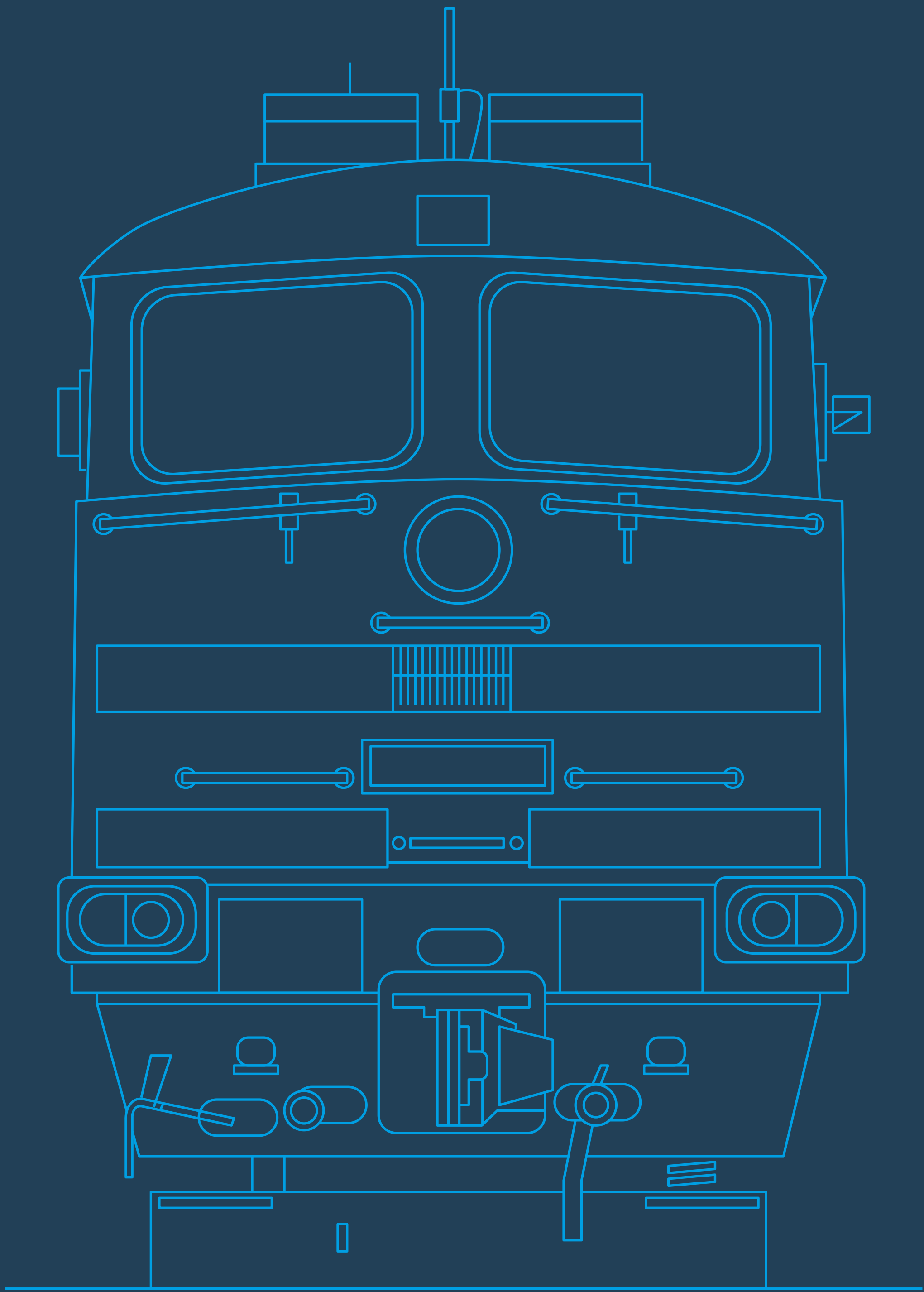
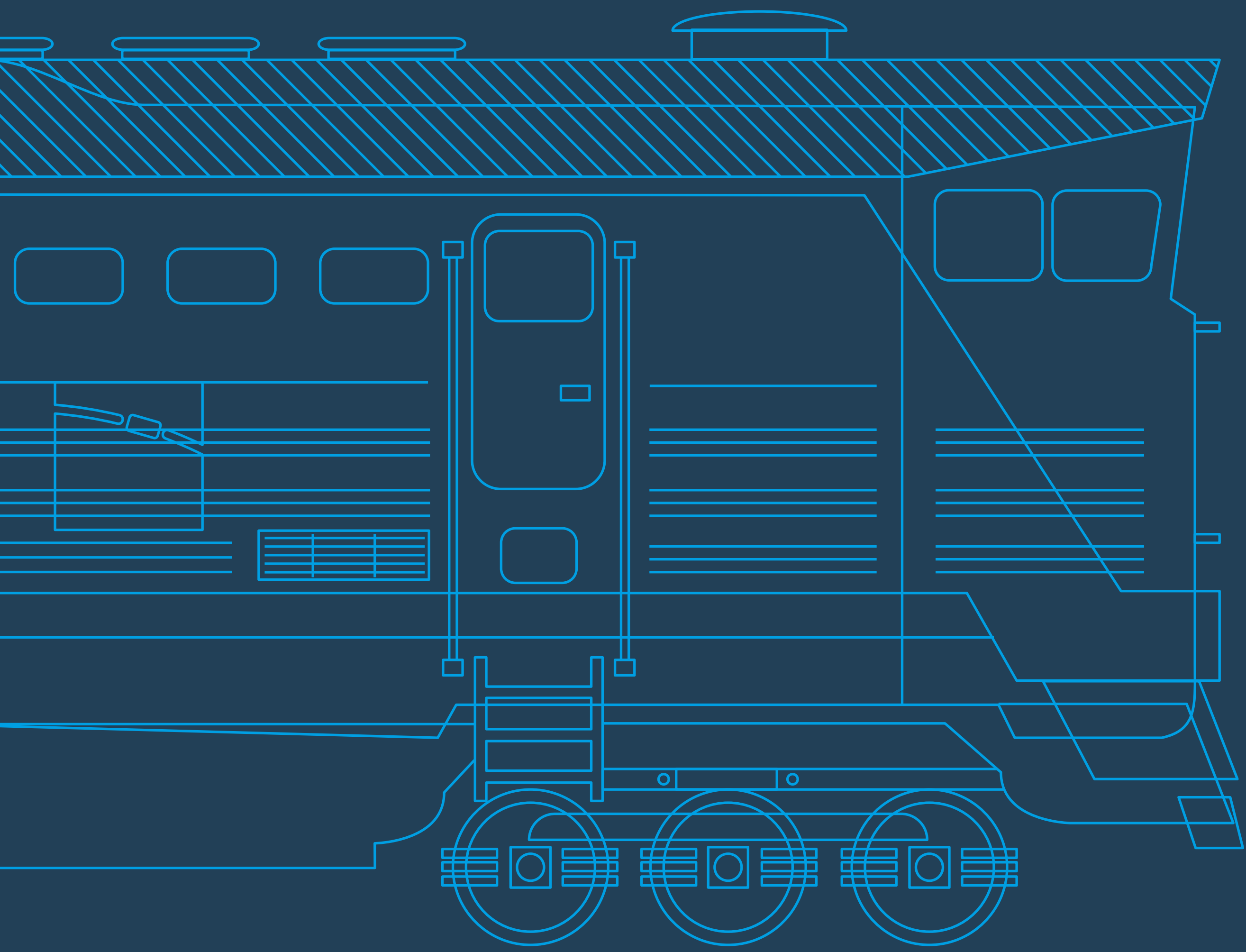
Globaltrans
Russia's leading freight rail group



STEAMING AHEAD

GLOBALTRANS INVESTMENT PLC
ANNUAL REPORT 2017



LOCOMOTIVES

Globaltrans operates its own fleet of 69 locomotives. The Group's locomotives are used to haul block trains and are principally engaged in the transportation of oil products and oil.

69 units

<1% of Total Fleet

Summary of presentation of financial and other information

All financial information presented in this Annual Report is derived from the Consolidated Management Report and Consolidated Financial Statements of Globaltrans Investment PLC (the "Company" or, together with its subsidiaries, "Globaltrans" or the "Group") and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 (EU IFRS). The Group's Consolidated Management Report and Consolidated Financial Statements (audited) for the year ended 31 December 2017 are included in the Financial Statements section of this Annual Report. Financial statements for prior years can be found on Globaltrans' corporate website (www.globaltrans.com/download-centre).

The presentational currency of the Group's financial results is the Russian Rouble (RUB), which is the functional currency of the Company as well as of its Cypriot and Russian subsidiaries. Certain financial information derived from management accounts is marked in this Annual Report with an asterisk (*). In this Annual Report, the Group has used certain non-GAAP financial information (not recognised by EU IFRS or IFRS) as supplementary explanations of the Group's operating performance. Non-GAAP information and operational measures requiring additional explanation or defining are marked with initial capital letters and the explanations or definitions are provided in the Definitions section of this Annual Report. Rounding adjustments have been made in calculating some of the financial and operational information included in this Annual Report. As a result, numerical figures shown as totals in some tables may not be exact arithmetical aggregations of the figures that precede them.

This Annual Report, including its appendices, may contain forward-looking statements regarding future events or the future financial performance of the Group. Forward-looking statements can be identified by terms such as expect, believe, estimate, anticipate, intend, will, could, may, or might, and the negative of such terms or other similar expressions. By their nature, forward-looking statements involve risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth and strategies, and the development of the industry in which the Group operates, may differ materially from those described in or suggested by the forward-looking statements contained in this Annual Report. For a detailed description of the presentation of financial and other information, please see the Presentation of Financial and Other Information section of this Annual Report.

Strategic Report

CEO'S REVIEW

"In a complex logistical operation like ours, efficiency underpins everything we do."

"In 2017, Globaltrans delivered a strong financial performance, capitalising on continued growth in the freight rail transportation market and in particular the gondola segment. Our excellent financial performance again demonstrated the benefits of our business model. All our key financial metrics recorded strong improvements: Adjusted EBITDA increased 46% year on year, Adjusted EBITDA Margin accelerated to 50% and Free Cash Flow nearly doubled. And we were able to deliver substantial dividends to our shareholders."

Valery Shpakov
Chief Executive Officer

Read the full review on page 20.

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Overview

Strategic Report

Governance

Financial Statements

Additional Information

HIGHLIGHTS OF 2017

2017 was an outstanding year for Globaltrans. A robust economy and favourable market conditions helped the Group deliver a solid performance. We reported strong financial results and delivered attractive returns to our shareholders.

ONGOING OPERATIONAL EXCELLENCE

37%

Empty Run Ratio for gondola cars

+20%

Year on year increase in Average Price per Trip

- Freight Rail Turnover stable year on year[1].
- Empty Run Ratio for gondola cars improved to 37% (2016: 38%).
- Continued increase in pricing.
- Long-term partnership with MMK extended for an additional 18 months until the end of September 2020[2].

STRONG FINANCIAL RESULTS, CONTINUED MARGIN IMPROVEMENT

- Total revenue rose 12% year on year to RUB 78.1 billion.
- 18% year on year increase in Adjusted Revenue to RUB 52.1 billion.
- Strong cost control with Total Operating Cash Costs down 1% year on year to RUB 26.3 billion.
- Adjusted EBITDA Margin expansion to 50% (2016: 40%).
- 46% year on year rise in Adjusted EBITDA to RUB 25.8 billion.
- Profit for the year was up 126% year on year to RUB 13.8 billion.

+18%

Year on year increase in Adjusted Revenue

+46%

Year on year rise in Adjusted EBITDA

50%

Adjusted EBITDA Margin

The above summary covers the Group's key financial and operating performance indicators. These include non-GAAP measures that the Group believes are helpful to investors in analysing the Group's performance and are well understood in the rail freight transportation industry. The key non-GAAP financial metrics are not a substitute for the IFRS financial information included and discussed in the Financial Review section of this Annual Report.

1 Excluding Engaged Fleet.
2 Partnership with MMK was extended at the beginning of 2018.
3 Including interim dividend of RUB 3,603 million or RUB 20.16 per share/Global Depositary Receipt (GDR) and special interim dividend of RUB 4,404 million or RUB 24.64 per share/GDR.
4 Including final dividend of RUB 4,156 million or RUB 23.25 per share/GDR and special final dividend of RUB 3,861 million or RUB 21.60 per share/GDR.
5 Including interim, special interim, final and special final dividends.

STRONG RISE IN FREE CASH FLOW AND FURTHER REDUCED LEVERAGE

+92%

Year on year increase in Free Cash Flow

0.4x

Net Debt to Adjusted EBITDA

- 92% year on year rise in Free Cash Flow to RUB 17.0 billion driven by strong cash generation.
- Capital expenditure (including maintenance) broadly unchanged at RUB 4.9 billion.
- Balance sheet strengthened further – Net Debt to Adjusted EBITDA down to 0.4x (end of 2016: 0.7x).

ATTRACTIVE SHAREHOLDER RETURNS

Total dividend in respect of 2017[5]

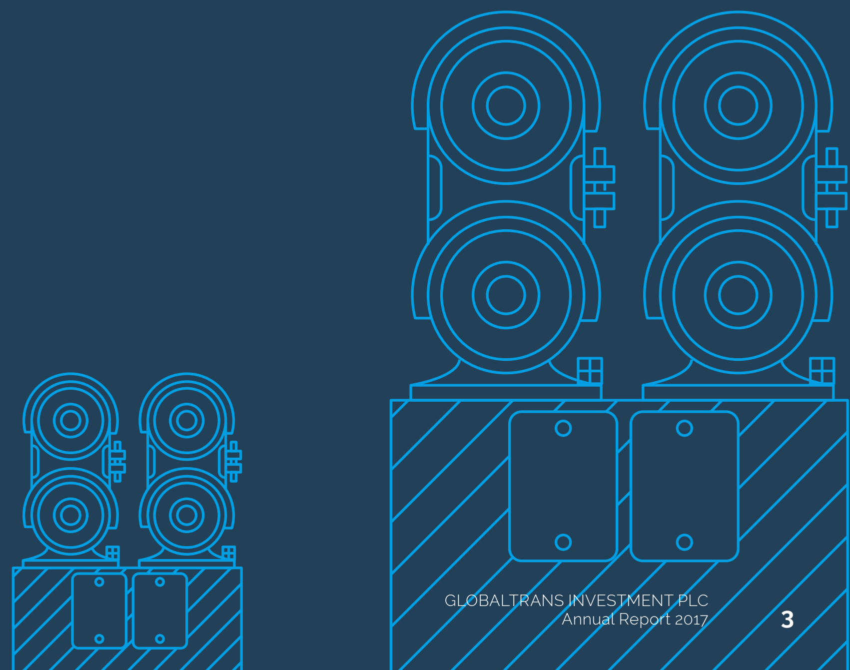
16.0bn

RUB in total

89.65

RUB per share/GDR

- Enhanced dividend policy introduced linking dividends to Attributable Free Cash Flow and Leverage.
- First ever interim dividend together with a special interim dividend declared in August 2017 of RUB 44.80 per share/GDR[3] in aggregate.
- Final and special final dividend declared in April 2018 of RUB 44.85 per share/GDR[4] in aggregate.



AT A GLANCE

Globaltrans is a leading freight rail group operating across Russia, the CIS and the Baltics. The Group operates one of the largest, modern railcar fleets in the region, comprised principally of gondola and rail tank cars.

The Group provides freight rail transport services to over 500 customers in key industrial segments such as metallurgical cargoes, oil products and oil, coal, and construction materials. Globaltrans was listed on the London Stock Exchange in 2008, and was the first freight rail group with a focus on Russia to join an international stock exchange. Its Global Depositary Receipts trade on the Main Market of the London Stock Exchange (ticker symbol: GLTR)[1].

LARGE MODERN FLEET

66,692
Total Fleet (units)

11 years
Average age of Owned Fleet (92% of total)

65%
Gondola cars

30%
Rail tank cars

BALANCE OF FLEET

LEADING MARKET POSITIONS

178bn
Freight Rail Turnover[2] (tonnes-km)

101m
Transportation Volumes[2] (million tonnes)

8%
Market Share of Russia's overall freight rail transportation volumes

POWERFUL OPERATING PLATFORM

- Comprehensive coverage across rail network of Russia and CIS.
- Best-in-class logistics delivered 24/7 from single dispatching centre.
- High fleet utilisation and one of the lowest Empty Run Ratios in its markets.

24/7
Dispatching centre

ESTABLISHED BLUE-CHIP CLIENT BASE

- Trusted partner to major industrial groups in Russia and CIS.
- Services over 500 corporate clients across the region.
- Long-term contracts underpin 55% of Net Revenue from Operation of Rolling Stock.

500+
Clients serviced

1 All information below is for 2017 or at the end of 2017, unless otherwise stated.
2 Including Engaged Fleet.
3 Metallurgical cargoes including ferrous metals, scrap metal and ores.

GLOBALTRANS' OPERATING SUBSIDIARIES

НОВАЯ ПЕРЕВОЗОЧНАЯ

BaltTransServis

GTI MANAGEMENT

Strong representation in priority industrial segments

24%
Market Share in metallurgical cargoes[3]

9%
Market Share in oil products and oil

STRONG COMMITMENT TO INTERNATIONAL GOVERNANCE STANDARDS

- Listed on London Stock Exchange since 2008.
- Free float represents over 50% of share register.
- Experienced, well-balanced Board with four independent Directors.

50%+
Free float

PROVEN STRATEGY DELIVERING SUSTAINABLE SHAREHOLDER RETURNS

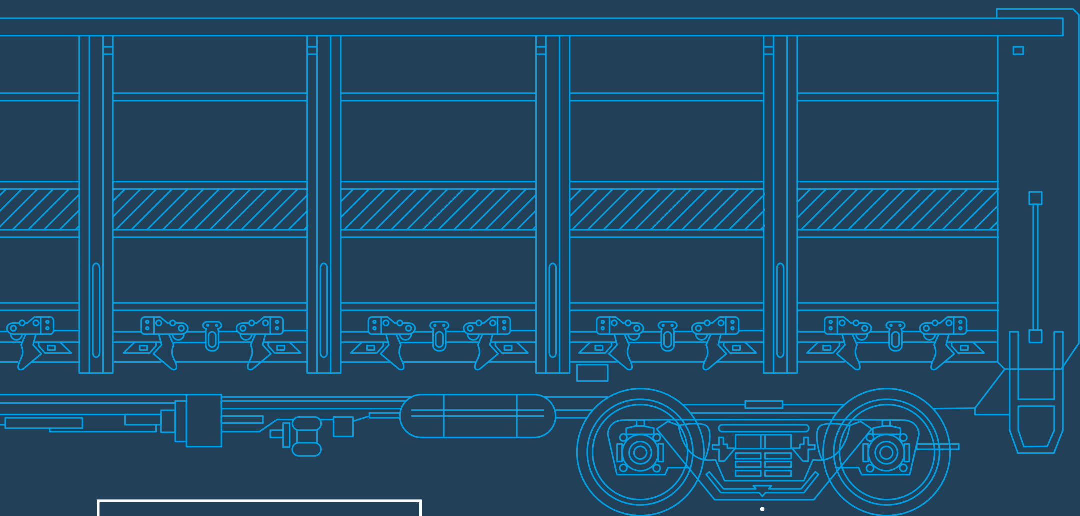
- Returns-oriented model delivers growth through mix of opportunistic fleet expansion and selective acquisitions.
- Shareholder-focused with enhanced dividend policy linked to Attributable Free Cash Flow and Leverage.
- Commitment to financial discipline and a strong balance sheet.

SYNTEZ RAIL | SPACECOM | SPACECOM TRANS AS | НОВА ПЕРЕВІЗНА

LARGE MODERN FLEET

Globaltrans has invested significantly in its core business over the last decade, establishing one of the largest modern rolling stock fleets in the industry. By continually ensuring that our fleet is well-maintained and kept in good technical condition, Globaltrans is able to increase its operating efficiency and deliver greater service reliability to its customers, which, in turn, drives strong client retention.

As at end 2017, the Group's Total Fleet consisted of 66,692 units, split between universal gondola cars (65% of total) and rail tank cars (30% of total). To retain maximum operational flexibility and ensure the Group's commercial resilience, Globaltrans looks to maintain an appropriate balance between the size of its Owned Fleet (92% of total) and the Leased-In Fleet (8% of total). The average age of the Group's Owned Fleet is currently 11 years.



GONDOLA CARS

A gondola car is an open-top, high-sided universal railcar designed to carry various bulk cargoes, for example metallurgical cargoes, coal or construction materials. Gondola cars are the backbone of the Group's fleet. Gondola cars can be redeployed quickly between different bulk cargoes in response to changes in market demand.

43,603 units

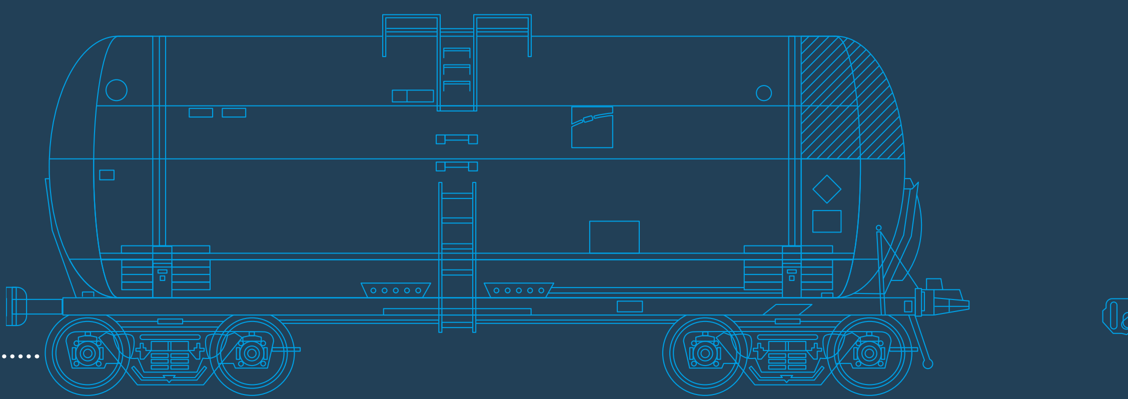
65% of Total Fleet

RAIL TANK CARS

A rail tank car is designed to carry liquid cargoes including oil and petroleum products, chemicals, liquefied gas and other liquid substances. The rail tank car fleet operated by Globaltrans is used primarily to transport oil products and oil.

20,122 units

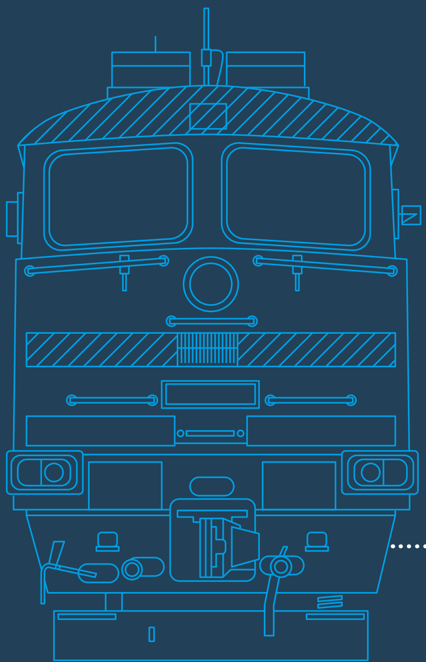
30% of Total Fleet



66,692
Total Fleet

92%
In ownership

11 years
Average age of Owned Fleet



LOCOMOTIVES

Globaltrans operates its own fleet of 69 locomotives. The Group's locomotives are used to haul block trains and are principally engaged in the transportation of oil products and oil.

69 units

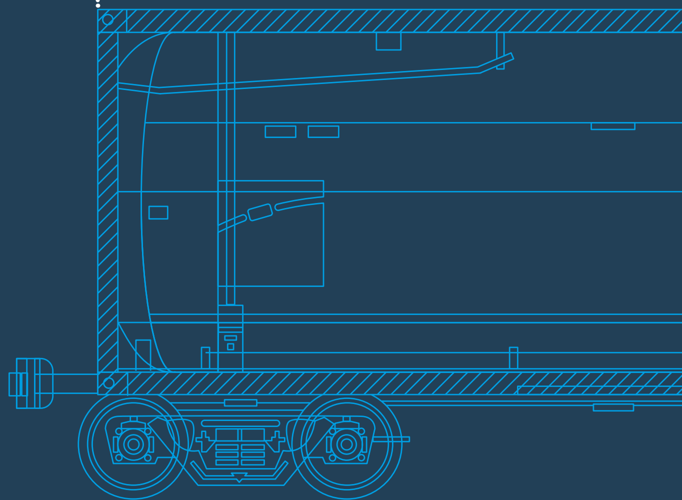
<1% of Total Fleet

TANK CONTAINERS

Tank containers are intermodal containers used to transport petrochemicals. Intermodal containers are designed to be shipped without any handling of the freight itself when changing transport modes.

1,636 units

2% of Total Fleet

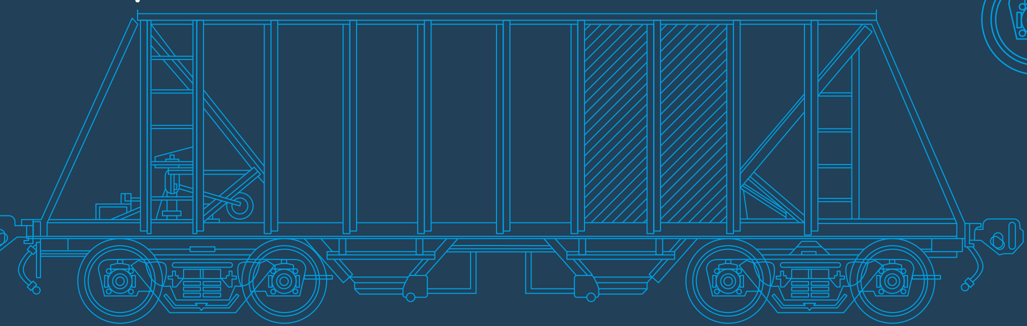


OTHER RAIL CARS

Globaltrans' other railcars include flatcars and hopper cars.

1,262 units

2% of Total Fleet



LEADING MARKET POSITIONS

Globaltrans' operations stretch across the entire Russian rail network of which, at 85,500 kilometres of track, is the second longest in the world.

The Group's Freight Rail Turnover stood at 178.2 billion tonnes-km with Transportation Volumes of 101.2 million tonnes in 2017[1]. Globaltrans' Market Share of overall freight rail transportation volumes in Russia was 8% in 2017. The Group has a strong presence in a number of key industrial cargo segments including metallurgical cargoes (24% Market Share) and oil products and oil (9% Market Share).

178bn

Freight Rail Turnover[1] (tonnes-km)

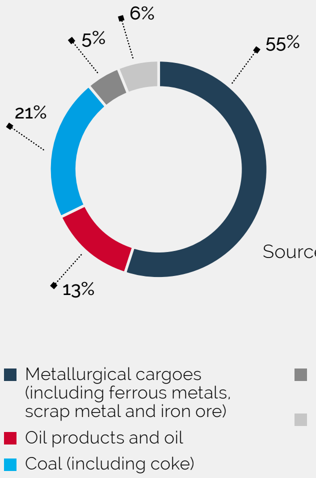
101m

Transportation Volumes[1] (tonnes)

8%

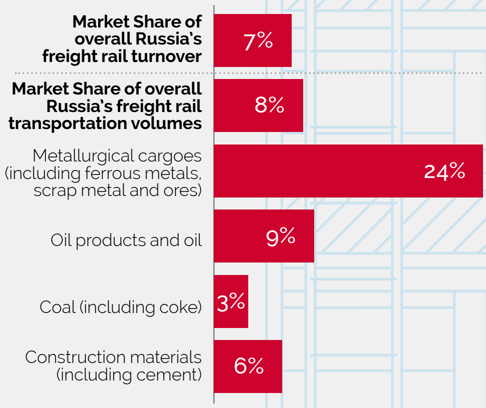
Market Share of overall Russia's freight rail transportation volumes

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2017[2]



Source: Globaltrans

Globaltrans' Market Share 2017



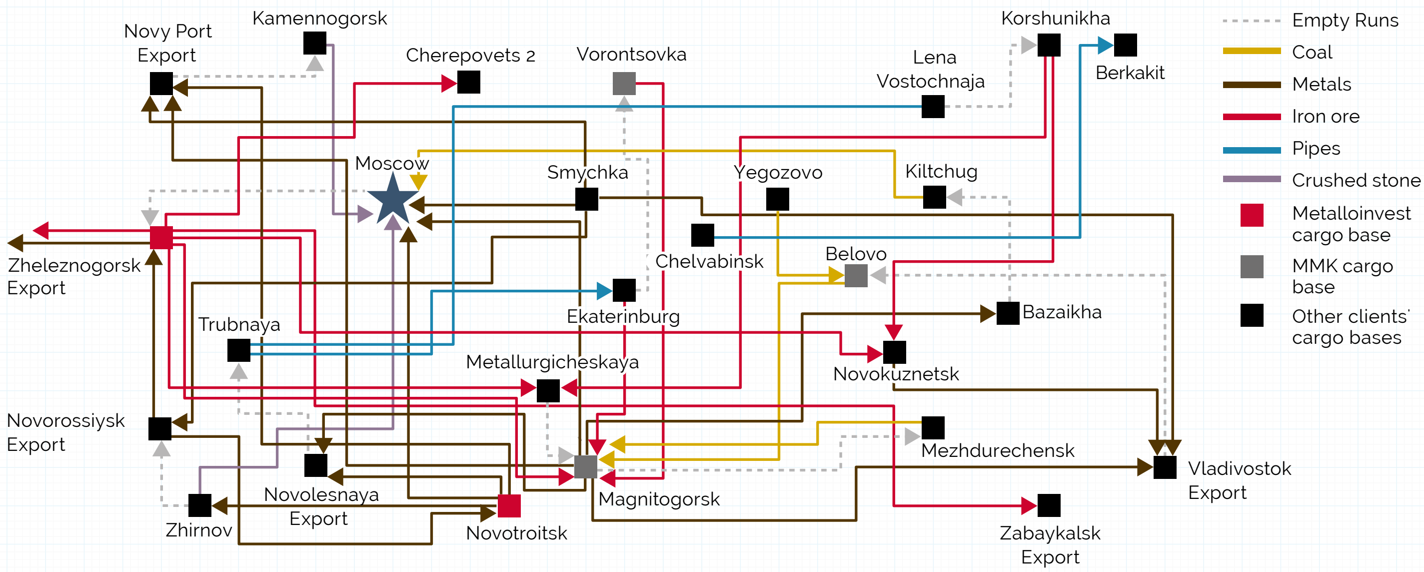
Source: Company estimations, Rosstat

1 Including Engaged Fleet.
2 Excluding Engaged Fleet.

EFFICIENT OPERATIONAL PLATFORM

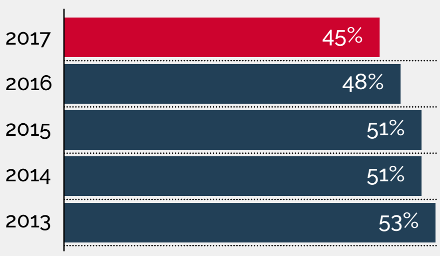
The Group's operational platform is built on its industry-leading logistics and route management systems, underpinned by a deep knowledge of specialist rail logistics and customer requirements.

GONDOLA LOGISTICS – KEY ILLUSTRATIVE ROUTES



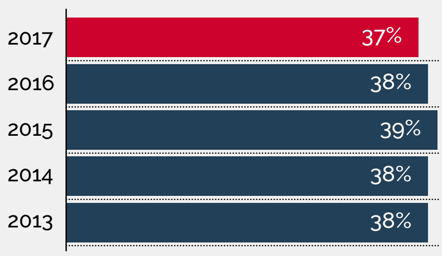
The Group has a single dedicated dispatching centre, staffed by a team of specialists that manage fleet movements, cargo shipments and route-planning 24 hours a day, seven days a week. This sophisticated logistics operation enables the Group to plan and manage its fleet and in-bound and out-bound cargo transfer very efficiently. Consequently, Globaltrans maintains consistent high levels of utilisation across its rolling stock fleet and minimises Empty Runs resulting in greater operational efficiency.

Globaltrans' Total Empty Run Ratio (for all types of rolling stock), 2013-17



Source: Globaltrans

Globaltrans' Empty Run Ratio (for gondola cars), 2013-17



Source: Globaltrans

24/7

Dispatching centre

43.6k

Total fleet of gondola cars

ESTABLISHED BLUE-CHIP CLIENT BASE

Globaltrans is a trusted partner to leading industrial groups in Russia and the CIS that operate in key industrial sectors.

55%

Net Revenue from Operation of Rolling Stock covered by long-term contracts

74%

Net Revenue from Operation of Rolling Stock contributed by top 10 large clients[1]

KEY CLIENTS

The Group's reputation is founded on its commitment to providing high-quality, reliable rail logistics for its clients that improve efficiency and reduce costs.

It has over 500 industrial clients, operating primarily in the metals and mining, oil products and oil and construction sectors. Globaltrans pioneered the concept of long-term logistics outsourcing partnerships for large blue-chip groups in Russia and the CIS, whereby the Group handles all or a sizable part of the client's freight rail logistics.

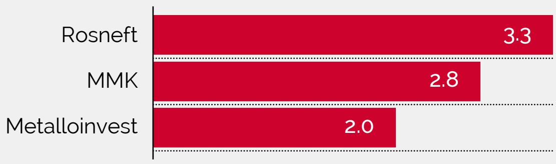
This approach has been very successful and long-term service contracts represented 55% of Net Revenue from Operation of Rolling Stock in 2017.

Breakdown of Net Revenue from Operation of Rolling Stock by key clients (including their affiliates and suppliers), 2017

	%
Rosneft	25
Metalloinvest	15
MMK	15
Gazprom Neft	7
Evraz	5
TMK	2
UGMK-Trans	2
SDS-Ugol	2
Severstal	1
ChelPipe	1
Other (including small and medium enterprises)	26

Source: Globaltrans

Remaining period of long-term contracts (years, at end of 2017)



Source: Globaltrans

1 Including their affiliates and suppliers.

RELIABLE PARTNERS

"We signed our first long-term contract with Globaltrans in 2013, making them responsible for shipping metallurgical cargoes to our domestic customers and a variety of products for the export market.

"We have been co-operating with our colleagues at Globaltrans for many years now, and they have proved to be reliable partners. They have provided us with a tailored rolling stock solution that enhances the efficiency of our company's logistics and, importantly, maintains our transportation security. In an ever-changing market environment, having a reliable transportation partner contributes hugely to the stability of our operations. The best-in-class services provided by Globaltrans mean that all of our transportation needs, however complicated, are fully covered. This is why we have repeatedly extended our long-term partnership with the Group and we have done so again recently, extending our current partnership out to the end of September 2020."

"They have provided us with a tailored rolling stock solution that enhances the efficiency of our company's logistics and, importantly, maintains our transportation security."

Sergey Nenashev
Commercial Director
of PJSC MMK

"Time and experience has shown us that having a long-standing tried and trusted partner like Globaltrans makes it easier for us to develop and move forward."

Nazim Efendiev
First Deputy CEO, Sales Director
Management Company
METALLOINVEST LLC

EXPERIENCE AND EXPERTISE

"Metalloinvest is more than happy with the quality of our collaboration with Globaltrans which, for over last five years, has been our long-term partner in the provision of freight rail transport covering 100% of our company's needs in this area.

"The fact that we have extended our contract multiple times since it was first signed demonstrates Globaltrans' commitment to creating value for its clients. It also reflects how much we value the professionalism and knowledge of the Globaltrans team and its extensive freight rail transportation expertise.

"As partners, our relationship can be characterised by each side's absolute adherence to complying with its contractual obligations as well as a strongly collaborative approach to sorting out operational issues. Time and experience have shown us that having a long-standing tried and trusted partner like Globaltrans makes it easier for us to develop and move forward. In our work with Globaltrans we are always confident of receiving premium quality services."

HIGH QUALITY OF SERVICE

"We have been long-standing partners since March 2000 when the first Globaltrans rail tank cars left our Yaroslavl Refinery. Today our petroleum products are transported by the Group's own block trains, which greatly improves transportation time and thus the cost efficiency of our logistics.

"I would say that after many years of working together our companies have become true partners. We value the high quality of service that we receive from our colleagues at Globaltrans, their attention to detail and their acute understanding of the specifics of our freight transportation needs."

"We value the high quality of service that we receive from Globaltrans professionals."

Vadim Simdyakin
Head of Gazprom Neft Logistics
and Transportation Department

BUSINESS MODEL AND STRATEGY

Solid fundamentals, clear objectives

Our strategy is to deliver long-term sustainable value creation to our shareholders by becoming the freight rail logistics partner of choice for blue-chip customers in Russia and the CIS. We will achieve this by continuing to be entrepreneurial, focus on innovation and efficiency while adhering to our proven business model.

