Globaltrans Investment PLC

Directors' report and consolidated financial statements
for the year ended 31 December 2010

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Directors' report and consolidated financial statements
for the year ended 31 December 2010

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 2010. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

The net profit of the Group for the year ended 31 December 2010 was US$225,940 thousand (2009: US$121,173 thousand). On 31 December 2010 the total assets of the Group were US$1,515,341 thousand (2009: US$1,264,968 thousand) and net assets were US$883,965 thousand (2009: US$711,568 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 position as a leading private freight rail group in Russia. The Group intends to continue its return-oriented expansion pursuing the strategy of opportunistic growth. The Group will also continue its focus on effective fleet management.

Results

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

Dividends

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

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

No interim dividends were declared by the Board of Directors during the year ended 31 December 2010.

In May 2010 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2008 in the amount of 15.177 US cents per ordinary share, amounting to a total dividend of US$24,000,230.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2010 in the amount of 37 US cents per ordinary share, amounting to a total dividend of US$58,510,147.

Share capital

As at 31 December 2010 and 31 December 2009 the authorized share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2010 and 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.

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 2010 and 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 2010.

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 2010 amounted to US$384 thousand (2009: US$395 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 2010 and 31 December 2009 are shown below:

	Type of holding	Shares/Global Depositary Receipts held at 31 December 2010	Shares/Global Depositary Receipts held at 31 December 2009
Alexander Eliseev	Through shareholding in Envesta Investments Ltd and other entities controlled by him	11,318,909	11,318,909
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

Total number of issued shares of the Company as at 31 December 2010 and 31 December 2009 was 158,135,533

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 16 meetings in 2010. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	8
Michael Zampelas	16
Johann Franz Durrer	16
Sergey Maltsev	2
Mikhail Loganov	16
Elia Nicolaou	16
Konstantin Shirokov	16

The Board Committees

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

Audit Committee

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

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

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

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 May 2010.

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

Branches

The Group operates through branches and representative offices, maintaining ten branches and eighteen representative offices during 2010, ten branches and nineteen representative offices during 2009.

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 2011, 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, 1 April 2011

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 8 to 52) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the financial position, financial performance and cash flows the Company and the undertakings included in the consolidation taken as a whole.

By order of the Board

....
Sergey Maltsev
Director

....
Mikhail Loganov
Director

pwc

Independent Auditor's Report

To the Members of Globaltrans Investment PLC

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2010, and the consolidated statements of 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 Company's Board of Directors is responsible for the preparation and fair presentation of these 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. 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 about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 reasonable basis for our opinion.

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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 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

Pursuant to the requirements of the 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 Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the 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, 1 April 2011

Consolidated income statement
for the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Revenue	5	1,382,670	1,163,407
Cost of sales	6	(981,428)	(874,152)
Gross profit		401,242	289,255
Selling and marketing costs	6	(2,692)	(2,181)
Administrative expenses	6	(72,225)	(58,793)
Other gains – net	7	3,048	785
Operating profit		329,373	229,066
Finance income	9	7,203	5,886
Finance costs	9	(53,109)	(84,559)
Finance costs – net	9	(45,906)	(78,673)
Share of profit of associates	14	206	461
Profit before income tax		283,673	150,854
Income tax expense	10	(57,733)	(29,681)
Profit for the year		225,940	121,173
Attributable to:			
Equity holders of the Company		177,322	88,057
Non-controlling interests		48,618	33,116
		225,940	121,173
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)	27	1.12	0.74

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010 US$'000	2009 US$'000
Profit for the year	225,940	121,173
Other comprehensive income:		
Currency translation differences	(10,417)	(9,788)
Other comprehensive loss for the year, net of tax	(10,417)	(9,788)
Total comprehensive income for the period	215,523	111,385
Total comprehensive income attributable to:		
- owners of the Company	167,598	79,315
- non-controlling interests	47,925	32,070
	215,523	111,385

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

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated balance sheet
at 31 December 2010

	Note	2010 US$'000	2009 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,112,212	905,475
Intangible assets	13	331	507
Trade and other receivables	18	64,365	54,534
Investment in associate	14	1,494	1,386
		1,178,402	961,902
Current assets			
Inventories	19	6,918	5,759
Trade and other receivables	18	184,358	128,758
Current income tax assets		7,960	5,469
Cash and cash equivalents	20	137,703	160,253
		336,939	300,239
Non-current assets held for sale	15	-	2,827
TOTAL ASSETS		1,515,341	1,264,968
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	21	15,814	15,814
Share premium	21	621,227	621,227
Common control transaction reserve		(368,476)	(368,476)
Translation reserve		(90,281)	(80,557)
Capital contribution		90,000	90,000
Retained earnings		485,575	332,253
Total equity attributable to the owners of the Company		753,859	610,261
Non-controlling interests		130,106	101,307
Total equity		883,965	711,568
Non-current liabilities			
Borrowings	24	327,890	295,679
Trade and other payables	26	10,467	11,105
Deferred gains	23	-	178
Deferred tax liabilities	25	32,430	27,955
Total non-current liabilities		370,787	334,917
Current liabilities			
Borrowings	24	191,149	153,452
Trade and other payables	26	67,203	64,084
Deferred gains	23	150	338
Current tax liabilities		2,087	609
Total current liabilities		260,589	218,483
TOTAL LIABILITIES		631,376	553,400
TOTAL EQUITY AND LIABILITIES		1,515,341	1,264,968

On 1 April 2011 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Maltsev, Director

Mikhail Loganov, Director

The notes on pages 13 to 52 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

for the year ended 31 December 2010

		Attributable to the owners of the Company								
	Note	Share capital	Share premium	Common control transaction reserve [(1)]	Translation reserve	Capital contribution	Retained earnings	Total	Non-controlling interests	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 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 non-controlling 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/ 1 January 2010		15,814	621,277	(368,476)	(80,557)	90,000	332,253	610,261	101,307	711,568
Comprehensive income										
Profit for the year		-	-	-	-	-	177,322	177,322	48,618	225,940
Other comprehensive loss										
Currency translation differences		-	-	-	(9,724)	-	-	(9,724)	(693)	(10,417)
Total comprehensive income for 2010		-	-	-	(9,724)	-	177,322	167,598	47,925	215,523
Transactions with owners										
Dividends relating to 2008	22	-	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Dividends relating to 2010	22	-	-	-	-	-	-	-	(19,154)	(19,154)
Contribution by non-controlling interests		-	-	-	-	-	-	-	28	28
Total transactions with owners		-	-	-	-	-	(24,000)	(24,000)	(19,126)	(43,126)
Balance at 31 December 2010		15,814	621,277	(368,476)	(90,281)	90,000	485,575	753,859	130,106	883,965

(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).

