | **37,217** | **5%** |

| | | | | |
|---|---|---|---|---|
| 1.4. | **Rolling stock leased-out under operating leases (at period end)** | | | |
| | Gondola (open top) cars | 250 | 775 | 210% |
| | Rail tank cars | 5,235 | 5,101 | -3% |
| | Hopper cars | 453 | 125 | -72% |
| | Locomotives | 3 | 6 | 100% |
| | Flat cars | 0 | 0 | NM |
| | Other cars | 0 | 0 | NM |
| | | **5,941** | **6,007** | **1%** |

| | | | | |
|---|---|---|---|---|
| 1.5. | **Average age of Owned Fleet (at period end)** | | | |
| | Gondola (open top) cars | 4.2 | 4.6 | 8% |
| | Rail tank cars | 6.9 | 7.8 | 12% |
| | Hopper cars | 1.4 | 3.1 | 118% |
| | Locomotives | 4.1 | 5.0 | 23% |
| | Flat cars | 0.0 | 0.7 | NM |
| | Other cars | 0.0 | 0.0 | NM |
| | | **5.5** | **6.2** | **12%** |

## 2. OPERATION OF ROLLING STOCK

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.1. | **Freight Rail Turnover, billion tonnes-km** | **78.5** | **80.9** | **3%** |

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.1.1. | **Freight Rail Turnover by cargo type, billion tonnes-km** | | | |
| | Ferrous metals | 25.6 | 33.0 | 29% |
| | Scrap metal | 3.3 | 1.2 | -63% |
| | Iron ore | 3.3 | 4.5 | 38% |
| | Oil products and oil | 29.2 | 30.4 | 4% |
| | Construction materials – crushed stone | 1.2 | 0.8 | -36% |
| | Construction materials – cement | 2.4 | 0.6 | -75% |
| | Construction materials – other | 1.3 | 0.9 | -34% |
| | Coal (thermal and coking) | 8.3 | 7.4 | -11% |
| | Other | 4.0 | 2.1 | -48% |

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.2. | **Transportation Volume, million tonnes** | 51.4 | 52.8 | 3% |

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.2.1. | **Transporation Volume by cargo type, million tonnes** | | | |
| | Ferrous metals | 8.9 | 9.3 | 4% |
| | Scrap metal | 2.9 | 1.3 | -54% |
| | Iron ore | 1.7 | 2.2 | 31% |
| | Oil products and oil | 27.6 | 29.7 | 8% |
| | Construction materials – crushed stone | 1.1 | 0.9 | -20% |
| | Construction materials – cement | 1.2 | 0.6 | -52% |
| | Construction materials – other | 0.7 | 0.7 | -2% |
| | Coal (thermal and coking) | 4.2 | 5.8 | 39% |
| | Other | 3.1 | 2.3 | -26% |

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.3. | **Transportation Volume by cargo class** | | | |
| | Class 1 | 23% | 24% | - |
| | Class 2 | 50% | 53% | - |
| | Class 3 | 27% | 23% | - |

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.4. | **Average Rolling Stock Operated** | | | |
| | Gondola (open top) cars | 14,588 | 14,600 | 0% |
| | Rail tank cars | 12,731 | 13,298 | 4% |
| | Hopper cars | 428 | 401 | -6% |
| | Locomotives | 41 | 40 | -2% |
| | Other cars | 10 | 66 | 586% |
| | | **27,797** | **28,406** | **2%** |

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.5. | **Average Number of Loaded Trips per Railcar** | | | |
| | Gondola (open top) cars | 25.0 | 24.3 | -3% |
| | Rail tank cars | 36.9 | 37.5 | 2% |
| | Hopper cars | 22.4 | 19.5 | -13% |
| | | **30.4** | **30.4** | **0%** |

# Selected operational information (continued)

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 2.6. | **Average distance of loaded trip, km** | | | |
| | Gondola (open top) cars | 2,136.1 | 2,280.4 | 7% |
| | Rail tank cars | 1,044.6 | 1,015.5 | -3% |
| | Hopper cars | 736.3 | 950.2 | 29% |
| | | **1,511.6** | **1,537.8** | **2%** |

| | | | | |
|---|---|---|---|---|
| 2.7. | **Empty Run Ratio** | | | |
| | Gondola (open top) cars | 32% | 46% | 45% |
| | Rail tank cars and hopper cars | 115% | 114% | -1% |
| | **Total Empty Run Ratio** | **64%** | **72%** | **13%** |

| | | | | |
|---|---|---|---|---|
| 2.8. | **Average Price per Trip** | | | |
| | Average Price per Trip in USD | 828.1 | 716.9 | -13% |
| | Average Price per Trip in RUB | 20,598.1 | 22,773.0 | 11% |

| | | | | |
|---|---|---|---|---|
| 2.9. | **Net Revenue from Operation of Rolling Stock by cargo type, USD million** | | | |
| | Ferrous metals | 160.1 | 160.6 | 0% |
| | Scrap metal | 30.4 | 7.6 | -75% |
| | Iron ore | 11.5 | 10.4 | -9% |
| | Oil products and oil | 397.9 | 381.7 | -4% |
| | Coal (thermal and coking) | 36.8 | 23.3 | -37% |
| | Construction materials (incl. cement) | 24.1 | 8.0 | -67% |
| | Other | 39.0 | 26.8 | -31% |
| | | **699.8** | **618.5** | **-12%** |

| | | | | |
|---|---|---|---|---|
| 2.10. | **Net Revenue from Operation of Rolling Stock by cargo class** | | | |
| | Class 1 | 17% | 10% | -39% |
| | Class 2 | 51% | 56% | 10% |
| | Class 3 | 32% | 34% | 5% |

| | | | | |
|---|---|---|---|---|
| 2.11. | **Net Revenue from Operation of Rolling Stock by largest clients (including their affiliates and suppliers)** | | | |
| | Severstal | 7% | 3% | -61% |
| | MMK | 8% | 10% | 26% |
| | Evraz | 8% | 10% | 31% |
| | Ural steel | 1% | 1% | 25% |
| | Mechel | 1% | 1% | -42% |
| | Rosneft | 4% | 4% | -11% |
| | Gazpromneft | 8% | 8% | 1% |
| | TNK-BP | 19% | 25% | 31% |
| | Lukoil | 12% | 10% | -15% |
| | RITEK | 3% | 1% | -70% |
| | Other (incl. small and medium enterprises) | 29% | 27% | -7% |

| | | | | |
|---|---|---|---|---|
| 2.12. | **Empty Run Costs, USD million** | **150.3** | **167.9** | **12%** |

| | | | | |
|---|---|---|---|---|
| 2.13. | **Share of Empty Run Kilometres Paid by Globaltrans** | **80%** | **83%** | **4%** |

## 3. EMPLOYEES

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 3.1. | Employees by departments (simplified) | | | |
| | Operations | 612 | 591 | -4% |
| | Administrative | 383 | 359 | -6% |
| | | **995** | **950** | **-5%** |

The following table sets forth the selected operational information of Globaltrans (excluding the impact from consolidation of BTS) for the years ended 31 December 2008 and 2009.

| | | 2008 | 2009 | Change % |
|---|---|---|---|---|
| 1. | Total Fleet (at period end) | 26,967 | 28,303 | 5% |
| 2. | Freight Rail Turnover, billion tonnes-km | 61.7 | 63.0 | 2% |
| 3. | Average Price per Trip | | | |
| | Average Price per Trip in USD | 816.0 | 629.7 | -23% |
| | Average Price per Trip in RUB | 20,298 | 20,005 | -1% |
| 4. | Average Rolling Stock Operated | 20,057 | 20,313 | 1% |
| 5. | Average Number of Loaded Trips per Railcar | 26.5 | 25.6 | -3% |
| 6. | Empty Run Costs, USD million | 86.7 | 90.8 | 5% |

# Definitions (in alphabetical order)

**Adjusted EBITDA** (a non-GAAP financial measure) represents EBITDA excluding "net foreign exchange transaction (losses)/gains on financing activities", "share of profit/(loss) of associates", "other gains/(losses) – net", "loss/(gain) on sale of property, plant and equipment" and "impairment charge on property, plant and equipment".

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

**Adjusted Revenue** (a non-GAAP financial measure) is calculated as "revenue" less "infrastructure and locomotive tariffs: loaded trips".

**Average Number of Loaded Trips per Railcar** is calculated as total number of loaded trips in the relevant period divided by Average Rolling Stock Operated.

**Average Price per Trip** is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period in the respective currency.

**Average Rolling Stock Operated** is calculated as the average weighted (by days) number of rolling stock available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

**Classes of Cargo:** Tariff 10-01 differentiates between three classes of cargo – Classes 1, 2 and 3. Class 3 (which includes ferrous metals and scrap metals) attracts the highest prices and Class 1 (which includes iron ore and coal) the lowest.

- Examples of Class 1 cargo: energy coal, coking coal; iron ore; natural construction materials (including crushed stone and sand); cement; wood; chemical raw materials for fertilizer production.
- Examples of Class 2 cargo: crude oil, gasoline, kerosene, diesel fuel; heating oil; fertilizers; bricks; agricultural machinery and equipment; asphalt; agricultural products; cast iron.
- Examples of Class 3 cargo: ferrous and non-ferrous metals and scrap metal; construction materials for industrial production; metal construction products; lubricants and oils; timber production; mineral wax and other dark oil products; machinery and equipment (except agricultural); automobiles; rubber, plastics and paint materials; organic and non-organic paint materials; alcohol products; soft goods.

**EBITDA** (a non-GAAP financial measure) represents "profit for the period" before "income tax expense", "finance costs – net" (excluding "net foreign exchange transaction (losses)/gains on financing activities"), "depreciation of property, plant and equipment" and "amortisation of intangible assets".

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

**Empty Run Costs** (a non-GAAP financial measure, meaning costs payable to OAO Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips, other tariffs and services provided by other transportation organisations" component of "cost of sales" reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation and rolling stock leased in or leased out. For the year of 2008, Empty Run Costs exclude the impact of the consolidation of AS Spacecom which discontinued its freight rail transportation services in the first half of 2008.

**Empty Run Ratio** is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

**Freight Rail Turnover** is a measure of freight carriage activity over a particular period calculated as sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

**Net Debt** (a non-GAAP financial measure) is defined as the sum of current and non-current borrowings (including interest accrued) less "cash and cash equivalents".

**Net Revenue from Operation of Rolling Stock** (a non-GAAP financial measure) is defined as the sum of "revenue from railway transportation – operators services (tariff borne by the Group)" and "revenue from railway transportation – operators services (tariff borne by the client)" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of AS Spacecom and AS Intopex Trans for the year of 2008 as AS Spacecom discontinued its freight rail transportation services in the first half of 2008).

**Operating Cash Costs** (a non-GAAP financial measure) represent operating cost items payable in cash and calculated as "total cost of sales, selling and marketing costs and administrative expenses" less "depreciation of property, plant and equipment", "amortisation of intangible assets", "impairment charge for receivables", "loss/(gain) on sale of property, plant and equipment", "impairment charge for property, plant and equipment".

**Operating Non-Cash Costs** (a non-GAAP financial measure) include line items such as "depreciation of property, plant and equipment", "amortisation of intangible assets", "impairment charge for receivables", "loss/(gain) on sale of property, plant and equipment", "impairment charge for property, plant and equipment".

**Other Operating Cash Costs** (a non-GAAP financial measure) include line items such as "operating lease rentals – office", "auditors' remuneration", "advertising and promotion", "communication costs", "information services", "taxes (other than income tax and value added taxes)", "cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)" and "other expenses".

**Other Tariffs and Services Provided by Other Transportation Organisations** (a non-GAAP financial measure) is presented as part of the ''empty run trips, other tariffs and services provided by other transportation organisations'' component of "cost of sales" reported under EU IFRS.

**Owned Fleet** is defined as rolling stock fleet owned and leased in under finance lease as of the end of period (it includes railcars and locomotives unless otherwise stated).

**Share of Empty Run Kilometres Paid by Globaltrans** is defined as the percentage of empty run kilometres paid by Globaltrans divided by the total amount of empty run kilometres incurred by the fleet operated by Globaltrans (not including costs of relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out) in the relevant period.

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

**Total Fleet** is defined as the total rolling stock owned and leased in under finance and operating leases as of the end of period (it includes railcars and locomotives unless otherwise stated).

**Transportation Volume** is a measure of freight carriage activity over a particular period measuring weight of cargo carried in million tonnes.