14 years of market leadership and successful business development

2004

Globaltrans is established

2008

Initial Public Offering (IPO) is conducted on the London Stock Exchange

Ukrainian subsidiary is created and leasing businesses in Estonia are acquired

>26,000 units
Total Fleet

2009

Secondary Public Offering (SPO) is conducted to finance business expansion

50%[1] of BaltTransServis is acquired

>37,000 units
Total Fleet

2010

Business is increasing by buying new rolling stock and expanding Leased-in Fleet

>50,000 units
Total Fleet

1 Subsequently, the Group acquired a further 10% effective economic interest in BaltTransServis in 2011, taking its total economic interest to 60%.

Our objectives

Retain a resilient business profile • Maintain a large, modern, balanced fleet. • Focus on long-term contracts. • Adhere to international governance standards.	**Maintain a solid financial position** • Maintain prudent approach to capital management. • Retain an efficient balance sheet. • Match revenue and debt currencies closely.
Ensure operational excellence • Increase efficiency where possible. • Continue to prioritise client service. • Focus on innovation.	**Generate sustainable returns** • Maintain a disciplined opportunistic approach to investment. • Expand into new value-added niches of the freight rail market. • Implement enhanced dividend policy linking dividends to Attributable Free Cash Flow and Leverage. • Return excess capital not required by the business to shareholders in the form of special dividends whilst maintaining a strong balance sheet.

2012

Captive rail operator of Metalloinvest is acquired

SPO is conducted to finance ongoing growth

2013

Captive rail operator of MMK is acquired

Single gondola dispatching centre is created

>65,000 units
Total Fleet

2014

>60% of Net Revenue from Operation of Rolling Stock is represented by long-term contracts

SyntezRail subsidiary is created to develop rail transportation of petrochemicals

2015

Intra-group reorganisation is conducted to streamline corporate structure in order to drive efficiency and cut costs

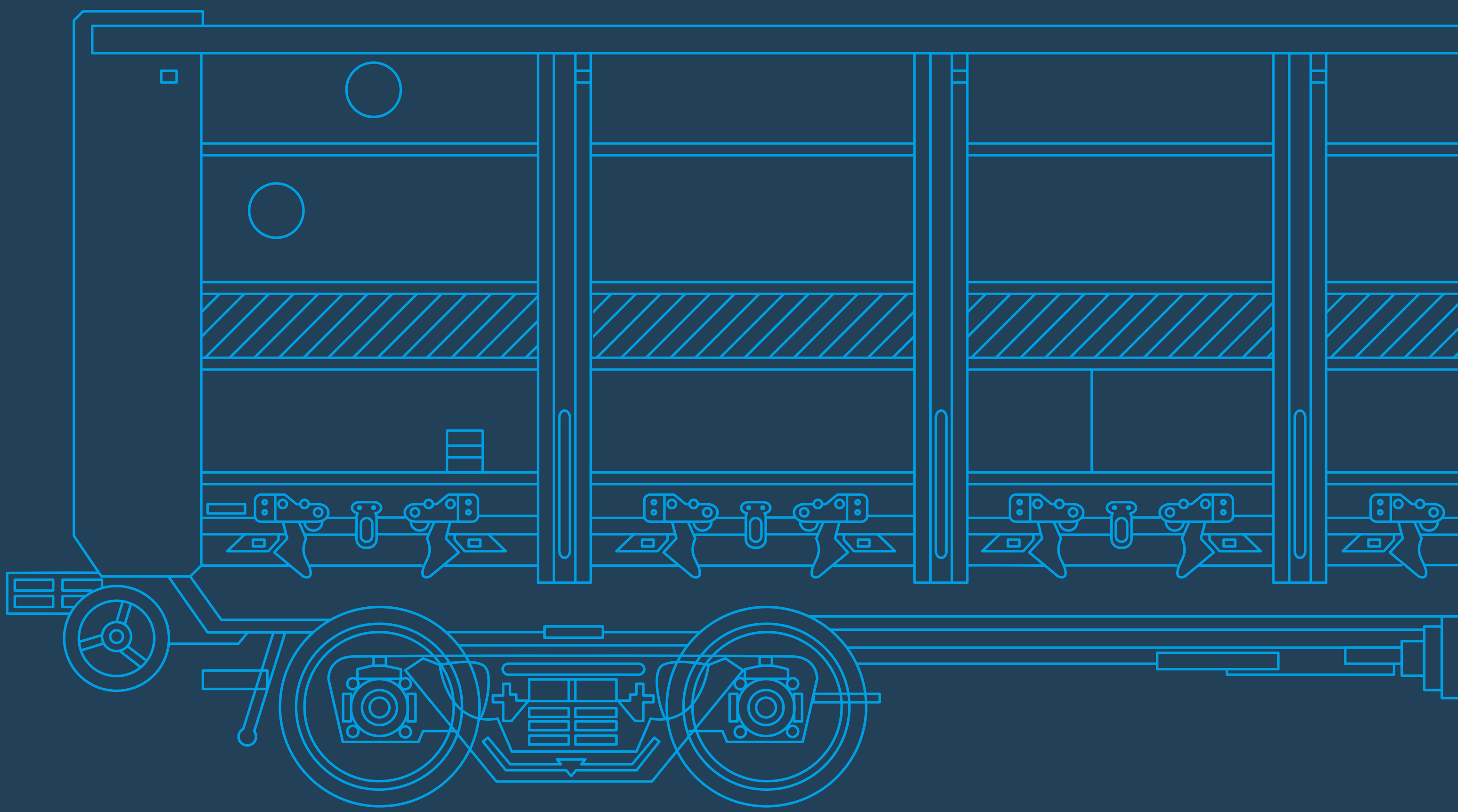
2017

Enhanced dividend policy is introduced linking dividends to Attributable Free Cash Flow and Leverage

>66,000 units
Total Fleet

GONDOLA CARS

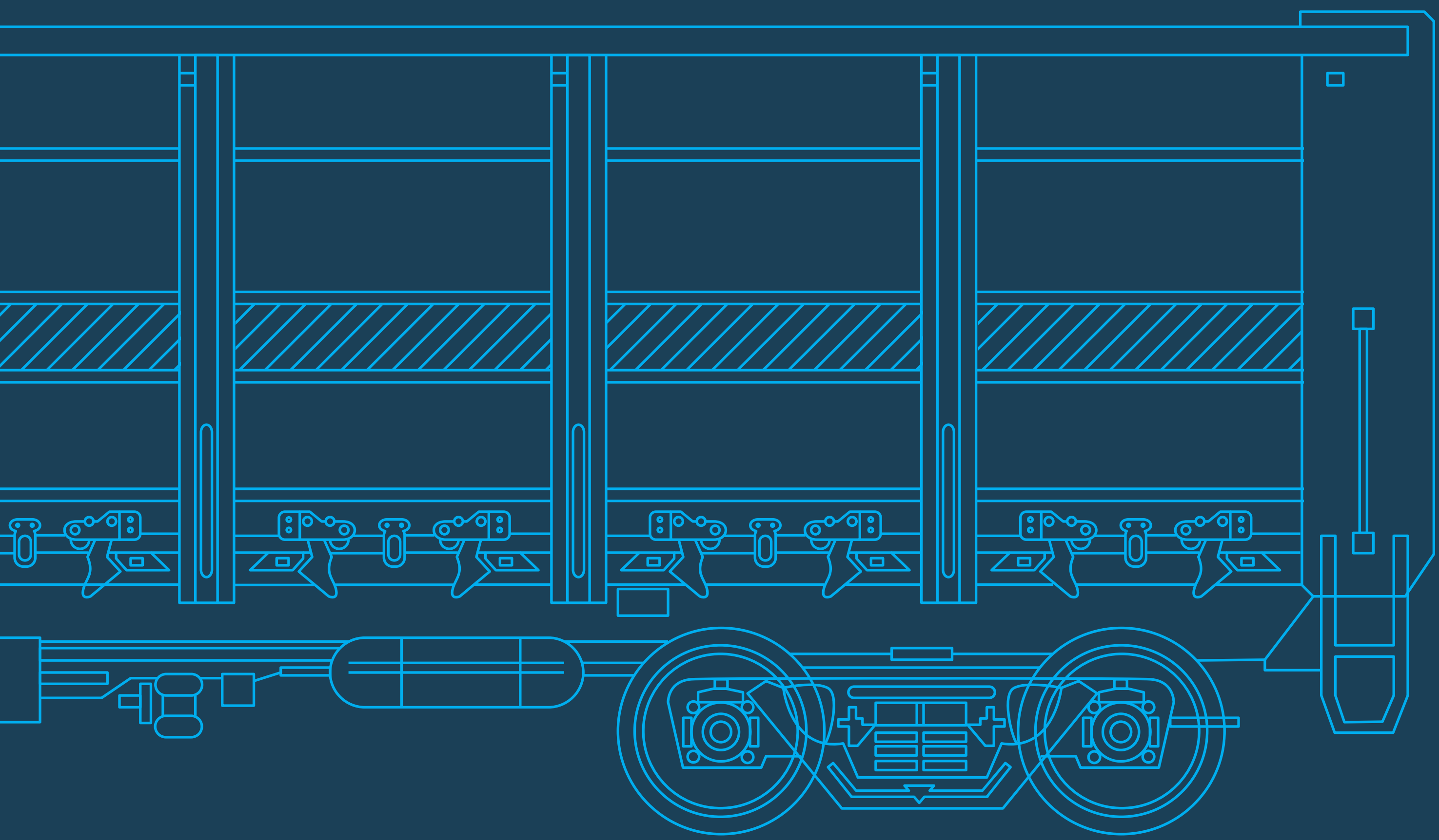
A gondola car is an open-top, high-sided universal railcar designed to carry various bulk cargoes, for example metallurgical cargoes, coal or construction materials. Gondola cars are the backbone of the Group's fleet. Gondola cars can be redeployed quickly between different bulk cargoes in response to changes in market demand.



43,603 units

65% of Total Fleet

STRATEGIC REPORT



Directors' Responsibility

Each of the Directors confirms that to the best of his or her knowledge the Strategic Report presented on pages 15 to 59 of this Annual Report includes a fair review of the development and performance of the business and the position of Globaltrans Investment PLC and its subsidiary undertakings, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Sergey Tolmachev
Director

CHAIRMAN'S STATEMENT

Dear shareholders,
2017 was an outstanding year for Globaltrans. A robust economy and favourable market conditions helped the Group deliver a solid performance. We reported strong financial results and delivered attractive returns to our shareholders. Over time, the Group has forged a reputation with its customers for operational excellence and strategic delivery. It is therefore pleasing to report that, in meeting our commitments to stakeholders, the Group again proved its ability to prosper throughout economic cycles. In doing so, Globaltrans reconfirmed that it is one of Russia's most dynamic and best managed freight rail groups.

Our success in 2017 again highlighted the all-round effectiveness of our business model.

Leveraging a winning business model

The strength of the global economic recovery created strong demand for our sector. Industry conditions remained favourable and robust bulk cargo freight rail transportation volumes were supported by a rebalancing of gondola capacity.

Our success in 2017 again highlighted the all-round effectiveness of our business model. As followers of the Company know, our model is based on four main pillars: a resilient business profile; operational excellence; a focus on returns-oriented growth; and a strong balance sheet. This formula has proved to be highly effective and its durability has helped underpin our consistent growth over the last 14 years.

Operationally, we have focused our efforts on the most profitable routes and cargoes, which help to drive strong revenue growth. We also have successfully kept operating costs in check thanks to our fleet management know-how and customer logistics expertise. Consequently, our Empty Run Ratio for gondola cars has remained among the lowest in the industry.

As a result of our excellent execution, we delivered a strong financial performance in 2017, including a robust improvement in profitability. We also generated significant free cash flow and further reduced our leverage. Moreover, shareholders benefitted from substantial cash returns via our enhanced dividend policy that was introduced in 2017.

Maintaining capital discipline

One of the main business lessons we have learnt through various economic cycles is the importance of maintaining our cost and capital discipline. Therefore, the Board pays very close attention to both operating costs and capital structure.

There are periods when Globaltrans generates more cash that it can sensibly reinvest at attractive returns and that was certainly the case over 2016 and 2017. For while our financial performance continued to steam ahead generating very strong cash flows, opportunities to invest those cash flows were limited as attractive investments were hard to come by. Consequently, investment into additional fleet capacity has been modest over the last two years.

In light of this, the Board reviewed the Group's capital structure to ensure that in allocating capital we were striking the optimal balance between supporting growth, maintaining appropriate leverage and returning excess capital to shareholders.

As a result, in 2017 we introduced an enhanced dividend policy that explicitly links the level of dividend payout to the Leverage Ratio and Attributable Free Cash Flow. This will enable balanced capital allocation so that we can use cash and the strength of our balance sheet to pursue growth when conditions allow, as well as return more cash to shareholders when investment opportunities are limited. We also announced that we would review our capital allocation plans every six months. Both measures underlined our commitment to investor transparency and shareholder returns and were well received by our investors.

"2017 was an outstanding year for Globaltrans. A robust economy and favourable market conditions helped the Group deliver a great performance. We reported strong financial results and delivered attractive returns to our shareholders."

Michael Zampelas
Chairman, Independent Non-executive Director

17bn RUB
Free Cash Flow in 2017
an increase of 92% year on year

Attractive dividends

We have had a very strong year and so it was very pleasing to be able to share that success with our shareholders in the form of regular and special dividends.

Including the interim and special interim dividends, as well as final and special final dividends, total dividends paid to shareholders for 2017 reached RUB 16.0 billion or RUB 89.65 per share/GDR, equivalent to over 100% of the Group's Attributable Free Cash Flow for the year. This included RUB 7.8 billion of regular dividend payments consistent with our policy to pay out 50% of the Group's Attributable Free Cash Flow, as well as special dividend payments of RUB 8.3 billion to maintain an efficient capital structure.

We remain focused on taking a disciplined approach to capital allocation and will continue to return excess capital not required by the business to shareholders in the form of special dividends whilst ensuring we maintain a strong balance sheet.

The Board

It is my job as Chairman to ensure that the Board operates smoothly and that we adhere to the highest governance standards. We have a well-balanced Board with extensive experience, complementary skills and diverse perspectives. I am pleased to report that the Board continues to be very active in its oversight of the Group and the management team.

Globaltrans is an entrepreneurial success story. As Chairman, I believe that part of the Board's role is to ensure that this entrepreneurial spirit continues to flourish. As a Board, we work hard to encourage that spirit of enterprise in all our interactions with the executive team. Equally, shareholder input and feedback have been and will continue to be critical to our decision-making.

Globaltrans is very much a people business and success is always a team effort. Our employees remain our most important asset and I want to thank them for their support and contribution to the success of the Group this year.

Looking ahead

Looking ahead, there are positive signs for 2018. Synchronised global growth is forecast to continue, prompting steady demand for industrial materials, which should be good news for our sector. Our business model is robust, scalable and proven across cycles, and the leadership team is energised by the chance to scale the business further should the opportunity arise. With a proven business model, experienced management, robust balance sheet and strong cash flow, the Board is confident of further progress in the next financial year.

Michael Zampelas
Chairman, Independent
Non-executive Director

Dividends declared	Type	Dividend amount per share/GDR (RUB)
23 April 2018	**Total final and special final in respect of 2017**	**44.85**
	• Final	23.25
	• Special final	21.60
29 August 2017	**Total interim and special interim in respect of first six months of 2017**	**44.80**
	• Interim	20.16
	• Special interim	24.64

0.4x
Net Debt to Adjusted EBITDA at the end of 2017 (end of 2016: 0.7x)

89.65 RUB
Per share/GDR the total dividend paid in respect of 2017[1]

Enhanced dividend policy, as approved by the Board on 31 March 2017

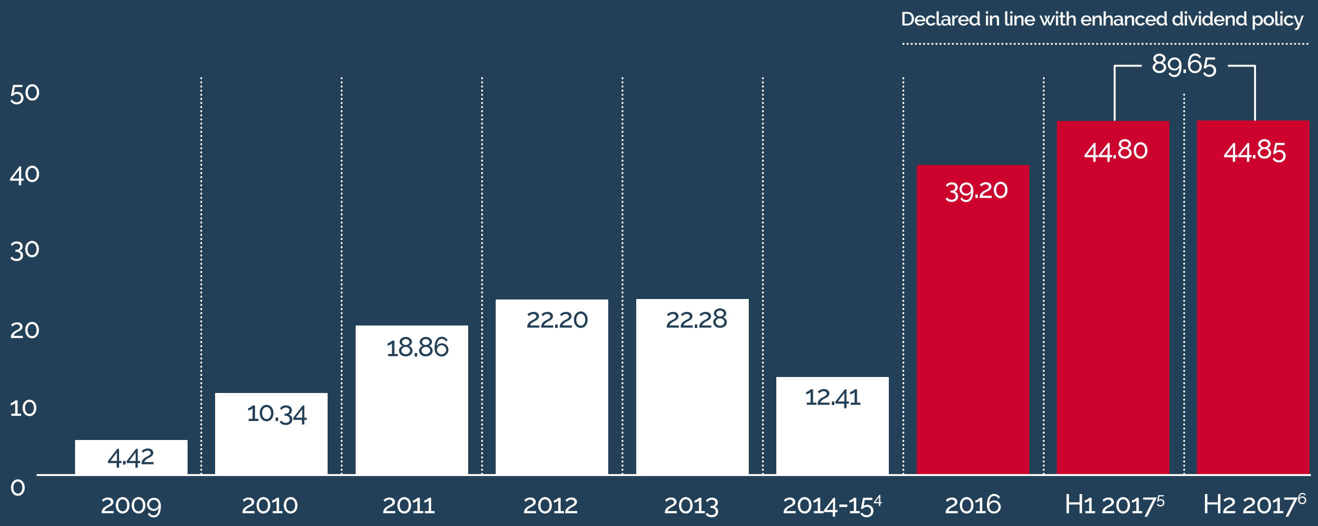
Depending on the actual Leverage Ratio of the Group at the end of each financial year and subject to applicable laws and regulations, and the Articles of Association of Globaltrans, the Board[2] will recommend paying dividends in the amounts of not less than the following proportions of Attributable Free Cash Flow of the Group for such financial year.

Leverage ratio	Dividends, % of attributable free cash flow
Less than 1.0x	Not less than 50%
From 1.0x to 2.0x	Not less than 30%
2.0x or higher	0% or more

The full version of the dividend policy can be found in the Additional Information section of this Annual Report or on the corporate website: www.globaltrans.com.

Dividend history

(RUB per share/GDR[3], in respect of related financial year/period)



1 Including interim, special interim, final and special final dividends.
2 The Board reserves the right to recommend to the general meeting the dividend calculated on a reasonable basis other than described in this Annual Report in its sole discretion. The factors that the Board should consider include, but are not limited to: (i) the Group's needs for business development and strategy implementation purposes; (ii) financial resources for business expansion; (iii) any adverse changes in the regulatory, economic and market environment; (iv) the ability of the Group and its subsidiaries to meet their obligations as they fall due; (v) the availability of distributable reserves at the Group and subsidiary level; and (vi) other factors considered important by the Board in light of the current circumstances, including maintenance of the Group's credit ratings.
3 Prior to 2016, dividends on Globaltrans shares/GDRs were declared and paid in US Dollars, thus the amounts in Russian Roubles are presented for informational purposes only and calculated at the Central Bank of Russia's official exchange rate for the Russian Rouble as of the date of Annual General Meeting that approved the respective dividend. From 2016, dividends on Globaltrans shares/GDRs are declared in Russian Roubles and paid in US Dollars.
4 The dividend declared in 2016 related to both the 2014 and 2015 financial years.
5 Including interim and special interim dividends.
6 Including final and special final dividends.

CHIEF EXECUTIVE OFFICER'S REVIEW

Dear shareholders,
In 2017, Globaltrans delivered a strong financial performance, capitalising on continued growth in the freight rail transportation market and in particular the gondola segment. Our excellent financial performance again demonstrated the benefits of our business model. All our key financial metrics recorded strong improvements: Adjusted EBITDA increased 46% year on year, Adjusted EBITDA Margin accelerated to 50% and Free Cash Flow nearly doubled. Consequently, we were able to deliver substantial dividends to our shareholders.

In a complex logistical operation like ours, efficiency underpins everything we do.

Increasingly robust and balanced market

Demand for freight rail transportation services continued to expand in 2017 supported by stable overall economic conditions and a favourable export market environment. Freight rail turnover across Russia's overall network rose by 6% year on year with transportation volumes increasing by 3%. Performance varied across key segments, with demand in the gondola segment, especially coal, leading the way. Coal volumes (including coke) climbed 9% year on year. Metallurgical cargoes (including ferrous metals, scrap metal and ores) also posted a solid performance with volumes rising 1% year on year on the back of a 3% growth in ferrous metals. The rail tank car segment stabilised with market volumes remaining flat year on year at the low levels of 2016. The construction materials segment (including cement) which came under pressure throughout 2017 saw volumes decline 5% year on year although it showed signs of recovery towards the end of the year.

The last three years have seen massive regulation-driven, enforced retirement of old rolling stock. This particularly applies to the gondola segment. Over 2015 and 2016, Russia's overall gondola fleet continued to shrink with a total net decrease of about 90 thousand units or 16% compared to the end of 2014. In 2017, gondola production was partially matched by scrappage with the net increase in gondola capacity absorbed by growth in the market demand. This supported a steady rebound in freight rail prices throughout the year. As one of the largest operators of gondola cars, we have benefitted from this trend. In the rail tank car segment, the combination of moderate scrappage rates, minimal new rolling stock production and flat volumes helped the sector to stabilise at the weak levels of 2016.

Operating efficiently

Operationally, 2017 was predominantly about continuing to do what we do well: managing our operations efficiently, reducing costs, and delivering excellent service to our customers.

While our total Transportation Volumes and Freight Rail Turnover remained relatively flat[1] in the reporting year, our business volumes in the gondola segment continued to rise, led by metallurgical cargoes (up 6% year on year) and coal (up 4% year on year). We successfully focused on the most attractive routes and cargoes, which helped drive revenue growth. We continued the transformation of our oil products and oil transportation business with an intentional decrease in the number of leased-in rail tank cars. This was in response to changing market dynamics and new logistic patterns of our key clients. As a result, our volumes in this segment declined 3% year on year.

In a complex logistical operation like ours, efficiency underpins everything we do. The challenges of running a sophisticated 24/7 logistics operation across the world's largest country are enormous. Our expertise and professionalism in this area is unparalleled, and it is our depth of knowledge and technical skills that customers want and we provide. Several years ago, we made the decision to migrate our gondola fleet to a single dispatching hub. This has transformed the efficiency of our gondola operations: we can move complex cargoes more easily; we can redirect our fleet more quickly; and we can manage our Empty Runs and maintenance programmes more effectively.

1 Excluding Engaged Fleet.

"In 2017, Globaltrans delivered a strong financial performance, capitalising on continued growth in the freight rail transportation market and in particular the gondola segment."

Valery Shpakov
Chief Executive Officer

As the cost of running empty railcars remains the single largest cash cost item, managing our Empty Runs is a core objective for our management team. Our Empty Run Ratio statistics remain among the best in the industry and we repeated that performance in 2017. Thanks to the skills of our team and interconnected logistics of our key metallurgical clients, we further improved our Empty Run Ratio for gondola cars to 37% with the Total Empty Run Ratio (for all types of rolling stock) declining to 45%.

The other pillar of operational excellence is superior client service, a concept which Globaltrans pioneered in our markets. Because of our modern asset base, proprietary logistics systems and service culture, we can deliver lasting value to our customers' logistics. We have a very strong partnership ethos, as demonstrated by the multi-year contract renewals we signed with Metalloinvest and Rosneft in 2016. And, I am proud to report that at the beginning of 2018 we extended our long-term partnership with MMK for an additional 18 months until the end of September 2020.

Record results and continued deleveraging

Our key financial metrics were all strongly positive. The Group's Total revenue rose 12% year on year to RUB 78,081 million. Adjusted Revenue increased 18% year on year to RUB 52,094 million, with Net Revenue from Operation of Rolling Stock climbing 19%. The increase in revenues was driven by the further improvement in average pricing along with good efficiency across our fleet. We also continued our excellent record of cost containment, with Total Operating Cash Costs down by 1% year on year. Operating profit rose 86% year on year to RUB 20,156 million. Adjusted EBITDA rose by 46% year on year to RUB 25,789 million, driving a substantial expansion in Adjusted EBITDA Margin which improved to 50%, compared to 40% in 2016. Profit for the year rose 126% to RUB 13,820 million.

The level of Free Cash Flow generated by the Group rose 92% to RUB 17,048 million reflecting modest maintenance CAPEX and moderate investments into fleet expansion. In 2017 we acquired 1,332 units of various rolling stock, including petrochemical tank containers.

25.8bn RUB
Adjusted EBITDA in 2017; an increase of 46% year on year

50%
Adjusted EBITDA Margin in 2017 (2016: 40%)

We ended the year with a Net Debt to Adjusted EBITDA ratio of 0.4x compared to 0.7x at the close of 2016. The strength of our capital position was recognised by the rating agencies Fitch and Moody's who both assigned Globaltrans improved credit ratings (BB+ and Ba2, respectively) highlighting the stable outlook for the Group. Since the 2017 year end, investor confidence in the Group has been further reinforced with the completion of a highly successful RUB 5.0 billion five-year bond placement. Such was the level of investor interest the offering was more than five times oversubscribed and the bond's interest rate of 7.25% was the lowest ever achieved for a Rouble financing in our history.

Under the terms of our new enhanced dividend policy, which the Chairman covers in his statement, we have also been able to reward our shareholders with a substantial return of value in the form of enhanced dividends in 2017, signalling our commitment to creating long-term shareholder value.

Strengthening our management team

As the Group grows larger, it is critically important that we have a strong executive management team in place. As such, I am very pleased to welcome back Sergey Maltsev, who has rejoined the executive management team as Chief Strategy Officer. Sergey was one of the original founders of Globaltrans and so possesses an unrivalled knowledge of our business and our industry. He will focus on developing our future growth plans and I look forward to working closely with him.

Steaming ahead

The broader economy will, as ever, play its part in how the freight rail sector performs. And here there are grounds for optimism, as forecasts point to continued economic growth in 2018, which should underpin increased demand for freight transportation. Industry fundamentals are also more supportive than they have been for some time.

Our management priority over the next year will be to focus on further expansion in the Russian freight rail sector. Looking ahead, we are targeting the acquisition of up to 1,500 units of various types of rolling stock in 2018. We will also continue to look at consolidation plays, as and when they arise, alongside opportunities in niche markets that meet our strategic and returns criteria.

We have a great platform from which to deliver further growth in the coming years. 2018 has started well, market conditions remain favourable and our current trading is in line with our expectations.

Valery Shpakov
Chief Executive Officer

1%
Year on year decline in Total Operational Cash Costs in 2017

37%
Empty Run Ratio for gondola cars in 2017 (2016: 38%)

MARKET REVIEW

Russia's rail network at a glance

Russia and railways are inseparable; the rail network plays a key strategic role in connecting Russia's economy to world markets and linking parts of the country together.

85,500km

Second-longest rail track in the world accounting for nearly 87% of the country's freight turnover excluding pipelines

10,000km

Served from east to west

SERVING THE ECONOMY OF THE LARGEST COUNTRY IN THE WORLD BY THE SIZE OF TERRITORY

4,000km

Served from north to south

1.1m

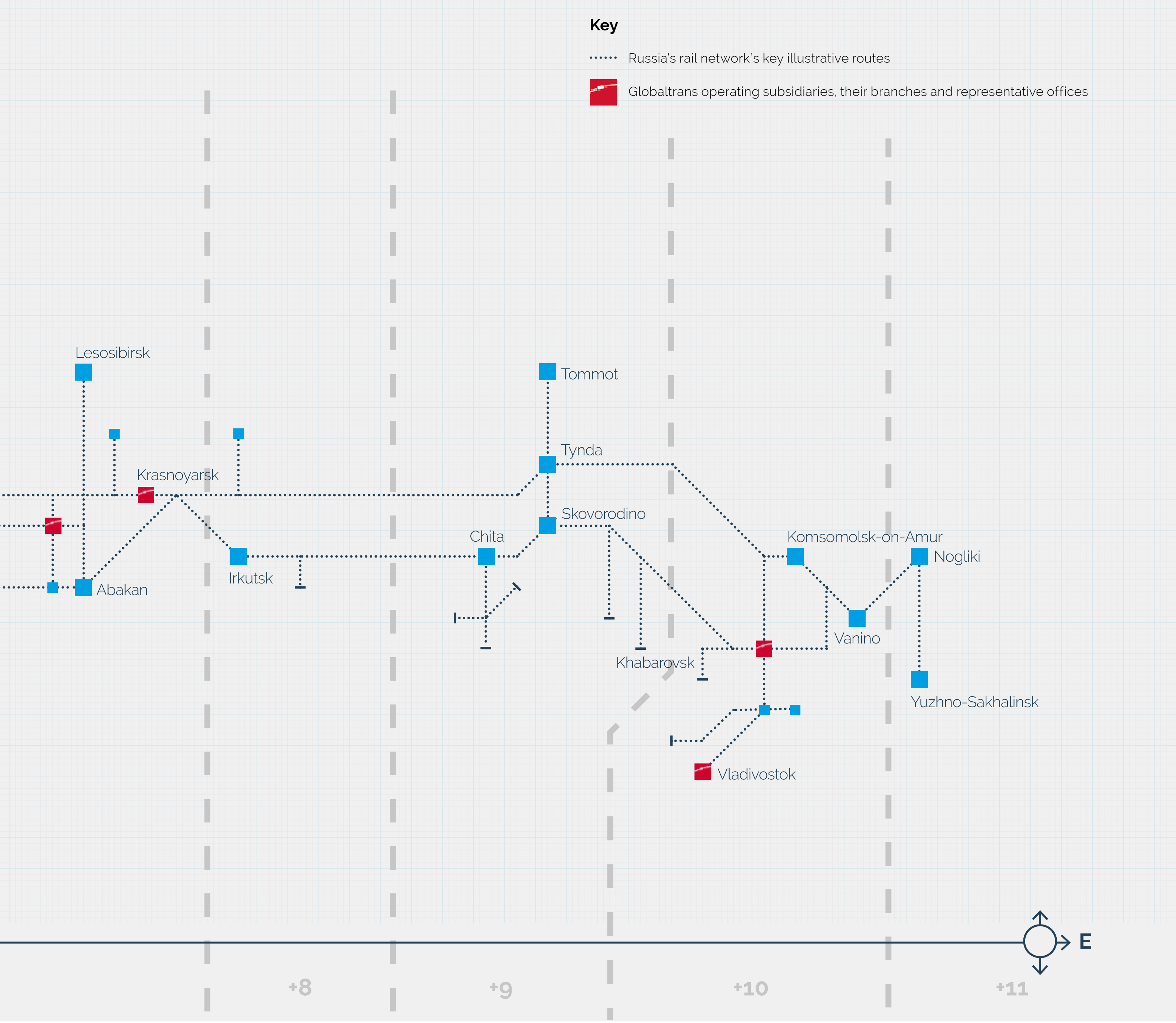
Number of freight railcars operating at the end of 2017

2.5tn

Overall freight rail turnover in 2017 (tonnes-km)

1.3bn

Freight transported in 2017 (tonnes)



Bulk cargoes continue to lead growth

Overall Russia's freight rail turnover grew strongly in 2017 recording a 6% year on year increase to reach 2,493.0 billion tonnes-km. The main drivers behind this strong performance were very favourable dynamics in the bulk cargo transportation alongside an increase in overall journey distances on the back of a shift in client logistics.

In terms of tonnage, the performance in 2017 was also noteworthy. Overall transportation volumes jumped 3% to 1,266.5 million tonnes. As in 2016, bulk cargoes led the outperformance, with particularly robust performances recorded in the coal and metallurgical cargoes segments, which triggered increased demand for gondola cars, the key operational segment for Globaltrans.

Coal was one of the fastest-growing bulk cargo segments in 2017, as rising global thermal coal prices drove exports. Rail shipments of coal (including coke) rose by 9% year on year to 372.7 million tonnes. Coal represented 29% of Russia's overall rail cargo volumes in 2017.

The volumes of the metallurgical cargoes segment (including ferrous metals, scrap metal and ores) increased 1% year on year to 219.4 million tonnes. Ferrous metals were the best performer with volumes increasing, primarily on the back of favourable global conditions. Rail shipments of iron ore, the other main sub-category, were largely in line with the previous reporting period. The share of metallurgical cargoes in overall freight rail transportation volumes in Russia was 17%.

Construction materials (including cement) contributed 13% of Russia's overall freight rail transportation volumes in 2017. Rail shipments of construction materials slipped back by 5% year on year to 160.0 million tonnes after a good performance in 2016. Towards the end of the year these volumes showed signs of recovery.

The oil products and oil segment accounted for 19% of the overall freight rail transportation volumes in 2017. The demand in this segment stabilised in 2017 at 235.7 million tonnes.

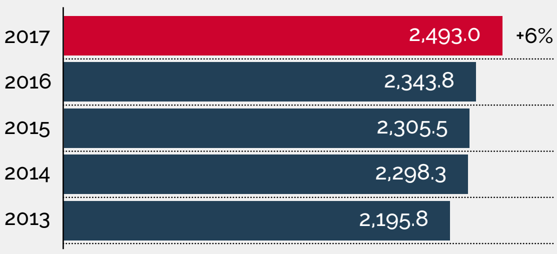
+6%

Year on year increase in overall Russia's freight rail turnover in 2017

+3%

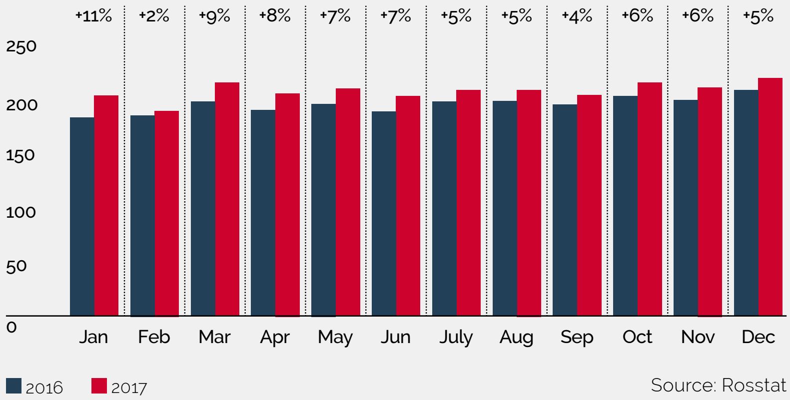
Year on year increase in overall Russia's transportation volumes in 2017

Russia's freight rail turnover, 2013-17 (billion tonnes-km)



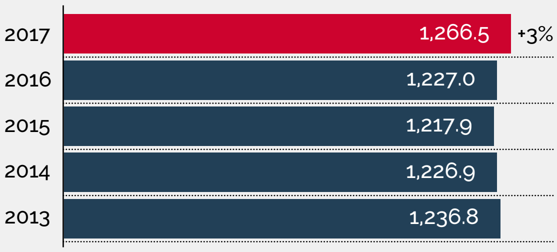
Source: Rosstat

Russia's monthly freight rail turnover, 2016-17 (billion tonnes-km)



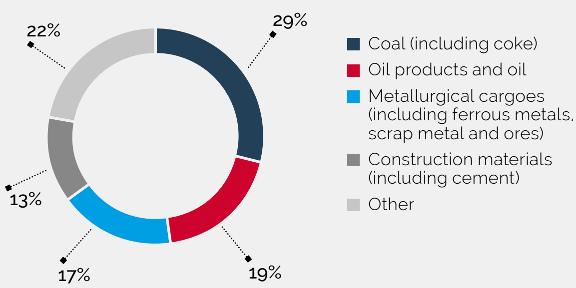
Source: Rosstat

Russia's freight rail transportation volumes, 2013-17 (million tonnes)



Source: Rosstat

Breakdown of Russia's freight rail transportation volumes by cargo, 2017



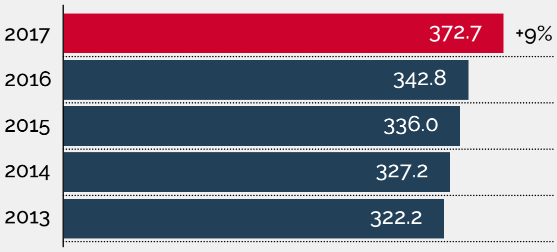
Source: Rosstat

1.1m units

Total Russia's railcar fleet
at the end of 2017

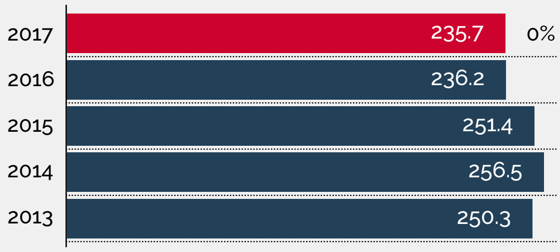
Russia's freight rail transportation volumes by cargo, 2013-17 (million tonnes)

Coal
(including coke)



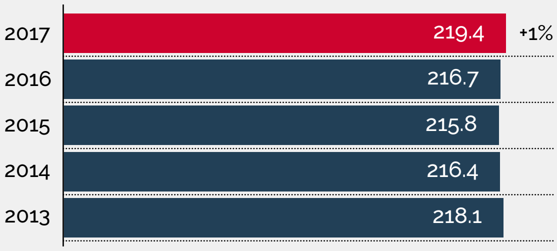
Source: Rosstat

Oil products and oil



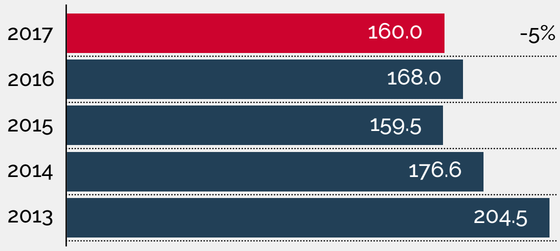
Source: Rosstat

Metallurgical cargoes
(including ferrous metals, scrap metal and ores)



Source: Rosstat

Construction materials
(including cement)



Source: Rosstat

Structural shift in railcar market improves supply-demand dynamics

At the end of 2017, Russia's fleet of rolling stock comprised 1.1 million units, of which gondola cars accounted for 46% of the total or around 493 thousand units and rail tank cars for 23% or around 251 thousand units. The share of other railcars (including flat and hopper cars) was about 30%.