(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 non-controlling 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 non-controlling shareholders to distribute a minimum 25% of earnings of Ultracare Holdings Limited and LLC BaltTransServis.

Following this restructuring, the Group exchanged the liability to the non-controlling 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 non-controlling 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 non-controlling shareholder for puttable instruments of LLC BaltTransServis which amounted to US$12,005 thousand, to non-controlling 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 13 to 52 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Cash flows from operating activities			
Profit before tax		283,673	150,854
Adjustments for:			
Depreciation of property, plant and equipment	12	63,017	53,193
Amortisation of intangible assets	13	173	14
Loss on sale of property, plant and equipment	12	2,041	1,679
Amortisation of financial guarantees	9	(961)	(1,798)
Write off of excess of acquirer's interest in the net fair value	28	-	(15)
(Reversal of)/impairment charge on property, plant and equipment	12	(650)	1,291
Interest income	9	(6,242)	(4,088)
Interest expense	9	43,656	47,506
Share of profit of associates	14	(206)	(461)
Exchange losses/(gains) on financing activities	9	7,450	21,104
Recognised deferred gain	7	(333)	(904)
Distribution to non-controlling participants in redeemable shares	9	-	7,451
Loss on exchange of financial liabilities	9	-	8,498
Finance cost on liability for minimum dividend distribution	9	2,003	-
Other		-	(216)
		393,621	284,108
Changes in working capital:			
Inventories		(1,101)	7
Trade and other receivables		(79,319)	12,830
Trade and other payables		10,054	(6,744)
Cash generated from operations		323,255	290,201
Tax paid		(34,306)	(18,003)
Net cash from operating activities		288,949	272,198
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	32	(7,013)	(71,667)
Loans repayments received from third parties		17	-
Purchases of property, plant and equipment		(299,822)	(106,655)
Purchases of intangible assets	13	-	(497)
Proceeds from disposal of property, plant and equipment	12	185	3,923
Proceeds from sale of assets classified as held for sale		2,636	-
Interest received		6,558	4,102
Receipts from finance lease receivable		4,472	3,335
Net cash used in investing activities		(292,967)	(167,459)
Cash flows from financing activities			
Proceeds from borrowings		437,279	309,028
Repayments of borrowings		(246,981)	(288,288)
Finance lease principal payments		(119,218)	(94,280)
Interest paid		(43,576)	(49,682)
Contribution by non-controlling interests		28	-
Proceeds from sale and finance leaseback transactions		-	20,788
Proceeds from issue of shares - net		-	96,209
Dividends paid to shareholders of BTS prior to common control transaction		-	(67,069)
Distribution to non-controlling participants in redeemable shares		-	(7,451)
Dividends paid to Company's shareholders	22	(24,000)	-
Dividends paid to non-controlling shareholders	22	(21,157)	-
Net cash used in financing activities		(17,625)	(80,745)
Net (decrease)/increase in cash and cash equivalents		(21,643)	23,994
Exchange losses on cash and cash equivalents		(492)	(1,815)
Cash, cash equivalents and bank overdrafts at beginning of year	20	159,093	136,914
Cash, cash equivalents and bank overdrafts at end of year	20	136,958	159,093

Principal non-cash investing and financing transactions

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

(a) Finance leases as a lessor (Note 18)

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

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Country of incorporation

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

Global Depositary Receipts representing ordinary shares of the Company are listed on the London Stock Exchange.

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 1 April 2011.

Principal activities

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

Group structure

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

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2010	2009
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	50
RemTransServis, OOO[(1)]	Subsidiary	Russia	Repair and maintenance of rolling stock	49.5	-
Ingulana Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	55.56	55.56
Ultracare Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	50	50
Spacecom AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	61	61
Skinest Veeremi AS[(2)]	Subsidiary	Estonia	Operating lease of rolling stock	-	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	61
Spacecom Trans AS (formely Intopex Trans AS)	Subsidiary	Estonia	Operating lease of rolling stock	65	65

[(1)] RemTransServis, OOO was incorporated during the year ended 31 December 2010 as a 99% subsidiary of BaltTransServis,OOO. The company offers repair and maintenance services to BaltTransServis. BaltTransServis has contributed RUB7,000 thousand (US$230 thousand) into the share capital of RemTransServis.

[(2)]In July 2010 Skinest Veeremi AS was merged with Spacecom AS.

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 2010 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

(a) *The Group has adopted the following new standards, amendments and interpretations as of 1 January 2010:*

- The Group has early adopted IAS 24, "Related Party Disclosures" (Amendments) which was issued in November 2009. IAS 24 was revised 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 adoption of the revised IAS 24 resulted in disclosure of associates of the parent company as related parties of the Group.

- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

  The Group's accounting policy on transactions with non-controlling interests remains unchanged as transactions with non-controlling interests had always been accounted for as equity transactions.

  The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010. Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

- 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 allows entities to choose to measure non-controlling interests using the previous 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 has 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 for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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 revised IFRS 3 did not have an impact on these consolidated financial statements.

- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (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 amendments did not have an impact on these consolidated financial statements.

- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these consolidated financial statements.

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, 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 revised standard did not have an impact on these consolidated financial statements.

- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (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 did not have an impact on these consolidated financial statements.

- 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 for the year 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. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have an impact on these financial statements.

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

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

- IFRS 9, "Financial Instruments 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.

- 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.

- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The 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

- 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.

- Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; 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 does not expect the amendments to have an impact on its consolidated financial statements.

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have an impact on its consolidated financial statements.

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

- Deferred tax on investment property measured at fair value –Amendments to IAS12* (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment adds another exemption to the principles in IAS12, the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties. The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (eg. buildings, and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale. The amendments also incorporate SIC 21 "Income taxes – recovery of revalued non-depreciable assets" into IAS12, although this guidance will not be applied to investment property measured at fair value. The SIC 21 guidance has been included because it is applied by analogy in a number of transactions. The amendment is not expected to have an impact on the Group's consolidated financial statements.

- Exemption from severe hyperinflation and removal of fixed dates - Amendments to IFRS 1* (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the exemption allows an entity to elect to measure certain assets and liabilities at fair value and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The amendment is not expected to have an impact on the Group's consolidated financial statements.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling 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.