# Presentation of financial and other information

## Financial information

Globaltrans Investment PLC ("the Company" or, together with its subsidiaries, "Globaltrans" or "the Group") reports its financial results in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS"). For EU IFRS consolidated financial statements see Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report. Certain financial information which is derived from the management accounts is marked in this Annual Report with an asterisk {*}.

In December 2009 Globaltrans acquired from its parent entity (Transportation Investments Holding Limited) a 50% economic interest and controlling stake in LLC BaltTransServis ("BTS"). In accordance with the Group's accounting policies, the acquisition of BTS has been accounted for as a common control transaction 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 and uniform accounting policies, on the assumption that the Group (in such a composition) was in existence for all periods presented (2008 and 2009); consequently, necessary changes have been made to the consolidated financial statements for the year ended 31 December 2008.

The consolidated financial statements are presented in US Dollars, which the Group's management believes to be the most useful for readers of the financial statements. The functional currency of the Company and its Russian subsidiaries is the Rouble. The Estonian Subsidiaries have the Estonian Kroon (EEK) as their functional currency. For informational purposes the changes in certain measures are presented in Rouble terms which are derived from management accounts.

## Non-GAAP financial information

In this Annual Report certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures") are reported. The Group's management believes that these non-GAAP measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of the Group's business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. In this Annual Report the Group has used the following non-GAAP measures as supplemental measures of the Group's operating performance: Adjusted Revenue, Net Revenue from Operation of Rolling Stock, Adjusted EBITDA, Operating Cash Costs, Operating Non Cash Costs, Empty Run Costs, Other Tariffs and Services Provided by Other Transportation Organisations, Adjusted EBITDA Margin and Net Debt to Adjusted EBITDA ratio. All non-GAAP financial information is calculated on the basis of EU IFRS financial statements and/or management accounts.

Non-GAAP financial information requiring additional explanation is marked with capital letters with definitions provided on page 40 of this Annual Report.

Other companies in the freight rail transportation sector may calculate the above non-GAAP measures differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

## Operational information

Globaltrans reports certain operational information which is presented to illustrate the changes in the Group's operational and financial performance during the reporting periods and is derived from the management accounts.

All operational information reported for year ended 31 December 2008 has been restated to include the operational information of BTS. In certain cases operational information is presented net of the impact of transfer and consolidation of BTS which is marked accordingly.

Certain abbreviations of operational information are marked with capital letters with definitions provided on page 40 of this Annual Report.

Market share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation ("Rosstat") as the denominator.

All financial and operational information presented in this Annual Report should be used only as an analytical tool, and investors should not consider any of them in isolation or any combination of them together as a substitute for analysis of the Group's consolidated financial statements reported under EU IFRS and included in Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report.

## Cautionary note

This Annual Report including its appendices may contain forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward looking statements by terms such as expect, believe, estimate, anticipate, intend, will, could, may, or might, the negative of such terms or other similar expressions. These forward-looking statements include matters that are not historical facts and statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Group operates.

By their nature, forward-looking statements involve risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions you that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Group operates may differ materially from those described in or suggested by the forward-looking statements contained in these materials.

In addition, even if the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Group operates are consistent with the forward-looking statements contained in these materials, those results or developments may not be indicative of results or developments in future periods. The Group does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in forward-looking statements of the Group, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, market change in the Russian freight rail market, as well as many other risks specifically related to the Group and its operations.

This Annual Report has been prepared to assist shareholders to assess the Group's strategies and the potential for those strategies to succeed and for no other purpose. The Group, its directors, employees, agents and advisers do not accept or assume responsibility for any other purpose or to any other person to whom this Annual Report is shown or into whose access it may come and any such responsibility or liability is expressly disclaimed.

# Corporate Governance

# Board of Directors and its performance

Globaltrans is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. In March 2008, the Board of Directors adopted the Company's Code of Corporate Governance ("the Code") which seeks to ensure that the interests of all company shareholders are given due consideration. Although the Code is based on principles recommended by the UK Combined Code on Corporate Governance, this does not constitute voluntary compliance with the Combined Code.

The Group's corporate governance policies and practices are designed to ensure that the Company is focused on upholding its responsibilities to shareholders and include policies on the appointment of independent directors, the establishment and constitution of the Audit and other committees, ethical conduct, securities dealings and disclosure. To view the Group's corporate governance policies, please visit our website at http://www.globaltrans.com/about-us/corporate-governance/governance-policies/. The Group's employees are required to follow the established guidelines, and the Group's management is responsible for the promotion and application of these standards across all levels of the Group.

## OVERVIEW

Globaltrans is managed by its Board of Directors ("the Board") 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.

The composition of the Board, which comprises seven members, enables it to operate effectively with the right mix of skills and a broad range of expertise.

The Board understands the need to have an appropriate balance between executive and non-executive directors, together with the presence of independent directors, in order to represent the interests of shareholders and to govern the Group in the most effective way.

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, 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 ("the AGM") of the Company.

The Board of Directors report is presented in full in Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report.

## COMPOSITION OF THE BOARD

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 Board reviews the size of the Board on an annual basis, and considers the present Board size as appropriate for the current scope and nature of the Group's operations.

There is a balance in the Board because of the presence of independent, non-executive directors of the calibre necessary to carry sufficient weight in Board decisions. Although all directors have an equal responsibility for the Group's operations, the role of these independent non-executive directors is particularly important in ensuring that the strategies proposed by management are constructively challenged, fully discussed and examined, and take account of the long term interests, not only of the major shareholders, but also of employees, customers, suppliers and the communities in which the Group conducts business.

Whilst the Company is controlled by Transportation Investments Holding Limited, its immediate holding company, the investment of minority shareholders is fairly represented through the representation of independent directors.

The chairman ensures that Board meetings are held as and when necessary. He leads the Board to ensure its effectiveness and approves the agenda of each Board meeting in consultation with the chief executive officer. The chairman reviews all Board papers before they are presented to the Board and ensures that Board members are provided with accurate, timely and clear information. Management staff who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the Board meeting. The chairman monitors communications and relations between the Company and its shareholders, between the Board and management, and between independent and non-independent directors, with a view to encouraging constructive relations and dialogue amongst them. The chairman works to facilitate the effective contribution of non-executive directors.

All directors were duly re-elected at the Company's AGM held on 3 September 2009.

Elia Nicolaou has been acting as the Company Secretary and Secretary to the Board since March 2008.

## EXECUTIVE DIRECTORS

### Sergey Maltsev 1

*Chief Executive Officer, member of the Board, Executive Director*

Sergey Maltsev (aged 47) was appointed Chief Executive Officer and executive member of the Board in March 2008. As one of the founding shareholders of the Company he has played a key role in the development of Globaltrans from its establishment to its current position as the leading private freight rail group operating in Russia and the CIS. He has more than 25 years of industry and management experience, gained mainly in the rail sector. His previous positions include management roles at PromSnab and MMK-Trans. Mr. Maltsev also serves as Chairman of presidium of the non-profit partnership "Council of Railway Operators Market". In recognition for his services to the Russian rail industry, Mr. Maltsev has been awarded the title of "Honored Railwayman of Russia". He graduated with a degree in Railway engineering.

### Mikhail Loganov 2

*Member of the Board, Executive Director, member of the Nomination Committee*

Mikhail Loganov (aged 29) has served as an executive member of the Board and as a member of the Nomination Committee since March 2008. He has more than nine years of financial experience. Mr. Loganov joined the Group in June 2004 as a finance manager at Sevtekhnotrans. He graduated from the University of Brighton, England, and has a BA honours degree in Business Studies with Finance. Prior to joining the Group, Mr. Loganov worked for American Express (Europe) Ltd in the UK.

### Konstantin Shirokov 3

*Member of the Board, Executive Director*

Konstantin Shirokov (aged 35) has served as an executive member of the Board and the Company's internal auditor since March 2008. He has more than eight years of management experience. Mr. Shirokov graduated from the Finance Academy under the Government of the Russian Federation. He also studied Business Management at Oxford Brookes University Business School, England. Prior to joining Globaltrans, Mr. Shirokov worked in senior finance roles at Metsnabservice, Mechel and as an economist for Glencore International.

## NON-EXECUTIVE DIRECTORS

### Alexander Eliseev 4

*Chairman of the Board, Non-Executive Director, member of the Remuneration Committee*

Alexander Eliseev (aged 43) was appointed as Chairman, non-executive member of the Board and member of the Remuneration Committee in March 2008. As one of the founding shareholders of the Company he played a key role in the development of Globaltrans from its establishment to its current position as the leading private freight rail group operating in Russia and the CIS. Mr. Eliseev has also been Chairman of the Board of Directors of New Forwarding Company since 2003 and Chairman of the Board of Directors of Sevtekhnotrans since 2007. Mr. Eliseev has more than 14 years of management experience, mostly in the rail industry. Prior to joining the Group, Mr. Eliseev held various management positions at MMK-Trans, KPlus, PromSnab and EvrazTrans. He was also a member of the Board of Directors at Neokont, Firma Transgarant and Ural Wagon Repair Company.

### Mr. Michael Zampelas 5

*Member of the Board, Senior Independent Non-Executive Director, chairman of the Audit Committee, member of Remuneration and Nomination Committees*

Michael Zampelas (aged 73) was appointed as the senior independent non-executive Director on the Board in March 2008. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Mr. Zampelas has more than 30 years of management experience, including as founding member, Chairman and Managing Partner of accounting and consulting firm Coopers & Lybrand (which later became PricewaterhouseCoopers) in Cyprus and Athens. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales. Between 2002 and 2006 Mr. Zampelas was the elected mayor of Nicosia and he is currently the Honorary Consul General of Estonia in Cyprus.

### Dr. Johann Franz Durrer 6

*Member of the Board, Independent Non-Executive Director, chairman of the Remuneration and Nomination Committees*

Johann Franz Durrer (aged 71) was appointed as an independent non-executive Director of the Board in March 2008. He is Chairman of the Remuneration and Nomination Committees. Dr. Durrer has more than 30 years of management experience. He graduated from the University of Zurich with a doctorate in economics and is a member of the Swiss Fiduciary Association. He started his career in 1957 with the Union Bank of Switzerland in Geneva. In 1970 Dr. Durrer founded his own company, Fidura Treuhand AG, which provides bookkeeping, auditing, and financial services. Dr. Durrer is the former president of the oil company Montafan AG, and a former Board member of the transport company IMT-Dienst AG. He is currently an Executive Board member of several privately held companies.

### Ms. Elia Nicolaou 7

*Member of the Board, Non-Executive Director, member of the Audit Committee, Company Secretary, Secretary to the Board*

Elia Nicolaou (aged 31) was appointed as a non-executive Director of the Board in March 2008, and is a member of the Audit Committee. She also acts as Company Secretary for the Group. She is currently Managing Director/Director of Legal and Corporate Services at Amicorp (Cyprus). Ms. Nicolaou has more than four years' legal and management experience. She graduated from the University of Nottingham, England, and has an LLB in Law. Ms. Nicolaou also has an LLM in Commercial and Corporate Law from University College London, England, and an MBA from the Cyprus International Institute of Management. She is also a member of the Cyprus Bar Association. Prior to joining the Group, Ms. Nicolaou worked as the Head of the Corporate Law Department at Polakis Sarris & Co. and a lawyer at C. Patsalides & Associates.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# Board of Directors and its performance (continued)

THE NUMBER OF BOARD AND BOARD COMMITTEE MEETINGS HELD IN THE CURRENT FINANCIAL YEAR AND THE ATTENDANCE OF DIRECTORS DURING THESE MEETINGS

| | Board of Directors | | Nomination Committee | | Remuneration Committee | | Audit Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Alexander Eliseev | 18 | 10 | – | – | 2 | 2 | – | – |
| Michael Zampelas | 18 | 18 | 2 | 2 | 2 | 2 | 4 | 4 |
| Johann Franz Durrer | 18 | 18 | 2 | 2 | 2 | 2 | – | – |
| Sergey Maltsev | 18 | 4 | – | – | – | – | – | – |
| Mikhail Loganov | 18 | 17 | 2 | 2 | – | 2 | – | – |
| Elia Nicolaou | 18 | 17 | – | – | – | – | 4 | 4 |
| Konstantin Shirokov | 18 | 18 | – | – | – | – | – | – |

## THE BOARD PERFORMANCE IN 2009

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

In 2009 the Board met formally 18 times to review current performance and to discuss and approve important business decisions. In 2009 these included the acquisition of BTS, the resumption of the capital expenditure programme and purchase of new railcars, and matters related to a follow-on public offering of GDRs representing ordinary shares of the Company which raised approximately USD 100 million in gross proceeds for the Company.