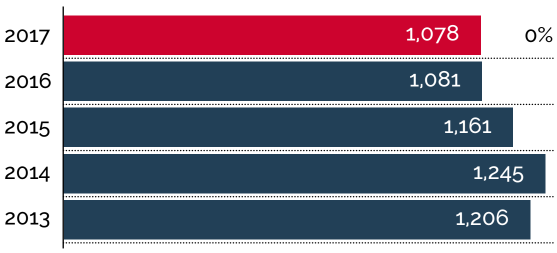
After several years during which the Russian gondola market was in surplus, the market finally came back into balance over the course of 2017. A concerted effort to tackle the oversupply situation began in 2014, when rail operators started widespread decommissioning of old rolling stock. That process accelerated over the course of 2015 and 2016, as government legislation came into force that made decommissioning mandatory for all types of rolling stock, with a few exceptions, once the end of their useful life was reached. Companies like Globaltrans, that own modern fleets, were not materially impacted by the regulatory changes, as these mostly affected those rail operators whose fleets were comprised of older units. Over 2015 and 2016, Russia's overall gondola fleet continued to shrink under the impact of the industry scrappage schemes and minimal railcar replacement production. As a result, there was a total net decrease of about 90 thousand units or 16% compared to the end of 2014. In 2017, the annual gondola production was partially matched by an annual scrappage with the net increase in gondola capacity of about 18 thousand units or 4% absorbed by the growth in the market demand.

The rail tank segment of the market, in contrast, continued to operate at surplus capacity while the decline of overall fleet continued in 2017. Over the last three years, the rail tank car fleet in Russia fell by about 40 thousand units or 14% compared to the end of 2014 on the back of scrappage rates significantly exceeding new production.

46%

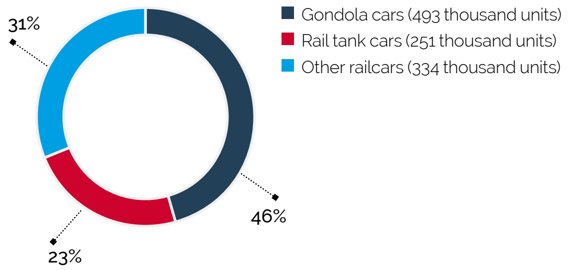
Share of gondola cars of the Total Russia's railcar fleet at the end of 2017

Total Russia's railcar fleet at year-end, 2013-17 (thousand units)



Source: RZD, Company estimations

Total Russia's railcar fleet by car type, at end of 2017 (thousand units)



Source: RZD, Company estimations

OPERATIONAL PERFORMANCE

Our operational platform is fundamental to delivering the full potential of our business. In 2017, we produced a very strong operating performance, as our focus on continuous improvement, quality, efficiency and flexibility continued to drive results across the Group.

Operationally, our strong 2017 results reflected our dedication to the task of continuous operational improvement: maintaining high levels of fleet efficiency, delivering excellent service levels to our customers, and managing down costs.

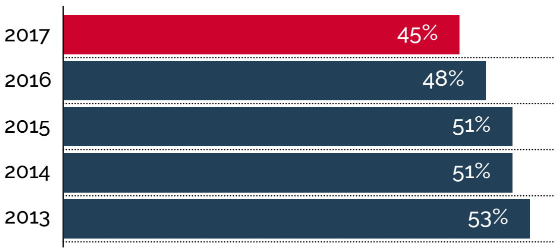
- Freight Rail Turnover and Transportation Volumes stood relatively unchanged year on year[1].
- Strong volume growth in priority bulk cargoes segments – metallurgical cargoes (up 6% year on year) and coal (up 4% year on year), while volumes in oil products and oil segment fell 3% year on year reflecting an intentional decrease in the number of leased-in rail tank cars.
- Average Number of Loaded Trips per Railcar up 2% year on year with Average Distance of Loaded Trip remained stable year on year.
- High fleet efficiency with further improved Empty Run Ratio enabled to reduce Empty Run Costs.
- Continued increase in pricing with Average Price per Trip up 20% year on year.
- Long-term partnership with MMK extended for a further 18 months until the end of September 2020[2].

Key operational information, 2016-17

	2016	2017	Change
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	160.7	**160.1**	0%
Transportation Volume, million tonnes (excluding Engaged Fleet)	92.6	**91.9**	-1%
Freight Rail Turnover, billion tonnes-km (including Engaged Fleet)	182.0	**178.2**	-2%
Transportation Volume, million tonnes (including Engaged Fleet)	103.3	**101.1**	-2%
Average Price per Trip, RUB	28,975	**34,790**	20%
Average Rolling Stock Operated, units	55,178	**53,584**	-3%
Average Distance of Loaded Trip, km	1,723	**1,720**	0%
Average Number of Loaded Trips per Railcar	26.1	**26.7**	2%
Total Empty Run Ratio (for all types of rolling stock), %	48%	**45%**	–
Empty Run Ratio for gondola cars, %	38%	**37%**	–
Share of Empty Run kms Paid by Globaltrans	88%	**86%**	–
Total Fleet, units (year end)	68,511	**66,692**	-3%
Owned Fleet, units (year end)	60,846	**61,250**	1%
Leased-in Fleet, units (year end)	7,665	**5,442**	-29%
Leased-out Fleet (year end)	10,222	**9,080**	-11%
Average age of Owned Fleet (year end)	10.3	**11.1**	–
Total headcount (year end)	1,552	**1,594**	3%

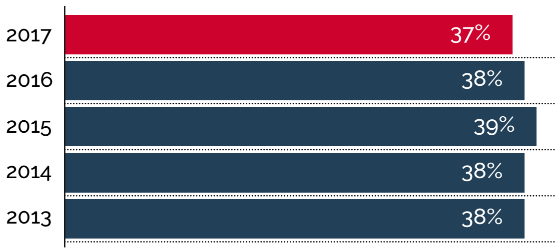
Source: Globaltrans

Total Empty Run Ratio (for all types of rolling stock)



Source: Globaltrans

Empty Run Ratio for gondola cars



Source: Globaltrans

1 Excluding Engaged Fleet.
2 Partnership with MMK was extended at the beginning of 2018.

Strong volumes growth in priority bulk cargo segments

The Group's Freight Rail Turnover and Transportation Volumes remained relatively flat[1] in the reporting year despite the decrease in Average Rolling Stock Operated, which reflected an intentional reduction in the number of leased-in rail tank cars. Freight Rail Turnover amounted to 160.1 billion tonnes-km while Transportation Volumes stood at 91.9 million tonnes in 2017. Railcar turnover slightly improved with Average Number of Loaded Trips per Railcar up 2% year on year and Average Distance of Loaded Trip stood unchanged. Globaltrans continued to maintain its robust market positions with Market Share of Russia's overall freight rail transportation volumes of 8% in 2017.

Bulk cargoes

Globaltrans has built a strong competitive position in the important bulk cargoe segment, providing services to some of the largest companies in Russia. In 2017, the Group experienced volume growth in its priority segments, with metallurgical cargoes growing by 6% and coal volumes increasing by 4% year on year. Non-oil cargoes contributed 78% of the Groups' Transportation Volumes and 87% of Freight Rail Turnover in 2017. The Group's average fleet of gondola cars operated stood relatively unchanged year on year, increasing by 1% to 42,052 units in 2017.

Globaltrans has a particularly strong franchise in the metallurgical segment with 24% Market Share in 2017. Metallurgical cargoes (including ferrous metals, scrap metal and iron ore) are the largest cargo segment for the Group. Globaltrans' key clients in this segment include major blue-chips such as Metalloinvest, MMK, EVRAZ, TMK and Severstal.

The Group has long-term contracts in place with Metalloinvest and MMK under which it provides the bulk of their freight rail transportation needs. In 2017, the metallurgical cargoes segment represented 55% of the Group's total Freight Rail Turnover. While the Group's Transportation Volumes of metallurgical cargoes increased 6% year on year, changes in customer logistics involving shorter trip distances resulted in a 4% year on year decline in respective Freight Rail Turnover. The key contributor to our strong volumes performance was iron ore which added 14% year on year, while ferrous metal volumes were unchanged and scrap metal was down 9% year on year. Market conditions in this sector remained robust in 2017 and overall Russia's freight rail transportation volumes of metallurgical cargoes increased 1% year on year.

In 2017, the Group increased its coal operations in response to strong demand, which saw Russia's overall freight rail transportation volumes of coal increase 9% year on year. The Group's Freight Rail Turnover and Transportation Volumes of coal (including coke) increased by 25% and 4%, respectively, in 2017. Globaltrans' Market Share in this segment stood at 3% in 2017. Coal accounted for 21% of the Group's Freight Rail Turnover in 2017.

In contrast to the strong demand in key bulk markets, the construction materials segment was weak and Russia's overall freight rail transportation volumes of construction materials (including cement) fell 5% year on year in 2017. Globaltrans responded by shifting rolling stock to the coal segment. As a result, the Group's Freight Rail Turnover and Transportation Volumes in this segment declined 23% and 24% year on year, respectively. Construction materials accounted for 5% of the Group's Freight Rail Turnover in 2017. Globaltrans held 6% Market Share in this segment in 2017.

Other cargoes generated 6% of the Globaltrans' Freight Rail Turnover in 2017. This segment's Freight Rail Turnover was up 6% year on year, while volumes decreased 4% over the same period.

Oil products and oil

Overall demand in the oil products and oil segment remained broadly flat maintaining the weak level of 2016. Against this backdrop, the management continued to restructure its oil products and oil transportation business. The Group adjusted to the weaker market conditions and a change in client transport patterns leading to shorter trip distances by reducing the number of leased-in rail tank cars. Consequently, the average number of rail tank cars operated fell by 13% year on year to 10,961 units. The Group's volumes in this segment declined 3% year on year with Freight Rail Turnover down 9% year on year. Oil products and oil accounted for 13% of the Group's Freight Rail Turnover in 2017. Globaltrans maintained a robust market position in this segment with Market Share of 9%. Globaltrans continued to employ the majority of its locomotives for the rail transportation of oil products and oil in block trains, which improves reliability and delivery times.

Continued operational excellence

The Group recognises that operational excellence, continuously improving the business's performance every day, is an absolute prerequisite for success in rail logistics. Globaltrans has invested heavily to support the increasingly complex requirements of its client base and deliver the highest levels of customer service. The Group's entire 43.6 thousand gondola fleet is monitored in real time 24/7 from a single dispatch centre, backed up by advanced destination and intelligent traffic management systems – all managed by experts.

In 2017, the Group remained focused on productivity improvements, examining business processes to eliminate inefficiencies, looking at how freight is handled, how long freight remains stationary and assessing turnaround times. The Group continues to look to optimise its performance with a focus on achieving more productivity from its asset base.

As the cost of running empty railcars remains the single largest cash cost item, managing Empty Runs is absolutely crucial to the Group's productivity and cost containment strategies. Already one of the lowest in the industry, Globaltrans once more improved its Empty Run Ratio metrics in 2017. For the gondola car fleet, the Empty Run Ratio improved to 37% from 38% in 2016, while the Total Empty Run Ratio (for all types of rolling stock) fell to 45% (2016: 48%). This performance enabled the Group to cut its Empty Run Costs despite the annual increase in regulated RZD tariffs for the traction of empty railcars.

Delivering great service to clients

The Group recognises that providing reliable service is the best way to ensure its continued growth. In 2017, management continued to focus on further improving customer satisfaction scores.

In 2017, the Group continued to build deeper partnerships with its clients, delivering lasting value into their logistics. In 2017 the Group worked with over 500 clients across Russia and the CIS region, including blue-chip companies like Rosneft, Metalloinvest, MMK, Gazprom Neft, Evraz, TMK, UGMK-Trans, SDS-Ugol, Severstal and ChelPipe. Its top 10 clients (including their affiliates and suppliers) delivered about 74% of the Group's Net Revenue from Operation of Rolling Stock. A substantial part of the Group's operations is covered by long-term contracts with three large clients (Rosneft, Metalloinvest and MMK). While 2017 saw no major contract renewals, the Group maintained all its key accounts and continued to deliver great service to customers with an additional focus on developing relationships with small and medium enterprises. At the beginning of 2018, Globaltrans extended its long-term partnership with MMK for a further 18 months until the end of September 2020.

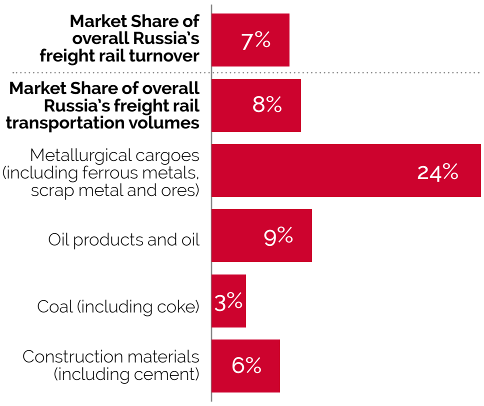
Focused on universal gondola cars

Over the last 10 years, Globaltrans has created one of the largest modern fleets in the industry, which totalled 66,692 units as at the end of 2017. The average age of the Group's Owned Fleet was 11 years, which ensures high service quality and reliability.

Historically Globaltrans focused its business model on operating its Owned Fleet, which accounted for 92% of operations at the end of 2017. The balance of Leased-in Fleet was used to respond tactically to changes in market conditions. In 2017, there was a shift in the overall balance between the Group's Owned Fleet and its Leased-in Fleet, which resulted in an overall decrease of 3% in the Group's Total Fleet. Whilst the size of the Owned Fleet grew 1% to 61,250 units, this was more than offset by a reduction in the size of the Leased-in Fleet, which declined 29% to 5,442 units, reflecting primarily our intentional reduction of leased-in tank cars in response to weak market conditions in the oil products and oil segment.

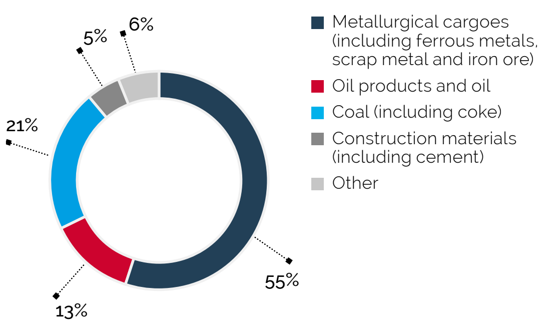
Universal gondola cars continue to form the backbone of the Group's fleet and remain the key area of focus, given the Group's strong position in the rail transportation of bulk cargoes. The total gondola fleet amounted to 43,603 units, representing 65% of the Group's Total Fleet. The average age of the Group's owned gondola fleet was 10 years against a useful life expectancy of 22 years. Rail tank cars accounted for 30% of the Group's Total Fleet with 20,122 units. The average age of the Group's owned rail tank fleet is 14 years while the useful life of this type of rolling stock is 32 years. Other railcars (including platforms, hoppers and others) totalled 1,262 units, comprising 2% of the Owned Fleet.

Globaltrans' Market Share by cargo, 2017



Source: Company estimations, Rosstat

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2017[1]



Source: Globaltrans

1 Excluding Engaged Fleet.

Over the last few years, Globaltrans has successfully expanded its presence into the niche petrochemicals segment, where the total number of tank containers reached 1,636 units or 2% of the Total Fleet at the end of 2017.

The Group also runs one of the largest privately-owned locomotive fleets in Russia, primarily used for the rail transportation of oil products and oil in block trains. At the end of 2017, the Group's total fleet of locomotives amounted to 69 units.

Globaltrans deployed about 86% of its Total Fleet in its core freight rail transportation business. The remaining 14% (9,080 units), which primarily consists of rail tanks, was leased to clients in Russia and the CIS.

Globaltrans' Freight Rail Turnover, 2016-17 (billion tonnes-km)[1]

	2016	2017	Change, %
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	91.4	**87.8**	-4%
Oil products and oil	22.6	**20.5**	-9%
Coal (including coke)	27.5	**34.3**	25%
Construction materials (including cement)	10.4	**8.0**	-23%
Other	8.8	**9.4**	6%
Total	**160.7**	**160.1**	**0%**

Globaltrans' Transportation Volume, 2016-17 (million tonnes)[1]

	2016	2017	Change, %
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	42.8	**45.5**	6%
Oil products and oil	20.8	**20.2**	-3%
Coal (including coke)	10.0	**10.4**	4%
Construction materials (including cement)	12.0	**9.1**	-24%
Other	6.9	**6.6**	-4%
Total	**92.6**	**91.9**	**-1%**

Breakdown of Globaltrans' Net Revenue from operation of Rolling Stock by largest clients (including their affiliates and suppliers)

	2016	2017
Rosneft	34%	**25%**
Metalloinvest	13%	**15%**
MMK	14%	**15%**
Gazprom Neft	8%	**7%**
Evraz	5%	**5%**
TMK	1%	**2%**
UGMK-Trans	2%	**2%**
SDS-Ugol	0%	**2%**
Severstal	1%	**1%**
ChelPipe	1%	**1%**
Other (including small and medium enterprises)	21%	**26%**

Globaltrans' Total Fleet by type (units; end of the year)

	2016	2017	Change, %
Owned	60,846	**61,250**	1%
Leased-in	7,665	**5,442**	-29%
Total	**68,511**	**66,692**	**-3%**

Source: Globaltrans

Globaltrans' Total Fleet by Type, end-2017 (units)

	Owned	Leased-in	Total	% of total
Gondola cars	41,282	2,321	**43,603**	65%
Rail tank cars	18,133	1,989	**20,122**	30%
Locomotives	69	0	**69**	0.1%
Other railcars (including flat, hopper cars, etc)	510	752	**1,262**	2%
Petrochemical tank containers	1,256	380	**1,636**	2%
Total	**61,250**	**5,442**	**66,692**	**100%**

Source: Globaltrans

FINANCIAL REVIEW

+46%

Year on year increase in Adjusted EBITDA in 2017

+50%

Adjusted EBITDA Margin in 2017 (2016: 40%)

0.4x

Net Debt to Adjusted EBITDA at the end of 2017 (end of 2016: 0.7x)

Continued strong financial performance and further strengthened balance sheet

- Total revenue rose 12% year on year to RUB 78.1 billion.
- Adjusted Revenue increased 18% year on year to RUB 52.1 billion.
- Total Operating Cash Costs reduced by 1% year on year, driven by efficient fleet management and thorough cost control.
- Operating profit rose 86% year on year to RUB 20.2 billion.
- Adjusted EBITDA increased 46% to RUB 25.8 billion, with Adjusted EBITDA Margin expanding to 50%.
- Free Cash Flow up 92% year on year to RUB 17.0 billion due to a strong increase in cash generated from operations.
- Attributable Free Cash Flow increased 114% year on year to RUB 15.5 billion.
- Profit for the year was up 126% year on year to RUB 13.8 billion.
- Leverage further improved with Net Debt to Adjusted EBITDA at 0.4x (2016 end: 0.7x).
- Net Debt declined 1% to RUB 11.4 billion compared to the end of 2016. 100% of debt denominated in RUB, the Company's functional currency.

"Globaltrans produced a strong financial performance in 2017. The significant revenue growth coupled with tight control of operating expenditure delivered an excellent profit performance. Our robust cash generation led to further deleveraging and helped underpin our new dividend policy."

Alexander Shenets
Chief Financial Officer

Results in detail

The following table provides the Group's key financial and operational information for the years ended 31 December 2017 and 2016.

EU IFRS financial information

	2016 RUB mln	2017 RUB mln	Change %
Revenue	69,488	**78,081**	12%
Total cost of sales, selling and marketing costs and administrative expenses	(58,780)	**(58,698)**	0%
Operating profit	10,824	**20,156**	86%
Finance costs – net	(2,312)	**(1,802)**	-22%
Profit before income tax	8,451	**18,354**	117%
Income tax expense	(2,336)	**(4,534)**	94%
Profit for the year	6,115	**13,820**	126%
Profit attributable to:			
Owners of the Company	4,473	**12,289**	175%
Non-controlling interests	1,642	**1,531**	-7%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	25.02	**68.75**	175%

	2016 RUB mln	2017 RUB mln	Change %
Cash generated from operations	17,663	**27,496**	56%
Tax paid	(1,588)	**(3,632)**	129%
Net cash from operating activities	16,076	**23,864**	48%
Net cash used in investing activities	(4,482)	**(4,028)**	-10%
Net cash used in financing activities	(10,615)	**(19,171)**	81%

Non-GAAP financial information

	2016 RUB mln	2017 RUB mln	Change %
Adjusted Revenue	44,249	**52,094**	18%
Including:			
Net Revenue from Operation of Rolling Stock	41,757*	**49,709***	19%
Operating leasing of rolling stock	1,473	**1,212**	-18%
Net Revenue from Engaged Fleet	199*	**173***	-13%
Other revenue	820	**1,000**	22%
Total Operating Cash Costs	26,490	**26,303**	-1%
Including:			
Empty Run Cost	12,428*	**12,154***	-2%
Repairs and maintenance	3,605	**3,769**	5%
Employee benefit expense	2,946	**3,426**	16%
Operating lease rentals – rolling stock	1,557	**1,634**	5%
Adjusted EBITDA	17,677	**25,789**	46%
Adjusted EBITDA Margin, %	40%	**50%**	–
Free Cash Flow	8,882	**17,048**	92%
Attributable Free Cash Flow	7,240	**15,517**	114%

Debt profile

	As of 31 December 2016 RUB mln	As of 31 December 2017 RUB mln	Change %
Total debt	16,292	**16,331**	0%
Cash and cash equivalents	4,773	**4,966**	4%
Net Debt	11,519	**11,365**	-1%
Net Debt to Adjusted EBITDA (x)	0.7	**0.4**	–

Operational information

	2016	2017	Change %
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	160.7	**160.1**	0%
Transportation Volume, million tonnes (excluding Engaged Fleet)	92.6	**91.9**	-1%
Freight Rail Turnover, billion tonnes-km (including Engaged Fleet)	182.0	**178.2**	-2%
Transportation Volume, million tonnes (including Engaged Fleet)	103.3	**101.1**	-2%
Average Price per Trip, RUB	28,975	**34,790**	20%
Average Rolling Stock Operated, units	55,178	**53,584**	-3%
Average Distance of Loaded Trip, km	1,723	**1,720**	0%
Average Number of Loaded Trips per Railcar	26.1	**26.7**	2%
Total Empty Run Ratio (for all types of rolling stock), %	48%	**45%**	–
Empty Run Ratio for gondola cars, %	38%	**37%**	–
Share of Empty Run kms paid by Globaltrans	88%	**86%**	–
Total Fleet, units (at year end), including:	68,511	**66,692**	-3%
Owned Fleet, units (at year end)	60,846	**61,250**	1%
Leased-in Fleet, units (at year end)	7,665	**5,442**	-29%
Leased-out Fleet, units (at year end)	10,222	**9,080**	-11%
Average age of Owned Fleet, years (at year end)	10.3	**11.1**	–
Total number of employees (at year end)	1,552	**1,594**	3%

Revenue

The Group's Total revenue rose 12% year on year to RUB 78,081 million in 2017, while Adjusted Revenue increased by 18% year on year. Net Revenue from Operation of Rolling Stock (a key component of Adjusted Revenue) was up 19% year on year driven by the continued strong market environment in the gondola segment.

The following table provides details of Total revenue, broken down by revenue-generating activity, for the years ended 31 December 2017 and 2016.

	2016 RUB mln	2017 RUB mln	Change %
Railway transportation – operators services (tariff borne by the Group)[1]	42,658	**44,371**	4%
Railway transportation – operators services (tariff borne by the client)	24,538	**31,497**	28%
Operating leasing of rolling stock	1,473	**1,212**	-18%
Other	820	**1,000**	22%
Total revenue	**69,488**	**78,081**	**12%**

1 Includes "Infrastructure and locomotive tariffs: loaded trips" for 2017 of RUB 22,508 million (2016: RUB 22,251 million) and "Services provided by other transportation organisations" for 2017 of RUB 3,478 million (2016: RUB 2,988 million).

Adjusted Revenue
Adjusted Revenue is a non-GAAP financial measure defined as "Total revenue" adjusted for "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations". "Infrastructure and locomotive tariffs: loaded trips" comprises revenue resulting from tariffs that customers pay to the Group and the Group pays on to OAO Russian Railways (RZD), which are reflected in equal amounts in both the Group's Total revenue and Cost of sales. "Services provided by other transportation organisations" is revenue resulting from the tariffs that customers pay to the Group and the Group pays on to third-party rail operators for subcontracting their rolling stock, which are reflected in equal amounts in both the Group's Total revenue and Cost of sales. The net result of Engaged Fleet operations is reflected as Net Revenue from Engaged Fleet and is included in Adjusted Revenue.

In 2017, the Group's Adjusted Revenue grew 18% year on year to RUB 52,094 million, mainly due to a 19% year on year increase in Net Revenue from Operation of Rolling Stock, which was partially offset by a decline in revenues from auxiliary leasing and Engaged Fleet operations.

The following table provides details of Adjusted Revenue for the years ended 31 December 2017 and 2016, and its reconciliation to Total revenue.

	2016 RUB mln	**2017 RUB mln**	Change %
Total revenue	69,488	**78,081**	12%
Minus "pass through" items			
Infrastructure and locomotive tariffs: loaded trips	22,251	**22,508**	1%
Services provided by other transportation organisations	2,988	**3,478**	16%
Adjusted Revenue	**44,249**	**52,094**	**18%**

The principal components of Adjusted Revenue include: (i) Net Revenue from Operation of Rolling Stock, (ii) Revenue from operating leasing of rolling stock, (iii) Net Revenue from Engaged Fleet, and (iv) other revenues generated by the Group's auxiliary business activities, including freight forwarding, freight rail transportation of petrochemicals in tank containers, repair and maintenance services provided to third parties, and other.

The following table provides a breakdown of the components of Adjusted Revenue for the years ended 31 December 2017 and 2016.

	2016 RUB mln	**2017 RUB mln**	Change %
Net Revenue from Operation of Rolling Stock	41,757*	**49,709***	19%
Operating leasing of rolling stock	1,473	**1,212**	-18%
Net Revenue from Engaged Fleet	199*	**173***	-13%
Other	820	**1,000**	22%
Adjusted Revenue	**44,249**	**52,094**	**18%**

Net Revenue from Operation of Rolling Stock
Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure, derived from management accounts, describing the net revenue generated from freight rail transportation and is defined as "Total revenue – operator's services" less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisations" and Net Revenue from Engaged Fleet.

Net Revenue from Operation of Rolling Stock contributed 95% of the Group's Adjusted Revenue in 2017.

The following table provides Net Revenue from Operation of Rolling Stock for the years ended 31 December 2017 and 2016, and its reconciliation to Total revenue – operator's services.

	2016 RUB mln	2017 RUB mln	Change %
Total revenue – operator's services[1]	67,195	**75,868**	13%
Minus			
Infrastructure and locomotive tariffs: loaded trips	22,251	**22,508**	1%
Services provided by other transportation organisations	2,988	**3,478**	16%
Net Revenue from Engaged Fleet	199*	**173***	-13%
Net Revenue from Operation of Rolling Stock	**41,757***	**49,709***	**19%**

The Group's Net Revenue from Operation of Rolling Stock increased by 19% year on year to RUB 49,709 million* in 2017. This strong performance was underpinned by the continued strong market environment in the gondola segment:

- Average Price per Trip increased 20% year on year to RUB 34,790;
- Average Rolling Stock Operated was down 3% year on year to 53,584 units which was driven by an intentional decline in the number of leased-in rail tank cars; and
- Average Number of Loaded Trips per Railcar was up 2% year on year to 26.7 trips.

Revenue from operating leasing of rolling stock
Revenue from operating leasing of rolling stock, which contributed 2% of the Group's Adjusted Revenue in 2017, dropped 18% year on year to RUB 1,212 million, reflecting a decline in leasing rates in the rail tank car segment along with a reduction in number of non-core specialised railcars leased-out due to sale to third parties.

Net Revenue from Engaged Fleet
Net Revenue from Engaged Fleet is a non-GAAP financial measure, derived from management accounts, that represents the net sum of the price charged to clients for transportation by the Group utilising Engaged Fleet less the loaded railway tariff charged by RZD (included in the EU IFRS line item "Infrastructure and locomotive tariffs: loaded trips") and less the cost of engaging fleet from third-party rail operators (included in the EU IFRS line item "Services provided by other transportation organisations").

In 2017, Net Revenue from Engaged Fleet, comprising less than 1% of the Group's Adjusted Revenue, decreased 13% year on year to RUB 173 million*. This was driven by lower volumes and decreased profitability of the Engaged Fleet operations on the back of the gondola segment recovery.

Other revenue
Other revenue (2% of the Group's Adjusted Revenue), which mainly includes revenues from auxiliary services, grew 22% year on year to RUB 1,000 million. This reflected an increase in revenue from the transportation of petrochemicals in tank containers on the back of gradual commissioning into operation of purchased tank containers.

Cost of sales, selling and marketing costs and administrative expenses
The following table provides a breakdown of Cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2017 and 2016.

	2016 RUB mln	2017 RUB mln	Change %
Cost of sales	54,906	**54,609**	-1%
Selling and marketing costs	235	**238**	1%
Administrative expenses	3,639	**3,851**	6%
Total cost of sales, selling and marketing costs and administrative expenses	**58,780**	**58,698**	**0%**

1 Defined as the sum of the following EU IFRS line items: "Railway transportation – operator's services (tariff borne by the Group)" and "Railway transportation – operator's services (tariff borne by the client)".

In 2017, the Group's Total cost of sales, selling and marketing costs and administrative expenses stood stable year on year and amounted to RUB 58,698 million, largely reflecting the factors described below.

- "Pass through" cost items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations") rose 3% year on year to RUB 25,986 million; and
- The Group's Cost of sales, selling and marketing costs and administrative expenses adjusted for the "pass-through" cost items decreased 2% year on year to RUB 32,712 million in 2017, which reflected:
  - Continued excellent cost control with Total Operating Cash Costs down 1% year on year to RUB 26,303 million.
  - Total Operating Non-Cash Costs were down 9% year on year to RUB 6,409 million in 2017 driven primarily by a decline in Loss on derecognition arising on capital repairs along with Amortisation of intangible assets and Impairment of property, plant and equipment.

In order to show the dynamics and nature of the Group's cost base, individual items of Total cost of sales, selling and marketing costs and administrative expenses have been regrouped as shown below:

	2016 RUB mln	2017 RUB mln	Change %
"Pass through" cost items	**25,239**	**25,986**	**3%**
Infrastructure and locomotive tariffs: loaded trips	22,251	**22,508**	1%
Services provided by other transportation organisations	2,988	**3,478**	16%
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**33,541**	**32,712**	**-2%**
Total Operating Cash Costs	**26,490**	**26,303**	**-1%**
Empty Run Costs	12,428*	**12,154***	-2%
Repairs and maintenance	3,605	**3,769**	5%
Employee benefit expense	2,946	**3,426**	16%
Operating lease rentals – rolling stock	1,557	**1,634**	5%
Fuel and spare parts – locomotives	1,494	**1,519**	2%
Infrastructure and Locomotive Tariffs – Other Tariffs	1,438*	**949***	-34%
Engagement of locomotive crews	576	**662**	15%
Other Operating Cash Costs	2,447	**2,189**	-11%
Total Operating Non-Cash Costs	**7,051**	**6,409**	**-9%**
Depreciation of property, plant and equipment	4,958	**4,962**	0%
Amortisation of intangible assets	836	**718**	-14%
Loss on derecognition arising on capital repairs	887	**528**	-40%
Impairment charge for receivables	82	**61**	-26%
Impairment of property, plant and equipment	228	**111**	-51%
Net loss on sale of property, plant and equipment	59	**29**	-52%
Total cost of sales, selling and marketing costs and administrative expenses	**58,780**	**58,698**	**0%**

"Pass through" cost items

Infrastructure and locomotive tariffs: loaded trips

Infrastructure and locomotive tariffs: loaded trips is in principle a "pass through" cost item for the Group[2] and is reflected in equal amounts in both the Group's Total revenue and Cost of sales. This cost item rose 1% year on year to RUB 22,508 million in 2017 primarily due to an increase in the regulated RZD tariffs (including for the traction of empty railcars).

Services provided by other transportation organisations

Services provided by other transportation organisations is in principle a "pass through" cost item for the Group and is reflected in equal amounts in both the Group's Total revenue and Cost of sales and includes tariffs that the Group pays to third-party rail operators for subcontracting their rolling stock (Engaged Fleet).

On the back of the gondola segment recovery, Services provided by other transportation organisations increased 16% year on year to RUB 3,478 million in 2017.

2 Under contracts where the RZD tariff is borne by the Group, the Group has a contractual relationship with the client. The Group sets the terms of the transactions, such as selling and payment terms and in some cases, bears credit risk and controls the flow of receipts and payments.

Total Operating Cash Costs

Total Operating Cash Costs (a non-GAAP financial measure) represent operating cost items payable in cash and calculated as "Total cost of sales, selling and marketing costs and administrative expenses" less the "pass through" cost items and non-cash cost items.

The Group's Total Operating Cash Costs decreased 1% year on year to RUB 26,303 million in 2017 due to a combination of factors described below.

The following table provides a breakdown of the Total Operating Cash Costs for the years ended 31 December 2017 and 2016.

	2017 % of total	2016 RUB mln	**2017 RUB mln**	Change %
Empty Run Costs	46%	12,428*	**12,154***	-2%
Repairs and maintenance	14%	3,605	**3,769**	5%
Employee benefit expense	13%	2,946	**3,426**	16%
Operating lease rentals – rolling stock	6%	1,557	**1,634**	5%
Fuel and spare parts – locomotives	6%	1,494	**1,519**	2%
Infrastructure and Locomotive Tariffs – Other Tariffs	4%	1,438*	**949***	-34%
Engagement of locomotive crews	3%	576	**662**	15%
Other Operating Cash Costs	8%	2,447	**2,189**	-11%
Total Operating Cash Costs	**100%**	**26,490**	**26,303**	**-1%**

Empty Run Costs

Empty Run Costs (a non-GAAP financial measure meaning costs payable to RZD for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of "Cost of sales" reported under EU IFRS.

In 2017, Empty Run Costs accounted for 46% of the Group's Total Operating Cash Costs. This cost item declined 2% year on year to RUB 12,154 million* in 2017. This resulted from a combination of the following factors:

- 6% year on year increase in the regulated RZD tariffs (including for the traction of empty railcars);
- The Group's Total Empty Run Ratio (for all types of rolling stock) decreased to 45% (2016: 48%) with the Empty Run Ratio for gondola cars improving to 37% (2016: 38%);
- The Share of Empty Run Kilometres paid by Globaltrans improved to 86% in 2017 from 88% in the previous year; and
- The Group's Freight Rail Turnover stood broadly flat year on year.

Repairs and maintenance

Repairs and maintenance costs, which comprised 14% of the Group's Total Operating Cash Costs in 2017, increased 5% year on year to RUB 3,769 million as the inflationary driven growth in the cost of spare parts along with a rise in the number of depot repairs were partially offset by a decline in the number of current repairs and increase in proceeds from the sale of second-hand spare parts.