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

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

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling 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 non-controlling interests are also recorded in equity.

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

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

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting 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 other comprehensive income is recognised in other comprehensive income. 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". Under these arrangements the Group recognizes revenue net of OAO "Russian railways" tariff.

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

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

   The Group 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 method.

(e) Dividend income

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

Foreign currency translation

(a) Functional and presentation currency

Items included in the Group's financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and majority of the Group's subsidiaries is the Russian 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 are presented in the income statement within 'Finance costs'. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'Finance income'. All other foreign exchange gains and losses are presented in the income statement within 'Other gains – net'.

(c) Group companies

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

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

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

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

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

Property, plant and equipment

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

Land is not depreciated.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at 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 have suffered impairment are reviewed for possible reversal of impairment whenever there is an indication that an impairment recognised in prior periods may no longer exist or may have decreased.

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

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

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

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

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

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

Extinguishment of the original financial liability

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

Inventories

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

Cash and cash equivalents

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

Cash flow statement

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

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

Trade receivables

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

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

Share capital

Ordinary shares are classified as equity.

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

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

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 non-controlling 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 non-controlling participants in redeemable shares".

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

Net assets attributable to non-controlling 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 non-controlling participants in redeemable shares at the IFRS carrying value of such entity's net assets attributable to non-controlling 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 non-controlling 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.

3. Financial risk management

Financial risks factors

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

Market risk

(a) Foreign exchange risk

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

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

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. During 2010 the Russian Rouble was relatively stable against the US Dollar, however, its fluctuation within the period has resulted in foreign exchange losses for the Group for the year ended 31 December 2010. 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, was fixed until 31 December 2010. On 1 January 2011, the Euro replaced the Kroon as the official currency of Estonia.

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2010 and 31 December 2009 are as follows:

	2010 US$'000	2009 US$'000
Assets	83,716	169,521
Liabilities	115,235	297,756

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 2010, would have decreased/increased by US$1,787 thousand (2009: 10% change, effect US$5,336 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US dollars for the Group entities with Russian rouble being their functional currency. Profit was less sensitive to fluctuations of the exchange rate of Russian rouble to US dollar for the year ended 31 December 2010 compared to 2009 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2010 (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 2010, would have decreased/increased by US$3,323 thousand (2009: 10% change, effect US$4,198 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. Profit was less sensitive to fluctuations of the exchange rate of Euro to US dollar for the year ended 31 December 2010 due to decrease in borrowings of the Estonian subsidiaries of the Group.

(b) Cash flow and fair value interest rate risk

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

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

Had US dollar, Euro and Russian 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$2,443 thousand for the year ended 31 December 2010 (2009: US$2,506).

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. Majority of bank balances are held with independently rated parties with a minimum rating of 'B'. These policies enable the Group to reduce its credit risk significantly.

However, the Group's business is heavily dependent on a few large key customers, accounting for 63.63% of the Group's trade and other receivables (excluding prepayments and finance lease receivables as at 31 December 2010 (2009: 54.68%).

These figures include trade and other receivables arising from business with related parties which account for 19.99% as at 31 December 2010 (2009: 29.36%).

In addition, current and non-current finance lease receivables arise from business with one customer only (two on 31 December 2009).

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 2010 and 31 December 2009:

	Fully performing	Past due	Impaired	Impairment provision	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2010					
Trade receivables	35,360	18,676	1,645	(1,645)	54,036
Other receivables	3,693	290	676	(676)	3,983
Finance lease receivables	35,906	-	-	-	35,906
	74,959	18,966	2,321	(2,321)	93,925
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

(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$76,350 thousand (2009: US$81,756 thousand) as at 31 December 2010.

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$68,667 thousand for 2010 (2009: US$64,076 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 2010 and 31 December 2009. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month	Between one month and three months	Between three and six months	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over five years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2010								
Borrowings	16,924	27,796	54,595	127,579	162,593	202,479	6,298	598,624
Trade and other payables[(1),(3)]	17,176	314	113	2,332	2,398	6,315	10,675	39,323
	34,100	28,110	54,708	129,911	165,351	208,794	16,973	637,947
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),(3)]	21,893	444	7,964	2,468	2,033	6,098	10,675	51,575
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	632,115

[(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 at the earliest time period it may be called.

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

(e) Capital risk management

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

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

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

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

The rate of borrowings to total capitalisation as at 31 December 2010 and 31 December 2009 are as follows:

	2010	2009
	US$'000	US$'000
Total borrowings	519,039	449,131
Total capitalisation	1,272,898	1,059,392
Total borrowings to total capitalisation ratio (percentage)	40.78%	42.40%

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2010 and 2009. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(f) Fair value estimation

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

(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$479,671 thousand for the year ended 31 December 2010 (US$478,152 thousand for the year ended 31 December 2009).

(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$2,133 thousand for the year ended 31 December 2010 (US$1,981 thousand for the year ended 31 December 2009).

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 is the measure of profit looked at by the chief operating decision-maker and this includes the revenues derived from the relating type of rolling stock used less infrastructure tariff paid for the loaded trips of relating rolling stock. Further 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.

In the Group's consolidated financial statements for the year ended 31 December 2009 BaltTransServis LLC (‚BTS') was 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, starting from 1 January 2010 a common methodology as described above has been applied to BTS results and it is now presented as part of ‚Tank cars' and ‚Open wagons' segments. Comparative information has been restated accordingly.

	Open wagons	Tank cars	All other segments	Total
	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2010				
Total revenue – operator's services	399,556	887,587	22,570	1,309,713
Total revenue – operating lease	5,771	62,876	1,892	70,539
Inter-segment revenue	-	-	-	-
Revenue (from external customers)	405,327	950,463	24,462	1,380,252
less Infrastructure and locomotive tariffs - loaded trips	(9,378)	(468,580)	(1,713)	(479,671)
Adjusted revenue for reportable segments	395,949	481,883	22,749	900,581
Depreciation and amortisation	(32,946)	(24,834)	(2,510)	(60,290)
Reversal of impairment charge on property, plant and equipment	-	-	650	650
Additions to non-current assets (included in reportable segment assets)	243,389	34,729	102	278,220
Reportable segment assets	634,938	425,489	35,553	1,095,980
Year ended 31 December 2009				
Total revenue – operator's services	234,263	843,667	18,700	1,096,630
Total revenue – operating lease	2,939	59,068	3,376	65,383
Inter-segment revenue	-	-	-	-
Revenue (from external customers)	237,202	902,735	22,076	1,162,013
less Infrastructure and locomotive tariffs - loaded trips	(14,710)	(461,930)	(1,512)	(478,152)
Adjusted revenue for reportable segments	222,492	440,805	20,564	683,861
Depreciation and amortisation	(22,919)	(24,312)	(3,508)	(50,739)
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	428,551	428,015	35,870	892,436