The operation of the Board, its Committees and individual directors is subject to annual evaluation. The evaluation of the Board and individual directors' performance is conducted through self-assessment, cross-assessment or by an external third party. The non-executive directors, led by the senior independent director, are responsible for the performance evaluation of the chairman of the Board.

## 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 AGM. 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 at the AGM held on 3 September 2009.

Please refer to Note 31 of the consolidated financial statements (Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report) for details of remuneration paid to the Board and key management.

## DIRECTORS' INTERESTS IN SHARES

The interests in the share capital of Globaltrans Investment PLC and its group companies, both direct and indirect, of those who were directors as at 31 December 2009 is shown in the table below.

## DEALINGS IN SECURITIES

The Company has adopted an internal code of practice on dealings in securities, that establishes certain standards of conduct to be observed by both persons discharging managerial responsibilities and employee insiders of the Company and the Group in connection with dealings in the Company's securities (including the GDRs). The Group's internal code prohibits its directors and officers from dealing in listed securities of the Group while in possession of unpublished material or price-sensitive information in relation to such securities and during the "closed period", which is defined as 60 days before the date of announcement of annual and semi-annual results of the Group and officers are also prohibited from dealing in the Group's securities on short-term considerations.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF GLOBALTRANS INVESTMENT PLC

| | Type of holding | Shares/Global Depositary Receipts held at 31 December 2009[43] | Shares/Global Depositary Receipts held at 31 December 2008[44] |
|---|---|---|---|
| Alexander Eliseev | Through shareholding in Envesta Investments Ltd and other entities controlled by him | 11,318,909 | 11,201,262 |
| Sergey Maltsev | Through shareholding in Envesta Investments Ltd | 11,658,456 | 11,658,456 |
| Johann Franz Durrer | GDRs of Globaltrans Investment PLC | 100,000 | 100,000 |

43. Total number of issued shares of the Company as at 31 December 2009 was 158,135,533
44. Total number of issued shares of the Company as at 31 December 2008 was 116,959,064.

# The Board Committees

The Board has established three Committees to deal with specific aspects of the Group's business.

## AUDIT COMMITTEE

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

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

The Audit Committee met four times in 2009, including one meeting with the management of the Group and two meetings attended by the external auditors of the Company. The principal issues, which were considered during 2009 were:

- Review of the external auditor's letter to the Audit Committee following their full year audit for 2008;
- Review of the financial statements of the Company and consolidated financial statements of the Group for 2008 and recommended approval of the same to the Board;
- Review of the interim financial results for first six months of 2009 and recommended approval to the Board;
- Review of the terms of appointment of the external auditor of the Company for the year 2009 and recommended re-appointment to the Board who in turn proposed the re-appointment of the external auditors to the AGM of the Company;
- Oversight of the reporting process, review of the audit plan and closure process;
- Review of press releases of the Group of financial nature;
- Review of the internal audit process, internal audit plan and report on activities of the internal audit function.

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

The Nomination Committee met twice in 2009. Principal issues considered during the meetings were the review of the Annual report for the year 2009 and the current composition of the Board. It has also provided recommendations to the Board on re-nomination of directors prior to the AGM, which considered re-appointments of directors in 2009.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises three directors and meets at least once each year. The Remuneration Committee is chaired by Dr. Durrer, and the other members are Mr. Zampelas and Mr. Eliseev. 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 for the chairman of the Board and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

The Remuneration Committee met twice in 2009 to discuss its roles and responsibilities and to consider the appropriateness of the level of remuneration of the executive directors and senior management of the Company.

# Senior management

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Globaltrans' management team combines an entrepreneurial approach with an exceptionally high level of professional experience gained through many years spent in the rail industry.

### Mr. Sergey Maltsev 1

*Chief Executive Officer, member of the Board, Executive Director*

Sergey Maltsev (aged 47) was appointed Chief Executive Officer and executive member of the Board in March 2008. As one of the founding shareholders of the Company he has played a key role in the development of Globaltrans from its establisment to its current position as the leading private freight rail group operating in Russia and the CIS. He has more than 25 years of industry and management experience, gained mainly in the rail sector. His previous positions include management roles at PromSnab and MMK-Trans. Mr. Maltsev also serves as Chairman of presidium of the non-profit partnership "Council of Railway Operators Market". In recognition for his services to the Russian rail industry, Mr. Maltsev has been awarded the title of "Honored Railwayman of Russia". He graduated with a degree in Railway engineering.

### Mr. Vladimir Prokofiev 2

*CEO of BaltTransServis*

Mr. Prokofiev (aged 61) has served as Chief Executive Officer of BaltTransServis since its establishment in 1999. He has more than 41 years' experience in the rail industry. Mr. Prokofiev also serves as Chairman of the Association of Carriers and Rolling Stock Operators of Russia which represents more than 80 industry members. He graduated with a degree in Railcar Building Engineering, and also holds a Railway Engineering degree and a Candidate of Engineering degree. In recognition for his services to the Russian rail industry, Mr. Prokofiev has been awarded the title of "Honored Railwayman of Russia".

### Mr. Valery Shpakov 3

*First Deputy Chief Executive Officer, CEO of New Forwarding Company*

Valery Shpakov (aged 53) is First Deputy Chief Executive Officer of Globaltrans and Chief Executive Officer of New Forwarding Company. Mr. Shpakov has more than 35 years of industry experience. Prior to joining the Group, he held various management positions at MMK-Trans, Firma Transgarant and New Forwarding Company.

### Mr. Alexander Shenets 4

*Chief Financial Officer*

Mr. Shenets (aged 32) is Chief Financial Officer of Globaltrans and has served in this capacity since the establishment of the Group. He has more than nine years' experience in finance, mostly gained in the rail industry. Prior to joining the Group, he held various management positions at Sevtekhnotrans and Metsnabservice. Mr. Shenets graduated from Moscow State University with a degree in Applied Mathematics. He also holds an MBA from Moscow State University's Graduate School of Business Administration, and a Candidate of Philosophy degree from Bauman Moscow State University.

# Corporate social responsibility

Globaltrans is committed to operating the best corporate social responsibility practices. We strive to treat our stakeholders and society in general in a fair and ethical way. We recognise that adopting a responsible approach directly contributes to the success of our business. As part of our strategy of social development and investment, we have implemented programmes in various areas of our business.

## PEOPLE AND A "CAN DO" CULTURE AS CORNERSTONES OF OUR BUSINESS MODEL

The professionalism and commitment of our employees enables us to be successful and deliver results despite the recent difficult market conditions.

- We place a great emphasis on the selection and training of our employees, and we work together with them to maximise their development potential.
- We provide our employees with an entrepreneurial and creative corporate culture which gives them a framework within which to utilise their own strengths in the organisation.
- We are committed to enhancing the talents of our staff to provide them with a wide range of opportunities to grow professionally and to develop their careers.
- We continue to implement an effective mentoring system which ensures there is a continuous exchange of knowledge and sharing of experience between senior and junior staff.
- Our motivation and reward system is designed to provide adequate compensation and rewards to the best performing employees. Our reward packages are highly competitive in the market place.
- We are keen to maintain a positive corporate culture and a happy, content workforce, which is reflected in the scope of Globaltrans' remuneration and benefits packages.

## SUPPORT OF INDUSTRY AND SOCIAL INITIATIVES

The Group's companies support and actively participate in various industry initiatives to establish the view-sharing platforms for key industry stakeholders to initiate dialogue and discuss the latest developments and future prospects of the freight rail transportation market in Russia. For instance, in 2009 New Forwarding Company became a partner of the international forum "RZD on the transport market: cooperation and partnership" and international transport forum "Transport of Russia: the establishment, development and the prospects".

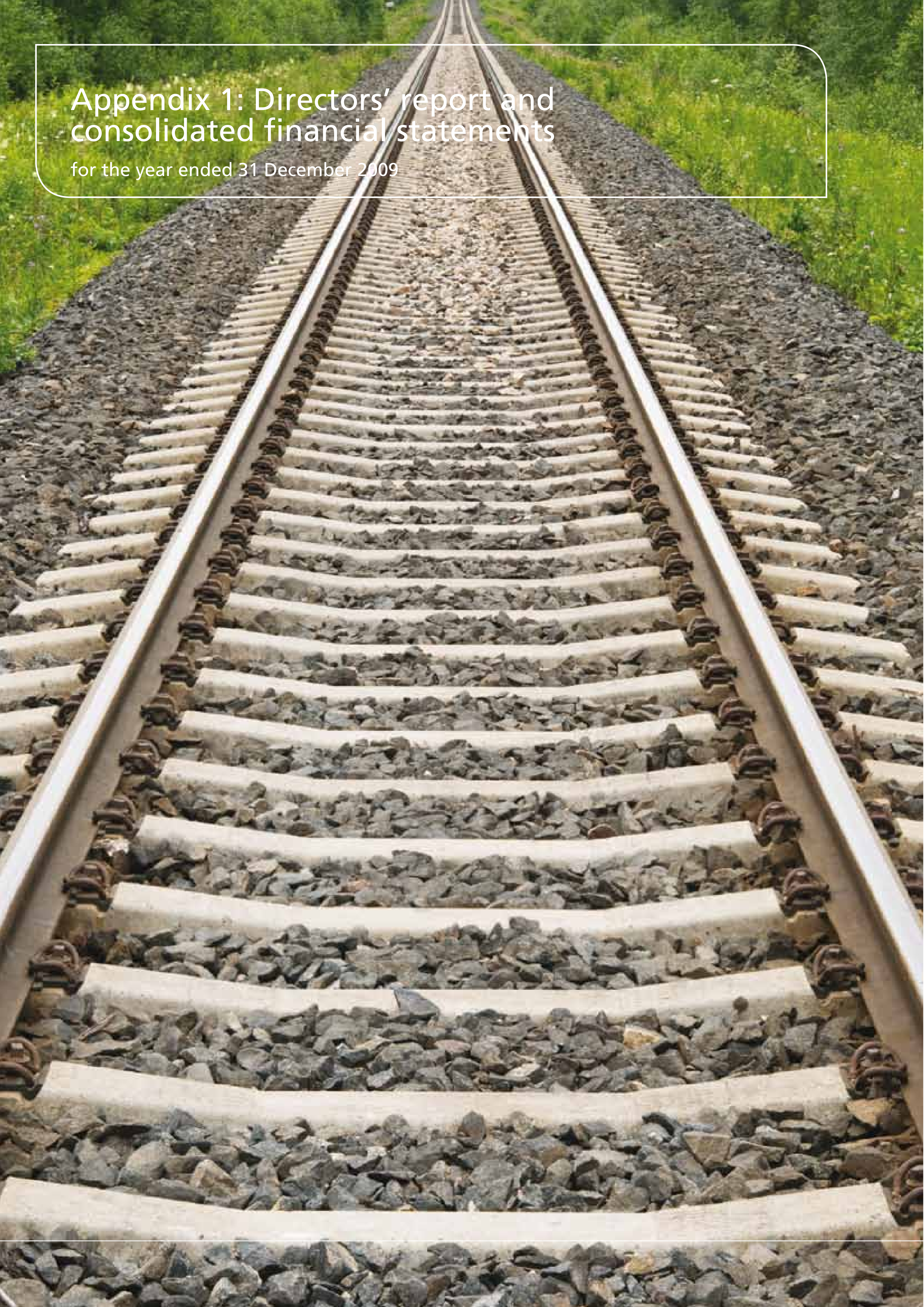
In keeping with its emphasis on contributing to social wellbeing, our Group companies support various social initiatives for cultural and public entertainment events and the promotion of a healthy way of life.

## CHARITY

We actively participate in philanthropic activities. Our Group companies have supported and assisted orphanages in various regions of Russia for many years. We also provide regular support to pre-school educational institutions for underprivileged children and actively participate in various social and medical rehabilitation programmes. In 2009 New Forwarding Company joined the initiative "Charity instead of gifts" whereby funds intended to be spent on corporate gifts, are instead used to help the most vulnerable sections of society.