Employee benefit expense

Employee benefit expense, which accounted for 13% of the Group's Total Operating Cash Costs, increased 16% year on year to RUB 3,426 million in 2017. This reflected a 3% year on year increase in the average headcount, a rise in wages and salaries as well as higher bonus payments and a related increase in social insurance costs.

Operating lease rentals – rolling stock

Operating lease rentals – rolling stock, which comprised 6% of the Group's Total Operating Cash Costs in 2017, was up 5% year on year to RUB 1,634 million, reflecting a rise in leasing rates for gondola cars. This was partially offset by the intentional reduction in the average number of rail tank cars leased-in compared to the previous year.

Fuel and spare parts – locomotives

Fuel and spare parts – locomotives expenses, comprising 6% of the Group's Total Operating Cash Costs, totalled RUB 1,519 million in 2017, 2% higher than in the previous year. The increase in this cost item reflected an inflation-driven increase in fuel costs and a rise in the number of spare parts used.

Infrastructure and Locomotive Tariffs – Other Tariffs

Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure, derived from management accounts), which is presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of cost of sales reported under EU IFRS. This cost item includes the costs of the relocation of rolling stock to and from maintenance, the transition of purchased rolling stock to its first place of commercial utilisation, and the relocation of rolling stock in and from lease operations as well as other expenses including empty run costs attributable to petrochemical tank container business.

Infrastructure and Locomotive Tariffs – Other Tariffs (4% of the Group's Total Operating Cash Costs) totalled RUB 949 million* in 2017, a decrease of 34% year on year, reflecting a decline in the cost of relocation of rolling stock in and from lease operations and the optimisation of other expenses related to the arrangement of transportation services.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD (3% of the Group's Total Operating Cash Costs) increased 15% year on year to RUB 662 million in 2017, primarily reflecting an increase in engagement costs.

Other Operating Cash Costs

Other Operating Cash Costs (a non-GAAP financial measure) include cost items such as "Advertising and promotion", "Auditors' remuneration", "Communication costs", "Information services", "Legal, consulting and other professional fees", "Rental of tank containers", "Operating lease rentals – office", "Taxes (other than income tax and value added taxes)" and "Other expenses".

The following table provides a breakdown of the Other Operating Cash Costs for the years ended 31 December 2017 and 2016.

	2016 RUB mln	**2017 RUB mln**	Change %
Advertising and promotion	28	**31**	13%
Auditors' remuneration	64	**56**	-12%
Communication costs	35	**37**	6%
Information services	27	**19**	-29%
Legal, consulting and other professional fees	71	**69**	-3%
Rental of tank containers	65	**64**	-2%
Operating lease rentals – office	208	**180**	-14%
Taxes (other than on income and value added taxes)	839	**746**	-11%
Other expenses	1,111	**987**	-11%
Other Operating Cash Costs	**2,447**	**2,189**	**-11%**

Other Operating Cash Costs, which comprised 8% of the Group's Total Operating Cash Costs, were down 11% to RUB 2,189 million in 2017 compared to the previous year. The reduction in this cost item reflected a decrease in Taxes (other than income tax and value added taxes) which predominantly includes property tax, a decrease in Operating lease rentals – office along with Other expenses.

Total Operating Non-Cash Costs

Total Operating Non-Cash Costs (a non-GAAP financial measure) include cost items such as "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Loss on derecognition arising on capital repairs", "Impairment charge for receivables", "Impairment of property, plant and equipment" and "Net (gain)/loss on sale of property, plant and equipment".

The following table provides a breakdown of the Total Operating Non-Cash Costs for the years ended 31 December 2017 and 2016.

	2016 RUB mln	2017 RUB mln	Change %
Depreciation of property, plant and equipment	4,958	**4,962**	0%
Amortisation of intangible assets	836	**718**	-14%
Loss on derecognition arising on capital repairs	887	**528**	-40%
Impairment charge for receivables	82	**61**	-26%
Impairment of property, plant and equipment	228	**111**	-51%
Net loss on sale of property, plant and equipment	59	**29**	-52%
Total Operating Non-Cash Costs	**7,051**	**6,409**	**-9%**

Total Operating Non-Cash Costs were down 9% year on year to RUB 6,409 million in 2017, mainly reflecting a combination of the following key factors:

- Amortisation of intangible assets was at RUB 718 million, down 14% year on year owing to the full amortisation of the client relationship with Metalloinvest in the first six months of 2017; and
- Loss on derecognition arising on capital repairs[1] declined 40% year on year to RUB 528 million reflecting the lower number of capital repairs undertaken in the reporting year.

Adjusted EBITDA (non-GAAP financial measure)

Adjusted EBITDA (a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction gain/(losses) from financing activities", "Share of profit/(loss) of associate", "Other gains – net", "Net (gain)/loss on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Impairment of intangible assets", "Loss on derecognition arising on capital repairs" and "Reversal of impairment of intangible assets".

In 2017 the Group's Adjusted EBITDA reached RUB 25,789 million, representing a 46% increase compared to the previous year.

The Adjusted EBITDA Margin expanded to 50% from 40% in the previous year, on the back of a 18% year on year rise in Adjusted Revenue and a 1% year on year decline in Total Operating Cash Costs.

The following table provides details on Adjusted EBITDA for the years ended 31 December 2017 and 2016, and its reconciliation to EBITDA and Profit for the year.

	2016 RUB mln	2017 RUB mln	Change %
Profit for the year	**6,115**	**13,820**	**126%**
Plus (Minus)			
Income tax expense	2,336	**4,534**	94%
Finance costs – net	2,312	**1,802**	-22%
Net foreign exchange transaction losses from financing activities	(291)	**(237)**	-19%
Amortisation of intangible assets	836	**718**	-14%
Depreciation of property, plant and equipment	4,958	**4,962**	0%
EBITDA	**16,266**	**25,600**	**57%**
Minus (Plus)			
Loss on derecognition arising on capital repairs	(887)	**(528)**	-40%
Net foreign exchange transaction losses from financing activities	(291)	**(237)**	-19%
Other gains – net	116	**85**	-27%
Share of loss of associate	(61)	**–**	-100%
Net loss on sale of property, plant and equipment	(59)	**(29)**	-52%
Impairment of property, plant and equipment	(228)	**(111)**	-51%
Reversal of impairment of intangible assets	–	**630**	NM
Adjusted EBITDA	**17,677**	**25,789**	**46%**

1 The cost of each major periodic capital repair (including the replacement of significant components) is recognised in the carrying amount of the relevant item of rolling stock repaired and separately depreciated. Simultaneously, the carrying amount of the repaired rolling stock that is attributable to the previous periodic capital repair and/or significant component replacement, if any, is derecognised and debited in "Cost of sales" in the income statement as "Loss on derecognition arising on capital repairs" for the period during which the repair was carried out.

Finance income and costs

The following table provides a breakdown of finance income and costs for years ended 31 December 2017 and 2016.

	2016 RUB mln	2017 RUB mln	Change %
Included in finance costs:			
Borrowings from third parties	(2)	**–**	-100%
Bank borrowings	(2,271)	**(1,992)**	-12%
Total interest expense	(2,274)	**(1,992)**	-12%
Other finance costs	(7)	**(55)**	722%
Total finance costs	**(2,280)**	**(2,046)**	**-10%**
Included in finance income:			
Loans receivables from third parties	0.2	**3**	1,651%
Bank balances	60	**86**	43%
Short-term deposits	183	**346**	89%
Finance leases	16	**46**	186%
Total interest income	259	**481**	86%
Total finance income	**259**	**481**	**86%**
Net foreign exchange transaction (losses)/gains on borrowings, dividend payable and other liabilities	(1)	**272**	NM
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	(290)	**(508)**	**75%**
Net foreign exchange transaction losses from financing activities	**(291)**	**(237)**	**-19%**
Net finance costs	**(2,312)**	**(1,802)**	**-22%**

Total finance costs
The decline in the Group's average level of total debt and the weighted average effective interest rate over the year led to a 10% year on year decrease in Total finance costs to RUB 2,046 million in 2017.

Total finance income
In 2017, the Group's total finance income climbed 86% year on year to RUB 481 million, reflecting primarily an increase in the amount of short-term bank deposits and bank balances.

Net foreign exchange transaction losses from financing activities
Net foreign exchange transaction losses from financing activities (including available cash and cash equivalents denominated in foreign currency and dividend payable) were down 19% year on year to RUB 237 million, reflecting the lower foreign exchange volatility compared to the previous year.

Profit before income tax
The Group reported Profit before income tax of RUB 18,354 million in 2017, representing an increase of 117% compared to the previous year. This was driven by the following factors:

- 86% year on year rise in the Group's Operating profit to RUB 20,156 million, largely due to the factors described above; and
- 22% year on year reduction in Net finance costs to RUB 1,802 million.

Income tax expense
Income tax expense increased 94% to RUB 4,534 million in 2017, reflecting the 117% rise in the Group's Profit before income tax, which was partially offset by the decline in the weighted average annual income tax rate for 2017 to 24.7% compared to 27.6% in 2016.

The decrease in the weighted average annual income tax rate reflects the decrease in the provision for withholding tax on intra-Group dividends as compared to the previous year.

Profit for the year
The Group's Profit for the year grew 126% year on year and reached RUB 13,820 million in 2017, reflecting the factors described above.

Profit attributable to owners of the Company climbed 175% year on year to RUB 12,289 million primarily benefitting from the strong performance delivered by the wholly-owned gondola business as described above.

Liquidity and capital resources

In 2017, the Group's capital expenditure consisted primarily of maintenance CAPEX (including capital repairs) and the selective acquisition of gondola cars and petrochemical tank containers. The Group was able to meet its liquidity and capital expenditure needs comfortably through operating cash flow, cash and cash equivalents available at 31 December 2016, and proceeds from borrowings.

The Group manages its liquidity based on expected cash flows. As at 31 December 2017, the Group had Net Working Capital of RUB 979 million*. Given its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to operate successfully.

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for the years ended 31 December 2017 and 2016.

	2016 RUB mln	**2017 RUB mln**
Cash flows from operating activities	17,875	**25,877**
Changes in working capital:		
Inventories	202	**106**
Trade and other receivables	(268)	**763**
Trade and other payables	(146)	**748**
Cash generated from operations	17,663	**27,496**
Tax paid	(1,588)	**(3,632)**
Net cash from operating activities	**16,076**	**23,864**
Cash flows from investing activities		
Loans repayments received from third parties	16	**11**
Purchases of property, plant and equipment	(4,932)	**(4,872)**
Purchases of intangible assets	(10)	**–**
Proceeds from disposal of property, plant and equipment	177	**268**
Proceeds from sale of associates	–	**61**
Interest received	262	**481**
Receipts from finance lease receivable	4	**24**
Net cash used in investing activities	**(4,482)**	**(4,028)**
Cash flows from financing activities		
Net cash outflows from borrowings[1]	(4,088)	**(13)**
Interest paid	(2,252)	**(1,944)**
Contribution from non-controlling interests	8	**–**
Dividends paid to Company's shareholders	(2,218)	**(15,014)**
Dividends paid to non-controlling interests	(2,065)	**(2,200)**
Net cash used in financing activities	**(10,615)**	**(19,171)**
Net increase in cash and cash equivalents	978	**665**
Exchange losses on cash and cash equivalents	(309)	**(473)**
Cash and cash equivalents at beginning of year	4,104	**4,773**
Cash and cash equivalents at end of year	**4,773**	**4,966**

Net cash from operating activities

In 2017, Net cash generated from operating activities rose 48% year on year to RUB 23,864 million, reflecting a 56% year on year increase in Cash generated from operations (after "Changes in working capital"), offset in part by a 129% year on year increase in Tax paid.

1 Net cash inflows (outflows) from borrowings defined as the balance between the following line items: "Proceeds from borrowings" and "Repayments of borrowings".

Net cash used in investing activities

Net cash used in investing activities amounted to RUB 4,028 million, 10% lower than in the previous year, while purchases of property, plant and equipment remained relatively unchanged.

- Purchases of property, plant and equipment (including maintenance CAPEX) decreased 1% year on year to RUB 4,872 million as greater expansion CAPEX, including selective acquisitions of gondola cars and petrochemical tank containers, was more than offset by lower maintenance CAPEX as a result of a decrease in the number of capital repairs compared to the previous year;
- In 2017, the proceeds from the sale of property, plant and equipment increased 51% to RUB 268 million primarily reflecting the scrappage of railcars that had come to the end of their useful life, increased prices for scrap as well as the sale of non-core specialised railcars to third parties; and
- Interest received was up 84% year on year to RUB 481 million primarily reflecting an increase in the amount of short-term bank deposits and bank balances.

Net cash used in financing activities

Net cash used in financing activities amounted to RUB 19,171 million in 2017, an increase of 81% compared to the previous year. This was due to a combination of the following factors:

- In 2017, the Net cash outflows from borrowings and finance leases[1] reached RUB 13 million compared to RUB 4,088 million in the previous year reflecting the net effect of proceeds and repayment of borrowings broadly balancing each other;
- 14% year on year decrease in Interest paid to RUB 1,944 million in 2017, due to the improvement in the Group's weighted average effective interest rate and a decrease in the average level of total debt over the year;
- The increase in Dividends paid to Company's shareholders to RUB 15,014 million compared to RUB 2,218 million in 2016 reflecting a combination of dividends paid in respect of 2016 and interim and special interim dividends paid in respect of first half of 2017; and
- 7% year on year increase in Dividends paid to non-controlling interests to RUB 2,200 million in 2017.

Free Cash Flow

Free Cash Flow (a non-GAAP financial measure) is calculated as "Cash generated from operations" (after "Changes in working capital") less "Tax paid", "Interest paid", "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets" and "Acquisition of subsidiary undertakings – net of cash acquired".

The Group's Free Cash Flow was RUB 17,048 million, up 92% compared to 2016. This was driven by a combination of the following factors:

- Cash generated from operations (after "Changes in working capital") increased 56% to RUB 27,496 million primarily due to the factors described above; and
- 129% year on year increase in Tax paid partially offset by a 1% year on year decrease in the Purchase of property, plant and equipment (including maintenance CAPEX) and a 14% year on year reduction in Interest paid.

The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for the years ended 31 December 2017 and 2016, and its reconciliation to Cash generated from operations.

	2016 RUB mln	**2017 RUB mln**	Change %
Cash generated from operations (after "Changes in working capital")	17,663	**27,496**	56%
Tax paid	(1,588)	**(3,632)**	129%
Interest paid	(2,252)	**(1,944)**	-14%
Purchases of property, plant and equipment	(4,932)	**(4,872)**	-1%
Purchases of intangible assets	(10)	**–**	-100%
Free Cash Flow	**8,882**	**17,048**	**92%**
Minus			
Adjusted Profit Attributable to Non-controlling Interests[2]	1,642	**1,531**	-7%
Attributable Free Cash Flow	**7,240**	**15,517**	**114%**

2 Adjusted Profit Attributable to Non-controlling Interests (a non-GAAP financial measure) is calculated as "Profit attributable to non-controlling interests" less share of "Impairment of property, plant and equipment" and "Impairment of intangible assets" attributable to non-controlling interests.

Capital expenditure

The Group's capital expenditure for the acquisition of fleet (including maintenance CAPEX) on an accrual basis[1] was RUB 4,765 million in 2017, a decrease of 1% compared to the previous year.

This change reflects larger expansion CAPEX, which were more than offset by a lower number of capital repairs in the reporting period. In 2017, the Group acquired 1,332 units (including 706 gondola cars from the secondary market, 556 new petrochemical tank containers and 70 flat cars) compared to 1,211 units in the previous year.

Capital resources

As of 31 December 2017, the Group's Total debt was broadly steady at 16,331 million (including accrued interest of RUB 82 million*). The Group's financial indebtedness consisted primarily of bank borrowings.

The Group's Net Debt was RUB 11,365 million as of 31 December 2017, a 1% decrease from the level of Net Debt at the end of 2016.

The Group's leverage further improved with a ratio of Net Debt to Adjusted EBITDA for the year ended 31 December 2017 of 0.4x, compared with 0.7x at the end of 2016.

The following table sets out the details on the Group's total debt, Net Debt and Net Debt to Adjusted EBITDA at 31 December 2017 and 2016, and reconciliation of Net Debt to total debt.

	As of 31 December 2016 RUB mln	**As of 31 December 2017 RUB mln**	Change %
Total debt	16,292	**16,331**	0%
Minus			
Cash and cash equivalents	4,773	**4,966**	4%
Net Debt	**11,519**	**11,365**	**-1%**
Net Debt to Adjusted EBITDA	**0.7x**	**0.4x**	**–**

Rouble-denominated borrowings accounted for 100% of the Group's debt portfolio as of the end of 31 December 2017. The Russian Rouble is the functional currency of the Company.

The weighted average effective interest rate further reduced to 9.4% as of 31 December 2017 compared to 11.0% as of the end of 2016 on the back of continued improvement in the Russian financial market conditions. The vast majority of the Group's debt had fixed interest rates as of 31 December 2017.

The Group has a balanced maturity profile, supported by the Group's strong cash flow generation, available cash and cash equivalents, as well as undrawn borrowing facilities in the amount of RUB 19,140 million as of 31 December 2017.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of RUB 82 million*) as of 31 December 2017.

	As of 31 December 2017 RUB mln
Q1 2018	**2,598***
Q2 2018	**1,038***
Q3 2018	**2,464***
Q4 2018	**1,181***
2019	**5,727***
2020	**1,924***
2021-22	**1,400***
Total	**16,331**

1 Including assets under construction.

Related party transactions

For the purposes of this Annual Report, including the Group's Consolidated Management Report and Consolidated 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.

Maple Valley Investments, Onyx Investments and Marigold Investments[2] are Company's shareholders with a direct shareholding as at 31 December 2016 and as at 31 December 2017 of 11.2%, 11.5% and 11.5%, accordingly (2016: 11.5% each).

As of 31 December 2017 and 31 December 2016, Litten Investment Limited, controlled by a member of key management of the Company has a shareholding in the Company of 6.3%[3].

As at 31 December 2017, 59.4% (2016: 59%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company. The remaining 0.1% (2016: 0.2%) of the shares of the Company are controlled by Directors and key management of the Company.

The following table gives a summary of transactions, which were carried out with related parties for the years ended 31 December 2017 and 2016.

	2016 RUB mln	**2017 RUB mln**
Sales of services: associate	0.3	**484**
Purchases of services: associate	–	**116**
Key management compensation[4]	759	**1,058**

The following table gives the year-end balances with related parties arising from sales/purchases of goods/services.

	2016 RUB mln	**2017 RUB mln**
Trade receivable from related parties: associate	1	**–**
Accrued key management remuneration	385	**524**

The following table shows the Group's operating lease commitments under non-cancellable operating leases with its associate.

	2016 RUB mln	**2017 RUB mln**
Group as a lessee	31	**–**
Group as a lessor	99	**–**

More information is available in Note 30 to the Group's Consolidated Management Report and Consolidated Financial Statements included in the Financial Statements section of this Annual Report.

2 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov co-founders of Globaltrans and are beneficiaries with regard to 11.2%, 11.5% and 11.5%, respectively, of Globaltrans' ordinary share through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments).
3 Beneficially owned by Alexander Eliseev, Executive Director and co-founder of Globaltrans.
4 Key management salaries and other short-term employee benefits' include Directors' remuneration paid to the Directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to RUB 130 million (2016: RUB 131 million).

RISK MANAGEMENT

Globaltrans faces a wide range of potential and current risks to its business. To identify, evaluate and mitigate these risks, the Group has established a system for monitoring and controlling uncertainties and threats that it faces. This system is overseen by a dedicated Risk Management function, which reports directly to the Board of Directors.

Globaltrans has grouped the risks that it considers to be significant into key categories – strategic, operational, compliance and financial – and they are presented below. The list is not exhaustive, and the order of the information does not reflect the probability of occurrence or the magnitude of any potential effect. Additional risks not currently known or ones currently considered immaterial could also have an impact on the Group's business, financial condition, operational results and prospects, as well as the trading price of its global depositary receipts (GDRs).

STRATEGIC: RISKS THAT INFLUENCE THE GROUP'S ABILITY TO ACHIEVE ITS STRATEGY

Risk	Description	Controls and mitigating factors
General economic situation and operating environment	The Group and its subsidiaries operate mainly in Russia, other emerging markets and the Baltics. Emerging markets, such as Russia, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative uncertainties. Moreover, the Group's business depends on demand in the Russian freight rail transportation market, which in turn depends on certain key commodity sectors and, accordingly, on economic conditions in Russia, Europe and elsewhere. A decrease in production and demand for key commodities in Russia, or in adjacent countries where the commodities of the Group's key customers are shipped by rail, as a result of a technological shift, economic downturn, political crisis or other event in Russia or another relevant country, negatively impacts the Group's business and growth prospects. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia, and by Russia on other countries, have had a negative impact on the Russian economy, resulted in a significant weakening of the Russian Rouble, made it harder to raise funding from international sources and had a negative impact on the freight rail transportation market and on the Group's business. The ongoing threat of further sanctions by the United States, the European Union and other countries, and by Russia on other countries, and the continuation or escalation of turmoil in the region or of turmoil in the broader political landscape, could affect the Group's ability to conduct its business, increase the negative impact on the Russian economy and have a negative impact on the demand for key commodities in Russia and may increase the cost of borrowing for the Group. The threat of sanctions against the Group's existing customers or any difficulties in their financial condition as a result of worsening market conditions or otherwise may decrease demand for the Group's services and/or negatively impact the Group's logistics. In addition, the political instability in Ukraine could have a negative impact on the Group's business and assets in Ukraine and/or on the ability of the Group's customers to carry on business in Ukraine.	Mitigation methodology involves understanding the political and economic uncertainties of the operating environment and the risks faced in our business operations. The Group's compliance and legal teams constantly monitor changes in legislation and report them to the Group's management and Board of Directors while the finance and business teams monitor economic developments. The counterparties, banks and transactions of the Group are constantly reviewed by Group's compliance and legal teams to ensure full compliance with all applicable legislation. Risk managers have direct access to the Group's key management. The Group maintains a balanced fleet as one of the cornerstones of its business model. A balanced fleet (between universal gondola cars, adaptable to the demand for the transportation of various bulk cargoes, and rail tank cars, which are used for the transportation of oil products and oil) enables the Group to adapt to market conditions and reduces its dependence on any one cargo flow. In addition, the Group has entered into long-term service contracts with several large clients. Management assesses the possible impairment of the Group's tangible and intangible assets by considering the current economic environment and outlook. Management believes that it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

STRATEGIC: RISKS THAT INFLUENCE THE GROUP'S ABILITY TO ACHIEVE ITS STRATEGY

Risk	Description	Controls and mitigating factors
Regulatory risk and relations with government authorities and state-owned enterprises	The Group is subject to regulatory risks relating to the operation of the Russian railway transportation market and railway industry reform. Any changes to the regulatory environment of the Russian railway transportation market or in other markets where the Group operates, including but not limited to, railway tariff regulations and technical requirements for fleet maintenance, could negatively impact the Group's business, its profitability and prospects for further business growth. Government authorities have significant influence over the functioning of the Russian railway transportation market. Any deterioration in the Group's direct or indirect relationship with government authorities at either the local or federal level could result in greater government scrutiny of the Group's business and the manner in which it conducts its operations or less effective access to services dependent upon government authorities. In addition, the Group relies on the services (including maintenance and repairs), infrastructure and information provided by, and its relationship with, RZD, an entity controlled by the state. While the Group has enjoyed a good relationship with RZD, there is no assurance it will always continue to do so in the future or that RZD will not increase its charges for such service provision and infrastructure use. Railway transportation regulations in countries bordering Russia may change, limiting the access of the Group's rolling stock on certain territories.	The management of the Group regularly monitors changes to the regulatory regime of the railway transportation market in the countries in which it operates. The Group has a diversified portfolio of service providers (e.g. for rolling stock repair services), which allows it to use private repair depots (including two in-house repair facilities) to ensure less dependence on RZD-owned depots, obtain higher-quality service and to minimise the costs of that service. RZD remains the only provider of infrastructure and locomotive traction services, although the Group does operate its own locomotives in the form of block trains (cargo or client specific Group-operated block trains all going in the same direction) on some routes. The Group also continues to monitor market liberalisation reforms to ensure that it can take advantage of any opportunities when they arise. The Group monitors Federal Antimonopoly Service (FAS) initiatives regarding railway tariff regulation and also seeks to minimise its exposure to adverse changes in RZD's regulated tariffs for usage of infrastructure and locomotive traction by providing that these changes are adequately passed on to the Group's customers where possible.
Growth strategies	Business growth can be constrained by a limited supply of long-term funding, an increase in the cost of borrowing and/or adverse market conditions that can have a negative impact on the return on any investments. Although the Group takes a conservative approach to investments, any deterioration in market environment may negatively impact the profitability and payback period of investments in rolling stock, thus limiting the Group's return on its investments and ability to expand its business. Alongside pursuing organic growth strategies, the Group has expanded its operations through acquisitions in its history, and may pursue more in the future if appropriate opportunities arise. The pursuit of an acquisition strategy entails certain risks, including problems with integrating and managing such new acquisitions. The expiration of long-term service contracts with its key customers may also limit the Group's growth opportunities.	Any valuation of an acquisition target is subject to review by external advisers, and fairness opinions are normally provided by recognised valuers to the Group's Board of Directors when a transaction is considered. Any acquisition of rolling stock is matched against projected demand for railway transportation and the economically viable expected payback period for such investments. The Group deals with numerous rolling stock producers in Russia and other CIS countries without placing too much reliance on any particular supplier.

STRATEGIC: RISKS THAT INFLUENCE THE GROUP'S ABILITY TO ACHIEVE ITS STRATEGY

Risk	Description	Controls and mitigating factors
Competition and customer concentration	The Russian freight rail transportation market is highly competitive, with unregulated operators' services tariffs. The ongoing market consolidation is leading to greater price competition. The risk of irrational supply of railcars on the market by railcar producers and/or irrational behaviour of competitors/new market entrants may place additional pressure on the profitability of railway transportation and thus negatively impact the Group. Competition between railway transportation and other means of transportation, including but not limited to, oil product and oil transportation by pipeline, river and road, may negatively impact the Group's business volumes and profitability. The Group's customer base is characterised by significant concentration: the business is heavily dependent on a few large industrial groups and their suppliers, with its top 10 customers and their suppliers accounting for around 74% of the Group's Net Revenue from Operation of Rolling Stock in 2017. While the Group has long-term contracts with several key customers, failure to extend and/or maintain the current service contracts or for such customers to have the volume requirements they have had in the past may have a negative impact on its operational results and financial performance.	Globaltrans has significant competitive advantages that mitigate some of the risks of competition. These advantages include its strong reputation for high-quality service and reliability; its independent status; its long-term partnership with customers; its sophisticated operating capabilities; and its modern fleet. The Group has long-term, established relationships with its key customers and their affiliates and suppliers. In most cases, Globaltrans has become an integrated part of their operations. Around 55% of the Group's Net Revenue from Operation of Rolling Stock in 2017 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.
Locomotive traction	The Group is dependent on RZD to issue permits allowing it to operate locomotives and to approve its use of locomotives for particular routes. If those routes are not in demand by the Group's clients, their utilisation could be lower. Furthermore, there is uncertainty about the prospects for, and the timing of, further deregulation of locomotive traction.	The Group has a competitive advantage in providing freight rail transportation services to some clients, as it operates own locomotives for the traction of block trains dedicated to particular routes. By assembling full trains composed only of its own railcars, the Group increases the speed and reliability of transportation for its clients. The Group has established controls to obtain the timely renewal of locomotive operation licences and respective permits from RZD. The Group regularly monitors the progress of the reform relating to continuing deregulation in locomotive traction. In addition, the Group's management actively participates in the development of the required regulation through various dedicated industrial organisations and partnerships.

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY

Risk	Description	Controls and mitigating factors
Infrastructure	The physical infrastructure owned and operated by RZD on which the Group is dependent to operate its rolling stock largely dates back to Soviet times, particularly its rail network, but also the railway network and other physical infrastructure in Kazakhstan and Ukraine. In some cases, it has not been adequately maintained, which could negatively affect the condition of the Group's rolling stock, performance and business. RZD tariffs for the use of the railway network and the provision of locomotive services are regulated by the FAS and are in principle "pass-through" items for the Group and other private freight rail operators. Meanwhile, RZD tariffs for traction of empty railcars are in most cases a direct cost to the Group and other private freight rail operators. Significant upward changes in the regulated tariffs, whether as a result of annual indexation or changes in the tariff-setting methodology, could have an adverse effect on the Group's business.	Practically all of the Group's rolling stock is insured against damage. Moreover, as a freight carrier on the railway network, RZD bears full responsibility for third-party losses caused by accidents on the network. The Group monitors its rolling stock through its dispatch centre on a 24/7 basis and plans its routes accordingly to minimise the risks of disruption. The Group monitors FAS initiatives with the aim of detecting possible changes in tariff-setting methodology and tries to reflect relevant changes in contracts with customers.
Operational performance	Rising inflation in Russia may increase the Group's costs, while the Group may have limited opportunities to increase tariffs to customers.	Among the Group's key objectives are to increase operational efficiency and to focus on control and reduction of costs. The Group continuously monitors its costs to maintain efficiency.
Employees	The Group's future success will partly depend on its ability to continue to attract, retain and motivate key employees and qualified personnel, in particular an experienced management team, logistics and railway experts. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.	Adequate remuneration packages, which are in line with or in excess of market levels, are offered to all employees and key managers and remuneration is linked to the Group's financial results. The Human Resource function regularly monitors salary levels and other benefits offered by competitors to ensure that the Group's remuneration packages are adequate.
Customer satisfaction	Customers rely on the Group for the provision of high-quality freight rail transportation and other related services and expect the Group to be commercially responsive to their needs. These include the timely collection and delivery of cargo and availability of rolling stock, which is not always within the direct control of the Group because it is dependent upon RZD for locomotive traction and maintenance of infrastructure. Accordingly, timely delivery of cargo is highly dependent on a third party whose performance could be unsatisfactory for the Group's customers.	The Group has a strong reputation for delivering good-quality, reliable and flexible freight rail transportation services to its customers. Customer satisfaction is one of the key metrics that the Group's management monitors. Each customer is assigned an account manager responsible for the day-to-day relationship with that customer. Customer feedback is analysed and appropriate follow-up actions are taken. The Group has a track record of high customer retention and the majority of key customers stay with it for many years. In addition, the Group serves several key clients on the basis of long-term contracts and has recently extended some of these.

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY

Risk	Description	Controls and mitigating factors
IT availability/ continuity	The Group uses specialised rail transport and logistics software to ensure the efficiency and effectiveness of its logistics, dispatching and rolling stock tracking services. These systems are either licensed to the Group and then customised to the Group's needs or delivered to the Group and maintained for its needs by third parties under service agreements. The Group may potentially meet risks related to access privileges, audit trails, authentication, authorisation, backup procedures, business continuation, change management (software and hardware), data integrity, disaster recovery, infrastructure, information/data security and cyber-attacks.	Local IT specialists have introduced solutions to maintain the availability of IT services and ensure their recovery in case of disruption. The IT function and Internal Audit function monitor all IT-related activities and performance for compliance with IT policies and procedures.
Risks of terrorist attacks, natural disasters or other catastrophic events beyond the Group's control	The Group's business operations could be adversely affected or disrupted by terrorist attacks, natural disasters (such as earthquakes, floods, tsunamis, hurricanes, fires or typhoons) or other catastrophic or otherwise disruptive events – including changes to predominant natural weather, sea and climatic patterns, piracy, sabotage, insurrection, military conflict or war, riots or civil disturbance, radioactive or other material environmental contamination, an outbreak of a contagious disease or changes to sea levels – which may adversely affect global or regional trade volumes or customer demand for cargo transported to or from affected areas, or lead to denial of the use of any railway, port, airport, shipping service or other means of transport and disrupt customers' logistics chains. In addition, the Group may be exposed to extreme weather conditions, such as severe cold periods and icy conditions, that disrupt activities in ports that are destination points for customer cargoes. Furthermore, many of these events may not be covered by the Group's insurance or any applicable insurance may not adequately cover any resulting losses. The Group's rolling stock could be adversely affected by unlawful acts in Russia or neighbouring countries. The occurrence of any such events may reduce the Group's business volumes, cause idle time for its rolling stock or disruptions to its operations in part or in whole, subject the Group to liability or impact its brand and reputation and otherwise hinder normal operations. This could have a material adverse effect on the Group's business, results of operations or financial condition.	The Group's rolling stock is insured against damage, and the responsibility for third-party losses caused by accidents on the network lies with RZD. The Group permanently monitors any disruptive events and applies a Business Continuity Policy to: • Ensure the safety of employees and human life; • Maintain continuity of time-critical services; • Minimise disruptions to clients and partners; and • Minimise operational, financial and reputational impact.

COMPLIANCE: RISKS THAT INFLUENCE THE GROUP'S ADHERENCE TO RELEVANT LAWS AND REGULATIONS

Risk	Description	Controls and mitigating factors
Pending and potential legal action	The Group is involved in material legal actions from time to time. Such actions may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and could result in claims from government authorities not expected by the Group.	The Group runs its operations in compliance with tax, currency, labour, customs, antimonopoly and other applicable legislation and constantly monitors any changes in the regulatory environment. The Group monitors its compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to rigorous review by all of the Group functions concerned and to a formal approval process prior to execution.
Fiscal risk	Local tax, currency and customs legislation, especially in Russia, other emerging markets and Cyprus, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation.	The Group has controls in place, including highly-qualified and experienced personnel, to monitor changes in legislation and determine the appropriate action needed to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group retains external consultants.

FINANCIAL: RISKS THAT INFLUENCE THE GROUP'S FINANCIAL PERFORMANCE

Risk	Description	Controls and mitigating factors
Currency risks	Currently, the Group has a negligible share of borrowings and lease liabilities denominated in US Dollars and does not have formal arrangements for hedging this foreign exchange risk. The Group therefore has limited exposure to the effects of currency fluctuations between the US Dollar and the Russian Rouble. The Group is also exposed to the effects of currency fluctuations between the Russian Rouble (the functional currency of the Group) and the Euro (the functional currency of the Group's Estonian subsidiaries), and between the Russian Rouble and the Ukrainian Hryvnia (the functional currency of the Group's Ukrainian subsidiary).	A large proportion of the Group's revenues and expenses are denominated and settled in Russian Roubles. At present, the risks related to liabilities denominated in foreign currency are not material and are partly compensated for by assets and income denominated in foreign currency. The Group has refinanced nearly all of its liabilities denominated in US Dollars with long-term debt denominated in Russian Roubles. Since 2008, the Group has taken action to mitigate currency risks and adjusted the profile of the borrowings in its credit portfolio. As of 31 December 2017, nearly all the Group's debt was denominated in Russian Roubles.

FINANCIAL: RISKS THAT INFLUENCE THE GROUP'S FINANCIAL PERFORMANCE

Risk	Description	Controls and mitigating factors
Interest-rate risks	The Group's income and operating cash flows are exposed to changes in market interest rates. These arise mainly from floating rate lease liabilities and borrowings. An increase in market interest rates in Russia may negatively influence the Group's profits.	The Group concludes long-term borrowing and finance lease contracts to finance purchases of rolling stock and acquisitions of subsidiaries. The Group borrows 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 that the Group has financial liabilities with both floating and fixed interest rates. As of 31 December 2017, nearly all of the Group's debt was at fixed interest rates. Management also considers alternative means of financing.
Credit risk	Financial assets that potentially subject the Group to credit risk consist principally of trade receivables, cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including their affiliates and suppliers. Its top 10 clients accounted for 74% of the Group's trade and other receivables as of 31 December 2017 and around 74% of the Group's Net Revenue from Operation of Rolling Stock in 2017.	The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The majority of bank balances are held with reliable banks.
Liquidity risk	The Group's business is capital-intensive. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia have had a negative impact on the Russian financial markets and have limited the Group's access to international sources of funding. Any lack of available funding and potential increases in market interest rates could have a negative impact on the Group's ability to obtain financing for the settlement of its liabilities or cash to meet its financial obligations.	The Group has a budgeting policy in place that allows the management to control current liquidity based on expected cash flows. These include, among others, operating cash flows, capital expenditure needs, funds borrowed from financial institutions and funds raised from listed debt instruments.

CORPORATE SOCIAL RESPONSIBILITY

The Group publishes its first sustainability report on the pages to follow. The separate report on non-financial information and our statement on diversity will be published by the end of June 2018 and will be available on the Globaltrans' corporate website (www.globaltrans.com).

Our approach to Sustainability

At Globaltrans, we understand that a company seeking to grow successfully for the long-term needs to operate in a financially, socially and environmentally responsible manner. Therefore we take the sustainability of our business very seriously as we are constantly striving to improve our business. As a result, we are able to drive change and make our business a better and safer place to work – which contributes directly to our financial and strategic objective of achieving operational excellence.