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

	2010	2009
	US$'000	US$'000
Adjusted revenue for reportable segments	900,581	683,861
Other revenues	2,418	1,394
Total adjusted revenue	902,999	685,255
Cost of sales (excl. Infrastructure and locomotive tariffs - loaded trips, impairments and depreciation of property, plant and equipment)	(440,368)	(342,420)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	(72,465)	(58,632)
Depreciation	(63,017)	(53,193)
Impairments	(824)	(2,729)
Other gains – net	3,048	785
Operating profit	329,373	229,066
Finance income	7,203	5,886
Finance costs	(53,109)	(84,559)
Share of profit of associates	206	461
Profit before income tax	283,673	150,854

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

Year ended 31 December 2010

	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	1,095,980	-
Unallocated:		
Deferred tax	-	32,430
Current income tax	7,960	2,087
Investment in associates	1,494	-
Inventories	6,918	-
Intangible assets	331	-
Current borrowings	-	191,149
Non-current borrowings	-	327,890
Deferred gains	-	150
Property, plant and equipment	16,232	-
Receivables	248,723	-
Payables	-	77,670
Cash and cash equivalents	137,703	-
Total	1,515,341	631,376

Year ended 31 December 2009

	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	892,436	-
Unallocated:		
Deferred tax	-	27,955
Current income 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

Geographic information

Revenues from external customers

	2010 US$'000	2009 US$'000
Revenue		
Russia	1,325,323	1,115,716
Estonia	32,765	47,636
Finland	24,257	-
Ukraine	325	55
	1,382,670	1,163,407

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

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

	2010		2009	
	US$'000	% revenue	US$'000	% revenue
Revenue				
Customer A	496,503	36	414,089	36
Customer B	118,336	9	113,035	10

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

	2010	2009
	US$'000	US$'000
Non-current assets		
Russia	977,581	779,960
Estonia	164,212	146,886
Ukraine	2,439	66
Latvia	1,494	1,386
Cyprus	36	49
	1,145,762	928,347

Analysis of revenue by category:

	2010	2009
	US$'000	US$'000
Railway transportation – operators services (tariff borne by the Group) (1)	810,661	815,998
Railway transportation – operators services (tariff borne by the client)	499,052	280,632
Railway transportation – freight forwarding	1,858	265
Operating lease of rolling stock	70,539	65,383
Sale of wagons and locomotives	-	189
Other	560	940
Total revenue	1,382,670	1,163,407

(1) Includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2010 amounting to US$479,671 thousand (for the year ended 31 December 2009: US$478,152 thousand)

6. Expenses by nature

	2010	2009
	US$'000	US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	479,671	478,152
Empty run trips, other tariffs and services provided by other transportation organisations	232,586	195,224
Operating lease rentals – rolling stock	87,469	38,791
Employee benefit expense	13,412	11,204
Repair and maintenance	63,673	62,223
Depreciation of property, plant and equipment	62,039	52,289
Amortisation of intangible assets	173	14
Fuel and spare parts - locomotives	21,261	17,033
Engagement of locomotive crews	11,296	10,120
Loss on sale of property, plant and equipment	2,158	1,533
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	-	186
(Reversal of)/impairment charge for property, plant and equipment	(650)	1,291
Other expenses	8,340	6,092
	981,428	874,152

	2010 US$'000	2009 US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	978	904
(Gain)/loss on sale of property, plant and equipment	(117)	146
Employee benefit expense	33,028	23,510
Impairment charge of receivables	1,474	1,438
Operating lease rental – office	4,362	4,682
Auditors' remuneration	1,262	1,449
Legal, consulting and other professional fees	3,298	6,637
Advertising and promotion	570	574
Communication costs	1,078	1,007
Information services	1,385	1,360
Taxes (other than income tax and value added taxes)	16,141	11,007
Other expenses	11,458	8,260
	74,917	60,974

	2010 US$'000	2009 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	63,017	53,193
Amortisation of intangible assets (Note 13)	173	14
Loss on sale of property, plant and equipment (Note 12)	2,041	1,679
Employee benefit expense (Note 8)	46,440	34,714
Impairment charge for receivables (Note 18)	1,474	1,438
(Reversal of)/impairment charge for property, plant and equipment	(650)	1,291
Operating lease rentals – rolling stock	87,469	38,791
Operating lease rentals – office	4,362	4,682
Repairs and maintenance	63,673	62,223
Fuel and spare parts - locomotives	21,261	17,033
Engagement of locomotive crews	11,296	10,120
Infrastructure and locomotive tariffs:		
Loaded trips	479,671	478,152
Empty run trips, other tariffs and services provided by other transportation organisations	232,586	195,224
Auditors' remuneration	1,262	1,449
Legal, consulting and other professional fees	3,298	6,637
Advertising and promotion	570	574
Communication costs	1,078	1,007
Information services	1,385	1,360
Taxes (other than income tax and value added taxes)	16,141	11,007
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	-	186
Other expenses	19,798	14,352
Total cost of sales, selling and marketing costs and administrative expenses	1,056,345	935,126

7. Other gains – net

	2010 US$'000	2009 US$'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	2,801	2,470
Other losses	(292)	(2,088)
Recognised deferred gains	333	904
Net foreign exchange gains/(losses) (Note 11)	206	(516)
	3,048	785

8. Employee benefit expense

	2010 US$'000	2009 US$'000
Wages and salaries	25,933	23,063
Termination benefits	-	25
Bonuses	16,640	8,240
Social insurance costs	3,867	3,386
	46,440	34,714
Average number of employees	944	958