# Appendix 1: Directors' report and consolidated financial statements

for the year ended 31 December 2009



# Contents

## DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

# Board of Directors and other officers

**Board of Directors**

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

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

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

**Mr. Sergey Maltsev**
*Executive Director*
*Chief Executive Officer*

**Mr. Mikhail Loganov**
*Executive Director*
*Member of the Nomination Committee*

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

**Mr. Konstantin Shirokov**
*Executive Director*

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

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

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

# Report of the Board of Directors

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

**Principal activities**

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

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

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

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

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

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

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

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

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

**Principal risks and uncertainties**

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

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

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

**Future developments**

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

**Results**

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

**Dividends**

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

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

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

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

# Report of the Board of Directors (continued)

## Share capital

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

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

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

As at 31 December 2009 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share (2008: 116,959,064 ordinary shares with a par value of US$0.10 per share).

## The role of the Board of Directors

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

## Members of the Board of Directors

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

The members of the Board of Directors at 31 December 2009 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2009.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors paid by the Company in 2009 amounted to US$395 thousand (2008: US$305 thousand).

## Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors as at 31 December 2009 is shown below:

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

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

## Events after the balance sheet date

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

### Board performance

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

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

### The Board Committees

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

#### Audit Committee

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

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

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

#### Nomination Committee

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

#### Remuneration Committee

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

### Corporate governance

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

### Board and Management Remuneration

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

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

# Report of the Board of Directors (continued)

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

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

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

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

**Going concern**
Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2010, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

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

**By Order of the Board**

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

**Directors' responsibility**

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

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

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

**By order of the Board**

Sergey Maltsev
*Director*

Mikhail Loganov
*Director*

# Independent Auditor's Report

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Globaltrans Investment PLC ("the Company") and its subsidiaries on pages 9 to 60 which comprise the consolidated balance sheet as at 31 December 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Board of Directors' Responsibility for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Globaltrans Investment PLC and its subsidiaries as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

**Report on Other Legal and Regulatory Requirements**

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

**Other Matter**

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

**PricewaterhouseCoopers Limited**

Chartered Accountants

*Limassol*

*9 April 2010*

# Consolidated income statement

## for the year ended 31 December 2009

| | Note | 2009 US$000 | 2008 US$000 |
|---|---|---|---|
| Revenue | *5* | **1,163,407** | 1,445,030 |
| Cost of sales | *6* | **(874,152)** | (1,088,116) |
| **Gross profit** | | **289,255** | 356,914 |
| Selling and marketing costs | *6* | **(2,181)** | (3,064) |
| Administrative expenses | *6* | **(58,793)** | (66,646) |
| Other gains – net | *7* | **785** | 1,150 |
| **Operating profit** | | **229,066** | 288,354 |
| Finance income | *9* | **5,886** | 5,366 |
| Finance costs | *9* | **(84,559)** | (120,231) |
| Finance costs – net | *9* | **(78,673)** | (114,865) |
| Share of profit of associates | *14* | **461** | 556 |
| **Profit before income tax** | | **150,854** | 174,045 |
| Income tax expense | *10* | **(29,681)** | (31,480) |
| **Profit for the year** | | **121,173** | 142,565 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **88,057** | 115,639 |
| Minority interest | | **33,116** | 26,926 |
| | | **121,173** | 142,565 |
| **Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)** | *27* | **0.74** | 1.04 |

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

# Consolidated statement of comprehensive income

## for the year ended 31 December 2009

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

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

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

# Consolidated balance sheet

## at 31 December 2009

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

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

Sergey Maltsev
*Director*

Mikhail Loganov
*Director*

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

# Consolidated statement of changes in equity

## for the year ended 31 December 2009

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

# Consolidated statement of changes in equity (continued)

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

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

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

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

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

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

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

# Consolidated cash flow statement

## for the year ended 31 December 2009

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

**Principal non-cash investing and financing transactions**

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

a) Finance leases as a lessor (Note 18)

b) Finance leases as a lessee (Note 24)

c) Common control transaction financed by the issue of shares (Note 32)

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

# Notes to the consolidated financial statements

## 1 GENERAL INFORMATION

### Country of incorporation

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

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

### Approval of the consolidated financial statements

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

### Principal activities

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

### Group structure

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

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

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

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

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

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

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

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Basis of preparation**

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2009 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

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

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

**New standards, interpretations and amendments to published standards**

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

- IFRS7 "Financial instruments – Disclosures" (amendment) (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Group is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Group also has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.
- IAS 1 (Revised 2007) Presentation of Financial Statements" (effective 1 January 2009) – The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduced a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group has elected to present two statements: an income statement and a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Amendment had no impact on the recognition or measurement of specific transactions and balances.
- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) – IFRS 8 replaces IAS 14, "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented and some changes in their composition. Major differences between segment information presented under IAS 14 and IFRS 8 are described in Note 5. 'Segmental information'.
  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision- maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.
  The change in reportable segments has not resulted in any impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have been restated to reflect the adopted methodology.
- IAS 23 (Amendment) "Borrowing Costs" (effective from 1 January 2009) – It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. This Standard does not have any impact on the Group's financial statements, as the Group has adopted the allowed alternative treatment in IAS 23 prior to its amendment and is already capitalising borrowing costs directly attributable to the acquisition or production of qualifying assets.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS.

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

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

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

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

- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.
- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements" (effective for accounting periods beginning on or after 1 July 2009) – The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply these improvements when they become effective.

- IAS 24, "Related Party Disclosures"* (Amendments) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its financial statements. The Group will adopt the Amendments when they become applicable subject to the endorsement by the European Union.
- IFRS 9, "Financial Instruments Part 1: Classification and Measurement."* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

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

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

- IFRS 1 (revised) 'First-time adoption' (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009) – The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2008). The change in relation to classification as held for sale under IFRS5 in case of a loss of control over a subsidiary is effective for annual periods beginning on or after 1 July 2009. This improvement is not expected to have a material effect on the Group's consolidated financial statements.
- IAS 32, "Classification of Rights Issues" (Amendment) (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group will apply the Amendment from 1 January 2011 but it is not expected to have any impact on the Group's consolidated financial statements
- IFRIC 17, Distributions of non-cash assets to owners (effective for annual periods beginning on or after 1 July 2009) – Clarifies how an entity should measure distribution of assets, other than cash, when it pays dividends to its owners. The Group will apply the Standard from 1 January 2010 but it is not expected to have any impact on the Group's consolidated financial statements.
- Amendment to IAS 39, 'Financial Instruments: 'Recognition and measurement-Eligible hedged items'. (effective for annual periods beginning on or after 1 July 2009) – This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the Amendment from 1 January 2010 but it is not expected to have any impact on the Group's consolidated financial statements.
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"* (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The expected impact is still being assessed in detail by management and the impact is not yet known nor can it be reasonably estimated.
- IFRS 2, "Share-based Payment" (Amendments) (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

- IFRS 1 (Amendments), "Additional Exemptions for First-time Adopters"* (effective for annual periods beginning on or after 1 January 2010) The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.
- IFRS 1 (Amendments), "Limited Exemption from Comparative IFRS7 disclosures for First Time Adopters"* (effective for annual periods beginning on or after 1 July 2010). The amendments will not have any impact on the Group's consolidated financial statements.
- IFRIC14 (Amendments), "Prepayments of a Minimum Funding Requirement"* (effective for annual periods beginning on or after 1 January 2011). The amendments will not have any impact on the Group's financial statements.
- IFRIC12, "Service concession arrangements" (effective for annual periods beginning on or after 30 March 2009). This interpretation is not relevant to the Group's operations.
- IFRIC 15, "Agreements for the construction of real estate" (effective for annual periods beginning on or after 31 December 2009). The interpretation clarifies whether IAS18, "Revenue", or IAS11, "Construction contracts", should be applied to particular transactions. It is likely to result in IAS18 being applied to a wider range of transactions. IFRIC15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS18 and not IAS11.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 30 June 2009). IFRIC16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS21, "The effects of changes in foreign exchange rates", do apply to the hedged item. IFRIC16 is not relevant to the Group's operations.

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

**Basis of consolidation**

(a) Subsidiaries

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

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

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

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

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

(b) Transactions with minority interest

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

(c) Associates

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

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

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

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

**Segment reporting**

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

**Revenue recognition**

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

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

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

(a) Revenue from railway transportation services

The Group operates the following services:

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

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

   There are three types of operator's services:

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

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

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

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

(b) Revenues from leasing

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

(c) Revenues from sale of wagons and locomotives
The Group may acquire wagons and locomotives that are held for sale in the ordinary course of business.

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

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

(d) Interest income
Interest income is recognised on a time proportion basis using the effective interest and method.

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

**Foreign currency translation**

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

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

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

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

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

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

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

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

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

Land is not depreciated.

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

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

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

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

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

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

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

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

**Intangible assets**

(a) Computer software

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

Impairment of non-financial assets

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

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

**Leases**

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

**The Group is the lessee**

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

**The Group is the lessor**

(a) Finance leases

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

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

(b) Operating leases

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

**Financial assets**

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

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

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

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

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

**Extinguishment of the original financial liability**

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

**Inventories**

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

**Cash and cash equivalents**

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

**Cash flow statement**

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

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

## Trade receivables

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

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

## Share capital

Ordinary shares are classified as equity.

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

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

## Trade payables

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

## Non-current assets held for sale

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

## Provisions and contingent liabilities

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

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

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

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

## Borrowings

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

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

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

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

## Financial guarantees

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

**Current and deferred income tax**

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

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

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

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

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

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

**Value Added Tax (VAT)**

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

**Employee benefits**

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

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

**Dividend distribution**

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

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

**Net assets attributable to minority participants in redeemable shares**

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

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

**Comparatives**

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

## 3 FINANCIAL RISK MANAGEMENT

**Financial risks factors**

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

**Market risk**

(a) Foreign exchange risk

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

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

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

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

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

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

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

The Group does not have formal arrangements for hedging this foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency. The Group is also undergoing an initiative to re-finance some of its US Dollar denominated liabilities by obtaining long-term debt denominated in Russian Roubles. However, as the US Dollar interest rates continue to be relatively attractive compared to the Russian Rouble interest rate, a substantial portion of the Group's long-term borrowings continue to be in US Dollars.

(b) Cash flow and fair value interest rate risk

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

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

Had US Dollar, Euro and Russian Rouble lease and credit interest rates shift by 1% (in the case of floating interest rates) and all other variables remained unchanged, the post tax profit of the Group would have changed by US$2,506 thousand for the year ended 31 December 2009 (2008: 1% change in US Dollar and Euro lease and credit interest rates, effect US$2,965 thousand; 2% change in Russian Rouble lease and credit interest rates, effect US$672 thousand).

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

### (c) Credit risk

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

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. These policies enable the Group to reduce its credit risk significantly.

However, the Group's business is heavily dependent on a few large key customers, accounting for 54.68% of the Group's trade and other receivables as at 31 December 2009 (2008: 69.53%).

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

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

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2009 and 31 December 2008:

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

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

### (d) Liquidity risk

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

The Group has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to US$64,076 thousand for 2009 (2008: US$32,417 thousand), together with long-term borrowings (Note 24) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2009 and 31 December 2008. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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

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

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

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

### (e) Capital risk management

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

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

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

Total capitalisation is calculated as the sum of the total Group borrowings and net assets at the date of calculation. The management does not currently have any specific target for the rate of borrowings to total capitalisation.

The rate of borrowings to total capitalisation as at 31 December 2009 and 31 December 2008 are as follows:

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

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

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

### (f) Fair value estimation

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

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

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

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

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

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

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

**iv) Finance lease receivable**

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

**v) Net assets attributable to minority participant in redeemable shares**

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

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

**vi) Liability for minimum dividend distribution**

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

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

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

**i) Revenue recognition**

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

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

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

## 5 SEGMENTAL INFORMATION

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

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

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

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

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

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

The Group does not have transactions between different business segments.