The Group also fully recognises its fundamental responsibilities as a corporate entity and employer and we are committed to protecting the rights of our people, customers, suppliers and other stakeholders. We strictly observe all local and international regulations in regard to human rights, workers' rights, and anti-corruption requirements and we are committed to creating a working environment that is safe, productive and motivating for our people.

Ethics and behaviour

To foster a productive working atmosphere and promote good corporate behaviour within its workforce, the Group has adopted a Code of Ethics and Conduct with which every employee must comply. This Code addresses important aspects of interaction between the Group and its employees and at its heart lies a commitment to open dialogue regarding these important matters.

The Code contains a list of core values that apply to all actions of the Group and its employees and we do not tolerate any conduct that is contrary to these values, which include:

Tolerance so that the Group and its employees understand and respect diverse cultures and people with different views. Our employees should also be capable of appreciating a different point of view and without prejudice or bias work with people whose background and outlook are different from their own, including those of a different nationality, race, gender, religion, sexual orientation, social position or political views.

Impartiality to strive to act objectively and professionally. In the performance of his/her duties, an employee is required to ensure that his/her personal values, relations, financial interests, beliefs or national peculiarities do not prevent the proper performance of his/her duties.

Respect of all employees. The Group and its partners must comply with all requirements of applicable labour laws, including health and occupational safety, sexual harassment, equal employment opportunities, wages and overtime provisions. The Group must also maintain a working environment which encourages the open communication of all ethical matters.

Equality for all – both in terms of opportunities and creating a working environment that excludes discrimination and harassment in any form.

Safety is a critical core value for Globaltrans and central to delivering compliance with our required rules to create a safe and healthy workplace. The Group aims to eliminate all safety issues and in turn, employees are expected to report any concerns or observations to their managers regardless of the degree of seriousness of an issue.

All the employees of the Group are required to sign an acknowledgement that they have received, read and understood the Code of Ethics and Conduct.

In addition, the Group has adopted an anti-fraud policy designed to develop the internal controls that allow to identify and prevent fraud, establish the necessary procedures and rules for dealing with any issues, and has appointed the team responsible for the development of internal controls and investigations.

The Group maintains a zero tolerance regime to all forms of corruption and bribery and is committed to maintaining a corporate culture where everyone understands the risks and consequences of such unethical behaviour.

Fraud prevention measures apply to all personnel of the Group. Each employee of the Group is required to understand the types of violations that may occur within the area of his/her responsibility and closely monitor any indications of potential non-compliance.

The Group has also adopted a Whistle-Blowing Policy that governs the investigation and reporting of improper activities, including non-compliance with the Code of Ethics and Conduct, and allows employees to submit certain concerns in a confidential and anonymous manner. Appropriate channels have been introduced to handle these reports for suspected improper activities.

Wrongdoing means actions by the Group's employees, members of the management bodies of the Group, or third parties, related to non-compliance with the Code of Ethics and Conduct of Globaltrans, actions that may qualify as fraud pursuant to the Anti-Fraud Policy, and any other actions related to the violation of principles and rules of the functioning of the Group's internal controls.

We take any reports of wrongdoings very seriously and they are investigated thoroughly and appropriately and may result in disciplinary actions against an employee if found responsible. Compliance with this Whistle-Blowing Policy is mandatory for all employees of the Group, including those of its subsidiaries and branches.

Our employees
Globaltrans considers the wellbeing of its employees to be central to its success. The Group strives to maintain exemplary working standards, ensure job satisfaction and create opportunities for professional growth. The Group's personnel policy focuses on creating a positive atmosphere at all offices and facilities to help maximise productivity. As part of this, it offers medical insurance, support for further education, regular opportunities for additional qualifications and training, and financial support in difficult times.

It is key for the Group's future success that it continues to attract, retain and motivate employees. Therefore, the Group's personnel approach and policies are designed to create an efficient staff recruitment and training system, to maximise employee development opportunities, and to ensure that remuneration is both competitive and fair through a personnel performance-based motivation and incentive system (with both financial and non-financial rewards).

The Group also operates an Employee Incentivisation Programme, which is provided over and above Russia's employment law requirements, with a benefits package that consists of two parts – fixed and discretionary – based on key performance indicators ("KPIs") and the number of years of employment at the Group. This may include bonus opportunities, private medical insurance, training budget and other benefits.

We aim to be an employer of choice in Russia and in the transportation industry, which means that as well as making Globaltrans an attractive place to work, we seek to build employee engagement to ensure their needs are being met and any concerns are being heard. For example, the major Group companies have established an Employee Hotline to deal quickly and effectively with any questions an employee may have. The Hotline operates on the basis that: no communication may be left without due attention. Outside the workplace, we also organise regular sports events for employees with a special focus on team sports and cultural and leisure events for employees and their families.

Health and safety
The health and safety of every employee is of paramount importance to Globaltrans and underpins the Group's success. To that end, the Group actively trains and educates personnel in occupational safety to develop a culture of awareness and responsibility in the workplace. The Group also regularly checks conditions in the workplace to ensure that they continue to meet high standards. Taking care of its employees' health and safety is essential for Globaltrans. For many years the Group has worked to create and improve a safe working environment, set rules and procedures that everyone understands, and continuously raise awareness of its employees and customers on safety matters.

Diversity
Globaltrans does not have a formal policy concerning aspects such as age, gender or educational and professional backgrounds, but follows the best practice behaviours embedded in the Group's Core Values of Equality, Impartiality and Respect when making new appointments and is focused on simply hiring the best person for the job. Having said that, traditionally our industry has a large percentage of men working in roles such as engineering and logistics. We work to ensure that there is no bias towards either gender and that all appointments and internal promotions are made on the basis of merit.

Looking at the current composition of the Board of Directors, these aspects are taken into account and as of the end of 2017 the Board had two females representing approximately 14% of the total number of directors. The age demographic of the Board of Directors ranged from over 30 to over 70 years, with the average age being 51 years. We recognise the value of diversity in our business and the Board members have been taken from a wide variety of backgrounds in order to provide a strong insight of the transport industry as well as to contribute business acumen in general: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management.

Our customers
Our customers rely on us for high-quality freight rail transportation services and we need to be commercially responsive to their needs. We have a strong reputation for delivering high-quality, reliable and flexible freight rail transportation services and customer satisfaction is one of the key metrics monitored to gauge our performance.

We are proud of our tailored approach to client relationships – each customer is assigned an account manager responsible for the day-to-day relationship with that customer. Customer feedback is analysed and appropriate follow-up actions are taken to ensure that the standards of service continually improve; best practices are then shared across the Group.

The Group has a track record of high customer retention and the majority of key customers stay with us for many years. In addition, the Group serves several key clients on the basis of long-term contracts and in the beginning of 2018 extended its long-term partnership with MMK for a further 18 months until the end of September 2020, following the extension of two other major long-term contracts (Metalloinvest and Rosneft), which were successfully renewed in 2016. The rail freight industry is extremely competitive in Russia and these long-term relationships illustrate the high standards of customer service that we provide.

Our communities
From the outset, undertaking work that supports our communities and the work of charity groups has always been a key part of Globaltrans' philosophy. The Group seeks to give back to society in various ways, including helping sick children and the elderly, supporting cultural, spiritual and educational initiatives, and sponsoring sports programmes. In 2017, Globaltrans continued to work with the Life Line Fund, which assists children with life-threatening illnesses.

In Russia it is extremely important for companies to make philanthropic gifts to society. Globaltrans fulfils its contributions in line with this tradition and since its inception has financed programmes in support of: pensioners and retired railway workers; the Moscow State University of Railway Engineering; the Russian Chess Federation; the Co-Working Fund, which supports humanitarian and educational initiatives; the Constantine International Charitable Fund; and many other organisations and projects across Russia that are as wide-reaching and far-ranging as its operations.

Our environment
Rail is one of the most environmentally friendly modes of transport. Nonetheless, any commercial activity has an environmental impact and Globaltrans strives to minimise this impact wherever possible. To this end, the Group ensures that its activities fully comply with required environmental regulations in the areas in which it operates. The Group also strives to go beyond these requirements and enable business and nature to better co-exist by focusing on applying modern technology in its operations and using natural resources rationally and carefully.

The Group does not manage cargo storage yards, loading ramps or railcar preparation stations and does not have its own production facilities. This means that the operations of the Group do not generate any solid or hazardous waste, and the Group's impact upon the environment is therefore limited. At the same time the Group operates two railcar repair depots and one locomotive repair depot, which are operated under the strict environmental protection and labour safety rules.

Nonetheless, we recognise that increasing our efficiency as a business often has a beneficial impact on the environment – for instance, our constantly improving logistics via our 24/7 despatch centre continues to reduce the number of empty rail cars that are moved across the country. In 2017 we reduced our Total Empty Run Ratio (for all types of rolling stock) to 45% from 48% in the previous year, which helps to optimise the use of resources and minimise environmental impact.

The Group's environmental approach includes regular operational checks as well as analysis of changes in existing laws and regulations and is constantly evolving to ensure there is a continuous effort to increase the Group's sustainability and to mitigate any negative environmental impact.

It is clear that timely maintenance and repairs of rolling stock minimises accidents and environmental pollution. Furthermore, we strive to repair our fleet at the depots that use resource-saving and environmentally-friendly technology. As a business, we are focused on increasing the use of advanced technologies to improve the Group's overall environmental performance. For instance, we have a relatively modern Owned Fleet with average age of just 11 years, which we see as one of our business strengths that enables us to provide a higher standard of service for our clients.

By having modern systems to control emissions, targeting resources on maintaining a modern fleet (through the acquisition of new/relatively new rolling stock and effectively managing regular repairs using companies that use resource-saving and environmentally-friendly technology) and scrapping old railcars with ended useful life, we are therefore able to maintain a fleet that is more modern, more energy efficient, and has a more limited impact on the environment and at the same time provides increased efficiency and a higher standard of service for our clients.

The Group also conducts efforts to combat climate change by promoting rail freight as an environmentally friendly mode of transportation. However, the current industry regulation in Russia means that, as a freight rail operator, we do not have any control over infrastructure and actual transportation, and so our opportunities to take any direct action is limited. Nonetheless, Globaltrans supports a broad range of initiatives designed to promote the transportation industry. Globaltrans and its subsidiaries take part in the TransRussia exhibition in Moscow every year, the biggest transport exhibition in Russia and the CIS, to demonstrate its latest achievements, enhance its customer base, and demonstrate its experience and insight with other industry players, both international and domestic. On a regional basis, New Forwarding Company (a subsidiary of Globaltrans) took part in the community arts project to build a bas-relief monument in the city of Yekaterinburg. The project will be completed in 2018 to mark the 140th anniversary of the Sverdlovsk Railways and the monument is intended to preserve the strong history of railways in Russia, and to secure rail's leadership position in today's transport environment.

With a view to ensuring a comprehensive approach and co-ordination of the Group and its subsidiaries' environmental programmes under this policy, the major group companies have set up an environmental co-ordination committee responsible for assessing and measuring:

- application of energy efficient technologies;
- air emissions;
- potential waste discharge into surface or ground water;
- noise impact;
- disposal of solid or liquid waste; and the
- use, production, storage, transportation or disposal of toxic or hazardous waste.

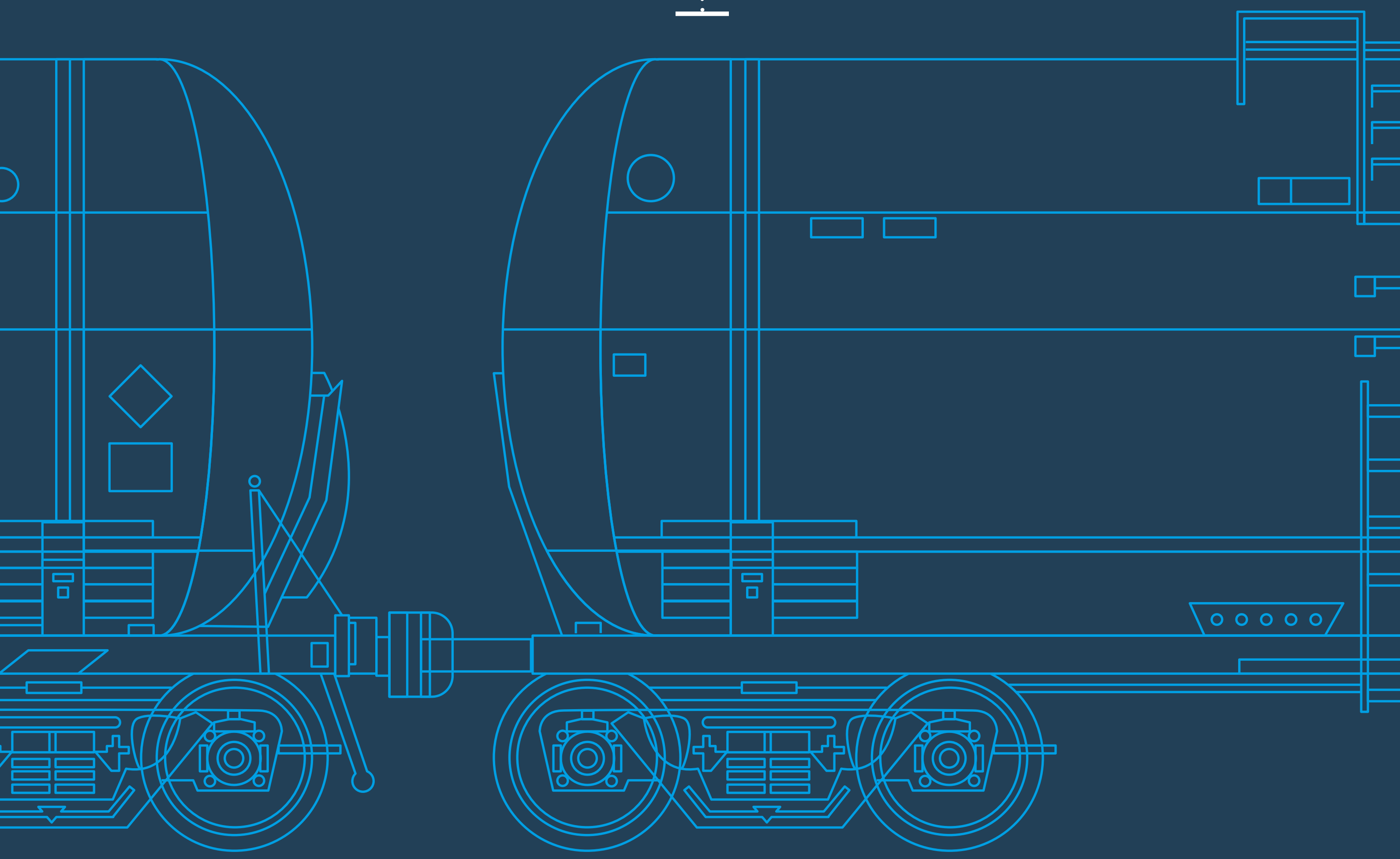
We encourage all our employees to use their creative potential in the resource saving and mitigation of environmental risks. We also ensure that all our repair and cleaning companies and other contractors are notified of our environmental liabilities and objectives and understand that they are required to comply with our safety rules and environmental requirements as well as take nature conservation into account when working with us.

Our subsidiaries and supply chain

It is crucial to Globaltrans that all its subsidiaries conform to the same standards of social and environmental responsibility. Indeed all of our subsidiaries that are directly involved in railway operations prepare a report for the company's internal use which covers core ESG topics. These reports include total year on year change in emission and waste, personnel training, safety measurements, and various other metrics. This ensures that the operations focus on and understand the importance of these key areas and gives the Group a clear picture of what progress is being made. By carefully examining the reports, Globaltrans can also identify steps to further improve its own sustainability performance.

RAIL TANK CARS

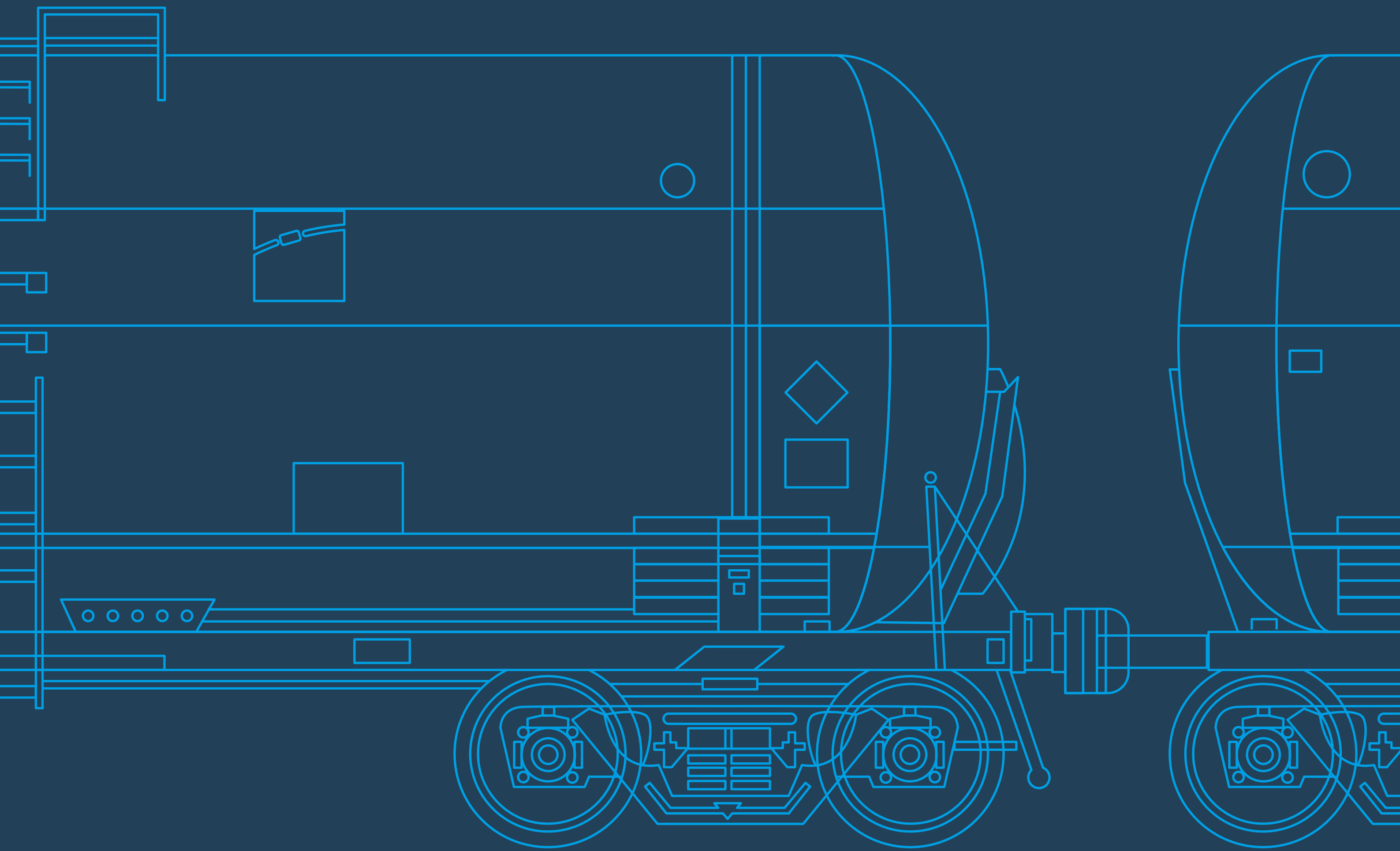
A rail tank car is designed to carry liquid cargoes including oil and petroleum products, chemicals, liquefied gas, and other liquid substances. The rail tank car fleet operated by Globaltrans is used primarily to transport oil products and oil.



20,122 units

30% of Total Fleet

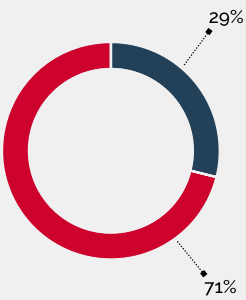
GOVERNANCE



BOARD OF DIRECTORS

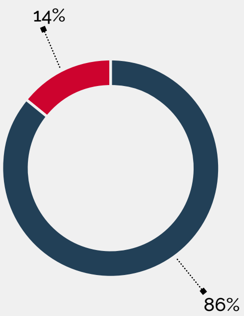
The members of the Board of Globaltrans have the right experience and skills, and the appropriate level of independence and objectivity necessary to lead the Group effectively. All of our Directors bring to the Board a wealth of commercial experience derived from their time in senior executive and managerial roles, as well as extensive board experience.

Executive/Non-executive Board Directors



■ Executive
■ Non-executive

Board gender



■ Male
■ Female

Michael Zampelas

Independent Non-executive Director, Chairman of the Board

Michael Zampelas became Senior Independent Non-executive Director of the Globaltrans Board in March 2008. Since 2013, he has been the Chairman of the Board of Globaltrans and a member of both the Remuneration and Nomination Committees.

Mr Zampelas has more than 30 years of management experience. He was the founding member, chairman and managing partner of accountancy firm Coopers & Lybrand in Cyprus (which later became PricewaterhouseCoopers). Since March 2008, he has been a vice chairman of the board of Eurobank Cyprus Limited and is now a member of its Audit and Remuneration Committee. From 2002 to 2006, Mr Zampelas was the elected mayor of Nicosia, and he is currently the honorary Consul General of Estonia in Cyprus, a role he has held since 1997.

Mr Zampelas is a chartered accountant and a fellow of the Institute of Chartered Accountants in England and Wales; a member of the board of Arricano Real Estate Ltd, a company operating in Ukraine and quoted on the London Stock Exchange, and a member of its Audit and Remuneration Committees; and the president of the Christou Steliou Ioannou Foundation, a charitable foundation for children with learning difficulties.

Dr Johann Franz Durrer

Senior Independent Non-executive Director, Chairman of the Remuneration and Nomination Committees

Dr Johann Franz Durrer was appointed to the Board as an Independent Non-executive Director in March 2008. He is Chairman of the Remuneration and Nomination Committees.

Dr Durrer's career began in 1957 with the Union Bank of Switzerland. In 1970, he founded Fidura Treuhand AG, which provides book-keeping, auditing and financial services. He is a Board member of the transport company IMT-Dienst AG and also an executive Board member of several privately held companies.

Dr Durrer graduated from the University of Zurich with a doctorate in Economics and is a member of the Swiss Fiduciary Association.

John Carroll Colley

Independent Non-executive Director, Chairman of the Audit Committee

John Carroll Colley was appointed to the Board as an Independent Non-executive Director in April 2013. He is Chairman of the Audit Committee and has extensive experience in international trade and risk management in both the public and private sectors.

Mr Colley is currently the principal of Highgate Consulting LLC, a global advisory consulting company. From 2007 to 2010, Mr Colley, a fluent Russian speaker, was the country manager for Russia at Noble Resources SA. Prior to that, he held a variety of positions in the public sector, including at the office of the US Trade Representative and the US Department of Commerce in Washington, DC. He also worked for Linkful Ltd and Noble Resources SA in Moscow from 1992 to 1999.

Mr Colley holds an MA in History and a BA in International Affairs and Russian Studies from the University of Virginia.

The information on the Board, its composition and biographies of the Board members above is presented as at the end of 2017.

George Papaioannou
Independent Non-executive Director

George Papaioannou joined the Board as an Independent Non-executive Director in April 2013. He also serves on the Audit Committee.

Mr Papaioannou has more than 20 years' experience in financial reporting, risk management, auditing, financial performance analysis and taxation. In 2004, he founded G. Papaioannou Auditors Ltd, which provides accounting, audit, tax and consulting services. From 2002 to 2004, he worked at Grant Thornton in Cyprus and before that for PricewaterhouseCoopers.

Mr Papaioannou holds a degree in Accounting and Financial Management from the University of Essex. He is a qualified chartered accountant and a fellow of the Institute of Chartered Accountants in England and Wales.

Alexander Eliseev
Executive Director

Alexander Eliseev joined the Board in March 2008 and serves as a member of the Board of the Company.

Mr Eliseev co-founded Globaltrans and has been actively involved in reforming the Russian rail market by introducing market-based principles. He has spent more than 17 years in senior management positions, mostly in the rail sector. He is also the member of the Board of the New Forwarding Company, GTI Management, AS Spacecom, Ural Wagonrepair Company and BaltTransServis, all Globaltrans subsidiaries.

Mr Eliseev is a graduate of the Russian State Medical University, where he studied biophysics.

Andrey Gomon
Non-executive Director

Andrey Gomon served as a member of the Board of the Company from 2013 to 2016 and re-joined the Board in April 2017. He has more than 13 years of management experience in the railway industry.

From 2006 to 2012 he was the CEO of Transoil, successfully managing the operations of one of the largest oil transportation companies in Russia. Prior to that, he was CFO of Transoil from 2003 to 2006. He is also a member of the Board of New Forwarding Company and BaltTransServis, all Globaltrans subsidiaries.

Mr. Gomon graduated from St Petersburg State University with a degree in Economics in 1999 and obtained an MBA from INSEAD in 2002.

Elia Nicolaou
Non-executive Director, Company Secretary, Secretary to the Board

Elia Nicolaou joined the Board in March 2008 and serves as a Non-executive Director. She is the Company Secretary and a member of the Audit Committee.

Ms Nicolaou has extensive experience in commercial, corporate and funds law. She is currently the Managing Director of Amicorp (Cyprus) Ltd. Previously, she was head of the Corporate Legal department at Polakis Sarris LLC and also worked at C. Patsalides LLC. Ms Nicolaou participates in various associations of the Cyprus Chamber of Commerce and also sits on the boards of other listed and private companies.

Ms Nicolaou received an LLB in Law from the University of Nottingham and then an LLM in Commercial and Corporate Law from University College London. She also has an advanced diploma in Business Administration from the Cyprus International Institute of Management.

Melina Pyrgou
Non-executive Director

Melina Pyrgou was appointed to the Board as a Non-executive Director in April 2013. She is a barrister and the Managing Director of Pyrgou Vakis Law Firm, a Cyprus-based corporate and commercial law practice serving Cypriot and international clients.

Ms Pyrgou has more than 25 years of experience in corporate law and is also a registered insolvency practitioner. Prior to Pyrgou Vakis Law firm, she was Director of Legal Services with PricewaterhouseCoopers in Cyprus.

Ms Pyrgou served as the Chairman of EuropeFides Association, a European network of accounting, audit, tax and legal firms, in 2015-16. She is also a member of various local business associations. Ms Pyrgou was appointed a member of the Cyprus Investments Promotion Agency (CIPA) in November 2016 for a three-year term. In December 2016, she was also appointed a member of the Disciplinary Committee of the Institute of Certified Public Accountants of Cyprus (ICPAC) for a three-year term.

Ms Pyrgou won a scholarship to study for a diploma in Environmental Law from the University of Geneva, and has a degree in Law and Sociology from the University of Keele. She was called to the bar in Cyprus in 1992 and in London (Grays Inn) in 1995.

Konstantin Shirokov
Executive Director, Head of Internal Audit

Konstantin Shirokov was appointed to the Board as an Executive Director in March 2008. He is the head of Globaltrans's Internal Audit function.

Mr Shirokov has over 12 years' management experience in several major companies. Prior to joining Globaltrans, he worked in senior finance roles at Mechel and as an economist at Glencore International. He is also a non-executive member of the Board of Directors of Global Ports Investments PLC and sits on its Audit and Risk Committee.

Mr Shirokov graduated from the Finance Academy under the Russian government. He also studied business management at Oxford Brookes University.

Alexander Tarasov
Non-executive Director

Alexander Tarasov joined the Board in April 2013. He served as a deputy director general in Sevtekhnotrans (a Globaltrans subsidiary that was merged with Ferrotrans into GTI Management) until January 2014. He has held several management positions in various sectors in established Russian companies and is highly experienced in financial management and analysis.

Mr Tarasov graduated from the Bauman Moscow State Technical University with a degree in Engineering. He also has a degree in Economics from the Moscow State University of Commerce.

Michael Thomaides
Non-executive Director

Michael Thomaides was appointed to the Board as a Non-executive Director in April 2014.

Mr Thomaides previously served as a director at Globaltrans Investment PLC from 2004 to 2008 and on the Board of Directors of Global Ports Investments PLC, Russia's leading container port operator. He has also been a director at Leverret Holding Ltd (Cyprus) since 2007.

Mr Thomaides graduated from London Southbank University with a BSc in Consumer Product Management. He is a member of the Cyprus Chamber of Commerce.

Marios Tofaros

Non-executive Director

Marios Tofaros was appointed to the Board as a Non-executive Director in April 2013.

Mr Tofaros is also a director of the Client Accounting department at Amicorp (Cyprus) Ltd. He was a financial accountant at Depfa Investment Bank Ltd from 2004 to 2008 and a financial officer at Louis Catering Ltd from 2003 to 2004. He also held various positions in the Audit department at KPMG Cyprus.

Mr Tofaros has a degree in Accounting, Finance and Economics and a master's degree in Business Studies, both from the University of Kent. He also holds a chartered certified accountant (FCCA) diploma and is a member of the Institute of Certified Public Accountants of Cyprus.

Sergey Tolmachev

Executive Director, Managing Director

Sergey Tolmachev was appointed to the Board as a Non-executive Director in April 2013 and as an Executive Director in October 2013. He has been the Group's Managing Director since October 2013.

Mr Tolmachev joined N-Trans Group in 2001 and has held numerous management positions focused on corporate finance and treasury since. He also has extensive experience in financial analysis and modelling.

Mr Tolmachev graduated from Lomonosov Moscow State University with a degree in Mechanics and Applied Mathematics.

Alexander Storozhev

Executive Director, Chief Procurement Officer

Alexander Storozhev joined the Board as an Executive Director in April 2013. He has worked in Globaltrans since its establishment and has held various senior railway management roles for over 20 years.

Mr Storozhev is also a Chairman of the board of directors of AS Spacecom and AS Spacecom Trans and a member of the boards of GTI Management, New Forwarding Company, BaltTransServis and Ural Wagonrepair Company, all Globaltrans subsidiaries. Since February 2015, he has been director of Investments and Business Development at New Forwarding Company.

Mr Storozhev graduated from the Kiev Military Academy of Aviation and Engineering in 1990 with a degree in Engineering. He also has a diploma from the Mirbis Business School in Moscow and a master's degree in Business Administration and Finance.

EXECUTIVE MANAGEMENT

The executive leadership at Globaltrans is one of the most highly respected and experienced management teams in the freight rail transportation industry in Russia, with a proven track record of success stretching back over many years.

Valery Shpakov
Chief Executive Officer

Valery Shpakov became CEO in March 2016, having served as Interim CEO since November 2015. He joined New Forwarding Company, a Globaltrans subsidiary, in 2003 and has been its CEO since 2007. He is an experienced manager with a track record of over 30 years in the rail industry. He began his career in the private sector in 1999 and has held managerial positions at various companies in the transport sector. He is a recipient of the "Honoured Railwayman of Russia" Award.

Sergey Maltsev
Chief Strategy Officer

Sergey Maltsev was appointed Chief Strategy Officer in August 2017. Mr Maltsev has worked in the rail sector for more than 30 years and was instrumental in the development of the private freight rail market in Russia. Having co-founded Globaltrans, he then served as the Company's CEO for over a decade before stepping down in 2015. After that, he worked as Senior Vice President responsible for strategy and corporate governance at OAO Russian Railways (RZD) and remains a board member of several RZD subsidiaries. Among other roles, Mr Maltsev was one of the founding members and Chairman of the non-profit partnership "Council of Railway Operators".

Alexander Shenets
Chief Financial Officer

Alexander Shenets has been the CFO of Globaltrans since the Group's establishment and has more than 13 years of experience in senior finance positions, mostly in the rail sector. He is a member of the boards of GTI Management, New Forwarding Company, BaltTransServis, AS Spacecom, Spacecom Trans and Ural Wagonrepair Company, all Globaltrans subsidiaries. He holds an MBA from Lomonosov Moscow State University.

Vyacheslav Stanislavsky
Deputy Chief Executive Officer, Head of Operations

Vyacheslav Stanislavsky joined New Forwarding Company, a Globaltrans subsidiary, as Deputy General Director for Operations and Commerce in March 2010 and became First Deputy General Director in April 2011. He has more than 30 years of experience in the rail industry.

Alexander Storozhev
Chief Procurement Officer, Executive Director

Alexander Storozhev joined the Board as an Executive Director in April 2013. He has worked in Globaltrans since its establishment and has held various senior railway management roles for over 20 years. Mr Storozhev is also a Chairman of the board of directors of AS Spacecom and AS Spacecom Trans and a member of the boards of GTI Management, New Forwarding Company, BaltTransServis and Ural Wagonrepair Company, all Globaltrans subsidiaries.

Kirill Prokofiev
CEO of BaltTransServis

Kirill Prokofiev was appointed CEO of BaltTransServis, a Globaltrans subsidiary, in February 2017. Prior to his appointment, he held various senior executive roles in the rail sector for more than seven years. He graduated from St Petersburg State University of Economics, where he majored in economics. Other qualifications include an MBA in Strategic Management from Moscow's Higher School of Economics.

Roman Goncharov
Head of Treasury

Roman Goncharov has served as CFO of New Forwarding Company, a Globaltrans subsidiary, since 2007 and has over 13 years of management experience. His qualifications include an MBA from the Moscow International School of Business.

MAINTAINING HIGH GOVERNANCE STANDARDS

Globaltrans continues to work diligently to ensure that its corporate governance framework meets the highest standards of international best practice.

The Board is committed to providing effective, transparent and ethical oversight of the Group so that the Board can take decisions that it believes benefit all stakeholders, promote the long-term interests of the Group and its communities, and create value.

The Group recognises the need for an appropriate balance between Executive and Non-executive Directors, together with the presence of independent members, to represent the interests of all shareholders and govern itself in the most effective and efficient way. The Board has a strong balance of skills and expertise to effectively run the Company and the Group. It also believes that such a composition is critical to ensuring sustainable strong performance.

Corporate Governance Policies

The Group's policies are designed to ensure an effective and transparent corporate governance framework. All employees are required to comply with them, and the management is ultimately responsible for ensuring that all departments follow them.

The policies include, among others:

- Anti-Fraud Policy;
- Appointment Policy for the Board of Directors and Committees;
- Business Continuity Policy;
- Code of Ethics and Conduct;
- Continuing Obligations Policy;
- Disclosure Policy;
- Dividend Policy (new edition was adopted on 31 March 2017);
- Policy on assessment of External Auditor Objectivity Policy;
- Policy on the treatment of the rights of minority shareholders;
- Risk management policy;
- Securities Dealing Code and PDMR Securities Dealing Code (new edition adopted on 15 December 2017);
- Terms of Reference of Board Committees (Audit, Nominations, Remuneration);
- Terms of Reference of the Board of Directors; and
- Whistle blowing policy.

Full details of the Group's policies can be found on the corporate website at: http://www.globaltrans.com/about-us/corporate-governance/governance-policies/

"The Board is committed to providing effective, transparent and ethical oversight of the Group so that the Board can take decisions that it believes benefit all stakeholders."

Michael Zampelas

Chairman, Independent Non-executive Director

CORPORATE GOVERNANCE FRAMEWORK

Board of Directors

The Board of Directors (the "Board") of Globaltrans is accountable to the Company's shareholders for standards of Governance across the Group's activities. The Board's responsibilities include:

- Providing leadership, setting the overall strategy and ensuring that the necessary components are in place for the Group to meet its objectives;
- Setting Group values and standards, and ensuring that obligations to all stakeholders are understood and met;
- Monitoring and reviewing the performance of the Group and its management;
- Maintaining an effective system of internal control and risk management to safeguard shareholders' rights and interests and the Group's assets;
- Ensuring an effective governance framework and compliance with relevant regulations; and
- Examining from time to time Independent Directors on their independency.

The Board of Directors' report is presented in full in the Financial Statements section of this Annual Report.

Membership of the Board of Directors

The process for Board appointments is led by the Nomination Committee, and members of the Board of Directors are elected at the General Meeting. Board members are nominated based on their extensive industry knowledge, expertise and experience in areas such as accounting, finance, business management and strategic planning.

In selecting candidates for the Board, the Group seeks to create an effective and complementary Board whose capability is appropriate for the scale, complexity and strategic positioning of the business. Non-executive Directors are drawn from a wide range of industries and backgrounds, including infrastructure, transport and financial services, and have appropriate experience of complex organisations with a global reach. Some have considerable experience of the freight rail industry. In addition, the Group selects Independent Directors with a view to ensuring that the views of minority shareholders are represented, there is appropriate challenge to management and the interests of all stakeholders are taken into account.

The Chairman is an Independent Non-executive Director, and overall there are four Independent Directors, including the Chairman.

Globaltrans separates the positions of Chairman and CEO to ensure an appropriate segregation of roles and a clear division of responsibilities. Mr Michael Zampelas, the Chairman and an Independent Non-executive Director, oversees the leadership of the Board, ensuring its effectiveness and setting its agenda. Mr Valery Shpakov, the CEO, is responsible for overseeing the day-to-day management of the Group and for implementing the strategy laid down by the Board.