9. Finance income and costs

	2010 US$'000	2009 US$'000
Interest expense:		
Bank borrowings	(24,951)	(20,225)
Non-convertible bond	(3,906)	
Finance leases	(13,524)	(21,536)
Loans from related parties (Note 31)	-	(638)
Loans from third parties	-	(273)
Other interest - related parties (Note 31)	(348)	(4,722)
Other finance costs	(927)	(112)
Total interest expense	(43,656)	(47,506)
Net foreign exchange transaction losses on financing activities (Note 11)	(7,450)	(21,104)
Finance cost on liability for minimum dividend distribution	(2,003)	-
Loss on exchange of financial liabilities (Note 33)	-	(8,498)
Distribution to non-controlling participants in redeemable shares (Note 33)	-	(7,451)
Finance costs	(53,109)	(84,559)
Interest income:		
Bank balances	320	118
Short term bank deposits	686	933
Finance leases	5,234	3,027
Loans to third parties	2	10
Total interest income	6,242	4,088
Amortisation of financial guarantees	961	1,798
Finance income	7,203	5,886
Net finance costs	(45,906)	(78,673)

10. Income tax expense

	2010 US$'000	2009 US$'000
Current tax:		
Corporation tax	48,891	24,975
Withholding tax	1,860	-
Defence contribution	3	-
Deferred tax (Note 25)	6,979	4,706
	57,733	29,681

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

	2010	2009
	US$'000	US$'000
Profit before tax	283,673	150,854
Tax calculated at the applicable tax rates	50,459	25,634
Tax effect of expenses not deductible for tax purposes	1,305	4,401
Tax effect of allowances and income not subject to tax	(85)	(178)
Tax effect of utilisation of previously unrecognised tax losses	(34)	(323)
Tax effect of tax losses for which no deferred tax asset was recognised	16	2
Defence contribution	3	-
Withholding tax	1,860	-
Dividend withholding tax provision (Note 25)	4,209	145
Tax charge	57,733	29,681

The weighted average applicable tax rate was 17.8% in 2010 (2009: 17.0%). The increase in the average applicable tax rate is caused by the increased profitability of the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate.

The Company is subject to corporation tax on taxable profits at the rate of 10%. 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 was 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%.

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

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

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

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

11.Net foreign exchange losses

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

	2010	2009
	US$'000	US$'000
Net finance costs (Note 9)	(7,450)	(21,104)
Other gains – net (Note 7)	206	(516)
	(7,244)	(21,620)

12.Property, plant and equipment

	Rolling stock	Land and buildings	Motor vehicles	Assets under construction	Other	Total
	US$'000	US$'000	US$'000	US$' 000	US$'000	US$'000
At 1 January 2009						
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)
Currency translation differences	(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
Year ended 31 December 2010						
Opening net book amount	896,201	2,081	1,206	2,181	3,806	905,475
Additions	286,199	45	985	2	1,019	288,250
Disposals	(2,125)	-	(30)	-	(46)	(2,201)
Depreciation charge	(61,243)	(192)	(569)	-	(1,013)	(63,017)
Transfers	2,171	-	-	(2,171)	-	-
Reversal of impairment charge on property, plant and equipment	650	-	-	-	-	650
Currency translation differences	(16,823)	(40)	(9)	(10)	(63)	(16,945)
Closing net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212
At 31 December 2010						
Cost	1,375,596	2,588	3,705	2	6,933	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	-	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212

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

	2010	2009
	US$'000	US$'000
Net book amount	2,201	41,422
Loss on sale of property, plant and equipment (Note 6)	(2,041)	(1,679)
Consideration from sale of property, plant and equipment	160	39,743

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

	2010	2009
	US$'000	US$'000
Cash consideration:		
- Received within year	185	3,923
- Received after year end	-	3
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	(25)	(15)
	160	39,743

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

	2010 US$'000	2009 US$'000
Cost – capitalised finance leases	259,634	446,489
Accumulated depreciation	(60,246)	(82,592)
	199,388	363,897

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

	2010 US$'000	2009 US$'000
Rolling stock	199,158	363,727
Motor vehicles	230	158
Other	-	12
	199,388	363,897

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

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

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

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

	2010 US$'000	2009 US$'000
Rolling stock	396,049	321,664

Depreciation expense of US$62,039 thousand in 2010 (2009: US$52,289 thousand) have been charged to "cost of sales" and US$978 thousand in 2010 (2009: US$904 thousand) have been charged to administrative expenses.

13.Intangible assets

	Computer software US$'000	Total US$'000
At 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)
Currency translation differences	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
Year ended 31 December 2010		
Opening net book amount	507	507
Amortisation charge (Note 6)	(173)	(173)
Currency translation differences	(3)	(3)
Closing net book amount	331	331
At 31 December 2010		
Cost	518	518
Accumulated amortisation and impairment	(187)	(187)
Net book amount	331	331

14. Investment in associate

	2010 US$'000	2009 US$'000
At beginning of year	1,386	926
Share of profit after tax	206	461
Foreign exchange difference (loss)/gain	(98)	(1)
At end of year	1,494	1,386

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

Name	Country of incorporation	Assets US$'000	Liabilities US$'000	Revenue US$'000	Profit/(Loss) US$'000	% Interest held
2010						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	5,009	3,515	7,054	206	25.27
2009						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	5,293	3,907	5,600	461	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 was completed during the year ended on 31 December 2010 without any gains or losses arising.

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 was completed during the year ended on 31 December 2010 without any gains or losses arising.

16. Financial instruments by category

31 December 2010	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Trade and other receivables(1)	93,925	93,925
Cash and cash equivalents	137,703	137,703
Total	231,628	231,628

31 December 2010	Financial liabilities measured at amortised cost US$'000	Total US$'000
Financial liabilities as per balance sheet		
Borrowings	519,039	519,039
Trade and other payables(2)	29,607	29,607
Total	548,646	548,646

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

31 December 2009	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

[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:

	2010 US$'000	2009 US$'000
Trade and other receivables Counterparties with external credit rating		
Fitch's* (B+)	4,407	-
Moody's (A2)*	2,828	-
Moody's (Baa3)	-	3,048
Standard & Poor's*** (BBB-)	6,928	2,676
	14,163	5,724

	2010 US$'000	2009 US$'000
Counterparties without external credit rating		
Group 1	59,588	24,839
Group 2	1,208	36,924
	60,796	61,763
Total trade and other receivables	74,959	67,487

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]

	Rating	2010 US$'000	2009 US$'000
Moody's *	Aaa - A1	38,466	104,873
Moody's *	Baa1 - B3	57,410	35,857
Standard & Poor's ***	BBB+ - BBB-	41,796	18,955
Fitch **	B+ - B-	1	548
Other non-rated banks		27	18
		137,700	160,251

[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

	2010 US$'000	2009 US$'000
Trade receivables – third parties	42,980	26,291
Trade receivables – related parties (Note 31)	12,701	14,469
Less: Provision for impairment of trade receivables	(1,645)	(3,285)
Trade receivables – net	54,036	37,475
Other receivables	4,658	6,208
Other receivables – related parties (Note 31)	1	19
Less: Provision for impairment of other receivables	(676)	(544)
Other receivables – net	3,983	5,683
Loans to third parties	-	21
Prepayments - related parties (Note 31)	7,917	1,656
Prepayments – third parties	74,544	43,664
Finance lease receivables - third parties	35,906	40,499
VAT recoverable	72,337	54,294
	248,723	183,292

	2010 US$'000	2009 US$'000
Less non-current portion:		
Prepayments [(1)]	31,665	19,907
Finance lease receivables - third parties	32,637	33,555
VAT Recoverable	63	1,072
Total non-current portion	64,365	54,534
Current portion	184,358	128,758

[(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$74,959 thousand (2009: US$67,487 thousand) as of 31 December 2010 were fully performing.