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

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

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

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

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

*Year ended 31 December 2009*

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

*Year ended 31 December 2008*

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

# Notes to the consolidated financial statements (continued)

**Geographic information**

*Revenues from external customers*

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

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

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

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

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

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

*Analysis of revenue by category:*

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

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

## 6 EXPENSES BY NATURE

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

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **Total expenses** | | |
| Depreciation of property, plant and equipment (Note 12) | **53,193** | 60,588 |
| Amortisation of intangible assets (Note 13) | **14** | – |
| Loss/(gain) on sale of property, plant and equipment (Note 12) | **1,679** | (2,640) |
| Employee benefit expense (Note 8) | **34,714** | 38,547 |
| Impairment charge for receivables (Note 18) | **1,438** | 1,742 |
| Impairment charge for property, plant and equipment | **1,291** | – |
| Operating lease rentals – rolling stock | **38,791** | 44,258 |
| Operating lease rentals – office | **4,682** | 4,871 |
| Repairs and maintenance | **62,223** | 84,150 |
| Fuel and spare parts – locomotives | **17,033** | 29,345 |
| Engagement of locomotive crews | **10,120** | 11,837 |
| Infrastructure and locomotive tariffs: | | |
| Loaded trips | **478,152** | 665,638 |
| Empty run trips, other tariffs and services provided by other transportation organisations | **195,224** | 167,894 |
| Auditors' remuneration | **1,449** | 1,783 |
| Legal, consulting and other professional fees | **6,637** | 9,941 |
| Advertising and promotion | **574** | 828 |
| Communication costs | **1,007** | 1,252 |
| Information services | **1,360** | 1,604 |
| Taxes (other than income tax and value added taxes) | **11,007** | 12,646 |
| Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment) | **186** | 8,967 |
| Other expenses | **14,352** | 14,575 |
| Total cost of sales, selling and marketing costs and administrative expenses | **9385,126** | 1,157,826 |

## 7 OTHER GAINS – NET

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

## 8 EMPLOYEE BENEFIT EXPENSE

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

## 9 FINANCE INCOME AND COSTS

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

## 10 INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

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

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

# Notes to the consolidated financial statements (continued)

## 11 NET FOREIGN EXCHANGE LOSSES

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

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

## 12 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 13 INTANGIBLE ASSETS

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

## 14 INVESTMENT IN ASSOCIATE

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

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

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

## 15 NON-CURRENT ASSETS HELD FOR SALE

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

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

## 16 FINANCIAL INSTRUMENTS BY CATEGORY

| | Loans and receivables US$000 | Total US$000 |
|---|---|---|
| **31 December 2009** | | |
| **Financial assets as per balance sheet** | | |
| Trade and other receivables[1] | 83,640 | 83,640 |
| Cash and cash equivalents | 160,253 | 160,253 |
| Total | 243,893 | 243,893 |

| | Financial liabilities measured at amortised cost US$000 | Total US$000 |
|---|---|---|
| **Financial liabilities as per balance sheet** | | |
| Borrowings | 449,131 | 449,131 |
| Trade and other payables[2] | 42,588 | 42,588 |
| Total | 491,719 | 491,719 |

| | Loans and receivables US$000 | Total US$000 |
|---|---|---|
| **31 December 2008** | | |
| **Financial assets as per balance sheet** | | |
| Trade and other receivables[1] | 67,226 | 67,226 |
| Cash and cash equivalents | 137,126 | 137,126 |
| Total | 204,352 | 204,352 |

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

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

## 17 CREDIT QUALITY OF FINANCIAL ASSETS

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

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

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

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

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

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

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

[(1)]The rest of the balance sheet item Cash and cash equivalents is cash on hand
*International rating agency Moody's Investors Service
**International rating agency Fitch Rating
***International rating agency Standard & Poor's

## 18 TRADE AND OTHER RECEIVABLES

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

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

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

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

All non-current receivables are due until 2017.

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

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

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

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

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

Other receivables amounting to US$544 thousand (2008: nil) as of 31 December 2009, were impaired and provided for in full. It was assessed that no portion of these receivables is expected to be recovered.

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

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

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

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

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

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

The finance lease receivables are scheduled as follows:

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

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

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

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

The net investment in finance leases is analysed as follows:

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

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

## 19 INVENTORIES

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

All inventories are stated at cost.

## 20 CASH AND CASH EQUIVALENTS

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

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

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

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

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

## 21 SHARE CAPITAL AND SHARE PREMIUM

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

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

*Year ended 31 December 2009*

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

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

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

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

*Year ended 31 December 2008*

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

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

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

# Notes to the consolidated financial statements (continued)

## 22 DIVIDENDS

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

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

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

## 23 DEFERRED GAINS

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

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

## 24 BORROWINGS

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

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

**Bank borrowings**

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

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

*Year ended 31 December 2009*

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

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

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

*Year ended 31 December 2008*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group has the following undrawn borrowing facilities:

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

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

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

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

## 25 DEFERRED INCOME TAX

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

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

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

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

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

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

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

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

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

## 26 TRADE AND OTHER PAYABLES

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

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

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

## 27 EARNINGS PER SHARE

**Basic and diluted**

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

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

## 28 BUSINESS COMBINATIONS

*Year ended 31 December 2009*

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

*Year ended 31 December 2008*

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

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

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

## 29 CONTINGENCIES

**Operating environment**

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

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

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging markets risk premium resulted in a steep increase in foreign financing costs, however, the Group managed to decrease it effective interest rates on borrowings compared to the end of 2008.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

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

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

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

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

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

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

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

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

**Tax legislation in Russia**

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

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

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

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

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

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

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

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

**Compliance with covenants**

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2009 (Note 24).

**Insurance policies**

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

**Environmental matters**

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

**Guarantees**

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

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

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

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

**Legal proceedings**

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

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

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

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

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

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

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2009 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

## 30 COMMITMENTS

### (a) Capital commitments

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

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

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

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

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

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

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

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

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

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

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

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

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

## 31 RELATED PARTY TRANSACTIONS

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

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

The following transactions were carried out with related parties:

### (a) Sales of goods and services

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

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

### (b) Purchases of goods and services

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

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

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

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

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

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

### (d) Interest income and expenses

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

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

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

### (e) Directors and key management compensation

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

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

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

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

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Trade payables to related parties (Note 26): | | |
| Other related parties | **993** | 452 |
| Other payables to related parties (Note 26): | | |
| Current: | | |
| The parent | **7,064** | 51,894 |
| Key management personnel | **–** | 8 |
| Other related party | **6** | 22 |
| | **7,070** | 51,924 |
| Non-current: | | |
| The parent | **–** | 24,129 |
| Advances from related parties (Note 26): | | |
| Other related parties | **3,544** | 5,463 |

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

### (g) Loans to related parties

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

The loans to related parties have the following terms and conditions:

The loan that was repaid in January 2008 carried interest at 12.5%.

The above loans to "other related parties" arise from transactions with entities under common control.

### (h) Loans from related parties

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

The loans from the parent have the following terms and conditions:

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

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

The loans were repaid in 2007 and carried interest at 12% and 12.5%

The above loan from "other related parties" arise from transactions with entities under common control.

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Total loans: | | |
| Beginning of year | **18,379** | 78,921 |
| Loans advanced during the year | **30,000** | 7,000 |
| Loans repaid during the year | **(46,265)** | (63,943) |
| Interest charged | **639** | 5,186 |
| Interest repaid | **(3,376)** | (5,683) |
| Foreign exchange loss | **623** | (3,102) |
| End of year | **–** | 18,379 |
| Current | **–** | 2,817 |
| Non-current | **–** | 15,562 |
| End of year | **–** | 18,379 |

### (i) Other transactions with related parties

*Year ended 31 December 2009:*

- In November 2009 the Company has entered into a contribution and subscription agreement with its Parent entity. The contribution and subscription agreement provided for the transfer to the Company by the Parent of an effective 55.56 per cent share in Ingulana Holdings Limited, a Cypriot holding company, owning effective 90 per cent economic interest and a majority controlling interest in OOO BaltTransServis ("BTS") in exchange for 29,411,764 new ordinary shares issued by the Company with a total value of US$250 million.
- In February 2009 the Company entered into additional agreements to the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle instalments ahead of schedule. These early repayments result in a gain of US$216 thousand for the Company.
- In September 2009, the Company concluded an additional agreement with the Parent entity whereby the schedule of payments of consideration for the purchase from the Parent entity of the Group's share in the Estonian Subsidiaries was amended as the Group was able to partially re-finance this interest-bearing liability on more favourable terms. Pursuant to the amended payment schedule, in September 2009 the Company settled US$25 million which was due in 2010 plus interest accrued on that amount and a further payment of US$7 million plus interest accrued on that amount was made in October 2009. According to the amended schedule, the remaining balance of US$7 million plus interest is payable by 1 May 2010. This early repayment did not result in a significant gain/loss for the Company except for the saving on the future interest that would have been accrued on such liability.
- As at 31 December 2009, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 24):

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

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

*Year ended 31 December 2008:*

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

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

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

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

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

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

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

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

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

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

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

## 32 COMMON CONTROL TRANSACTION

*Year ended 31 December 2009*

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

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

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

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

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

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

*Year ended 31 December 2008*

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

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

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

**(a) AS Spacecom**

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

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

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

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

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

**(b) AS Intopex Trans**

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

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

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

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

## 33 NET ASSETS ATTRIBUTABLE TO MINORITY PARTICIPANTS IN REDEEMABLE SHARES

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

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

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

## 34 EVENTS AFTER THE BALANCE SHEET DATE

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

- RR1 billion (US$33 million at 31 December 2009 exchange rates) under the credit line agreement with ZAO Raiffeisenbank, repayable in January 2013;
- RR446 million (US$14.7 million at 31 December 2009 exchange rates) under the credit line agreement with OAO "Sberbank" of RR2.5 billion (US$82.7 million at 31 December 2009 exchange rates) contracted, repayable in March 2015;
- RR300 million (US$9.9 million at 31 December 2009 exchange rates) of RR350 million (US$11.6 million at 31 December 2009 exchange rates) contracted under the short-term loan agreement with ZAO UniCredit Bank;

The Group received 1,671 gondola cars previously contracted.

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

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

Independent Auditors' Report on pages 7 to 8.

# Appendix 2: Directors' report and parent company financial statements

for the year ended 31 December 2009

# Contents

**DIRECTORS' REPORT AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

# Board of Directors and other officers

**Board of Directors**

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

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

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

**Mr. Sergey Maltsev**
*Executive Director*
*Chief Executive Officer*

**Mr. Mikhail Loganov**
*Executive Director*
*Member of the Nomination Committee*

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

**Mr. Konstantin Shirokov**
*Executive Director*

**Board support**
*The Company Secretary is available to advise all Directors and ensure that Board procedures are complied with. The position is appointed and can be removed by the Board. A procedure is in place to enable Directors, if they so wish, to seek independent professional advice at the Company's expense.*

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

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

# Report of the Board of Directors

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

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

**Review of developments, position and performance of the Company's business**
The net loss of the Company for the year ended 31 December 2009 was US$4,902 thousand (2008: net profit of US$37,886 thousand). On 31 December 2009 the total assets of the Company were US$705,414 thousand (2008: US$441,352 thousand) and net assets were US$695,317 (2008: US$364,616). The financial position, development and performance of the Company as presented in the financial statements is considered satisfactory.

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

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

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

**Future developments**
The Board of Directors does not expect any significant changes in the activities of the Company for the foreseeable future.

The Group's strategic objective is to strengthen its position as a leading freight rail operator in Russia by capturing identified opportunities and responding to strategic imperatives, leveraging its scalable business model to further improve operational efficiency, the balance of business, and financial performance.

**Results**
The Company's results for the year are set out on pages 9 and 10. The Board of Directors recommended the payment of a dividend in relation to prior years as detailed below and the net loss for the year is carried forward.

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

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

During 2009, the Board of Directors has not declared any interim dividends.

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

# Report of the Board of Directors (continued)

**Share capital**

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

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

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

As at 31 December 2009 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share (2008: 116,959,064 ordinary shares with a par value of US$0.10 per share).

**The role of the Board of Directors**

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

**Members of the Board of Directors**

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

The members of the Board of Directors at 31 December 2009 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2009.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors in 2009 amounted to US$395 thousand (2008: US$305 thousand).

### Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors as at 31 December 2009 is shown below:

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

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

### Events after the balance sheet date

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

### Board performance

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

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

### The Board Committees

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

#### Audit Committee

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

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

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

#### Nomination Committee

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

#### Remuneration Committee

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

# Report of the Board of Directors (continued)

**Corporate governance**

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

**Board and Management Remuneration**

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

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

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

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

**Branches**

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

**Treasury shares**

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

**Going concern**

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the accounts based on the fact that, after making enquiries and following a review of the Company's budget for 2010, including cash flows and borrowing facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

**Auditors**

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

**By Order of the Board**

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

**Directors' responsibility**

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

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

Each of the Director's confirms to the best of his or her knowledge that the financial statements (presented on pages 9 to 31) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the financial position, financial performance and cash flows of the Company.