Alongside Mr Zampelas, the other members of the Board are:

- John Carroll Colley (Independent Director);
- Dr Johann Franz Durrer (Senior Independent Director);
- Alexander Eliseev;
- Andrey Gomon;
- Elia Nicolaou;
- George Papaioannou (Independent Director);
- Melina Pyrgou;
- Konstantin Shirokov;
- Alexander Storozhev;
- Alexander Tarasov;
- Michael Thomaides;
- Marios Tofaros; and
- Sergey Tolmachev.

The Directors' biographies are on pages 62 to 65 of this Annual Report. In 2017, members of the Board of Directors held 11,479,515 shares and global depositary receipts in Globaltrans. Although Mr Zampelas and Dr Durrer have served on the Board for nine years the Board of Directors still considers them to be independent.

Committees of the Board of Directors

Globaltrans has established three Committees to assist the Board and ensure transparency and impartiality in specific areas: the Audit Committee, the Nomination Committee and the Remuneration Committee. The Chairperson of each Committee is an Independent Director.

All Committees are advisory bodies. While these committees have the authority to examine particular issues and report back with recommendations, the ultimate decision-making responsibility for all matters lies with the full Board.

Audit Committee	
Number of members	Three; two independent
Minimum meetings a year	Four
Members	John Carroll Colley (Chairman), Elia Nicolaou and George Papaioannou
Responsibilities	• Integrity of the Group's financial statements; • Effectiveness of the Group's internal control and risk management systems; • Relationship with the Group's external auditors, including the audit process and reports; • Terms of the auditor's appointment and remuneration; • Implementation of codes of conduct; and • Assessment of the chairman of the Board's performance.
Number of meetings in 2017	Seven
Issues considered in 2017	• Review of the Group's Consolidated Financial Statements for 2016 and interim financial results for the six months ended 30 June 2017; • Review of the external auditor's report to the Audit Committee following its full-year audit for 2016 and review for the six months ended 30 June 2017; • Consideration of the independence of the external auditor; • Review of the Group's external auditor and terms of reappointment for 2017. The Committee recommended reappointment of the external auditors to the Board which, in turn, proposed their reappointment at the Annual General Meeting of the Group; • Review of the report of the external auditor on the audit strategy for 2017; • Review of regulatory announcements by the Group; • Review of internal controls and risk management processes; • Approval of non-audit services to be provided to the Group by the external auditor; and • Review of the internal audit function and reports on its activities, and on the internal audit model and plan.

Nomination Committee	
Number of members	Two; two independent
Minimum meetings a year	One
Members	Johann Franz Durrer (Chairman) and Michael Zampelas
Responsibilities	• Preparation of selection criteria and appointment procedures for Board members; • Regular review of the Board's structure, size and composition; • Future Board appointments; and • Recommendations regarding the membership of the Audit and Remuneration Committees.
Number of meetings in 2017	Four
Issues considered in 2017	• Composition of the Board; • Advice to the Annual General Meeting on the appointment of Board members; and • Recommendation on appointment of the key management of the Group.

Remuneration Committee	
Number of members	Two; two independent
Minimum meetings a year	One
Members	Johann Franz Durrer (Chairman) and Michael Zampelas
Responsibilities	• Remuneration of Executive Directors (Chairman and Executive Directors decide the remuneration for independent members); and • Review of the Group's remuneration policies.
Number of meetings in 2017	Three
Issues considered in 2017	• Board remuneration levels; and • Terms of terms and conditions of employment of key management of the Group.

External auditor
The Audit Committee manages the relationship with the external auditor on behalf of the Board. Each year, it considers the reappointment of the external auditor, reviews requirements of the rotation of the audit partner and the audit firm when applicable, as well as remuneration and other terms of engagement, and makes a recommendation to the Board. Shareholders are then asked to approve the appointment at the Annual General Meeting.

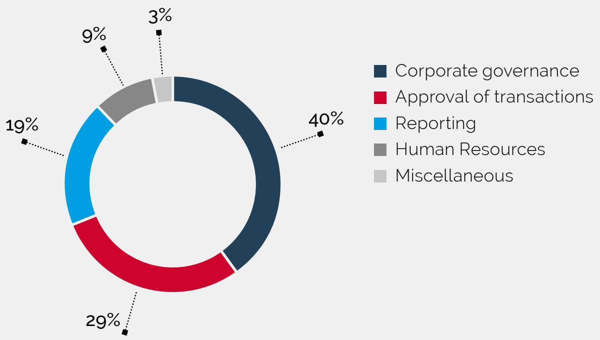
The Group has a formal policy on assessing the independence and objectivity of the external auditor. It regulates the terms of appointment of the external auditor and the nature of audit and permitted non-audit services provided to the Group. External auditors periodically (at least annually) provide written confirmation to the Committee that, in their professional judgement, they are independent of the Group. The Committee is satisfied that the independence and objectivity of the external auditors is not impaired, and that the external audit process remains effective.

The Audit Committee recommended the reappointment of PriceWaterhouseCoopers as the Group's external auditor for 2017. This appointment was approved by the Group's shareholders at the Annual General Meeting on 24 April 2017. The appointment of the external auditor in April 2019 for 2019 will be based on the results of a tender, which the Group will be organising during 2018.

Board activities
The Board meets at least four times a year. Fixed meetings are scheduled at the end of each quarter, while ad hoc meetings are called when there are pressing matters requiring the Board's consideration in between the scheduled meetings. Directors may participate in meetings either in person or via telephone or video conference.

The Board met 14 times during 2017 and considered 63 items.

Matters considered during Board meetings



Regular meetings
- Review of the Group's financial and operational performance;
- Approval of the annual budget;
- Review of the Group's performance against the approved annual budget;
- Approval of the annual and semi-annual financial statements and the respective regulatory announcements;
- Review of the results of risk assessments;
- Approval of the Annual General Meeting agenda, including dividend proposals and Board reappointments; and
- Approval of appointments to the Board of Directors of subsidiaries.

Ad hoc meetings
- Approval of material borrowings and pledges by subsidiaries;
- Appointment of the key management of the Group;
- Approval of dividend distribution by subsidiaries;
- Review and consideration various business development opportunities;
- Changes in responsibilities of Board members and other matters;
- Approval of the new edition of the Group's Securities Dealing Code and PDMR Dealing Code; and
- Approval of the Group's revised Dividend Policy.

The Board's performance is assessed annually, and the evaluation process is conducted through a combination of self-assessment and annual appraisals. The Chairman's performance is evaluated by the Non-executive Directors.

Board and Board Committees meetings in 2017 and the attendance of Directors

	Board of Directors		Nomination Committee		Remuneration Committee		Audit Committee	
	E	A	E	A	E	A	E	A
Michael Zampelas (Chairman)	14	14	4	4	3	3		
Johann Franz Durrer	14	14	4	4	3	3		
Carroll Colley	14	14					7	7
George Papaioannou	14	13					7	7
Alexander Eliseev	14	12						
Andrey Gomon[1]	11	10						
Zarema Mamukaeva[2]	3	3						
Elia Nicolaou	14	14					7	6
Melina Pyrgou	14	13						
Konstantin Shirokov	14	14						
Alexander Storozhev	14	14						
Alexander Tarasov	14	11						
Michael Thomaides	14	13						
Marios Tofaros	14	13						
Sergey Tolmachev	14	14						
Total	**196**	**188**	**8**	**8**	**6**	**6**	**21**	**20**

1 Appointed to the Board on 24 April 2017.
2 Resigned from the Board on 24 April 2017.

Internal control and audit

The Board is primarily responsible for establishing a framework of prudent and effective internal controls and risk management in relation to the financial reporting process for the undertakings included in the Group consolidation that enables risks to be assessed and managed and financial reports to be prepared.

The Audit Committee reviews and assesses the Group's internal control and risk management processes.

The system of controls is designed to manage rather than eliminate the risks relevant to the Group's operations and, therefore, can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of laws and regulations.

At Globaltrans, the body responsible for internal audit is the Internal Audit Service (IAS). It tests the Group's systems of risk management, internal control and corporate governance to obtain a reasonable assurance that:

- The risk management system functions efficiently;
- Material financial, management and operating information is accurate, reliable and up-to-date;
- The actions of employees and management bodies are in compliance with the Group's policies, standards and procedures and the applicable laws;
- Resources are procured reasonably and used efficiently and their safekeeping is fully guaranteed; and
- Group companies conduct their business in compliance with applicable laws.

Each year, the Audit Committee approves an internal audit plan, which is developed by identifying the audit universe, performing a risk analysis and obtaining input from management relative to risks, controls and governance processes. The internal auditor regularly reports to the Audit Committee on the progress of planned audits. If any material internal control deficiencies are identified, they are communicated to the Audit Committee, and consequently to the Board, immediately.

For details of the main risks facing the Group, please refer to the Risk Management section of this report and the Principal risks and uncertainties subsection, included in the Financial Statements section of this Annual Report.

Remuneration of the Board of Directors and management

Directors serve on the Board under letters of appointment, which specify their terms of appointment and remuneration. Appointments are effective until the following Annual General Meeting. Remuneration levels for Non-executive Directors reflect their expertise, time commitment, responsibilities and membership of any Board Committees. Directors are also reimbursed for expenses associated with the discharge of their duties.

Non-executive Directors are not eligible for bonuses, retirement benefits or participation in any incentive plans operated by the Group. The Group's shareholders approved the remuneration of Board members for 2017 at the Annual General Meeting held on 24 April 2017. For details of remuneration paid to the Board and key executives in 2017, please refer to Note 30c of the Consolidated Management Report and Consolidated Financial Statements, included in the Financial Statements section of this Annual Report.

The total gross remuneration of the members of the Board of Directors incurred by the Group in 2017 amounted to RUB 45 million.

Relations with shareholders

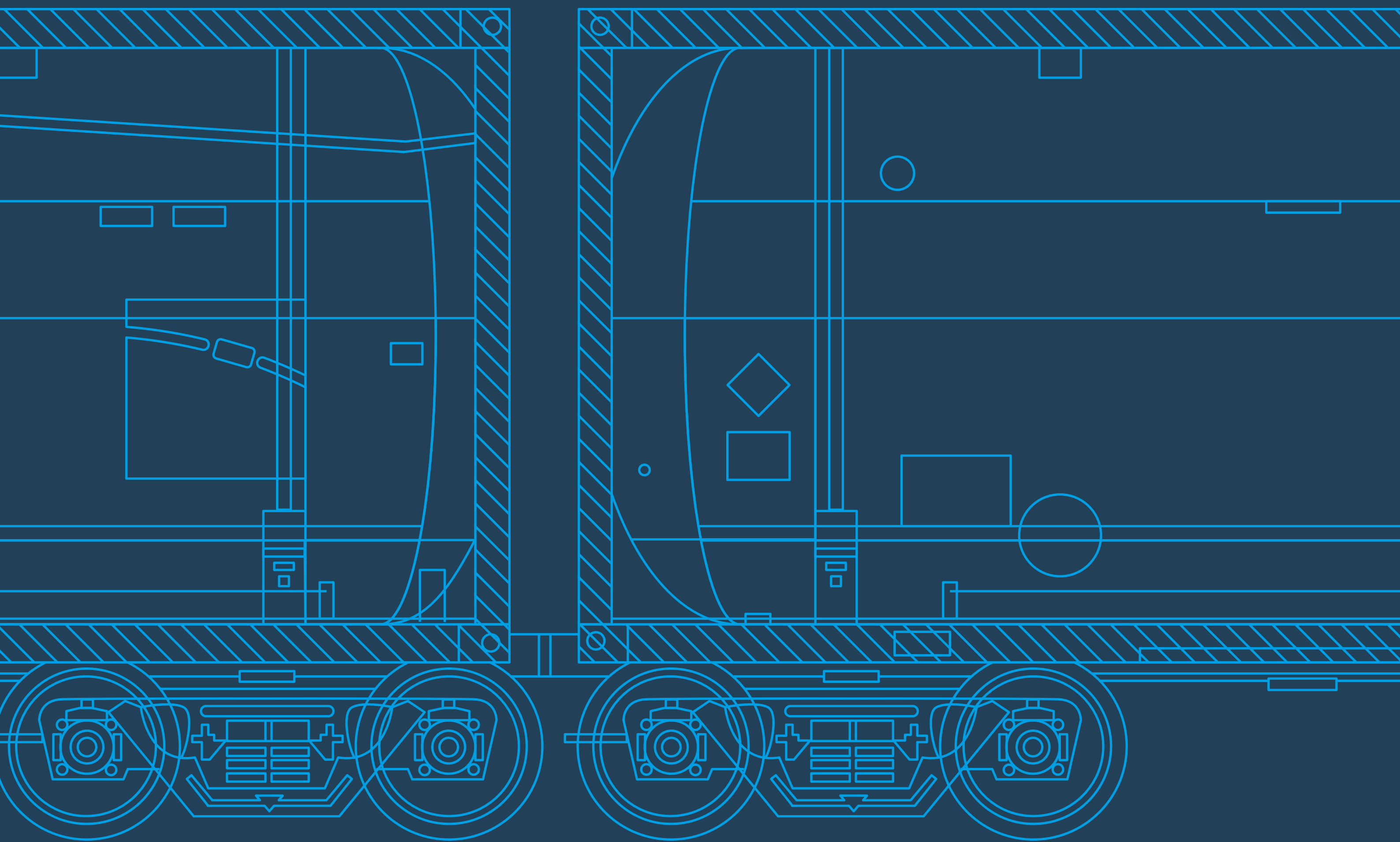
The Board believes it is important to maintain open and constructive dialogue with its shareholders. The CEO and CFO undertake a regular programme of meetings, presentations, conference calls and webcasts with institutional investors and brokers' analysts. And on a day-to-day basis, our investor relations team engages with investors on a wide range of issues.

The Group announces financial results semi-annually, while each year the executive management and IR team give presentations to discuss the Group's strategy and financial performance with institutional investors and analysts,

The annual and interim results are available on the Group's corporate website at: www.globaltrans.com.

TANK CONTAINERS

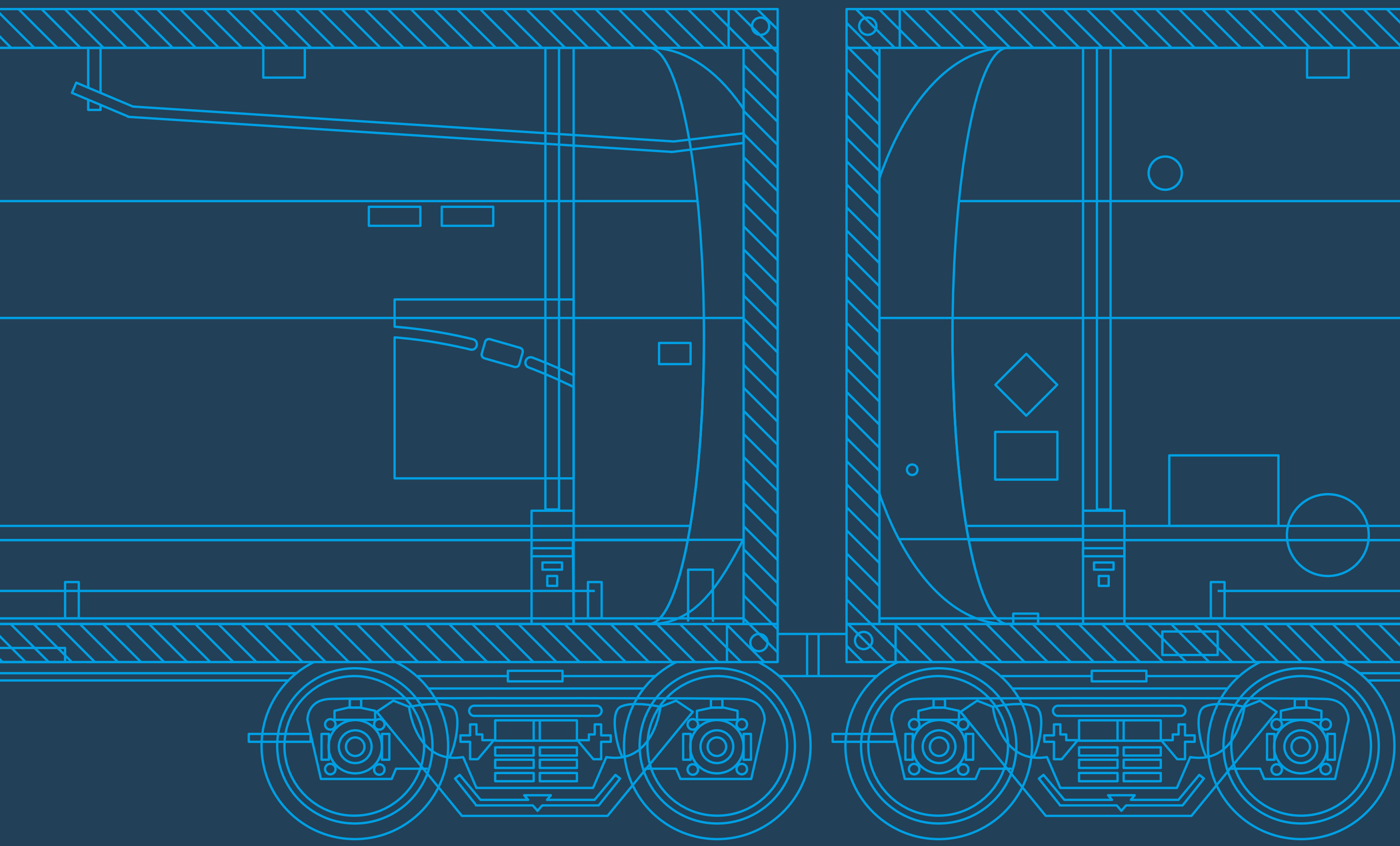
Tank containers are intermodal containers used to transport petrochemicals. Intermodal containers are designed to be shipped without any handling of the freight itself when changing transport modes.



1,636 units

2% of Total Fleet

FINANCIAL STATEMENTS



Consolidated Management Report and Consolidated Financial Statements
For the Year Ended 31 December 2017

Contents

Board of Directors and Other Officers

Board of Directors

Mr Michael Zampelas
Chairman of the Board of Directors
Independent Non-executive Director
Member of Remuneration and Nomination Committees

Dr Johann Franz Durrer
Senior Independent Non-executive Director
Chairman of the Remuneration and Nomination Committees

Mr John Carroll Colley
Independent Non-executive Director
Chairman of the Audit Committee

Mr George Papaioannou
Independent Non-executive Director
Member of the Audit Committee

Ms Elia Nicolaou
Non-executive Director
Member of the Audit Committee
Company Secretary
Secretary of the Board
Alternate Director: Mr Marios Tofaros

Mr Alexander Eliseev
Executive Director
Alternate Director: Ms Ekaterina Golubeva

Mr Marios Tofaros
Non-executive Director

Mr Sergey Tolmachev
Executive Director

Mr Alexander Storozhev
Executive Director
Alternate Director: Ms Elia Nicolaou

Mr Konstantin Shirokov
Executive Director

Mr Alexander Tarasov
Non-executive Director
Alternate Director: Mr Maxim Rubin

Mr Michalakis Thomaides
Non-executive Director

Ms Melina Pyrgou
Non-executive Director

Mr Andrey Gomon
Non-executive Director
Appointed on 24 April 2017
Alternate Director: Ms Melina Pyrgou

Ms Zarema Mamukaeva
Non-executive Director
Resigned on 24 April 2017
Alternate Director: Ms Melina Pyrgou

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
Dimitriou Karatasou, 15
Anastasio Building, 6th floor, Office 601
Strovolos, 2024, Nicosia, Cyprus
Assistant Secretary: Mr Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol, Cyprus

Consolidated Management Report

The Board of Directors presents its report together with the audited Consolidated Financial Statements for the year ended 31 December 2017. 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 which is unchanged from last year is the provision of railway transportation services using own and leased rolling stock as well as fleet engaged from third party rail operators and operating lease of rolling stock.

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

Globaltrans produced a solid overall financial performance in 2017. The recovery in gondola car segment translated into a strong set of results, despite the weaker market for oil product and oil transportation.

IFRS financial information

Management considers amongst others the following IFRS measures in analysing the performance of the Group.

The Group's Total revenue rose 12% year on year to RUB 78,080,532 thousand in 2017 (2016: RUB 69,487,991 thousand). The Group's Operating profit rose 86% year on year to RUB 20,156,135 thousand in 2017 (2016: RUB 10,824,278 thousand). The Profit of the Group for the year ended 31 December 2017 grew 126% year on year to RUB 13,819,874 thousand (2016: RUB 6,114,912 thousand).

On 31 December 2017 the total assets of the Group were RUB 77,421,556 thousand (2016: RUB 78,430,489 thousand) and net assets were RUB 50,617,630 thousand (2016: RUB 53,208,258 thousand).

On 31 December 2017 the total debt of the Group was RUB 16,331,356 thousand and increased by 0.24% as compared to end of 2016 which amounted to RUB 16,292,469 thousand. Total cash and cash equivalents on 31 December 2017 grew by 4% and amounted to RUB 4,966,171 thousand (31 December 2016: 4,773,414 thousand).

Non-IFRS financial information

Amongst others, management analyses the following key non-IFRS measures. The definitions to these non-IFRS measures are marked with capital letters and their definitions are provided at the end of this section in alphabetical order.

Adjusted Revenue increased 18% year on year to RUB 52,094,289 thousand (2016: 44,248,568 thousand) supported by the strong performance of the gondola business. Total Operating Cash Costs were down 1% year on year to RUB 26,302,818 thousand (2016: 26,489,774 thousand).

Adjusted EBITDA rose 46% year on year to RUB 25,788,683 thousand (2016: 17,676,600 thousand) with the Adjusted EBITDA Margin expanding to 50% (2016: 40%). The Group's Free Cash Flow rose 92% year on year to RUB 17,047,982 thousand (2016: RUB 8,882,205 thousand).

The Group had a strong balance sheet with Net Debt to Adjusted EBITDA further improved to 0.4x (2016 end: 0.7x). Net Debt was reduced by 1% to RUB 11,365,185 thousand (2016 end: RUB 11,519,055 thousand). 100% of the Group's debt was denominated in Russian Roubles.

In 2017, management continued to make disciplined decisions on capital allocation whilst pursuing cost improvement and productivity measures.

Operational information

In 2017, the Group's Freight Rail Turnover (excluding Engaged Fleet) remained stable year on year at 160.1 billion tonnes-km (2016: 160.7 billion tonnes-km). Average Price per Trip improved – increasing 20% year on year.

The high operational efficiency was maintained with the Empty Run Ratio for gondola cars improved to 37% (2016: 38%) and the Total Empty Run Ratio improved to 45% (2016: 48%).

The railcar turnover improved with the Average Number of Loaded Trips per Railcar up 2% year on year, while the Average Distance of Loaded Trips remained unchanged year on year.

Total Fleet decreased to 66,692 units (2016 end: 68,511 units) primarily reflecting an intended decrease in the number of leased-in rail tanks.

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

Definitions to non-IFRS financial measures

Adjusted EBITDA represents EBITDA excluding "Net foreign exchange transaction losses from financing activities", "Share of loss of associate", "Other gains – net", "Net (gain)/loss on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Loss on derecognition arising on capital repairs" and "Reversal of impairment of intangible assets".

Average Price per Trip is calculated as Net Revenue from Operation of Rolling Stock divided by the total number of loaded trips during the relevant period in the respective currency. Net Revenue from Operation of Rolling Stock (a non-GAAP financial measure) is defined as the sum of "Revenue from railway transportation – operators services (tariff borne by the Group)" and "Revenue from railway transportation – operators services (tariff borne by the client)" less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisation" and net revenue from engaged fleet (a non-GAAP financial measure).

EBITDA (a non-GAAP financial measure) represents "Profit for the year" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction losses from financing activities"), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".

Empty Run Ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased out, engaged fleet, platforms and tank containers used in petrochemical business).

Engaged Fleet is defined as rolling stock subcontracted or otherwise engaged from a third-party rail operator for a loaded trip from the point of origination to the cargo's destination, at which point the railcar is then released to such third party.

Free Cash Flow is calculated as "Cash generated from operations" (after "Changes in working capital") less "Tax paid", "Interest paid", "Purchases of property, plant and equipment" and "Purchases of intangible assets".

Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km. It includes volumes transported by the engaged fleet and excludes performance of petrochemical tank container segment, unless otherwise stated.

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

Net revenue from engaged fleet (a non-GAAP financial measure) represents the net sum of the price charged for transportation to clients by the Group utilising Engaged Fleet less the loaded railway tariff charged by OAO "Russian Railways" (included in "Infrastructure and locomotive tariffs: loaded trips") less the cost of attracting fleet from third-party operators (included in "Services provided by other transportation organisations").

Total Empty Run Ratio is calculated as total kilometres travelled empty divided by the total kilometres travelled loaded by the rolling stock fleet operated by Globaltrans (not including the relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, or rolling stock leased out, Engaged Fleet, platforms and tank containers used in petrochemical business) in the relevant period.

Total Fleet is defined as the fleet owned and leased in under finance and operating leases as at the end of reporting period. It includes railcars, locomotives and petrochemical tank containers, unless otherwise stated, and excludes Engaged Fleet.

Total Operating Cash Costs represent operating cost items payable in cash and calculated as "Total cost of sales, selling and marketing costs and administrative expenses" less the "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations" and non-cash items: "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment charge for receivables", "Impairment of property, plant and equipment", "Net (gain)/loss on sale of property, plant and equipment" and "Loss on derecognition arising on capital repairs".

Changes in group structure

There were no changes in the Group structure of the Company during the year ended 31 December 2017, with the exception of the disposal of the investment in associate (Note 15.1). For the principal subsidiaries of the Group, refer to Note 15.2 of the Consolidated Financial Statements.

Non-Financial Information and Diversity Statement

The Group will be publishing its first Non-Financial Information and Diversity Statement within its Annual Report that will be issued within four months after the balance sheet date and will be available on the Company's website: www.globaltrans.com

Environmental matters

Rail is one of the most environmentally friendly modes of transport. Nonetheless, any commercial activity has an environmental impact and Globaltrans strives to minimise those from its operations where possible. To this end, the Group ensures that its activities fully comply with local environmental regulations. It also aims to help business and nature co-exist by focusing on applying modern technology in its operations and using natural resources rationally.

Human resources

Globaltrans considers the wellbeing of employees central to its success and strives to maintain exemplary working standards, ensure job satisfaction and create opportunities for professional growth. The Group's personnel policy focuses on creating a positive atmosphere at all offices and facilities to maximise productivity. As part of this, it offers medical insurance, support for education, opportunities to obtain additional qualifications and training, and financial aid in particularly difficult times.

The Group's future success will partly depend on its ability to continue to attract, retain and motivate key employees and qualified personnel, in particular an experienced management team. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.

Adequate remuneration packages, which are in line with or in excess of market levels, are offered to all employees and key managers and remuneration is linked to the Group's financial results. The Human Resource function regularly monitors salary levels and other benefits offered by competitors to ensure that the Group's remuneration packages are adequate.

Principal risks and uncertainties

The Company faces a number of diverse potential and actual risks to its business. The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Group.

To identify, evaluate and mitigate these, the Group has established an in-house system to monitor and control uncertainties and threats throughout its activities. This is overseen by a dedicated Risk Management function, which works directly with the Board of Directors in this area.

The Company has grouped the risks that it considers to be significant into key categories – strategic, operational, compliance and financial – and they are presented below.

Strategic risks

The strategic risks faced by the Group that pose risks that influence the Group's ability to achieve its strategy include the general economic situation and operating environment in Russia, Kazakhstan, Ukraine, CIS and Baltic countries in which the Group operates; the regulatory risk relating to the operation of the Russian railway transportation market, including railway tariff regulation and technical requirements for fleet maintenance; the highly competitive Russian rail transportation market with unregulated operator's services tariffs; the oversupply of railcars on the market; the significant concentration of the Group's customer base with the top 10 customers accounting for around 74% of the Group's Net Revenue from the operation of rolling stock in 2017; cost of borrowing and/or deterioration in market conditions with potential impacts on the profitability and payback period of investments; and reliance on RZD for issuing permits allowing the Group to operate locomotives.

The Group operates mainly in Russia, other emerging markets and Estonia. Emerging markets, such as Russia, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative uncertainties. Moreover, the Group's business depends on the demand in the Russian freight rail transportation market, which in turn depends on certain key commodity sectors and, accordingly, on economic conditions in Russia, Europe and elsewhere. A decrease in production and demand for key commodities in Russia, or in adjacent countries where the commodities of the Group's key customers are shipped by rail, as a result of a technological shift, economic downturn, political crisis or other event in Russia or another relevant country, negatively impacts the Group's business and growth prospects.

The management of the Group constantly monitors the developments in the operating environment and regulatory regime of the railway transportation market in the countries in which the Group operates. The Group's business model is to maintain a balanced fleet between universal gondola cars, adaptable to the demand for transportation of various bulk cargoes and rail tank cars, which are used for the transportation of oil products and oil. Further, the Group has long-term, established relationships with its key customers and their affiliates and suppliers and in some cases, the Group becomes an integrated part of its customers' operations. Around 55% of the Group's Net Revenue from the Operation of Rolling Stock in 2017 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.

Operational risks

The operational risks faced by the Group that could influence the Group's operational efficiency include the physical state of the Russian, Ukrainian, CIS and Baltic countries railway infrastructure which may negatively impact the condition of the Group's rolling stock and the performance of the Group; the impact of inflation in Russia on the Group's costs with limited opportunities to increase tariffs to customers; the competition for personnel with relevant expertise and experience in Russia and the impact on the Group's ability to continue to attract, retain and motivate key employees and qualified personnel; reliance on RZD for locomotive traction and infrastructure usage and the impact of this on the quality of the Group's freight transportation services and therefore customer satisfaction; IT availability and continuity considerations due to reliance on specialised trail transport and logistics software for ensuring efficient and effective logistics, dispatching and rolling stock tracking services; and risks of terrorist attacks, natural disasters or other catastrophic events beyond the Group's control.

The Group is managing operational risk by ensuring that practically all of the Group's rolling stock is insured against damage. Further, the Group monitors its rolling stock through the Group's dispatch centre on a 24/7 basis and plans routes accordingly to minimise the risks of disruption. The Group monitors FAS initiatives with the aim of detecting possible changes in tariff-setting methodology and tries to reflect respective changes in contracts with customers. Among the Group's key objectives are to increase operational efficiency and to focus on control and reduction of costs. The Group continuously monitors its costs to maintain efficiency. The Human Resource function regularly monitors salary levels and other benefits offered by competitors to ensure that the Group's remuneration packages are adequate. Customer satisfaction is one of the key metrics that the Group's management monitors, with customer feedback being analysed and appropriate follow-up actions being taken. Local IT specialists have introduced solutions to maintain the availability of IT services and ensure their recovery in case of disruption. The IT function and Internal Audit function monitor all IT-related activities and performance for compliance with IT policies and procedures. Further the Group permanently monitors any disruptive events and applies a Business Continuity Policy to ensure the safety of employees and human life; maintain continuity of time-critical services; minimise disruptions to clients and partners; and minimise operational, financial and reputational impact.

Compliance risks

The Group is also subject to compliance risk, being the risks that influence the Group's adherence to relevant laws and regulations. The Group is involved in material legal action from time to time. Some of it may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and might result in claims from different government authorities. Local tax, currency and customs legislation, especially in Russia, other emerging markets and Cyprus, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation.

The Group runs its operations in compliance with tax, currency, labour, customs, antimonopoly and other applicable legislation and constantly monitors any changes in the regulatory environment as well as compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to rigorous review by all of the Group functions concerned and a formal approval process prior to execution. The Group has controls in place, including highly-qualified and experienced personnel, to monitor changes in legislation and determine the appropriate action needed to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group retains external consultants.

Financial risks

The Group's activities expose it to a variety of financial risks that could influence the Group's financial performance. These include: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Foreign exchange risk

Currently, the Group has no borrowings denominated in US Dollars and therefore has limited exposure to the effects of currency fluctuations between the US Dollar and Russian Rouble.

The Group is exposed to the effects of currency fluctuations between: (i) the Russian Rouble and the US Dollars in relation to US Dollar denominated balances held in the Company and the Cypriot and Russian subsidiaries of the Group having the Russian Rouble as their functional currency; (ii) the Euro and the US Dollar, for US Dollar denominated balances held in the Estonian subsidiaries of the Group which have the Euro as their functional currency; and (iii) the Ukrainian Hryvnia and the US Dollar for the US Dollar, denominated balances held in the Ukrainian subsidiary of the Group which has the Ukrainian Hryvnia as its functional currency.

A large proportion of the Group's revenues and expenses are denominated and settled in Russian Roubles. At present, the risks related to liabilities denominated in foreign currency are not material and are partly compensated by assets and income denominated in foreign currency. The Group has refinanced all of its US Dollar-denominated liabilities with long-term debt denominated in Russian Roubles and as of 31 December 2017 100% of the Group's debt was denominated in Russian Roubles.

Had US Dollar exchange rate strengthened/weakened by 5% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2017, would have decreased/increased by RUB 11,888 thousand (2016: 30% change, effect RUB 301,930 thousand) and equity would have increased/decreased by RUB 125,368 thousand (2016: 30% change, effect RUB 808,361 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of cash and cash equivalents and accounts payable denominated in US Dollars for the Group entities with Russian Rouble being their functional currency. The impact on equity is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

Had Euro exchange rate strengthened/weakened by 10% against the US Dollar and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2017, would have increased/decreased by RUB 28,517 thousand (2016: 10% change, effect RUB 22,779 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of payable balances and cash and cash equivalents and accounts receivable denominated in US Dollars for the Estonian subsidiaries of the Group.

Had US Dollar exchange rate strengthened/weakened by 10% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged (2016: 30% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2017, would have decreased/increased by RUB 250,735 thousand (2016: 30% change, effect RUB 808,361 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

Interest-rate risks
The Group's income and operating cash flows are exposed to changes in market interest rates. These arise mainly from floating rate lease liabilities and borrowings. An increase in market interest rates in Russia may negatively influence the Group's profits. As of 31 December 2017, the proportion of total debt with a fixed interest rate amounted almost to 100%.

The Group concludes long-term borrowing and finance lease contracts to finance purchases of rolling stock and acquisitions of subsidiaries. The Group borrows 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 that the Group has financial liabilities with both floating and fixed interest rates. As of 31 December 2017, the proportion of total debt with a fixed interest rate amounted to almost 100%.

Credit risk
Financial assets that potentially subject the Group to credit risk consist principally of trade and other receivables and cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including its affiliates and suppliers. Its top 10 clients accounted for 74% of the Group's trade and other receivables on 31 December 2017.

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The majority of bank balances are held with reliable banks.

Liquidity risk
The Group's business is capital-intensive. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia have had a negative impact on the Russian financial markets and may limit the Group's access to international sources of funding. The potentials lack of available funding from international and Russian sources and increase in market interest rates could have a negative impact on the Group's ability to obtain financing for the settlement of its liabilities or cash to meet its financial obligations.

The Group has a budgeting policy in place that allows the management to control current liquidity based on expected cash flows. These include, among others, operating cash flows, capital expenditure needs, funds borrowed from financial institutions and funds raised from listed debt instruments.

Contingencies
The Group's contingencies are disclosed in Note 28 to the Consolidated Financial Statements.

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.

Results
The Group's results for the year are set out on pages 94 and 95. 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 declare dividends in Russian Roubles and pay such dividends in US Dollars. If dividends are not paid in US Dollars, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts – Conversion of Foreign Currency", they will be converted into US Dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

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

In April 2016, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2015 in the amount of 12.41 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of USD 34,041 thousand).

In April 2017, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2016 in the amount of 39.20 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 7,006,644 thousand (US Dollar equivalent of USD 124,605 thousand).

In August 2017, the Board of Directors of the Company approved payment of total dividend in the amount of 44.8 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,007,593 thousand, including interim dividend in the amount of RUB 3,603,417 thousand or RUB 20.16 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,404,176 thousand or RUB 24.64 per ordinary share/GDR (US Dollar equivalent of USD 135,401 thousand).

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group, recommends a payment of dividend for the year 2017 total dividend in the amount of 44.85 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,016,530 thousand, including final dividend for 2017 in the amount of RUB 4,155,726 thousand or RUB 23.25 per ordinary share/GDR and a special final dividend in the amount of RUB 3,860,804 thousand or RUB 21.60 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to the approval of the shareholders at the Annual General Meeting on 23 April 2018.

Share capital

As at 31 December 2017 the issued share capital of the Company which remains unchanged from the prior year, comprised 178,740,916 ordinary shares with a par value of USD 0.10 per share.

Research and development activities

The Group has not undertaken any research and development activities during the year ended 31 December 2017.

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 31 to the Consolidated Financial Statements.