Receivables of US$18,966 thousand (2009: US$16,153 thousand) as of 31 December 2010 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:

	2010 US$'000	2009 US$'000
Less than 1 month	17,346	10,102
From 1 to 3 months	1,032	2,885
From 3 to 6 month	303	285
From 6 months to 1 year	120	2,128
Over one year	165	753
	18,966	16,153

Trade receivables amounting to US$1,645 thousand (2009: US$3,285 thousand) as of 31 December 2010, 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$676 thousand (2009: US$544 thousand) as of 31 December 2010, 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:

	2010	2009
	US$'000	US$'000
Currency:		
US dollar	68,737	52,884
Russian Roubles	175,361	126,411
Euro	3,834	3,698
Other	791	299
	248,723	183,292

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

	2010			2009		
	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January	3,285	544	3,829	2,634	-	2,634
Provision for receivables impairment (Note 6)	1,233	249	1,482	1,298	518	1,816
Bad debt written off	(2,815)	(112)	(2,927)	(242)	-	(242)
Unused amounts reversed (Note 6)	(8)	-	(8)	(378)	-	(378)
Currency translation differences	(50)	(5)	(55)	(27)	26	(1)
At 31 December	1,645	676	2,321	3,285	544	3,829

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

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

The finance lease receivables are scheduled as follows:

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

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$nil (2009: US$ 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:

	2010	2009
	US$'000	US$'000
Receivable within one year	3,269	6,944
Receivable later than one year and not later than 5 years	20,570	15,720
Receivable later than 5 years	12,067	17,835
Total	35,906	40,499

Average effective interest rate implicit in finance lease agreements at 31 December 2010 is 13.04% (2009: 16.4%).

19. Inventories

	2010	2009
	US$'000	US$'000
Raw materials and consumables	6,918	5,759
	6,918	5,759

All inventories are stated at cost.

20. Cash and cash equivalents

	2010	2009
	US$'000	US$'000
Cash at bank and in hand	54,006	120,946
Short term bank deposits	83,697	39,307
	137,703	160,253

The effective interest rate on short-term deposits was 2.95% (2009: 3.14%) in 2010 and these deposits have a maturity of 11 to 30 days (2009: 11 to 30 days).

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

	2010	2009
	US$'000	US$'000
Cash and cash equivalents	137,703	160,253
Bank overdrafts (Note 24)	(745)	(1,160)
	136,958	159,093

The effective interest rate on bank overdrafts in 2010 was 2.26% (2009: 5.6%).

21. Share capital and share premium

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

The total authorised number of ordinary shares at 31 December 2010 and 31 December 2009 was 233,918,128 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 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 charged against share premium (Note 4).

22. Dividends

No interim dividends were declared by the Board of Directors during the year ended 31 December 2010.

On 3 May 2010, the Company in its general meeting approved the payment of a dividend in respect of the year ended 31 December 2008 of 15.177 US cents per ordinary share amounting to a total dividend of US$24,000,230. The dividend was paid on 4 May 2010.

At the Annual General Meeting which will take place in May 2011, a final dividend in respect of the profit for the year ended 31 December 2010 of 37 US cents per share amounting to a total dividend of US$58,510,147 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

During the financial year ended 31 December 2010, the Group declared and paid US$21,157 thousand of dividends in favour of non-controlling interests. Pursuant to the obligation for minimum dividend distribution by Ultracare Holdings Limited and BaltTransServis, OOO US$2,003 thousand was recognised as finance cost and the remaining US$19,154 thousand was recognised as dividends.

23.Deferred gains

	2010 US$'000	2009 US$'000
Current	150	338
Non-current	-	178
	150	516

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

24.Borrowings

	2010 US$'000	2009 US$'000
Current		
Bank overdrafts (Note 20)	745	1,160
Bank borrowings	119,601	101,789
Non-convertible unsecured bonds	21,528	-
Finance lease liabilities	49,275	50,503
	191,149	153,452
Non-current		
Bank borrowings	219,426	147,608
Non-convertible unsecured bonds	78,397	-
Finance lease liabilities	30,067	148,071
	327,890	295,679
Total borrowings	519,039	449,131
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	117,346	91,323
Between 2 and 5 years	174,820	56,285
Over 5 years	5,657	-
	297,823	147,608

	2010 US$'000	2009 US$'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	54,161	64,492
Later than 1 year and not later than 5 years	31,383	164,278
Future finance charges of finance leases	(6,202)	(30,196)
Present value of finance lease liabilities	79,342	198,574
The present value of finance lease liabilities is as follows:		
Not later than 1 year	49,275	50,503
Later than 1 year and not later than 5 years	30,067	148,071
	79,342	198,574

Bank borrowings

Bank borrowings mature by 2017 and bear average interest of 8.2% per annum (2009: 8.7% per annum).

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

Year ended 31 December 2010

The current and non-current bank borrowings amounting to US$118,771 thousand and US$211,662 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$8,594 thousand are unsecured.

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

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).