**By order of the Board**

Sergey Maltsev
*Director*

Mikhail Loganov
*Director*

# Independent Auditor’s Report

## To the Members of Globaltrans Investment PLC

**Report on the Financial Statements**

We have audited the accompanying parent company financial statements of Globaltrans Investment PLC (“the Company”) on pages 9 to 31 which comprise the balance sheet as at 31 December 2009 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2009.

**Board of Directors’ Responsibility for the Financial Statements**

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor’s Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the parent company Globaltrans Investment PLC as at 31 December 2009 and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

**Report on Other Legal and Regulatory Requirements**

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

**Other Matter**

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

**PricewaterhouseCoopers Limited**

Chartered Accountants
*Limassol, 9 April 2010*

# Income statement

## for the year ended 31 December 2009

| | Note | 2009 US$000 | 2008 US$000 |
|---|---|---|---|
| Revenue | *5* | 4,283 | 15,633 |
| Selling and marketing costs | | (94) | (120) |
| Administrative expenses | | (5,724) | (10,399) |
| Other gains/(losses) – net | *6* | 2 | (49) |
| **Operating (loss)/profit** | | **(1,533)** | **5,065** |
| Finance costs | *9* | (3,400) | 32,042 |
| Finance income | *9* | 31 | 1,472 |
| Finance (costs)/income – net | *9* | (3,369) | 33,514 |
| **(Loss)/profit before tax** | | **(4,902)** | **38,579** |
| Tax | *10* | – | (693) |
| (Loss)/profit for the year | | **(4,902)** | **37,886** |

The notes on pages 14 to 31 are an integral part of these financial statements.

# Statement of comprehensive income

## for the year ended 31 December 2009

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **(Loss)/profit for the year** | **(4,902)** | 37,886 |
| **Other comprehensive loss:** | | |
| Currency translation differences | **(10,597)** | (63,382) |
| **Other comprehensive loss for the year, net of tax** | **(10,597)** | (63,382) |
| **Total comprehensive loss for the period** | **(15,499)** | (25,494) |

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 31 are an integral part of these financial statements.

# Balance sheet

## at 31 December 2009

| | Note | 2009 US$000 | 2008 US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiary undertakings | *14* | 540,294 | 299,114 |
| Property, plant and equipment | *13* | 49 | 11 |
| Loans and other receivables | *17* | 58,015 | 53,700 |
| **Total non-current assets** | | **598,358** | **352,825** |
| **Current assets** | | | |
| Loans and other receivables | *17* | 2,169 | 954 |
| Cash and cash equivalents | *18* | 104,887 | 87,573 |
| **Total current assets** | | **107,056** | **88,527** |
| **TOTAL ASSETS** | | **705,414** | **441,352** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | *19* | 15,814 | 11,696 |
| Share premium | *19* | 621,227 | 279,145 |
| Capital contribution | | 90,000 | 90,000 |
| Translation reserve | | (56,023) | (45,426) |
| Retained earnings | | 24,299 | 29,201 |
| **Total equity** | | **695,317** | **364,616** |
| **Non-current liabilities** | | | |
| Trade and other payables | *20* | 138 | 24,129 |
| Current liabilities | | | |
| Current income tax liabilities | | 33 | 32 |
| Trade and other payables | *20* | 9,926 | 52,575 |
| **Total current liabilities** | | **9,959** | **52,607** |
| **TOTAL LIABILITIES** | | **10,097** | **76,736** |
| **TOTAL EQUITY AND LIABILITIES** | | **705,414** | **441,352** |

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

Sergey Maltsev
*Director*

Mikhail Loganov
*Director*

The notes on pages 14 to 31 are an integral part of these financial statements.

# Statement of changes in equity

## for the year ended 31 December 2009

| | Note | Share capital[1,2] US$000 | Share premium[1,2] US$000 | Translation reserve US$000 | Capital Contribution US$000 | Retained earnings[3] US$000 | Total US$000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2008** | | **10,000** | **61,560** | **17,956** | **90,000** | **214,977** | **179,731** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | – | – | | – | 37,886 | 37,886 |
| **Other comprehensive loss** | | | | | | | |
| Currency translation differences | | – | – | (63,382) | – | | (63,382) |
| **Total comprehensive income for 2008** | | **–** | **–** | **(63,382)** | **–** | **37,886** | **(25,496)** |
| **Transactions with owners** | | | | | | | |
| Issue of shares | *19* | 1,696 | 223,012 | – | – | – | 224,708 |
| Incremental costs directly attributable to the issue of new shares | *19* | – | (5,427) | – | – | – | (5,427) |
| Dividend relating to 2008 | *12* | – | – | – | – | (8,900) | (8,900) |
| **Total transactions with owners** | | **1,696** | **217,585** | **–** | **–** | **(8,900)** | **210,381** |
| **Balance at 31 December 2008/ 1 January 2009** | | **11,696** | **279,145** | **(45,426)** | **90,000** | **29,201** | **364,616** |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | – | – | – | – | (4,902) | (4,902) |
| **Other comprehensive loss** | | | | | | | |
| Currency translation differences | | – | – | (10,597) | – | – | (10,597) |
| **Total comprehensive income for 2009** | | **–** | **–** | **(10,597)** | **–** | **(4,902)** | **(15,499)** |
| **Transactions with owners** | | | | | | | |
| Issue of shares | *19* | 4,118 | 345,882 | – | – | – | 350,000 |
| Incremental costs directly attributable to the issue of new shares | *19* | – | (3,800) | – | – | – | (3,800) |
| **Total transactions with owners** | | **4,118** | **342,082** | **–** | **–** | **–** | **346,200** |
| **Balance at 31 December 2009** | | **15,814** | **621,227** | **(56,023)** | **90,000** | **24,299** | **695,317** |

(1)In May 2008, the Company has issued 16,959,064 new ordinary shares with a par value of US$0.10 as fully paid at a price of US$13.25, including a premium of US$13.15 per share.

(2)In December 2009, the Company has issued 41,176,469 new ordinary shares with a par value of US$0.10 as fully paid at a price of US$8.50, including a premium of US$8.40 per share.

(3)Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

The notes on pages 14 to 31 are an integral part of these financial statements.

# Cash flow statement

for the year ended 31 December 2009

| | Note | 2009 US$000 | 2008 US$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | (4,902) | 38,579 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | *13* | 6 | 2 |
| Interest income | *9* | (31) | (1,472) |
| Interest expense | *9* | 4,700 | – |
| Exchange (gains)/losses on financing activities | *11* | (1,695) | (32,042) |
| Fair value losses on financial guarantees | | 395 | – |
| **Operating cash flows before working capital changes** | | **(1,528)** | **5,067** |
| Changes in working capital: | | | |
| Trade and other receivables | | (5,530) | 6,603 |
| Trade and other payables | | 1,843 | 86 |
| **Net cash (used in)/generated from operations** | | **(5,215)** | **11,756** |
| Tax paid | | – | (655) |
| **Net cash (used in)/generated from operating activities** | | **(5,215)** | **11,101** |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries | | (71,784) | – |
| Purchases of property, plant and equipment | *13* | (44) | (15) |
| Capital contribution to subsidiaries | | (203) | (76,170) |
| Loans granted to related parties | *21* | (32,000) | (71,431) |
| Loan repayments received from related parties | *21* | 32,000 | 27,520 |
| Interest received | | 31 | 1,470 |
| **Net cash used in investing activities** | | **(72,000)** | **(118,626)** |
| **Cash flows from financing activities** | | | |
| Interest paid | | (1,680) | – |
| Proceeds from the issue of shares | | 96,209 | 209,087 |
| Dividends paid to Company's shareholders | | – | (19,542) |
| **Net cash received from financing activities** | | **94,529** | **189,545** |
| **Net increase in cash and cash equivalents** | | **17,314** | **82,020** |
| Exchange gains on cash and cash equivalents | | – | 3,688 |
| Cash and cash equivalents at beginning of year | *18* | 87,573 | 1,865 |
| **Cash and cash equivalents at end of year** | *18* | **104,887** | **87,573** |

**Principal non-cash investing and financing transactions**

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

(a) Acquisition of subsidiary financed by the issue of shares (Note 14)

The notes on pages 14 to 31 are an integral part of these financial statements.

# Notes to the financial statements

## 1 GENERAL INFORMATION

**Country of incorporation**

The Company was incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113. Its registered office is at 20 Omirou Street, Agios Nicolaos, Limassol, Cyprus.

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

**Approval of the financial statements**

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

**Global Depositary Receipts**

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

**Principal activities**

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

**Consolidated financial statements**

The Company also prepared consolidated financial statements; these financial statements should be read in conjunction with the consolidated financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

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

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2009 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting.

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

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

The Company has prepared these parent’s separate financial statements for compliance with the requirements of the Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group). The consolidated financial statements can be obtained from the Company’s website at www.globaltrans.com.

Users of these parent’s separate financial statements should read them together with the Group’s consolidated financial statements as at and for the year ended 31 December 2009 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

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

**New standards, interpretations and amendments to published standards**

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

- IFRS7 "Financial instruments – Disclosures" (amendment) (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Company is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Company also has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements. As the change in accounting policy only results in additional disclosures, there is no impact on the financial results.
- IAS 1 (Revised 2007) Presentation of Financial Statements" (effective 1 January 2009) – The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduced a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company has elected to present two statements: an income statement and a statement of comprehensive income. Comparative information has been represented so that it also is in conformity with the revised standard. Amendment had no impact on the recognition or measurement of specific transactions and balances.
- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) – IFRS 8 replaces IAS 14, "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The new standard does not have any effect on the parent company financial statements since the Company does not have any reportable segments.
- IAS 23 (Amendment) "Borrowing Costs" (effective from 1 January 2009) – It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. This Standard does not have any impact on the parent company financial statements, as the Company does not have any qualifying assets.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have any material effect on the parent company financial statements.
- IFRIC 18, "Transfers of asset by customers" (effective for transactions occurring on or after 1 July 2009) – addresses the accounting of an asset received from a customer in return for connection to a network or ongoing access to goods and services. The new standard did not have any effect of the parent company financial statements as no such transactions occurred in 2009.

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

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

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

- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements" (effective for accounting periods beginning on or after 1 July 2009) – The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Company will apply the Standard from 1 January 2010.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Company will apply these improvements when they become effective.
- IAS 24, "Related Party Disclosures"* (Amendments) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company does not expect the amendments to have any material effect on its financial statements. The Company will adopt the Amendments when they become applicable subject to the endorsement by the European Union.
- IFRS 9, "Financial Instruments Part 1: Classification and Measurement."* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  – Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  – An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  – All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

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

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

# Notes to the financial statements (continued)

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

- IFRS 1 (revised) 'First-time adoption' (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009) – The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Company concluded that the revised standard does not have any effect on its financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2008). The change in relation to classification as held for sale under IFRS5 in case of a loss of control over a subsidiary is effective for annual periods beginning on or after 1 July 2009. This improvement is not expected to have a material effect on the Company's financial statements.
- IAS 32, "Classification of Rights Issues" (Amendment) (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company will apply the Amendment from 1 January 2011 but it is not expected to have any impact on the Company's financial statements
- IFRIC 17, Distributions of non-cash assets to owners (effective for annual periods beginning on or after 1 July 2009) – Clarifies how an entity should measure distribution of assets, other than cash, when it pays dividends to its owners. The Company will apply the Standard from 1 January 2010 but it is not expected to have any impact on the Company's financial statements.
- Amendment to IAS 39, 'Financial Instruments: 'Recognition and measurement-Eligible hedged items'. (effective for annual periods beginning on or after 1 July 2009) – This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Company will apply the Amendment from 1 January 2010 but it is not expected to have any impact on the Company's financial statements.
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"* (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company is currently assessing the impact of the interpretation on its financial statements and the impact is not yet known nor can it be reasonably estimated.
- IFRS 2, "Share-based Payment" (Amendments) (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Company does not expect the amendments to have any material effect on its financial statements.
- IFRS 1 (Amendments), "Additional Exemptions for First-time Adopters"* (effective for annual periods beginning on or after 1 January 2010) The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Company's financial statements.
- IFRS 1 (Amendments), "Limited Exemption from Comparative IFRS7 disclosures for First Time Adopters"* (effective for annual periods beginning on or after 1 July 2010). The amendments will not have any impact on the Company's financial statements.
- IFRIC14 (Amendments), "Prepayments of a Minimum Funding Requirement"* (effective for annual periods beginning on or after 1 January 2011). The amendments will not have any impact on the Company's financial statements.
- IFRIC12, "Service concession arrangements" (effective for annual periods beginning on or after 30 March 2009). This interpretation is not relevant to the Company's operations.
- IFRIC 15, "Agreements for the construction of real estate" (effective for annual periods beginning on or after 31 December 2009). The interpretation clarifies whether IAS18, "Revenue", or IAS11, "Construction contracts", should be applied to particular transactions. It is likely to result in IAS18 being applied to a wider range of transactions. IFRIC15 is not relevant to the Company's operations as all revenue transactions are accounted for under IAS18 and not IAS11.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 30 June 2009). IFRIC16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Company. The requirements of IAS21, "The effects of changes in foreign exchange rates", do apply to the hedged item. IFRIC16 is not relevant to the Company's operations.