Branches

The Group operates through branches and representative offices, maintaining 11 branches and eight representative offices during 2017 (11 branches and 10 representative offices during 2016).

Treasury shares

In 2017 the Company did not own or acquire either directly or through a person in his own name, but on 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 2018, 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.

Corporate governance

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

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

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

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

As at 31 December 2017 and at the date of this report, the Board comprises 14 members (2016: 14 members), 10 (2016: 11 members) of whom are Non-executive Directors (including the Chairman). Four (2016: four) 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 judgement with a view to the best interests of the Company, and they are able to exercise objective judgement on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2017 and at the date of this report are shown on page 77. There were no significant changes in the assignment of responsibilities of the Board of Directors.

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/her 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.

The total gross remuneration of the members of the Board of Directors incurred by the Group in 2017 amounted to RUB 130,387 thousand (2016: RUB 131,382 thousand).

Board performance

The Board held 14 meetings in 2017. The Directors' attendance is presented in the table below.

	Eligible	Attended
Michael Zampelas (Chairman)	14	14
Johann Franz Durrer	14	14
Carroll Colley	14	14
George Papaioannou	14	13
Alexander Eliseev	14	12
Melina Pyrgou	14	13
Konstantin Shirokov	14	14
Alexander Storozhev	14	14
Marios Tofaros	14	13
Elia Nicolaou	14	14
Sergey Tolmachev	14	14
Andrey Gomon	11	10
Zarema Mamukaeva	3	3
Alexander Tarasov	14	11
Michael Thomaides	14	13

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 three Directors, two of whom are independent, and meets at least four times each year. The Audit Committee is chaired by Mr J Carroll Colley and is also attended by Mr Papaioannou and Ms Nicolaou. The Audit Committee is responsible for considering, among other matters: the integrity of the Company's financial statements, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems; auditors' reports and the terms of appointment and remuneration of the auditor.

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

The Audit Committee manages the relationship with the external auditor on behalf of the Board. It considers the reappointment of the external auditor each year, as well as remuneration and other terms of engagement, and makes a recommendation to the Board. Shareholders are asked to approve the reappointment of the auditor each year at the Annual General Meeting.

The Internal Audit function is carried out internally by the Group's Internal Audit Service (IAS). IAS is responsible for testing the systems of risk management, internal control and corporate governance of the Group.

Nomination Committee

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

Remuneration Committee

The Remuneration Committee comprises two Independent Directors and meets at least once a year. The Remuneration Committee is chaired by Dr Durrer and Mr Zampelas is the other member. The Committee's responsibility is the determination and review of, among other matters, the remuneration of Executive Directors, and the review of the Company's remuneration policies. The remuneration of Independent Directors is a matter for the Chairman of the Board and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

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 24 April 2017.

Refer to Note 30 of the Consolidated Financial Statements for details of remuneration of Directors and other key management personnel.

Diversity policy

The Company does not have a formal Board diversity policy to aspects such as age, gender or educational and professional backgrounds, but following best practice while making the new appointments and considering the current composition of the Board of Directors, these aspects are taken into account.

As of the date of publication of these financial statements the Board has two females representing approximately 14% from the total number of Directors. The age of the members of the Board of Directors ranges from over 30 to over 70 years, with the average age of Directors being 51 years. The Board members have the following educational backgrounds: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management.

Further details of the corporate governance regime of the Company can be found on the website: http://www.globaltrans.com/about-us/corporate-governance/

Regulations with regards to the amendment of the article of association

The Articles of Association of the Company may be amended from time to time by special resolution at the General Meeting of the Shareholders.

Company's internal control and risk management systems in relation to the financial reporting process

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

In preparing the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

The Board is primarily responsible for establishing a framework of prudent and effective controls that enables risks to be assessed and managed.

The Audit Committee assists the Board in this task by reviewing and assessing the Group's internal control and risk management processes in relation to Group's financial reporting process.

The system of controls is designed to manage rather than eliminate the risks relevant to the Group's operations and, therefore, can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of laws and regulations.

At Globaltrans, the body responsible for internal audit is the Internal Audit Service (IAS). It tests the Group's systems of risk management, internal control and corporate governance to obtain a reasonable assurance that:

- The risk management system functions efficiently;
- Material financial, management and operating information is accurate, reliable and up-to-date;
- The actions of employees and management bodies are in compliance with the Group's policies, standards and procedures and the applicable laws;
- Resources are procured reasonably and used efficiently and their safekeeping is fully guaranteed; and
- Group companies conduct their business in compliance with applicable laws.

Each year, the Audit Committee approves an internal audit plan, which is developed by identifying the audit universe, performing a risk analysis and obtaining input from management relative to risks, controls and governance processes. The internal auditor regularly reports to the Audit Committee on the progress of planned audits. If any material internal control deficiencies are identified, they are communicated to the Audit Committee, and consequently to the Board, at once.

Significant direct or indirect holdings (including indirect shareholding though structures or cross shareholdings)

The issued share capital of the Company consists of 178,740,916 ordinary shares with a nominal value of USD 0.10 each, a certain portion of which is held in the form of Global Depositary Receipts (GDRs). The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The free float of Globaltrans amounts to approximately 59.4%[1] of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of the Company.

The shareholder structure of the Company as at 31 December 2017 was as follows:

Shareholder structure

Maple Valley Investments[2]	11.2%
Onyx Investments[2]	11.5%
Marigold Investments[2]	11.5%
Litten Investments[3]	6.3%
Controlled by Directors and management of Globaltrans	0.1%
Free float[1]	59.4%

1 For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.
2 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are co-founders of Globaltrans and are beneficiaries with regard to 11.2%, 11.5% and 11.5%, respectively, of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments).
3 Beneficially owned by Alexander Eliseev, Executive Director and co-founder of Globaltrans.

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 of the Company as at 31 December 2017 and 31 December 2016 are shown below:

Name	Type of holding	2017	2016
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**11,318,909**	11,318,909
Johann Franz Durrer	Holding of GDRs	**160,606**	160,606

The holders of special titles that provide special control rights and description of such rights

The Company does not have any titles with special rights.

Any restrictions in exercising of voting rights of shares

There are no restrictions in the exercising of voting rights of shares issued by the Company.

By Order of the Board

Sergey Tolmachev
Director

Limassol, 23 March 2018

Directors' Responsibility

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

In preparing the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Each of the Directors confirms to the best of his or her knowledge that the Consolidated Financial Statements (presented on pages 94 to 147) give a true and fair view of the financial position of Globaltrans Investment PLC (the "Company") and its subsidiaries (together with the Company, the "Group") as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

(i) proper books of account have been kept by the Company;
(ii) the Company's Consolidated Financial Statements are in agreement with the books of account;
(iii) the Consolidated Financial Statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required;
(iv) the Consolidated Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, and the information given therein is consistent with the Consolidated Financial Statements;
(v) the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the Consolidated Management Report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the Consolidated Financial Statements; and
(vi) the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

By order of the Board

Sergey Tolmachev
Director

Independent Auditor's Report
To the Members of Globaltrans Investment PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (together the "Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the consolidated financial statements which are presented in pages 94 to 147 and comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

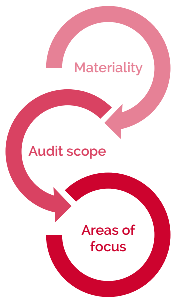
Independence

We remained independent of the Group throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.



Overall group materiality: RUB 886,000 thousand, which represents approximately 5% of profit before tax as adjusted for the non-recurring reversal of impairment of intangible assets

We conducted full scope audit for the parent entity, all the significant components and the group consolidation.

For the non-significant components we performed specified procedures over specific financial statement lines and/or analytical procedures.

We have identified the disclosure of the impact of adoption of IFRS 15 "Revenue from contracts with customers" as the key audit matter.

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

Independent Auditor's Report continued
To the Members of Globaltrans Investment PLC

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RUB 886,000 thousand
How we determined it	approximately 5% of profit before tax as adjusted for the non-recurring reversal of impairment of intangible assets
Rationale for the materiality benchmark applied	We chose the adjusted profit before tax stated above as the benchmark, because in our view, it is the benchmark against which the performance of the Group is most commonly measured by the users of the consolidated financial statements and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RUB 44,300 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our group audit scope
Globaltrans Investment PLC is the parent of a group of companies situated in a number of territories; namely Russia, Ukraine, Estonia, Finland and Cyprus. The financial information of these companies is included in the consolidated financial statements of Globaltrans Investment PLC.

Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole. Factors that were taken into account were, amongst others, the structure of the Group, the financial significance and/or risk profile and activities of each component, the Group's accounting processes and controls and the industry in which the Group operates.

For financial reporting purposes, the Group is structured into 10 reporting units/components, comprising the Company and subsidiary or sub-subsidiary entities of the Company. We conducted full scope audit of the group consolidation, the parent entity and the 5 reporting units, in 2 countries, which were assessed as significant components due to their individual financial significance to the Group. For the remaining non-significant components we performed specified procedures over specific financial statement lines and/or analytical procedures.

In establishing the overall approach to the group audit, we determined the scope of work that needed to be performed for each reporting unit and whether this would be performed by us, as the group engagement team, or component auditors from other PwC network firms, operating under our instructions. Where the work was performed by component auditors, we, as group auditors, determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Our involvement in that work included, amongst others, discussion and agreement over the nature, timing and extent of the work of the component audit teams, frequent communications with the component audit teams to ensure that our audit plan was appropriately executed and review of the audit work performed by these component audit teams. We focused our review on significant/complex areas, such as audit of the disclosure of the impact of adoption IFRS 15 "Revenue from contracts with customers". The group consolidation and consolidated financial statement disclosures have been audited by the group engagement team.

By performing the procedures above at components' level, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the consolidated financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Disclosure of the impact of adoption of IFRS 15 "Revenue from contracts with customers"	
IFRS 15 "Revenue from contracts with customers" and its subsequent amendment are effective for the Group from 1 January 2018. As a result, the Group expects to change its revenue accounting policy in future reporting periods. In accordance with the transition provisions in IFRS 15, the Group has elected the simplified transition method for the purpose of adopting IFRS 15. Accordingly, the effect of transition to IFRS 15 will be recognised as at 1 January 2018 in the consolidated financial statements of the Group for the year ending 31 December 2018; which will be the first year the Group will apply IFRS 15. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group is required to disclose known or reasonably estimable information relevant to assessing the possible impact that application of the new accounting standard will have on the consolidated financial statements in the year of adoption. Accordingly, the Group disclosed information relevant to the possible impact of IFRS 15 from 1 January 2018 within Notes 2 and 4 to the consolidated financial statements. We focused our audit effort on the Board of Directors' assessment of the impact of adoption of IFRS 15 on the Group's operator's services contracts due to the fact that: • the Board of Directors exercised complex and subjective judgements in the process of applying the principles of IFRS 15 to the Group's operator's services contracts and, accordingly, in the process of assessing the possible impact of adoption of the new accounting standard on the said revenue stream and preparing the relevant disclosures; and • the Group's revenue from operator's services contracts is material in the context of the consolidated financial statements. *Note 2 "Basis of preparation and summary of significant accounting policies" and Note 4 "Critical accounting estimates and judgements" to the consolidated financial statements provide detailed information regarding the Board of Directors' assessment and basis thereon.*	We evaluated and challenged the Board of Directors' judgements around the impact of adoption of the new accounting standard from 1 January 2018 and the adequacy and appropriateness of the disclosures in this respect. We involved PwC accounting technical experts to assist us in this process. In particular: • We obtained the Board of Directors' assessment of the impact of adoption of the new accounting standard on the Group's revenue streams; • We assessed the completeness of the analysis by reference to the Group's revenue streams for the year ended 31 December 2017; • We challenged the Board of Directors' analysis and judgements for a sample of revenue contracts by reference to the five-step model in IFRS 15; • We focused on the critical judgements that had the most significant effect on the Board of Directors' conclusion. • In particular, we challenged the Board of Directors' assessment as to why the services promised in operator's services contracts are not distinct in the context of the contracts and accordingly, why these are considered to constitute a single performance obligation. • We, further, challenged the Board of Directors' assessment as to the basis for concluding that the Group is acting as a principal for operator's services contracts for which the OAO "Russian Railways" tariffs and services provided by other services organisations are borne by the Group. We lastly evaluated the adequacy of the disclosures made in Notes 2 and 4 of the consolidated financial statements and compared the disclosures against the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and IAS 1 "Presentation of financial statements". As a result of the above procedures, we determined that the Board of Directors' judgements are appropriate and reasonable and the disclosures included in the consolidated financial statements are adequate.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report, including the Corporate Governance Statement, and the Directors' responsibility which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report, including the Non-Financial Information and Diversity Statement, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company's complete Annual Report, including the Non-Financial Information and Diversity Statement, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

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Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company in 2005 by shareholders' resolution for the audit of the financial statements for the year ended 31 December 2004. Our appointment has been renewed annually since then, by shareholders' resolution. In 2008 the Company listed Global Depository Receipts on the Main Market of the London Stock Exchange and, accordingly, the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 9 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 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.

The engagement partner on the audit resulting in this independent auditor's report is Anna Loizou.

Aloizou

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

23 March 2018

FINANCIAL STATEMENTS

Consolidated Income Statement
For the Year Ended 31 December 2017

	Note	2017 RUB'000	2016 RUB'000
Revenue	5	**78,080,532**	69,487,991
Cost of sales	7	**(54,608,847)**	(54,905,940)
Gross profit		**23,471,685**	14,582,051
Selling and marketing costs	7	**(237,640)**	(234,773)
Administrative expenses	7	**(3,851,492)**	(3,639,328)
Reversal of impairment of intangible assets	14	**630,223**	–
Other income		**57,967**	–
Other gains – net	8	**85,392**	116,328
Operating profit		**20,156,135**	10,824,278
Finance income	10	**480,585**	258,803
Finance costs	10	**(2,046,403)**	(2,280,202)
Net foreign exchange transaction losses on financing activities	10	**(236,540)**	(291,068)
Finance costs – net	10	**(1,802,358)**	(2,312,467)
Share of loss of associate	15	**–**	(60,831)
Profit before income tax		**18,353,777**	8,450,980
Income tax expense	11	**(4,533,903)**	(2,336,068)
Profit for the year		**13,819,874**	6,114,912
Profit attributable to:			
Owners of the Company		**12,288,777**	4,472,817
Non-controlling interest		**1,531,097**	1,642,095
		13,819,874	6,114,912
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	27	**68.75**	25.02

The notes on pages 100 to 147 of these Consolidated Financial Statements are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2017

	2017 RUB'000	2016 RUB'000
Profit for the year	**13,819,874**	6,114,912
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**504,640**	(2,038,910)
Items that may not subsequently be reclassified to profit or loss		
Currency translation differences attributable to non-controlling interest	**299,095**	(952,681)
Other comprehensive income/(loss) for the year, net of tax	**803,735**	(2,991,591)
Total comprehensive income for the year	**14,623,609**	3,123,321
Total comprehensive income attributable to:		
– owners of the Company	**12,793,417**	2,433,907
– non-controlling interest	**1,830,192**	689,414
	14,623,609	3,123,321

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 100 to 147 of these Consolidated Financial Statements are an integral part of these consolidated financial statements.

Consolidated Balance Sheet
At 31 December 2017

	Note	31 December 2017 RUB'000	31 December 2016 RUB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**64,770,907**	65,653,581
Intangible assets	14	**1,453,801**	1,541,564
Income tax assets		**–**	21,899
Trade and other receivables	19	**637,228**	472,360
Total non-current assets		**66,861,936**	67,689,404
Current assets			
Inventories	20	**776,341**	565,200
Current income tax assets		**18,273**	81,953
Trade and other receivables	19	**4,798,835**	5,320,518
Cash and cash equivalents	21	**4,966,171**	4,773,414
Total current assets		**10,559,620**	10,741,085
TOTAL ASSETS		**77,421,556**	78,430,489
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	22	**516,957**	516,957
Share premium	22	**27,929,478**	27,929,478
Common control transaction reserve		**(10,429,876)**	(10,429,876)
Translation reserve		**3,035,126**	2,530,486
Capital contribution		**2,694,851**	2,694,851
Retained earnings		**21,146,195**	23,871,655
Total equity attributable to the owners of the Company		**44,892,731**	47,113,551
Non-controlling interest		**5,724,899**	6,094,707
Total equity		**50,617,630**	53,208,258
Non-current liabilities			
Borrowings	24	**9,050,768**	9,694,243
Trade and other payables	26	**–**	117,890
Deferred tax liabilities	25	**5,908,319**	5,245,331
Total non-current liabilities		**14,959,087**	15,057,464
Current liabilities			
Borrowings	24	**7,280,588**	6,598,226
Trade and other payables	26	**4,413,656**	3,419,461
Current tax liabilities		**150,595**	147,080
Total current liabilities		**11,844,839**	10,164,767
TOTAL LIABILITIES		**26,803,926**	25,222,231
TOTAL EQUITY AND LIABILITIES		**77,421,556**	78,430,489

On 23 March 2018, the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

By order of the Board

Sergey Tolmachev,
Director

Konstantin Shirokov,
Director

The notes on pages 100 to 147 of these Consolidated Financial Statements are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2017

	Note	Attributable to the owners of the Company								
	Note	Share capital RUB'000	Share premium RUB'000	Common control transaction reserve RUB'000	Translation reserve RUB'000	Capital contribution RUB'000	Retained earnings RUB'000	Total RUB'000	Non-controlling interest RUB'000	Total RUB'000
Balance at 1 January 2016		**516,957**	**27,929,478**	**(10,429,876)**	**4,569,396**	**2,694,851**	**21,617,013**	**46,897,819**	**7,405,558**	**54,303,377**
Comprehensive income										
Profit for the year		–	–	–	–	–	4,472,817	4,472,817	1,642,095	6,114,912
Other comprehensive income										
Currency translation differences		–	–	–	(2,038,910)	–	–	(2,038,910)	(952,681)	(2,991,591)
Total comprehensive income for 2016		–	–	–	(2,038,910)	–	4,472,817	2,433,907	689,414	3,123,321
Transactions with owners of the Company										
Dividends to owners of the Company	23	–	–	–	–	–	(2,218,175)	(2,218,175)	–	(2,218,175)
Dividends to non-controlling interest	23	–	–	–	–	–	–	–	(2,008,575)	(2,008,575)
Contributions from non-controlling interest		–	–	–	–	–	–	–	8,310	8,310
Total contributions by and distributions to owners of the Company		–	–	–	–	–	(2,218,175)	(2,218,175)	(2,000,265)	(4,218,440)
Total transactions with owners of the Company		**–**	**–**	**–**	**–**	**–**	**(2,218,175)**	**(2,218,175)**	**(2,000,265)**	**(4,218,440)**
Balance at 31 December 2016		**516,957**	**27,929,478**	**(10,429,876)**	**2,530,486**	**2,694,851**	**23,871,655**	**47,113,551**	**6,094,707**	**53,208,258**

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2017

		Attributable to the owners of the Company								
	Note	Share capital RUB'000	Share premium RUB'000	Common control transaction reserve RUB'000	Translation reserve RUB'000	Capital contribution RUB'000	Retained earnings RUB'000	Total RUB'000	Non-controlling interest RUB'000	Total RUB'000
Balance at 1 January 2017		**516,957**	**27,929,478**	**(10,429,876)**	**2,530,486**	**2,694,851**	**23,871,655**	**47,113,551**	**6,094,707**	**53,208,258**
Comprehensive income										
Profit for the year		–	–	–	–	–	12,288,777	12,288,777	1,531,097	13,819,874
Other comprehensive income										
Currency translation differences		–	–	–	504,640	–	–	504,640	299,095	803,735
Total comprehensive income for 2017		–	–	–	504,640	–	12,288,777	12,793,417	1,830,192	14,623,609
Transactions with owners of the Company										
Dividends to owners of the Company	23	–	–	–	–	–	(15,014,237)	(15,014,237)	–	(15,014,237)
Dividends to non-controlling interest	23	–	–	–	–	–	–	–	(2,200,000)	(2,200,000)
Total distributions to owners of the Company		–	–	–	–	–	(15,014,237)	(15,014,237)	(2,200,000)	(17,214,237)
Total transactions with owners of the Company		**–**	**–**	**–**	**–**	**–**	**(15,014,237)**	**(15,014,237)**	**(2,200,000)**	**(17,214,237)**
Balance at 31 December 2017		**516,957**	**27,929,478**	**(10,429,876)**	**3,035,126**	**2,694,851**	**21,146,195**	**44,892,731**	**5,724,899**	**50,617,630**

The notes on pages 100 to 147 these Consolidated Financial Statements are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the Year Ended 31 December 2017

	Note	2017 RUB'000	2016 RUB'000
Cash flows from operating activities			
Profit before tax		**18,353,777**	8,450,980
Adjustments for:			
Depreciation of property, plant and equipment	13	**4,962,459**	4,958,173
Amortisation of intangible assets	14	**717,986**	835,677
Loss on sale of property, plant and equipment	13	**28,507**	58,938
Loss on derecognition arising on capital repairs	13	**528,039**	887,454
Impairment of property, plant and equipment	13	**111,172**	228,408
Profit on sale of associates	8	**(60,888)**	–
Impairment of receivables	7	**60,755**	82,194
Interest income	10	**(480,585)**	(258,803)
Finance costs	10	**2,046,403**	2,280,202
Other income		**3,505**	–
Share of loss of associates	15	**–**	60,831
Net foreign exchange losses from financing activities	10	**236,540**	291,068
Reversal of impairment of intangible assets	14	**(630,223)**	–
		25,877,447	17,875,122
Changes in working capital:			
Inventories		**106,437**	202,228
Trade and other receivables		**763,480**	(267,570)
Trade and other payables		**748,209**	(146,460)
Cash generated from operations		**27,495,573**	17,663,320
Tax paid		**(3,631,769)**	(1,587,792)
Net cash from operating activities		**23,863,804**	16,075,528
Cash flows from investing activities			
Loans repayments received from third parties		**11,485**	15,961
Purchases of property, plant and equipment		**(4,872,076)**	(4,932,019)
Purchases of intangible assets	14	**–**	(9,500)
Proceeds from disposal of property, plant and equipment	13	**267,526**	177,384
Proceeds from sale of associates	15	**60,888**	–
Interest received		**480,585**	261,564
Receipts from finance lease receivable		**23,830**	4,461
Net cash used in investing activities		**(4,027,762)**	(4,482,149)
Cash flows from financing activities			
Proceeds from borrowings		**15,710,000**	9,855,265
Repayments of borrowings		**(15,722,698)**	(13,943,584)
Interest paid		**(1,943,746)**	(2,251,804)
Contribution from non-controlling interests		**–**	8,310
Dividends paid to Company's shareholders	23	**(15,014,237)**	(2,218,175)
Dividends paid to non-controlling interests	23	**(2,200,000)**	(2,065,107)
Net cash used in financing activities		**(19,170,681)**	(10,615,095)
Net increase in cash and cash equivalents		**665,361**	978,284
Exchange losses on cash and cash equivalents		**(472,604)**	(308,949)
Cash and cash equivalents at beginning of year	21	**4,773,414**	4,104,079
Cash and cash equivalents at end of year	21	**4,966,171**	4,773,414

Principal non-cash investing and financing transactions

The principal non-cash investing and financing transactions consist of finance leases with the Group acting as a lessor (Note 13).

The notes on pages 100 to 147 these Consolidated Financial Statements are an integral part of these 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, CY-3095 Limassol, Cyprus. The Group's principal place of business is at 16/15 Spartakovskaya Sqr., Moscow, Russia.

Approval of the Consolidated Financial Statements
These Group Consolidated Financial Statements were authorised for issue by the Board of Directors on 23 March 2018.

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

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

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 2017 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 and IFRS 14 "Regulatory Deferral Accounts".

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 2017:

- **Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).** As a result of this amendment, the Group has disclosed a reconciliation of movements in liabilities arising from financing activities. Refer to Note 24.
- **Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. As a result of this amendment, the Group recognises deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group was not materially impacted by the application of this amendment.
- **Annual Improvements to IFRSs 2014-2016 cycle – amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for IFRS 12)**. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. The Group was not materially impacted by the application of these amendments.

(b) Certain new standards, amendments to existing standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2018, that are expected to have an impact on the Group's financial statements and which the Group has not early adopted. Items marked with * have not been endorsed by the European Union (EU). The Group will only be able to apply the new standards, amendments to existing standards or interpretations when these are endorsed by the EU.

- **IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for annual periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

  Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

  In accordance with the transition provisions in IFRS 15, the Group has elected the simplified transition method for the purpose of adopting IFRS 15. Accordingly, the effect of transition to IFRS 15 will be recognised as at 1 January 2018 in the Consolidated Financial Statements of the Group for the year ending 31 December 2018; which will be the first year when the Group will apply IFRS 15.

  Based on analysis of the Group's revenue streams for the year ended 31 December 2017 and individual contracts' terms and on the basis of the facts and circumstances that existed as at 31 December 2017, the management of the Group is not expecting a significant impact on the Group's Consolidated Financial Statements from the adoption of the new standard on 1 January 2018. Refer to Note 4 for more details.

- **IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).** Key features of the new standard are:
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - IFRS 9 introduces a new model for the recognition of impairment losses – The expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

New standards, interpretations and amendments to published standards continued

In accordance with the transition provisions in IFRS 9, the Group has elected the simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the Consolidated Financial Statements for the year ending 31 December 2017; which will be the first year when the Group will apply IFRS 9.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date, the management of the Group is expecting that the adoption of the new standard on 1 January 2018 will not have a significant impact on the Group's financial statements.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)*. The EU endorsement is postponed as IASB effective date is deferred indefinitely.** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.
- **IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.
- **Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)*.** The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share-based payments that are modified to become equity-settled, as follows: (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification; (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.
- **Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).** IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.
- **IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)*.** The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition

of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgement in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.** The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.
- **IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)*.** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.
- **Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.** The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.
- **Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)*.** The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

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

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the 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 acquisition method of accounting is used for the acquisitions of subsidiaries that do not involve entities or businesses under common control by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, equity instruments issued by the Group and liabilities incurred to the former owners of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

Indemnification assets recognised at the acquisition date continue to be measured on the same basis as the related indemnified item subject to collectability and contractual terms until they are collected, sold, cancelled or expire in the post-combination period. The entity measures the indemnification asset on the same basis as the related item, subject to any restrictions in the contractual terms such as a ceiling on the amount payable and any adjustment for the seller creditworthiness. Measurement on the same basis includes recognising any gains or losses appropriately.

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiaries

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

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

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

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

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

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

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

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

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

Revenues earned by the Group are recognised on the following bases:
(a) Revenue from railway transportation services – using own, leased or engaged rolling stock
The Group organises transportation services for clients using its own, leased or engaged rolling stock.

There are three types of operator's services:
- The Group has a contractual relationship with the client and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is borne by the Group. Total proceeds from clients are included in the Group's revenue.
- 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 revenue 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 recognises revenue net of OAO "Russian railways" tariff.

Revenue is recognised in accordance with the stage of completion of the transaction, based on the actual trip days lapsed against the total estimated number of trip days for the entire trip.

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

Revenue recognition continued

(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 rail cars and locomotives

The Group may acquire rail cars 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 rail cars and locomotives have been transferred to the customer, which is usually the date of delivery.

No revenue is recognised when rail cars 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. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(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 (RUB). The Consolidated Financial Statements are presented in Russian Roubles (RUB) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

(b) Transactions and balances

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

Net foreign exchange differences arising from borrowings and other liabilities and from cash and cash equivalents and other monetary assets are presented on the face of the income statement in the line "net foreign transaction losses on financing activities", with the appropriate disclosure of the split between the two in the note "Finance income and costs".

All other foreign exchange gains and losses are presented in the income statement within "Other gains – net".

(c) Group companies

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, including foreign exchange differences on long-term loans receivable designated as part 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. On partial disposal of a foreign operation, the proportionate share of the cumulative amount of the exchange differences recorded in equity relating to the amount disposed is reclassified in the income statement. The Group assesses whether there is a partial disposal of a foreign operation on the basis of the change in the Group's proportionate ownership interest in the foreign operation.

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

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

Land is not depreciated.

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

	Number of years, range
Buildings	30
Rolling stock (except locomotives):	
Gondola cars	22
Rail tank cars	32
Rail tank cars (specialised types)	30-40
Hoppers	15-26
Flat cars	20-32
Tank containers	20
Locomotives	9-25
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10

Change of useful lives of rolling stock
Management has reassessed the useful economic life of the Group's rolling stock as of 1 January 2017 and has concluded to revise the useful economic life of all items of the Group's rolling stock, other than locomotives. For locomotives, management has concluded that their remaining useful economic lives remain reasonable.

The revised useful lives of the Group's rolling stock are as per above.

As a result of the revision in the useful lives of the Group's rolling stock, the depreciation charged in the income statement for the year ended 31 December 2017 is higher than the one that would have been charged for the same period if there was no revision in useful lives by RUB 264,262 thousand.

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

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

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

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

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

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

Rolling stock repair and maintenance costs
Repair and maintenance costs relating to periodical capital repairs of locomotives and other rolling stock and periodical middle repairs of locomotives constitute major repairs that result in enhancement of the economic benefits of the rolling stock and as such are capitalised by the Group.

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

Property, plant and equipment continued

In particular, the cost of each major periodic capital repair is recognised in the carrying amount of the relevant item of rolling stock repaired and separately depreciated over the expected period until the next periodic capital repair or until the end of the useful economic life of the item of rolling stock, if earlier. Significant components replaced as part of periodic major capital repairs are capitalised and depreciated separately over their useful economic life. Simultaneously with the capitalisation of the costs of the new periodic major capital repair, the carrying amount of the repaired rolling stock that is attributable to the previous periodic capital repair and/or significant component replaced, if any, is derecognised and debited in "cost of sales" in the income statement as "loss on derecognition arising on capital repairs".

If it is not practicable for the Group to determine the carrying amount of the repaired rolling stock that is attributable to the previous periodic capital repair and/or significant component replaced to be derecognised, the Group uses the cost of the current periodic major capital repair or replaced part as an indication of what the cost of the replaced part was at the time the rolling stock was acquired.

Other types of repairs of rolling stock, such as current repairs and depot repairs, are viewed by the Group as routine repairs and maintenance and thus their cost is charged in the Group's income statement as and when incurred.

Upon initial recognition of rolling stock, the Group's accounting policy is not to separately identify and depreciate the element of its cost that is reflecting the maintenance element of the periodic major capital repair of the rolling stock on initial recognition. The cost attributed to significant components, such as wheel pairs, is separately identified and depreciated over their useful economic life.

Intangible assets

(a) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships relate to transportation services contracts with MMK Group and Metalloinvest Group. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Customer relationships are being amortised using the straight-line method over an estimated useful life from five to seven years from the date of their acquisition. The useful lives of the customer relationships are reviewed, and adjusted if appropriate, at the end of each reporting period.

(b) Computer software

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

Impairment of non-financial assets

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

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

Leases

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

The Group is the lessee

(a) Finance leases

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

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term, except for instances, where the lessee has the option to obtain ownership of the assets and it is reasonable certain that such ownership will be obtained, in which case the asset is depreciated over the useful economic life of the asset.

(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 collateralised 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 income tax and other taxes) 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 and cash and cash equivalents in the balance sheet.

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

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. Loans and receivables 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.

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.

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

Financial assets continued

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 delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "selling and marketing expenses". 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, marketing and administrative expenses" in the income statement.

Inventories

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

Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand and deposits held at call with banks with original maturity of three months or less, less bank overdrafts, if any. 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, including prepayments for property, plant and equipment, are included within cash flows from investing activities and finance lease payments are included within cash flows from financing activities and 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 arrangement which constitutes collateralised borrowing, the proceeds received 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, share premium and treasury shares

Ordinary shares are classified as equity.

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

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

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

Capital contribution

Capital contribution constitutes contributions made by the Company's shareholders other than for the issue of shares by the Company in their capacity as equity owners of the Company for which the Company has no contractual obligation to repay them. Such contributions are recognised directly in equity as they constitute transactions with equity owners in their capacity as equity owners of the Company.

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

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

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

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

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

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

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

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

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

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

Financial guarantees
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee and amortisation income is recognised in the income statement within other gains. 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 are subject to interpretations and establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

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

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

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

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

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

Russian value added tax (VAT)
Russian output value added tax related to sales is payable to tax authorities on the earlier of: (a) collection of receivables from customers; or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Employee benefits
Wages, salaries, contributions to the 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.

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Share-based payment transactions
The Group operates a cash-settled share-based compensation plan. In accordance with compensation plan introduced in the Group, key management personnel and selected employees of the Group are entitled to receive cash compensations based on the weighted average market quotations of the fixed number of global depository receipts (GDR) of the Company. The fair value of the employee services received in exchange for the grant of the equivalent GDR instruments is recognised as an expense. At each balance sheet date, if required by the terms of the compensation plan, the Group revises its estimates of the monetary equivalent of GDRs that are expected to vest. It recognises the impact of the revision of original estimates, including number of instruments expected to vest and fair values, in profit or loss, with a corresponding adjustment to share-based payment liability.

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.

Prepayments
Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the

prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

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 programme 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.

As of 31 December 2017, 100% of the Group's long-term borrowings are denominated in Russian Rouble. Further, a large proportion of the Group's expenses and revenues are denominated and settled in Russian Roubles. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency.

During the year 2017 the Russian Rouble showed signs of recovery. As of the end of December 2017, the Russian Rouble appreciated against the US Dollar from 60.6569 as of 31 December 2016 to 57.6002 Russian Roubles (5.0% revaluation).

The Group is exposed to the effects of currency fluctuations between: (i) the Russian Rouble and the US Dollars in relation to US Dollar-denominated balances held in the Company and the Cypriot and Russian subsidiaries of the Group having the Russian Rouble as their functional currency; (ii) the Euro and the US Dollar for US Dollar-denominated balances held in the Estonian subsidiaries of the Group which have the Euro as their functional currency; and (iii) the Ukrainian Hryvnia and the US Dollar for the US Dollar-denominated balances held in the Ukrainian subsidiary of the Group which has the Ukrainian Hryvnia as its functional currency.

The Group does not have formal arrangements for hedging this foreign exchange risk.

The carrying amounts of monetary assets and liabilities denominated in US Dollars as at 31 December 2017 and 31 December 2016 are as follows:

	2017 RUB'000	2016 RUB'000
Assets	**680,794**	1,632,392
Liabilities	**712,908**	36,364

Had US Dollar exchange rate strengthened/weakened by 5% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2017, would have decreased/increased by RUB 11,888 thousand (2016: 30% change, effect RUB 301,930 thousand) and equity would have increased/decreased by RUB 125,368 thousand (2016: 30% change, effect RUB 808,361 thousand).

This is mainly due to foreign exchange gains and losses arising upon retranslation of cash and cash equivalents and accounts payable 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 2017 compared to 2016 mainly due to the decrease in the US Dollar-denominated cash balances as at the end of 2017 combined with the increase in the US Dollar-denominated payable balances resulting in lower net exposure to US Dollar by Group companies with functional currency the Russian Rouble as compared to 31 December 2016. The impact on equity is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

Had Euro exchange rate strengthened/weakened by 10% against the US Dollar and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2017, would have increased/decreased by RUB 28,517 thousand (2016: 10% change, effect RUB 22,779 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of payable balances and cash and cash equivalents and accounts receivable denominated in US Dollars for the Estonian subsidiaries of the Group.

3. Financial risk management continued

Market risk continued

Had US Dollar exchange rate strengthened/weakened by 5% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged (2016: 30% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2017, would have decreased/increased by RUB 250,735 thousand (2016: 30% change, effect RUB 808,361 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

(b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates arising mainly from floating rate borrowings. In addition the Group is exposed to fair value interest rate risk through market value fluctuations of borrowings and bank deposits 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.

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 maximising the estimated future profit.

As at 31 December 2017 and 31 December 2016, the Group did not have any material Russian Rouble and US Dollar credit facilities at floating interest rates, therefore any reasonably possible change in market interest rates would not have any significant impact on the post-tax profit or equity of the Group.

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

(c) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade and other receivables and cash and cash equivalents.

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The majority of bank balances are held with independently rated parties with a minimum rating of "Ba2". 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, with the top 10 customers accounting for 76.25% of the Group's trade and other receivables (excluding VAT receivable and prepayments) as at 31 December 2017 (2016: 70.25%).

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 2017 and 31 December 2016:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	**Total RUB'000**
As of 31 December 2017					
Trade receivables	1,508,473	671,481	324,852	(141,336)	**2,363,470**
Loans receivable	16,857	–	–	–	**16,857**
Other receivables	31,070	18,297	39,786	(39,786)	**49,367**
Finance lease receivables	445,919	–	–	–	**445,919**
	2,002,319	689,778	364,638	(181,122)	**2,875,613**
As of 31 December 2016					
Trade receivables	1,403,084	739,322	438,831	(263,972)	**2,317,265**
Loans receivable	29,533	–	–	–	**29,533**
Other receivables	25,589	22,938	29,163	(29,163)	**48,527**
Finance lease receivables	213,085	–	–	–	**213,085**
	1,671,291	**762,260**	**467,994**	**(293,135)**	2,608,410

Liquidity risk
The Group has an excess of current liabilities over current assets of RUB 1,285,219 thousand as at 31 December 2017 (2016: excess of current assets over current liabilities RUB 576,318 thousand).