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:

	2010 US$'000	2009 US$'000
6 months or less	297,776	343,887
6 to 12 months	58,551	13,654
1 to 5 years	157,055	91,590
over 5 years	5,657	-
	519,039	449,131

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

	Carrying amount		Fair value	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Bank borrowings	219,426	147,608	219,426	147,608
Non-convertible unsecured bonds	78,397	-	79,551	-
Finance lease liabilities	30,067	148,071	29,566	143,832
	327,890	295,679	328,543	291,440

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

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

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

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

	2010 US$'000	2009 US$'000
US Dollar	113,115	287,788
Russian Rouble	405,753	159,909
Euro	171	1,434
	519,039	449,131

The Group has the following undrawn borrowing facilities:

	2010 US$'000	2009 US$'000
Floating rate:		
Expiring within one year	37,384	31,892
Fixed rate:		
Expiring within one year	8,531	4,298
Expiring beyond one year	22,752	27,886
	68,667	64,076

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

	2010 %	2009 %
Bank overdrafts	2.3	5.6
Bank borrowings	8.2	9.3
Non-convertible unsecured bonds	9.3	-
Finance lease liabilities	9.1	8.7

(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:

	2010 US$'000	2009 US$'000
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	34,122	29,257
- Deferred tax liability to be recovered within 12 months	(1,692)	(1,302)
Deferred tax liabilities (net)	32,430	27,955

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

	2010 US$'000	2009 US$'000
Beginning of year	27,955	23,673
Income statement charge (Note 10)	6,979	4,633
Withholding tax on actual dividend distribution	(2,337)	-
Exchange differences	(167)	(351)
End of year	32,430	27,955

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 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
Currency translation differences	(2,008)	1,553	(23)	9	(218)	206	57	(424)
At 31 December 2009/ 1 January 2010	40,474	(28,727)	(1,328)	(601)	7,806	11,304	(973)	27,955
Charged/(credited) to:								
Income statement (Note 10)	(12,617)	19,799	1,322	(980)	4,209	(5,240)	486	6,979
Withholding tax on actual dividend distribution	-	-	-	-	(2,337)	-	-	(2,337)
Currency translation differences	(261)	153	6	7	(8)	(70)	6	(167)
At 31 December 2010	27,596	(8,775)	-	(1,574)	9,670	5,994	(481)	32,430

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$16 thousand in 2010 (2009: USS$2 thousand) in respect of cumulative tax losses amounting to US$160 thousand (2009: US$20 thousand) as it is uncertain whether taxable profits will be earned in the future which would offset the taxable losses incurred. There is no time limit for the utilization of these tax losses.

Deferred income tax liabilities of US$44,546 thousand (2009: US$35,071 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings totaled US$387,749 thousand as at 31 December 2010 (2009: US$289,729 thousand).

26.Trade and other payables

	2010 US$'000	2009 US$'000
Current		
Trade payables to third parties	15,672	18,125
Trade payables to related parties (Note 31)	1,315	993
Other payables to related parties (Note 31)	-	7,070
Other payables to third parties[2]	13,256	9,220
Accrued expenses	9,530	4,976
Advances from customers [1]	24,400	20,156
Advances from related parties (Note 31) [1]	3,029	3,544
	67,202	64,084
Non-current		
Other payables to third parties[2]	10,467	11,105
	10,467	11,105

[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 non-controlling shareholders which are not at the discretion of the Group.

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

27.Earnings per share

Basic and diluted

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

	2010	2009
Profit attributable to equity holders of the company (US$ thousand)	177,322	88,057
Weighted average number of ordinary shares in issue (thousand)	158,136	118,990
Basic and diluted earnings per share (expressed in US$ per share)	1.12	0.74

28.Business combinations

Year ended 31 December 2009

On 30 December 2009, the Group acquired a 100% shareholding in Ekolinja OY, a Finnish 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).

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 recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. 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.

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.

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 of OOO Sevtekhnotrans, a subsidiary of the Company, for 2008-2009 which was carried out in 2010 tax authorities have claimed additional income tax and VAT in the amount of RUB59,956 thousand (US$1,967 thousand at 31 December 2010 exchange rates) and RUB83,492 thousand (US$2,740 thousand at 31 December 2010 exchange rates) respectively. The tax authorities argued that the above underpayment occurred due to the fact that OOO Sevtekhnotrans leased out tank wagons to OJSC New Forwarding Company, another subsidiary of the Company, applying rent rates below market level. There is a risk that tax authorities will raise a similar claim in respect of 2010, as OOO Sevtekhnotrans had similar pricing arrangements with OJSC New Forwarding Company, however the amount of exposure cannot be reliably estimated.

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 this claim, consequently, no provision has been recorded in these consolidated financial statements.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2010 and 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. The obligation of the third party was settled in full in May 2010; consequently, the guarantee to Sberbank RF was cancelled at the same time.

Maximum possible exposure under the financial guarantee as at 31 December 2009 is disclosed in Note 3(d).

As at 31 December 2010 the carrying value of the guarantee was NIL (2009: US$965 thousand).

Amortisation of the guarantee in amount of US$961 thousand was recorded in the income statement for the year ended 31 December 2010 (2009: US$1,798 thousand).

Legal proceedings

During the year ended 31 December 2010, the Group was involved as a claimant in a number of court proceedings.

During the year ended 31 December 2009, the Group 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 Group 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. The tax authorities challenged the recoverability of such VAT by a number of the Group's clients on the grounds that the transportation should have been subject to 0% VAT.

As at 31 December 2010 majority of the claims in which the Group was involved as a defendant were withdrawn since the court supported position of the Group's customers. In respect of claims where the Group is involved as a third party, decisions of the courts of first and second instance also support the position of the Group's customers.

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 10,204 thousand at 31 December 2010 exchange rates) and a late payment interest of EEK 122,368 thousand (approximately USD 10,449 thousand at 31 December 2010 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. In February 2010, the Estonian court of first instance decided against AS Spacecom in the amount of EEK250,664 thousand (USD21,405 thousand at 31 December 2010 exchange rates) for the unpaid invoices, late payment, costs and legal fees.

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 2010 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:

	2010 US$'000	2009 US$'000
Property, plant and equipment	-	209,833

(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:

	2010 US$'000	2009 US$'000
Not later than 1 year	117,261	20,041
Later than 1 year not later than 5 years	22,645	-
	139,906	20,041

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

	2010 US$'000	2009 US$'000
Not later than 1 year	7,360	11,813
Later than 1 year not later than 5 years	1,549	-
	8,909	11,813

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$nil for the year ended 31 December 2010 (2009: US$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

	2010 US$'000	2009 US$'000
Sales of services:		
Associate	3	-
The Parent	-	10
Other related parties:		
Entities under control of the Parent	23,599	28,845
Entities under significant influence of the Parent	27,618	28,256
Entities under significant influence of members of key management	83,201	61,706
	134,421	118,817

(b) Purchases of goods and services

	2010 US$'000	2009 US$'000
Purchases of services:		
Associate	324	391
Other related parties		
Entities under control of the Parent	3,484	3,383
Entities under control by parties with significant influence over the Group	1,053	1,007
Entities under significant influence of the Parent	2,399	1,466
Entities under significant influence of members of key management	25,524	21,916
	32,784	28,163