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

## 2.2 Revenue recognition

Revenues earned by the Company are recognised on the following basis:

(a) Dividend income

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

(b) Interest income

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

## 2.3 Foreign currency translation

### 2.3.1 Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble. However, the financial statements are presented in United States dollars (US$) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements. The results and financial position of the Company are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation as follows:

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

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

### 2.3.2 Transactions and balances

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

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

## 2.4 Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the 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.

## 2.5 Dividend distribution

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

## 2.6 Property, plant and equipment

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

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

| | Number of years |
|---|---|
| Motor vehicles | 3 |

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

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

# Notes to the financial statements (continued)

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

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

**2.7 Investments in subsidiary undertakings**

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements.

**2.8 Impairment of non-financial assets**

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

**2.9 Financial assets**

The Company classifies its financial assets as loans and receivables. Management determines the classification of financial assets at initial recognition.

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

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

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

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

**2.10 Trade receivables**

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

**2.11 Share capital**

Ordinary shares are classified as equity.

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

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

**2.12 Provisions and contingent liabilities**

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

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

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

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

**2.13 Borrowings**

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

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

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

**2.14 Financial guarantees**

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

**2.15 Trade payables**

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

**2.16 Cash and cash equivalents**

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

**2.17 Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 3 FINANCIAL RISK MANAGEMENT

**3.1 Financial risk factors**

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

3.1.1 Market risk

**(i) Foreign exchange risk**

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

From September 2008 until May 2009 the Russian Rouble has weakened against the US Dollar, which has resulted in a positive effect for the Company by increasing the value of its US Dollar denominated assets when converted to the functional currency. From May 2009 onwards the Russian Rouble stabilised at the level approximating that at the end of 2008. However, there is no certainty that the trend will not reverse and the Russian Rouble may appreciate in value against the US Dollar in the future, leading to the Company realizing a foreign exchange loss on its US Dollar denominated assets. The Company is therefore exposed to the effects of currency fluctuations between the US Dollar and the Russian Rouble. However, the Company manages the amount of current assets denominated in US Dollars to reflect the level of current liabilities denominated in that currency in order to minimize the exposure to the foreign exchange fluctuations.

Carrying amounts of monetary assets and liabilities denominated in US Dollars as at 31 December 2009 and 31 December 2008 are as follows:

| | **2009 US$000** | 2008 US$000 |
|---|---|---|
| Assets | **165,035** | 142,190 |
| Liabilities | **8,735** | 76,023 |

Had US Dollar exchange rate strengthened/weakened by 10% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the company for the year ended 31 December 2009 would have decreased/increased by US$15,630 thousand. Had US Dollar exchange rate strengthened/weakened by 33% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the company for the year ended 31 December 2008 would have decreased/increased by US$21,835 thousand. This is mainly due to foreign exchange gains and losses arising upon restatement of accounts receivable and cash and cash equivalents denominated in US Dollars.

The Company's current policy is not to hedge this foreign exchange risk. The Company generally intends to raise future long-term capital denominated in US Dollars, as the US Dollar interest rates continue to be relatively attractive compared to the Russian Rouble interest rate and long-term borrowings in Russian Roubles are generally not available, although the management will keep this general intention under review.

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

All of the Company's loans receivable are provided to the subsidiaries at fixed interest rates, therefore the Company's income and operating cash flows are substantially independent of changes in market interest rates.

### 3.1.2 Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of loans and other receivables (Note 17), and cash and cash equivalents (Note 18).

The majority of loans and other receivables are balances with related parties.

The carrying amount of accounts receivable represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

The table below summarizes the analysis of accounts receivable under contractual terms of settlement at the balance sheet date.

| | Fully performing US$000 | Past due US$000 | Impaired US$000 | Impairment provision US$000 | Total US$000 |
|---|---|---|---|---|---|
| As of 31 December 2009 | | | | | |
| Accounts receivable | 60,152 | – | – | – | 60,152 |
| As of 31 December 2008 | | | | | |
| Accounts receivable | 54,615 | – | – | – | 54,615 |

### 3.1.3 Liquidity risk

As at 31 December 2009, the Company has a net working capital surplus of US$97,097 thousand (2008: US$35,920 thousand).

Management believes that the Company will be able to meet its obligations as they fall due.

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

The table below summarizes the analysis of financial liabilities of the Company by maturity as of 31 December 2009 and 31 December 2008. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | Less than one month US$ | Between one month and three months US$ | Between three and six months US$ | Less than one year US$ | Between one and two years US$ | Between two and five years US$ | **Total US$** |
|---|---|---|---|---|---|---|---|
| As of 31 December 2009 | | | | | | | |
| Trade and other payables[(1)] | 1,491 | 330 | 7,964 | – | – | – | **9,785** |
| Financial guarantee contracts[(2)] | 1,320 | 3,016 | 4,296 | 13,567 | 34,261 | 9,668 | **66,128** |
| As of 31 December 2008 | | | | | | | |
| Trade and other payables[(1)] | 30,047 | – | 9,615 | 12,397 | 30,562 | – | **82,621** |

[(1)]Trade and other payable exclude statutory liabilities as the analysis is provided for financial liabilities only
[(2)]The maximum possible amount of obligation under financial guarantee contracts is disclosed

**3.2 Capital risk management**

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

Defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalization ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid, or sell assets in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

Total capitalization is calculated as the sum of the total borrowings and net assets at the date of calculation. The management does not currently have any specific target on the rate of borrowings to total capitalization.

As at 31 December 2009 and 31 December 2008 the Company's borrowings amounted to US$nil.

**3.3 Fair value estimation**

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

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

3.3.1 Financial assets carried at amortised cost

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

3.3.2 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.

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

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

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

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

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

**ii) Fair value of guarantee issued**

Management estimated fair value of the free of charge guarantees issued by the Company in 2009 to secure the liabilities of its subsidiaries by applying a rate of 0.5%, representing the difference between the interest charged on the guaranteed loans and what would have been charged had the loans not been guaranteed. The premise is that the interest that the bank is willing to forego represents a 'price' that it is willing to pay for the guarantee. If the rate used in the calculation were 25 basis points higher or lower, assuming that all other variables are unchanged, carrying value of the guarantees would increase or decrease by US$197 thousand accordingly.

## 5 SALES

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Interest on loans to related parties (Note 21) | 4,283 | 2,568 |
| Dividend income | – | 13,065 |
| **Total** | **4,283** | **15,633** |

## 6 OTHER GAINS/(LOSSES) – NET

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Net foreign exchange transaction gains/(losses) (on non-financing activities) (Note 11) | 2 | (49) |
| **Other gains/(losses) – net** | **2** | **(49)** |

## 7 EXPENSES BY NATURE

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Auditors' remuneration | 387 | 445 |
| Auditors' remuneration – underprovision of prior year | 61 | 360 |
| Advertising and marketing expenses | 94 | 120 |
| Office rent | 60 | 56 |
| Depreciation of property, plant and equipment (Note 13) | 6 | 2 |
| Employee benefit expense (Note 8) | 206 | 150 |
| Legal, consulting and other professional services | 4,598 | 8,980 |
| Other expenses | 406 | 405 |
| **Total cost of shares sold, selling and marketing costs and administrative expenses** | **5,818** | **10,519** |

## 8 EMPLOYEE BENEFIT EXPENSE

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Wages and salaries | 201 | 144 |
| Social security costs | 5 | 6 |
| **Total employee benefit expense** | **206** | **150** |

## 9 FINANCE INCOME/(COSTS)

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Finance income: | | |
| Interest on bank balances | 31 | 1,451 |
| Interest on bank deposits | – | 21 |
| **Total finance income** | **31** | **1,472** |
| Finance costs: | | |
| Interest on bank borrowings | – | – |
| Other interest – related parties (Note 21) | (4,700) | – |
| Net foreign exchange transaction gains/(losses) on financing activities (Note 11) | 1,695 | 32,042 |
| Fair value losses on financial guarantees issued | (395) | – |
| **Total finance costs** | **(3,400)** | **32,042** |
| **Total finance income/(costs) – Net** | **(3,369)** | **33,514** |

## 10 INCOME TAX EXPENSE

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Current tax: | | |
| Withholding tax | – | 653 |
| Corporation tax | – | 38 |
| Special contribution for defence | – | 2 |
| **Total tax expense** | **–** | **693** |

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| **Profit before tax** | (4,902) | 38,579 |
| Tax calculated at the applicable tax rate of 10% | (491) | 3,858 |
| Tax effect of expenses not deductible for tax purposes | 970 | 899 |
| Tax effect of allowances and income not subject to tax | (178) | (3,470) |
| Tax effect of tax losses for which no deferred tax assets was recognised | – | – |
| Tax effect of utilisation of previously unrecognised tax losses | (301) | (596) |
| Special defence contribution | – | 2 |
| **Tax charge** | **–** | **693** |

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

The Company did not provide for deferred taxation on the grounds that it is uncertain whether taxable profits will be available against which taxable losses can be utilised.

## 11 NET FOREIGN EXCHANGE GAINS

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Finance income/(costs) (Note 9) | 1,695 | 32,042 |
| Other gains/(losses) (Note 6) | 2 | (49) |
| **Total foreign exchange gains** | **1,697** | **31,994** |

## 12 DIVIDENDS

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

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

# Notes to the financial statements (continued)

## 13 PROPERTY, PLANT AND EQUIPMENT

| | Motor vehicles US$000 | **Total US$000** |
|---|---|---|
| **Year ended 31 December 2008** | | |
| Additions | 15 | **15** |
| Depreciation charge | (2) | **(2)** |
| Exchange difference | (2) | **(2)** |
| Closing net book amount | 11 | **11** |
| **At 31 December 2008/1 January 2009** | | |
| Cost | 13 | **13** |
| Accumulated depreciation | (2) | **(2)** |
| Net book amount | 11 | **11** |
| **Year ended 31 December 2009** | | |
| Additions | 44 | **44** |
| Depreciation charge | (6) | **(6)** |
| Closing net book amount | 49 | **49** |
| **At 31 December 2009** | | |
| Cost | 57 | **57** |
| Accumulated depreciation | (8) | **(8)** |
| Net book amount | 49 | **49** |

## 14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

| | **2009 US$000** | 2008 US$000 |
|---|---|---|
| At beginning of year | **299,114** | **178,888** |
| Capital contribution | **–** | **75,230** |
| Additions | **250,000** | **76,453** |
| Currency translation differences | **(8,820)** | **(31,457)** |
| At end of year | **540,294** | **299,114** |

Details of the investments in the subsidiary undertakings are as follows:

| Name | Country of incorporation | Principal activities | % interest held 2009 | 2008 |
|---|---|---|---|---|
| AS Spacecom | Estonia | Operating lease of rolling stock and provision of forwarding services | 61 | 61 |
| AS Intopex Trans | Estonia | Operating lease of rolling-stock | 65 | 65 |
| Ingulana Holdings Ltd | Cyprus | Holding company | 55.56 | – |
| Ukrainian New Forwarding Company LLC | Ukraine | Railway transportation | 100 | 100 |
| OOO Sevtekhnotrans | Russia | Railway transportation | 100 | 100 |
| OJSC New Forwarding Company | Russia | Railway transportation | 100 | 100 |

In December 2009 the Company acquired a 55.56% shareholding in Ingulana Holdings Limited, a special purpose vehicle holding an effective 90% shareholding in OOO BaltTransService, Russia. As at 31 December 2009 Ingulana Holdings Limited holds 90% share of Ultracare Holdings Limited, Cyprus who in turn holds 100% share in OOO BaltTransServis, Russia (Note 21).

In December 2008 the Company acquired 61% shareholding in AS Spacecom, Estonia for a total consideration of US$ 64,000 thousand and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000 thousand. The total consideration and interest accrued shall be paid in installments until May 2010 (Note 21). AS Spacecom has two wholly owned subsidiaries, AS Skinest Veeremi, Estonia and Hoover SIA, Latvia.

## 15 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied in the line items below:

| 31 December 2009 | Loans and receivables US$000 | Total US$000 |
|---|---|---|
| Financial assets as per balance sheet | | |
| Trade and other receivables[1] | 60,152 | 60,152 |
| Cash and cash equivalents | 104,887 | 104,887 |
| **Total assets** | **165,039** | **165,039** |

| | Financial liabilities measured at amortised cost US$000 | Total US$000 |
|---|---|---|
| Financial liabilities as per balance sheet | | |
| Trade and other payables[2] | 9,474 | 9,474 |
| **Total liabilities** | **9,474** | **9,474** |

| 31 December 2008 | Loans and receivables US$000 | Total US$000 |
|---|---|---|
| Financial assets as per balance sheet | | |
| Trade and other receivables[1] | 54,615 | 54,615 |
| Cash and cash equivalents | 87,573 | 87,573 |
| **Total assets** | **142,188** | **142,188** |

| | Financial liabilities measured at amortised cost US$000 | Total US$000 |
|---|---|---|
| Financial liabilities as per balance sheet | | |
| Trade and other payables[2] | 76,344 | 76,344 |
| **Total liabilities** | **76,344** | **76,344** |

[1] Trade and other receivables do not include impaired and past due receivables, taxes and prepayments.
[2] Trade and other payables do not include accrued expenses

## 16 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating if available or to historical information about counterparty default rates:

| | **2009 US$000** | 2008 US$000 |
|---|---|---|
| Counterparties without external credit rating | | |
| Group 1 | 58,883 | 54,615 |
| Group 2 | 1,269 | – |
| | **60,152** | **54,615** |

### Cash at bank and short-term bank deposits

| Agency | Rating | **2009 US$** | 2008 US$ |
|---|---|---|---|
| Moody's* | Aa1 | 95,573 | – |
| Moody's | A1 | 9,289 | – |
| Moody's | Baa2 | 25 | 37 |
| Moody's | Aa2 | – | 87,536 |
| **Total cash at bank and short-term bank deposits** | | **104,887** | **87,573** |

*International rating agency Moody's Investors Service.

Group 1 – Related party loans and other receivables from related parties
Group 2 – Customers with more than one year of working history with the Company

## 17 TRADE AND OTHER RECEIVABLES

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Other receivables – third parties | 1,269 | – |
| Loans to related parties (Note 21) | 53,700 | 53,700 |
| Interest receivable from related parties (Note 21) | 5,183 | 915 |
| Receivable from related parties (Note 21) | – | – |
| Prepayments – third parties | 7 | 28 |
| VAT and other taxes recoverable | 25 | 11 |
| **Total trade and other receivables** | **60,184** | **54,654** |
| Less non-current portion: | | |
| Loans to related parties (Note 21) | 53,700 | 53,700 |
| Interest receivable from related parties (Note 21) | 4,315 | – |
| **Total non-current portion** | **58,015** | **53,700** |
| **Current portion** | **2,169** | **954** |

The weighted average interest rate on loans receivable from related parties was 7% at 31 December 2009 (31 December 2008: 8%)

The fair values of trade and other receivables are as follows:

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Financial assets | | |
| Other receivables – third parties | 1,269 | – |
| Loans to related parties | 52,441 | 55,274 |
| Interest receivable from related parties | 5,082 | 915 |
| **Total financial assets** | **58,792** | **56,189** |

There are no impaired assets within trade and other receivables. Trade and other receivables are impaired only when there is an indication that the counterparty is unable to repay the balance.

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| US Dollars | 60,152 | 54,617 |
| Great Britain Pounds | – | 15 |
| Euro | 32 | 22 |
| **Total financial assets** | **60,184** | **54,654** |

## 18 CASH AND CASH EQUIVALENTS

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Cash at bank | 104,887 | 87,573 |
| **Total cash and cash equivalents** | **104,887** | **87,573** |

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

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Cash and cash equivalents | **104,887** | 87,573 |

## 19 SHARE CAPITAL AND SHARE PREMIUM

| | Number of shares US$000 | Share capital US$000 | Share premium US$000 | Total US$000 |
|---|---|---|---|---|
| At 1 January 2008 | 10,000,000 | 10,000 | 61,560 | 71,560 |
| Change of nominal value | 90,000,000 | – | | |
| Issue of shares | 16,959,064 | 1,696 | 223,012 | 224,708 |
| Incremental costs directly attributable to the issue of new shares | – | – | (5,427) | (5,427) |
| **At 31 December 2008/1 January 2009** | **116,959,064** | **11,696** | **279,145** | **380,841** |
| Issue of shares | 41,176,469 | 4,118 | 345,882 | 350,000 |
| Incremental costs directly attributable to the issue of new shares | – | – | (3,800) | (3,800) |
| **At 31 December 2009** | **158,135,533** | **15,814** | **621,227** | **727,041** |

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

*Year ended 31 December 2009*

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

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

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

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

*Year ended 31 December 2008*

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1.00 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

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

The expenses directly attributable to the new shares issued amounting to US$5,427 thousand were capitalised against share premium (Note 4).

## 20 TRADE AND OTHER PAYABLES

| | **2009 US$000** | 2008 US$000 |
|---|---|---|
| **Current** | | |
| Other payables | 2,078 | 195 |
| Accrued expenses | 590 | 360 |
| Payables to related parties (Note 21) | 7,258 | 52,020 |
| **Total current trade and other payables** | **9,926** | **52,575** |
| **Non-current** | | |
| Payables to related parties (Note 21) | – | 24,129 |
| Other payables to third parties | 138 | – |
| **Total non-current trade and other payables** | **138** | **24,129** |

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

## 21 RELATED PARTY TRANSACTIONS

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

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form. Related parties may enter into transactions, which unrelated parties may not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The following transactions were carried out with related parties:

### (a) Loans to related parties

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Loans to subsidiaries: | | |
| At beginning of year | 54,615 | – |
| Loan advances | 32,000 | 71,431 |
| Interest charged | 4,283 | 2,559 |
| Loan repaid during the year | (32,000) | (24,392) |
| Interest repaid during the year | (15) | (1,584) |
| Net foreign exchange | – | 6,601 |
| **At end of year** | **58,883** | **54,615** |
| Consists of: | | |
| Non-current portion | 58,015 | 53,700 |
| Current portion | 868 | 915 |
| **At end of year** | **58,883** | **54,615** |

The balance at the year end carries interest at the rate of 7.0% (2008: 8%) per annum and is payable by December 2013.

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Loan to other related party: | | |
| At beginning of year | – | 3,363 |
| Loan advances | – | – |
| Interest charged | – | 9 |
| Loan repaid during the year | – | (3,128) |
| Interest repaid during the year | – | (185) |
| Net foreign exchange | – | (59) |
| **At end of year** | **–** | **–** |

The loan to other related party carried interest at a rate of 12.5% per annum and was repaid in January 2008.

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Total loans: | | |
| At the beginning of year | 54,615 | 3,363 |
| Loan advances | 32,000 | 71,431 |
| Interest charged (Note 5) | 4,283 | 2,568 |
| Loan repaid during the year | (32,000) | (27,520) |
| Interest repaid during the year | (15) | (1,769) |
| Net foreign exchange | – | 6,542 |
| **At end of year (Note 17)** | **58,883** | **54,615** |

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Total loans: | | |
| Current | 868 | 915 |
| Non-current | 58,015 | 53,700 |
| **At end of year (Note 17)** | **58,883** | **54,615** |

### (b) Year end balances with related parties

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Payables to related parties: | | |
| Subsidiary | – | 118 |
| Parent entity | 7,258 | 76,023 |
| Director | – | 8 |
| **Total payables to related parties (Note 20)** | **7,258** | **76,149** |
| Payables to related parties: | | |
| Current | 7,258 | 52,020 |
| Non-current | – | 24,129 |
| **Total payables to related parties (Note 20)** | **7,258** | **76,149** |

The balance payable to the parent entity relates to the deferred consideration payable for 61% share in AS Spacecom and 65% share on AS Intopex Trans which were acquired in December 2008 (Note 14 and 21(e)).

Starting from 1 June 2009 interest accrues on the outstanding amount at the rate of 15% per annum, interest accrued on each instalment is paid by the Company to the Parent entity simultaneously with the payment of the relevant instalment.

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

In September 2009, the Company concluded an additional agreement with the Parent entity whereby the schedule of payments of consideration for the purchase from the Parent entity of 61% share in AS Spacecom and 65% share on AS Intopex Trans was amended. Pursuant to the amended payment schedule, in September 2009 the Company settled US$25 million which was due in 2010 plus interest accrued on that amount. In October 2009, the Company paid an instalment of US$7 million plus interest accrued thereon. According to the amended schedule, the remaining balance of US$7 million plus interest is payable by 1 May 2010. This early repayment resulted in a loss of US$194 thousand which has been recognised in finance costs.

### (c) Interest income and expenses

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Interest income: | | |
| Subsidiaries | 4,283 | 2,559 |
| Other related parties | – | 9 |
| **Total interest income** | **4,283** | **2,568** |
| Interest expense: | | |
| The parent | (2,274) | – |
| Other finance cost: | | |
| The parent | (2,426) | – |
| **Total interest expense** | **(4,700)** | **–** |

Other finance cost relates to the unwinding of discounting effect on the liability of the Company to the Parent for consideration payable for the acquisition of AS Spacecom and AS Intopex Trans in 2008.

### (d) Directors' remuneration

| | 2009 US$000 | 2008 US$000 |
|---|---|---|
| Directors' fees | 245 | 185 |
| Emoluments in their executive capacity | 150 | 120 |
| **Total directors' fees** | **395** | **305** |

### (e) Other transactions with related parties

*Year ended 31 December 2009*

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

The holding company that was formed for the purposes of the above transaction did not have any significant liabilities or assets other than its share of BTS. As a result of the contribution, the Company acquired a 50 per cent effective economic interest in BTS and controls it by virtue of its 55.56% share of the holding company. TIHL retained the balance of its share of the holding company, leaving it with an effective 40 per cent interest in BTS other than its interest held through the Company.

BTS is a leading private Russian railway transportation services operator, specialising in shipping oil products and oil for Russian oil majors and other oil companies active in the Russian downstream and upstream sector.

*Year ended 31 December 2008*
In December 2008 the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of U$64,000 thousand and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000 thousand. Both companies are engaged in operating lease of rolling stock and AS Spacecom is also engaged in railway freight forwarding services.

In accordance with the accounting policies of the Company, the investment in AS Spacecom was recognised at the fair value of US$61,660 thousand and AS Intopex Trans at the fair value of US$14,363 thousand by discounting future payments to be made using the weighted average cost of capital of.

## 22 CONTINGENCIES

**Operating environment of the Company**
The Company's subsidiaries mainly operate in the Russian Federation, Ukraine and Estonia.

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

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

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

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

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Company to obtain new borrowings.

Debtors and borrowers of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers and debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Management is unable to predict all developments in the economic environment which could have an impact on the 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

## 23 EVENTS AFTER THE BALANCE SHEET DATE

- In January – April 2010 the Company entered into the financial guarantee agreement with a number of banks to secure the liabilities of its subsidiaries under a number of the credit line and finance lease agreements for a total amount of up to US$178.5 million;
- In March 2010 the Company has provided a long-terms loan to its subsidiary under the existing agreement for a total amount of US$20,000 thousand;
- In April 2010, the Company has concluded loan agreements as a lender with its subsidiaries for a total amount of up to US$70 million.

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

Independent Auditors' Report on pages 7 to 8.

# Shareholders' information

## DETAILED BELOW ARE CONTACTS AND VARIOUS ADDRESSES THAT SHAREHOLDERS MAY FIND USEFUL.

More up-to-date investor information, including the Group's current and historic GDR prices, corporate news, latest operational and financial results, presentations and other updates is available on the Globaltrans corporate website at www.globaltrans.com. An electronic copy of this Annual Report can be also viewed online or downloaded from Globaltrans' corporate website.

If you would like to receive the latest corporate news and updates by email, please register your email address at www.globaltrans.com or send a request to irteam@globaltrans.com.

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