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

	2010 US$'000	2009 US$'000
Additions:		
Other related parties		
Entities under control of the Parent	882	373
Entities under significant influence of members of key management	415	319
	1,297	692
Disposals:		
Other related parties: entities under significant influence of members of key management	8	17

(d) Interest income and expenses

	2010 US$'000	2009 US$'000
Interest expense (Note 9):		
The parent	(899)	(5,360)
	(899)	(5,360)

Interest expense to the parent in the year ended 31 December 2010 consists of interest on consideration payable for the acquisition of Estonian subsidiaries of the Group for the amount of US$348 thousand (2009: US$2,296 thousand) and unwinding of discounting effect on such liability for the amount of US$551 thousand (2009: US$2,426 thousand) included in Other finance costs. Interest expense to the parent in the year ended 31 December 2009 also included interest expense on loans for the amount of US$638 thousand.

(e) Directors and key management compensation

	2010 US$'000	2009 US$'000
Directors' remuneration(1)	1,396	731
Key management salaries and other short term employee benefits(2)	16,556	8,551
	17,952	9,282

(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$11,629 thousand for the year ended 31 December 2010 (2009: US$4,247 thousand).

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

	2010 US$'000	2009 US$'000
Trade receivable from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	3,110	2,679
Entities under significant influence of the Parent	1,305	1,478
Entities under significant influence of members of key management	7,898	10,302
The Parent	-	10
	12,313	14,469
Other receivables from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	-	8
Entities under significant influence of the Parent	1	-
Entities under significant influence of members of key management	-	9
Associate	-	2
	1	19
Prepayments to related parties (Note 18):		
Other related parties		
Entities under control of the Parent	361	286
Entities under significant influence of the Parent	-	1
Entities under significant influence of members of key management	7,556	1,369
	7,917	1,656

	2010 US$'000	2009 US$'000
Trade payables to related parties (Note 26):		
Other related parties		
Entities under control of the Parent	6	247
Entities under significant influence/joint control of the Parent	13	315
Entities under significant influence of members of key management	1,296	431
	1,315	993
Other payables to related parties (Note 26):		
Current:		
The parent	-	7,064
Other related party: entities under significant influence of members of key management	-	6
	-	7,070
Advances from related parties (Note 26):		
Other related parties		
Entities under control of the Parent	2,038	2,258
Entities under significant influence of the Parent	255	624
Entities under significant influence of members of key management	736	662
	3,029	3,544

(g) Loans from related parties

	2010 US$'000	2009 US$'000
The parent:		
Beginning of year	-	18,379
Loans advanced during the year	-	30,000
Loans repaid during the year	-	(46,265)
Interest charged	-	638
Interest repaid	-	(3,376)
Foreign exchange gain	-	624
End of year	-	-

The loans from the parent had the following terms and conditions:

The balance at the beginning of 2009 carried an average interest of 10.43% and was payable in 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. The loan advanced in 2009 carried an interest of 1% and was provided for up to 10 days.

(h) Guarantees by related parties

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):

	2010 US$'000	2009 US$'000
Borrowings guaranteed by:		
The parent and entities 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 entities with significant influence over the Group	-	19,919
The parent and other related parties	-	3,373
The parent	-	37,390
	-	60,682

(i) Other transactions with related parties

Year ended 31 December 2010:

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

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 installments 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.

(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:

	2010 US$'000	2009 US$'000
Not later than 1 year	15,682	12,393
Later than 1 year and not later than 5 years	1,555	-
	17,237	12,393

Operating lease commitments with 'other related parties' amounting to US$16,198 were entities under significant influence of members of key management (2009: US$11,816), the rest of the commitments were to entities under control of the Parent.

(j) Operating lease commitments – Group as lessor

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

	2010 US$'000	2009 US$'000
Not later than one year	9	8,894

All commitments on 31 December 2010 were from entities under control of the Parent; on 31 December 2009 all commitments were from entities under significant influence of the Parent.

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 pure investing holding company 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:

	31 December 2009 US$'000
Cash and cash equivalents	23,003
Property, plant and equipment	156,527
Inventories	4,765
Trade and other receivables	38,983
Current income tax assets	29
Trade and other payables	(21,464)
Borrowings	(40,913)
Deferred income tax liabilities	(352)
Current income tax liabilities	(512)
less Net assets attributable to non-controlling participants in redeemable shares	-
less Non-controlling interest in net assets acquired	(80,033)
Carrying value of net assets acquired	80,033

33. Net assets attributable to non-controlling participants in redeemable shares

	Net assets attributable to non-controlling participants in redeemable shares
	US$'000
At 1 January 2009	16,164
Share of net profit attributable to non-controlling participant	7,741
Distributions to non-controlling participants (Note 9)	(7,451)
Exchange of liability to non-controlling participants in redeemable shares for equity instruments	(12,005)
Exchange of liability to non-controlling participants in redeemable shares for new financial liability for minimum dividends distribution	(4,002)
Exchange difference	(447)
At 31 December 2009/ 1 January 2010/ 31 December 2010	-

Following restructuring in December 2009, the Group exchanged the liability to the non-controlling 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 non-controlling 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 non-controlling interest's in puttable instruments of LLC BaltTransServis which amounted to US$12,005 thousand, to non-controlling 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 statement as part of finance costs. (Note 9)

34. Events after the balance sheet date

In January 2011, Tallinn Circuit Court published a ruling which satisfied the claim of Estonian Railways against AS Spacecom, a subsidiary of the Company, in the amount of EUR15,078 thousand (USD19,977 thousand at 31 December 2010 exchange rates) for the unpaid invoices and late payment, plus costs and legal fees. The amount of penalties was reduced by EUR942 thousand (US$1,248 thousand). 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.

In January – March 2011 the Group has settled the following obligations ahead of schedule (in each case the early settlement has not resulted in any significant gains or losses for the Group):

- Finance lease liabilities in the total amount of RUB258,232 thousand (US$8,473 thousand at 31 December 2010 exchange rates);

- Bank borrowings in the total amount of RUB619,565 thousand (US$20,329 thousand at 31 December 2010 exchange rates).

In January – March 2011 the Group has received RUB445,000 thousand (US$14,601 thousand at 31 December 2010 exchange rates) of bank borrowings.

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

Independent Auditor's Report on pages 6 to 7.