The Group has predictable cash flows which allow the Group to repay its liabilities when they fall due. The Group also 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 RUB 19,140,000 thousand as of 31 December 2017 (2016: RUB 20,820,000 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 2017 and 31 December 2016. 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 RUB'000	Between one month and three months RUB'000	Between three and six months RUB'000	Between 6 months and less than one year RUB'000	Between 1 and 2 years RUB'000	Between 2 and 5 years RUB'000	**Total RUB'000**
31 December 2017							
Borrowings	492,546	2,426,820	1,326,157	4,210,040	6,321,331	3,623,067	**18,399,961**
Trade and other payables	777,375	1,389	–	–	–	–	**778,764**
	1,269,921	**2,428,209**	**1,326,157**	**4,210,040**	**6,321,331**	**3,623,067**	**19,178,725**

	Less than one month	Between one month and three months	Between three and six months	Between 6 months and less than one year	Between 1 and 2 years	Between 2 and 5 years	**Total**
31 December 2016							
Borrowings	1,577,686	970,977	1,792,827	3,627,582	5,638,144	5,241,740	**18,848,956**
Trade and other payables	617,672	13,946	11,967	20,048	–	–	**663,633**
	2,195,358	**984,923**	**1,804,794**	**3,647,630**	**5,638,144**	**5,241,740**	**19,512,589**

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

(d) 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 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 2017 and 31 December 2016 are as follows:

	2017 RUB'000	2016 RUB'000
Total borrowings	**16,331,356**	16,292,469
Total capitalisation	**61,224,087**	63,406,020
Total borrowings to total capitalisation ratio (percentage)	**26.67%**	25.70%

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 the Company and 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 2017 and 2016. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

3. Financial risk management continued

Market risk continued

(e) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using discounted cash flows valuation techniques. The fair value of unquoted fixed and floating interest rate instruments which are not quoted in an active market was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

Financial liabilities carried at amortised cost. Fair values of borrowings and other liabilities were determined using valuation techniques.

As at 31 December 2017 and 31 December 2016 there were no fixed or floating interest rate instruments with stated maturity denominated in a currency other than the Russian Rouble.

The fair value as at 31 December 2017 and 31 December 2016 of fixed and floating interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble, denominated instruments entered into by the Group close to 31 December 2017 and 31 December 2016, respectively. The discount rate used was 8% p.a. (2016: 10% p.a.) (Note 24).

The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

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

The Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. In those cases when 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 without further recharge to its customers. 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 for 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 RUB 22,507,762 thousand for the year ended 31 December 2017 (RUB 22,251,051 thousand for the year ended 31 December 2016).

Operator's services include contracts with several customers with certain characteristics indicating that the Group acts as an agent in respect of services provided by other transportation organisations for export transportations mainly and recharges such costs to its customers. Management believes that despite these characteristics, the substance of the relationship with the customers is such that the Group acts as a principal, because the Group's customers do not interact with the operators supplying the engaged fleet but have a contractual relationship with the Group, the Group has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Group bears the credit and price risk and controls the flow of receipts and payments. The Group accounts for full amounts of receipts from customers and the services provided by other operators are included both in revenue and cost of sales. Had the services provided by other transportation organisations directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by RUB 1,214,620 thousand for the year ended 31 December 2017 (RUB 1,425,300 thousand for the year ended 31 December 2016).

Impact of adoption of IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" and its subsequent amendment are effective for the Group from 1 January 2018. As a result, the Group expects to change its revenue accounting policy in future reporting periods.

In accordance with the transition provisions in IFRS 15, the Group has elected the simplified transition method for the purpose of adopting IFRS 15. Accordingly, the effect of transition to IFRS 15 will be recognised as at 1 January 2018 in the Consolidated Financial Statements of the Group for the year-ending 31 December 2018; which will be the first year when the Group will apply IFRS 15.

Based on analysis of the Group's revenue streams for the year ended 31 December 2017 and individual contracts' terms and on the basis of the facts and circumstances that existed as at 31 December 2017, the management of the Group is not expecting a significant impact on the Group's Consolidated Financial Statements from the adoption of the new standard on 1 January 2018.

The assessment of the potential impact of adoption of IFRS 15 on the Group's Consolidated Financial Statements required management to make certain critical judgements in the process of applying the principles of the new standard. The judgements that had the most significant effect on management's conclusion are the following:

- **Identification of performance obligations**
  Operator's services contracts involve the provision by the Group of a wide range of services. Management believes that, although some of these services can be obtained by the clients from the market separately and different combinations of services can be provided to different customers, in the context of each individual contract with a customer, the services provided by the Group are highly dependent and interrelated with each other and, therefore, are not distinct. In making this assessment, management noted that, despite the fact that the Group's contracts contain a promise to deliver multiple services, the nature of the promise within the context of the contracts and the economic substance of the transaction is that the customers are purchasing integrated operator's services to which the individual services promised are inputs rather than separate services and consequently this is considered to constitute a single performance obligation.

- **Assessment as to whether the Group is acting as an agent or principal for certain operator's services contracts**
  Management re-assessed the accounting treatment followed historically by the Group with regards to the operator's services contracts discussed above by reference to the requirements of the new standard and concluded that this is still appropriate. Management believes that the Group is acting as a principal in these arrangements as it is the party that controls the services prior these are transferred to the customers and, through separate arrangements with OAO "Russian Railways" and the operators supplying the engaged fleet, obtains the right to direct them to provide services on its behalf.

4. Critical accounting estimates and judgements continued

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

ii) Intention for the distribution of dividends by subsidiaries

Withholding tax at the rate of 5% is applied to the dividends distributed by the Russian subsidiaries of the Group to the Company. In case the dividends are distributed by the Estonian subsidiaries the tax of 20% will be applied to gross amount of such distributions. Management exercises judgement in determining the provisions to be recognised by the Group for such taxes. These provisions are based on management's estimates and intention for future dividend distribution by each respective subsidiary out of profits of subsidiaries as of 31 December 2017.

Deferred income tax liabilities of RUB 2,785,978 thousand (2016: RUB 2,728,252 thousand) have not been recognised for the withholding taxes that would be payable in case unremitted earnings of certain subsidiaries are distributed to the Company in the form of dividends as it is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled RUB 20,506,150 thousand as at 31 December 2017 (2016: RUB 22,103,185 thousand).

5. Segmental information

The chief operating decision-maker has been identified as the Board of Directors of the Company. 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, the Board reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective, the Board assesses the performance of each type of rolling stock at the level of adjusted revenue. In particular, the Board reviews discrete financial information for gondola cars and rail tank cars, whereas all other types of rolling stock (such as hopper cars and platforms) are reviewed together.

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 and locomotive tariffs paid for the loaded trips of relating rolling stock less services provided by other transportation organisations. Further, the Board receives information in respect of relating depreciation and amortisation charges for rolling stock and customer relationships, respectively, impairment charges/reversal of impairment in respect of rolling stock and customer relationships and loss on derecognition arising on capital repairs. All information provided to the Board in relation to profit or loss items is measured in a manner consistent with that in the financial statements.

The Board also reviews additions to 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.

	Gondola cars RUB'000	Rail tank cars RUB'000	Other railcars RUB'000	Total RUB'000
Year ended 31 December 2017				
Total revenue – operator's services	52,210,098	22,472,812	1,185,233	75,868,143
Total revenue – operating lease	104,838	1,020,852	86,498	1,212,188
Revenue (from external customers)	52,314,936	23,493,664	1,271,731	77,080,331
Less: Infrastructure and locomotive tariffs – loaded trips	(16,832,160)	(5,162,124)	(513,478)	(22,507,762)
Less: Services provided by other transportation organisations	(3,228,663)	(195,297)	(54,521)	(3,478,481)
Adjusted revenue for reportable segments	**32,254,113**	**18,136,243**	**703,732**	**51,094,088**
Depreciation and amortisation	(4,398,130)	(1,018,965)	(100,092)	(5,517,187)
Impairment of property, plant and equipment	–	–	(111,172)	(111,172)
Loss on derecognition arising on capital repairs	(261,336)	(265,670)	(1,033)	(528,039)
Reversal of impairment of intangible assets	630,223	–	–	630,223
Additions to non-current assets (included in reportable segment assets)	3,227,815	754,615	151,807	4,134,237
Reportable segment assets	44,100,083[1]	19,445,539	533,320	64,078,942

1 Includes RUB 1,447,559 thousand of intangible assets representing customer relationships.

	Gondola cars RUB'000	Rail tank cars RUB'000	Other railcars RUB'000	Total RUB'000
Year ended 31 December 2016				
Total revenue – operator's services	40,611,447	25,341,788	1,242,253	67,195,488
Total revenue – operating lease	70,221	1,169,296	233,105	1,472,622
Revenue (from external customers)	40,681,668	26,511,084	1,475,358	68,668,110
Less: Infrastructure and locomotive tariffs – loaded trips	(15,133,741)	(6,608,457)	(508,853)	(22,251,051)
Less: Services provided by other transportation organisations	(2,807,347)	(122,919)	(58,106)	(2,988,372)
Adjusted revenue for reportable segments	**22,740,580**	**19,779,708**	**908,399**	**43,428,687**
Depreciation and amortisation	(4,119,446)	(1,340,635)	(192,905)	(5,652,986)
Impairment of property, plant and equipment	–	–	(228,408)	(228,408)
Loss on derecognition arising on capital repairs	(622,664)	(233,213)	(31,577)	(887,454)
Additions to non-current assets (included in reportable segment assets)	3,223,360	800,542	65,265	4,089,167
Reportable segment assets	45,098,408[2]	19,176,300	1,178,107	65,452,815

2 Includes RUB 1,533,435 thousand of intangible assets representing customer relationships.

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

	2017 RUB'000	2016 RUB'000
Adjusted revenue for reportable segments	**51,094,088**	43,428,687
Other revenues	**1,000,201**	819,881
Total adjusted revenue	**52,094,289**	**44,248,568**
Cost of sales (excluding Infrastructure and locomotive tariffs – loaded trips, services provided by other transportation organisations, impairment of property, plant and equipment, depreciation of property, plant and equipment and amortisation of intangible assets, loss on derecognition arising on capital repairs)	**(22,352,208)**	(22,809,838)
Selling, marketing and administrative expenses (excl. depreciation, amortisation and impairments)	**(3,979,117)**	(3,738,874)
Depreciation and amortisation	**(5,680,445)**	(5,793,850)
Reversal of impairment of customer relationships	**630,223**	–
Impairment charge for receivables	**(60,755)**	(82,194)
Impairment charge for property, plant and equipment	**(111,172)**	(228,408)
Loss on derecognition arising on capital repairs	**(528,039)**	(887,454)
Other income	**57,967**	–
Other gains – net	**85,392**	116,328
Operating profit	**20,156,135**	**10,824,278**
Finance income	**480,585**	258,803
Finance costs	**(2,046,403)**	(2,280,202)
Net foreign exchange transaction losses on financing activities	**(236,540)**	(291,068)
Share of loss of associate	**–**	(60,831)
Profit before income tax	**18,353,777**	**8,450,980**

5. Segmental information continued

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

	2017		2016	
	Assets RUB'000	Liabilities RUB'000	Assets RUB'000	Liabilities RUB'000
Segment assets/liabilities	**64,078,915**		65,452,815	
Unallocated:				
Deferred tax	**–**	**5,908,319**	–	5,245,331
Income tax assets/liabilities	**18,273**	**150,595**	103,852	147,080
Inventories	**776,341**	**–**	565,200	–
Intangible assets	**6,242**	**–**	8,129	–
Current borrowings	**–**	**7,280,588**	–	6,598,226
Non-current borrowings	**–**	**9,050,768**	–	9,694,243
Property, plant and equipment	**2,139,551**	**–**	1,734,201	–
Receivables	**5,436,063**	**–**	5,792,878	–
Payables	**–**	**4,413,656**	–	3,537,351
Cash and cash equivalents	**4,966,171**	**–**	4,773,414	–
Total	**77,421,556**	**26,803,926**	**78,430,489**	**25,222,231**

Geographic information

Revenues from external customers

	2017 RUB'000	2016 RUB'000
Revenue		
Russia	**77,171,269**	68,277,721
Estonia	**749,218**	269,045
Finland	**6,404**	870,373
Ukraine	**153,641**	70,852
	78,080,532	69,487,991

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

	2017		2016	
	RUB'000	% revenue	RUB'000	% revenue
Revenue				
Customer A – rail tank cars segment	**14,248,432**	**18**	16,754,160	24
Customer B – gondola cars segment	**24,146,713**	**31**	18,132,075	26
Customer C – gondola cars segment	**12,106,875**	**16**	11,339,547	16

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

	2017 RUB'000	2016 RUB'000
Non-current assets		
Russia	**54,766,788**	56,052,479
Estonia	**10,947,603**	10,586,947
Ukraine	**527,835**	636,686
Cyprus	**4,468**	6,769
	66,246,694	67,282,881

Analysis of revenue by category:

	2017 RUB'000	2016 RUB'000
Railway transportation – operator's services (tariff borne by the Group)	**44,371,174**	42,657,682
Railway transportation – operator's services (tariff borne by the client)	**31,496,969**	24,537,806
Operating lease of rolling stock	**1,212,188**	1,472,622
Other	**1,000,201**	819,881
Total revenue	**78,080,532**	69,487,991

Note: Revenue from railway transportation – operators services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2017 amounting to RUB 22,507,762 thousand (for the year ended 31 December 2016: RUB 22,251,051 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to RUB 3,478,481 thousand (2016: RUB 2,988,372 thousand).

6. Non-GAAP financial information

In addition to financial information under IFRS, the Group also use certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures") as supplemental measures of the Group's operating and financial performance. The management believes that these non-GAAP measures provide valuable information to readers, because they enable them to focus more directly on the underlying day-to-day performance of the Group's business.

Adjusted Revenue

Adjusted Revenue is defined as "Total revenue" adjusted for "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations". "Infrastructure and locomotive tariffs: loaded trips" comprises revenue resulting from tariffs that customers pay to the Group and the Group pays on to OAO "Russian Railways", which are reflected in equal amounts in both the Group's Total revenue and Cost of sales. "Services provided by other transportation organisations" is revenue resulting from the tariffs that customers pay to the Group and the Group pays on to third-party rail operators for subcontracting their rolling stock, which are reflected in equal amounts in both the Group's Total revenue and Cost of sales.

The following table provides details of Adjusted Revenue for 2017 and 2016 and its reconciliation to Total revenue.

	2017 RUB'000	2016 RUB'000
Total revenue	**78,080,532**	69,487,991
Minus "pass through" items		
Infrastructure and locomotive tariffs: loaded trips	**(22,507,762)**	(22,251,051)
Services provided by other transportation organisations	**(3,478,481)**	(2,988,372)
Adjusted Revenue	**52,094,289**	44,248,568

Total Operating Cash Costs and Non-cash Costs

In order to show the dynamics and nature of the Group's cost base, individual items of Total cost of sales, selling and marketing costs and administrative expenses have been regrouped into Operating Cash Costs and Operating Non-cash Costs.

Total Operating Cash Costs represent operating cost items payable in cash and calculated as "Total cost of sales, selling and marketing costs and administrative expenses" less the "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations" and non-cash items: "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment charge for receivables", "Impairment of property, plant and equipment", "Net (gain)/loss on sale of property, plant and equipment" and "Loss on derecognition arising on capital repairs".

Total Operating Non-cash Costs include cost items such as "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Loss on derecognition arising on capital repairs", "Impairment charge of receivables", "Impairment of property, plant and equipment" and "Net (gain)/loss on sale of property, plant and equipment".

Other Operating Cash Costs include cost items such as "Advertising and promotion", "Auditors' remuneration", "Communication costs", "Information services", "Legal, consulting and other professional fees", "Rental of tank containers", "Operating lease rentals – office", "Taxes (other than income tax and value added taxes)" and "Other expenses".

6. Non-GAAP financial information continued

	2017 RUB'000	2016 RUB'000
"Pass through" cost items	**(25,986,243)**	**(25,239,423)**
Infrastructure and locomotive tariffs: loaded trips	**(22,507,762)**	(22,251,051)
Services provided by other transportation organisations	**(3,478,481)**	(2,988,372)
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**(32,711,736)**	**(33,540,618)**
Total Operating Cash Costs	**(26,302,818)**	**(26,489,774)**
Infrastructure and locomotive tariffs – empty runs and other tariffs	**(13,103,048)**	(13,865,726)
Repairs and maintenance	**(3,769,086)**	(3,604,648)
Employee benefit expense	**(3,425,986)**	(2,945,979)
Operating lease rentals – rolling stock	**(1,634,370)**	(1,556,979)
Fuel and spare parts – locomotives	**(1,519,083)**	(1,493,863)
Engagement of locomotive crews	**(662,100)**	(575,689)
Other Operating Cash Costs	**(2,189,145)**	(2,446,890)
Advertising and promotion	**(31,240)**	(27,716)
Auditors' remuneration	**(55,903)**	(63,652)
Communication costs	**(37,446)**	(35,282)
Information services	**(19,025)**	(26,623)
Legal, consulting and other professional fees	**(69,415)**	(71,316)
Rental of tank-containers	**(63,622)**	(65,168)
Operating lease rentals – office	**(179,887)**	(208,065)
Taxes (other than on income and value added taxes)	**(746,058)**	(838,505)
Other expenses	**(986,549)**	(1,110,563)
Total Operating Non-cash Costs	**(6,408,918)**	**(7,050,844)**
Depreciation of property, plant and equipment	**(4,962,459)**	(4,958,173)
Amortisation of intangible assets	**(717,986)**	(835,677)
Loss on derecognition arising on capital repairs	**(528,039)**	(887,454)
Impairment charge for receivables	**(60,755)**	(82,194)
Impairment of property, plant and equipment	**(111,172)**	(228,408)
Net loss on sale of property, plant and equipment	**(28,507)**	(58,938)
Total cost of sales, selling and marketing costs and administrative expenses	**(58,697,979)**	**(58,780,041)**

Adjusted EBITDA

Adjusted EBITDA represents EBITDA excluding "Net foreign exchange transaction losses from financing activities", "Share of loss of associate", "Other gains – net", "Net (gain)/loss on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Loss on derecognition arising on capital repairs" and "Reversal of impairment of intangible assets".

EBITDA (a non-GAAP financial measure) represents "Profit for the year" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction losses from financing activities), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".

The following table provides details on Adjusted EBITDA for 2017 and 2016 and its reconciliation to EBITDA and Profit for the year:

	2017 RUB'000	2016 RUB'000
Profit for the year	**13,819,874**	**6,114,912**
Plus (Minus)		
Income tax expense	**4,533,903**	2,336,068
Finance costs – net	**1,802,358**	2,312,467
Net foreign exchange transaction losses on financing activities	**(236,540)**	(291,068)
Amortisation of intangible assets	**717,986**	835,677
Depreciation of property, plant and equipment	**4,962,459**	4,958,173
EBITDA	**25,600,040**	**16,266,229**
Plus (Minus)		
Loss on derecognition arising on capital repairs	**528,039**	887,454
Net foreign exchange transaction losses on financing activities	**236,540**	291,068
Other gains – net	**(85,392)**	(116,328)
Share of loss of associate	**–**	60,831
Net loss on sale of property, plant and equipment	**28,507**	58,938
Impairment of property, plant and equipment	**111,172**	228,408
Reversal of impairment of intangible assets	**(630,223)**	–
Adjusted EBITDA	**25,788,683**	**17,676,600**

Free Cash Flow

Free Cash Flow is calculated as "Cash generated from operations" (after "Changes in working capital") less "Tax paid", "Interest paid", "Purchases of property, plant and equipment" and "Purchases of intangible assets".

Attributable Free Cash Flow means Free Cash Flow less Adjusted profit attributable to non-controlling interests.

Adjusted Profit Attributable to Non-controlling Interests is calculated as "Profit attributable to non-controlling interests" less share of "Impairment of property, plant and equipment" and "Impairment of intangible assets" attributable to non-controlling interests.

The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for 2017 and 2016, and its reconciliation to Cash generated from operations.

	2017 RUB'000	2016 RUB'000
Cash generated from operations	**27,495,573**	17,663,320
Tax paid	**(3,631,769)**	(1,587,792)
Interest paid	**(1,943,746)**	(2,251,804)
Purchases of property, plant and equipment	**(4,872,076)**	(4,932,019)
Purchases of intangible assets	**–**	(9,500)
Free Cash Flow	**17,047,982**	**8,882,205**
Attributable Free Cash Flow	**15,516,885**	**7,240,110**

Net Debt and Net Debt to Adjusted EBITDA

Net Debt is defined as the sum of total borrowings (including interest accrued) less "Cash and cash equivalents".

Total Debt is defined as total borrowings (including interest accrued).

The following table sets out the details on the Group's Net Debt and Net Debt to Adjusted EBITDA at 31 December 2017 and 2016, and reconciliation of Net Debt to Total Debt.

	31 December 2017 RUB'000	31 December 2016 RUB'000
Total debt	16,331,356	16,292,469
Minus		
Cash and cash equivalents	4,966,171	4,773,414
Net Debt	**11,365,185**	**11,519,055**
Net Debt to Adjusted EBITDA	**0.44x**	**0.65x**

7. Expenses by nature

	2017 RUB'000	2016 RUB'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**22,507,762**	22,251,051
Empty run trips and other tariffs	**13,103,048**	13,865,726
Services provided by other transportation organisations	**3,478,481**	2,988,372
Operating lease rentals – rolling stock	**1,634,370**	1,556,979
Rental of tank-containers	**63,622**	65,168
Employee benefit expense	**1,163,527**	1,025,623
Repairs and maintenance	**3,769,086**	3,604,648
Depreciation of property, plant and equipment	**4,913,217**	4,905,158
Amortisation of intangible assets	**717,968**	835,659
Fuel and spare parts – locomotives	**1,519,083**	1,493,863
Engagement of locomotive crews	**662,100**	575,689
Loss on sale of property, plant and equipment	**32,695**	60,654
Impairment of property, plant and equipment	**111,172**	228,408
Loss on derecognition arising on capital repairs	**528,039**	887,454
Other expenses	**404,677**	561,488
	54,608,847	54,905,940

	2017 RUB'000	2016 RUB'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**49,242**	53,015
Amortisation of intangible assets	**18**	18
Profit on sale of property, plant and equipment	**(4,188)**	(1,716)
Employee benefit expense	**2,262,459**	1,920,356
Impairment charge of receivables	**60,755**	82,194
Operating lease rental – office	**179,887**	208,065
Auditors' remuneration	**55,903**	63,652
Legal, consulting and other professional fees	**69,415**	71,316
Advertising and promotion	**31,240**	27,716
Communication costs	**37,446**	35,282
Information services	**19,025**	26,623
Taxes (other than income tax and value added taxes)	**746,058**	838,505
Other expenses	**581,872**	549,075
	4,089,132	3,874,101

	2017 RUB'000	2016 RUB'000
Total expenses		
Depreciation of property, plant and equipment (Note 13)	**4,962,459**	4,958,173
Amortisation of intangible assets (Note 14)	**717,986**	835,677
Impairment of property, plant and equipment (Note 13)	**111,172**	228,408
Net loss on sale of property, plant and equipment (Note 13)	**28,507**	58,938
Loss on derecognition arising on capital repairs (Note 13)	**528,039**	887,454
Employee benefit expense (Note 9)	**3,425,986**	2,945,979
Impairment charge for receivables (Note 20)	**60,755**	82,194
Operating lease rentals – rolling stock	**1,634,370**	1,556,979
Operating lease rentals – office	**179,887**	208,065
Repairs and maintenance	**3,769,086**	3,604,648
Fuel and spare parts – locomotives	**1,519,083**	1,493,863
Engagement of locomotive crews	**662,100**	575,689
Infrastructure and locomotive tariffs:		
Loaded trips	**22,507,762**	22,251,051
Empty run trips and other tariffs	**13,103,048**	13,865,726
Services provided by other transportation organisations	**3,478,481**	2,988,372
Rental of tank-containers	**63,622**	65,168
Auditors' remuneration	**55,903**	63,652
Legal, consulting and other professional fees	**69,415**	71,316
Advertising and promotion	**31,240**	27,716
Communication costs	**37,446**	35,282
Information services	**19,025**	26,623
Taxes (other than income tax and value added taxes)	**746,058**	838,505
Other expenses	**986,549**	1,110,563
Total cost of sales, selling and marketing costs and administrative expenses	**58,697,979**	58,780,041

Note: The auditors' remuneration stated above includes fees of RUB 17,059 thousand (2016: RUB 17,646 thousand) for statutory audit services and RUB 4,714 thousand (2016: RUB 6,960 thousand) for other assurance services charged by the Group's statutory audit firm. The rest of the auditors' remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company.

Legal, consulting and other professional fees include RUB 2,085 thousand for the year 2017 (RUB 904 thousand for the year 2016) in relation to fees paid to the Company's statutory auditor for tax consultancy services.

8. Other gains – net

	2017 RUB'000	2016 RUB'000
Other gains	**47,591**	28,936
Other losses	**(88,136)**	(52,103)
Net foreign exchange gains (Note 12)	**65,049**	139,495
Profit from sale of associates (Note 15)	**60,888**	–
Total other gains – net	**85,392**	116,328

9. Employee benefit expense

	2017 RUB'000	2016 RUB'000
Salaries	**1,776,586**	1,719,794
Termination benefits	**7,426**	1,332
Bonuses	**956,088**	623,377
Share-based payment expense (Note 16)	**97,229**	77,985
Social insurance costs	**588,657**	523,491
Total employee benefit expense	**3,425,986**	2,945,979
Average number of employees during the year	**1,534**	1,489

10. Finance income and costs

	2017 RUB'000	2016 RUB'000
Included in finance costs:		
Borrowings from third parties	–	(2,098)
Bank borrowings	**(1,991,826)**	(2,271,466)
Total interest expense	**(1,991,826)**	(2,273,564)
Other finance costs	**(54,577)**	(6,638)
Total finance costs	**(2,046,403)**	(2,280,202)
Included in finance income:		
Loans receivables from third parties	**2,854**	163
Bank balances	**85,636**	59,698
Short-term deposits	**346,322**	182,930
Finance leases	**45,773**	16,012
Total interest income	**480,585**	258,803
Total finance income	**480,585**	258,803
Net foreign exchange transaction gains/(losses) on borrowings, dividends payable and other liabilities	**271,933**	(1,103)
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	**(508,473)**	(289,965)
Net foreign exchange transactions losses from financing activities (Note 12)	**(236,540)**	(291,068)
Net finance costs	**(1,802,358)**	(2,312,467)

11. Income tax expense

	2017 RUB'000	2016 RUB'000
Current tax:		
Corporation tax	**3,335,915**	1,585,905
Withholding tax on dividends	**535,000**	147,540
Total current tax	**3,870,915**	1,733,445
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**662,988**	602,623
Total deferred tax	**662,988**	602,623
Income tax expense	**4,533,903**	2,336,068

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

	2017 RUB'000	2016 RUB'000
Profit before tax	**18,353,777**	8,450,980
Tax calculated at domestic tax rates applicable to profits in the respective countries	**4,490,473**	2,056,520
Tax effects of:		
Expenses not deductible for tax purposes	**115,745**	107,060
Allowances and income not subject to tax	**(8,558)**	(13,426)
Tax effect of tax losses for which no deferred tax asset was recognised	**(10,819)**	5,428
Estonian income tax arising on distribution[1]	–	29,597
Withholding taxes:		
Dividend withholding tax provision as a result of change in intention on dividend distribution of subsidiaries	**52,938**	150,889
Tax charge	**4,533,903**	2,336,068

1 Estonian tax law calls for profits to be taxed at the time of distribution and not during the year in which they arise. During the year 2016, the Group incurred taxes on a non-recurring distribution from an Estonian subsidiary.

The Company is subject to income tax on taxable profits at the rate 12.5%. As from tax year 2012 brought forward losses of the Company of only five years may be utilised.

Up to 31 December 2008, under certain conditions interest of the Company may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income 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 be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2013. In certain cases dividends received by the Company from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence. Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon, etc.) are exempt from Cyprus income tax.

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

For subsidiaries in Estonia, the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 20% of net dividend paid. During the year ended 31 December 2016, the Group incurred a charge of RUB 29,597 thousand as a result of dividends distributed by an Estonian subsidiary. This constituted a non-recurring distribution for which no deferred tax liability had been recognised in the past. There was no such distribution within the year 2017. No provision has been made for any future distributions from Estonian subsidiaries as it is not considered probable that any future dividend distributions will be made out of their retained earnings as of 31 December 2017.

For the subsidiary in Ukraine the annual profit was taxed at a tax rate 25% until 31 March 2011; decreased to 23% until 31 December 2011 and further decreased to 21% thereafter. As of 1 January 2013 the tax rate reduced to 19% and is reduced to 18% from 1 January 2014.

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

12. Net foreign exchange losses

The exchange differences credited to the income statement are included as follows:

	2017 RUB'000	2016 RUB'000
Finance income and costs (Note 10)	**(236,540)**	(291,068)
Other gains – net (Note 8)	**65,049**	139,495
	(171,491)	(151,573)

13. Property, plant and equipment

	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2016					
Cost	96,234,638	349,932	210,898	1,054,691	97,850,159
Accumulated depreciation	(27,122,259)	(69,848)	(103,346)	(330,930)	(27,626,383)
Net book amount	**69,112,379**	**280,084**	**107,552**	**723,761**	**70,223,776**
Year ended 31 December 2016					
Opening net book amount	69,112,379	280,084	107,552	723,761	70,223,776
Additions	4,089,167	11,308	16,565	804,781	4,921,821
Disposals	(452,373)	–	(2,706)	(1,825)	(456,904)
Depreciation charge (Note 6)	(4,818,726)	(11,424)	(30,924)	(97,099)	(4,958,173)
Transfers	26,044	–	–	(26,044)	–
Impairment charge[1]	(228,408)	–	–	–	(228,408)
Transfer to inventories	(70,972)	–	–	(8)	(70,980)
Derecognition arising on capital repairs	(887,454)	–	–	–	(887,454)
Currency translation differences	(2,850,277)	(2,681)	(3,551)	(33,588)	(2,890,097)
Closing net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581
At 31 December 2016					
Cost	92,819,465	354,051	202,842	1,786,732	95,163,090
Accumulated depreciation	(28,900,085)	(76,764)	(115,906)	(416,754)	(29,509,509)
Net book amount	**63,919,380**	**277,287**	**86,936**	**1,369,978**	**65,653,581**

	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2017					
Cost	92,819,465	354,051	202,842	1,786,732	95,163,090
Accumulated depreciation	(28,900,085)	(76,764)	(115,906)	(416,754)	(29,509,509)
Net book amount	**63,919,380**	**277,287**	**86,936**	**1,369,978**	**65,653,581**
Year ended 31 December 2017					
Opening net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581
Additions	4,137,300	512	35,723	674,373	4,847,908
Disposals	(566,515)	–	(5,359)	(1,838)	(573,712)
Depreciation charge (Note 6)	(4,801,088)	(12,338)	(29,654)	(119,379)	(4,962,459)
Transfers	64,155	1,403	–	(65,558)	–
Impairment charge[2] (Note 6)	(111,172)	–	–	–	(111,172)
Transfer to inventories	(240,123)	–	–	(79,435)	(319,558)
Derecognition arising on capital repairs	(528,039)	–	–	–	(528,039)
Currency translation differences	757,485	838	921	(5,114)	764,358
Closing net book amount	62,631,383	267,702	88,567	1,783,255	64,770,907
At 31 December 2017					
Cost	94,103,663	358,239	210,070	2,319,710	96,991,682
Accumulated depreciation	(31,472,280)	(90,537)	(121,503)	(536,455)	(32,220,775)
Net book amount	**62,631,383**	**267,702**	**88,567**	**1,783,255**	**64,770,907**

Useful lives of rolling stock

The estimation of the useful lives of items of rolling stock is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. The Group assesses the remaining useful lives of its rolling stock as of each balance sheet date taking into account with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Management has reassessed the useful economic life of the Group's rolling stock as of 1 January 2017 and has concluded to revise the useful economic life of all items of the Group's rolling stock, other than locomotives. For locomotives, management has concluded that their remaining useful economic lives remain reasonable. Refer to Note 2.

As a result of the revision in the useful lives of the Group's rolling stock, the depreciation charged in the income statement for the year ended 31 December 2017 is higher than the one that would have been charged for the same period if there was no revision in useful lives by RUB 264,262 thousand.

(1) Impairment assessment of rolling stock as of 31 December 2016

Management assessed whether there were any indications of impairment of the Group's rolling stock as of 31 December 2016. The analysis did not reveal indicators for impairment for any of the CGUs of the Group, with the exception of the Estonian rail tank cars/operating leasing CGU, the Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs and the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs for which management performed an impairment assessment to determine their recoverable amount, estimated at the higher of value-in-use and fair value less cost to sell.

Estonian rail tank cars/operating leasing CGU and Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs

The recoverable amount of the Estonian rail tank cars/operating leasing CGU, with rolling stock of RUB 10,419,689 thousand as at 31 December 2016, and of the Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs, with a total carrying amount of RUB 612,368 thousand as at 31 December 2016, was compared with the carrying amount of the assets in those CGUs, which included rolling stock. As a result of the impairment assessment, no impairment charges were noted with respect to these CGUs.

The recoverable amount of the CGUs was determined based on a Level 3 fair value less cost to sell and was not sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of the CGUs.

The fair value less cost to sell was determined based on the prices quoted by major manufacturers of the specific rolling stock held by the Group, adjusted to take into account the age of each specific asset in the possession of the Group and expenses necessary to bring the assets to the location and condition that enables their current use, assessed by management as being their highest and best use. The recoverable amount was not sensitive to changes in key assumptions in the impairment model.

Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs

The recoverable amount of the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs was compared with the carrying amount of the assets in that CGU, which included rolling stock of RUB 444,510 thousand, before impairment. As a result of the impairment assessment, an impairment loss amounting to RUB 228,408 thousands was recognised for the rolling stock within the CGUs.

The recoverable amount of the CGUs was determined based on a Level 3 fair value less cost to sell and was sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of these CGUs.

The fair value less cost to sell was determined based on average selling prices of similar rolling stock in the secondary market.

If the selling price had been 10% lower/higher than management's estimate at 31 December 2016, the recoverable amount would decrease resulting into an impairment loss of RUB 22,841 thousand to be recognised in respect of the rolling stock of this CGU.

(2) Impairment assessment of rolling stock as of 31 December 2017

The management's assessment as of 31 December 2017 did not reveal indicators for impairment for any of the CGUs of the Group, with the exception of the Estonian rail tank cars/operating leasing CGU and certain locomotives within the locomotives/operating leasing segment which were not in use at that time and required substantial repair costs and thus were separately impaired. These locomotives were impaired to their scrap value, determined based on fair value less costs to sell measurement, resulting in an impairment loss of RUB 111,172 thousand. This measurement did not involve significant estimates.

Estonian rail tank cars/operating leasing CGU

The recoverable amount of the Estonian rail tank cars/operating leasing CGU, with rolling stock of RUB 10,919,427 thousand as at 31 December 2017 was compared with the carrying amount of the assets in this CGU, which included rolling stock. As a result of the impairment assessment, no impairment charges were noted with respect to this CGU.

The recoverable amount of the CGU was determined based on a Level 3 fair value less cost to sell and was not sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of the CGUs.

The fair value less cost to sell was determined based on the prices quoted by major manufacturers of the specific rolling stock held by the Group, adjusted to take into account the age of each specific asset in the possession of the Group and expenses necessary to bring the assets to the location and condition that enables their current use, assessed by management as being their highest and best use. The recoverable amount was not sensitive to changes in key assumptions in the impairment model.

13. Property, plant and equipment continued

Estonian rail tank cars/operating leasing CGU continued

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

	2017 RUB'000	2016 RUB'000
Net book amount	**573,712**	456,904
Loss on sale of property, plant and equipment (Note 6)	**(28,507)**	(58,938)
Consideration from sale of property, plant and equipment	**545,205**	397,966

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

	2017 RUB'000	2016 RUB'000
Cash consideration received within year	**267,526**	177,384
Property, plant and equipment disposed through finance lease transactions	**256,664**	217,545
Movement in advances received for sales of property, plant and equipment	**21,015**	3,037
	545,205	397,966

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

	2017 RUB'000	2016 RUB'000
Cost – capitalised finance leases	**1,838,378**	1,546,114
Accumulated depreciation	**(429,242)**	(278,481)
	1,409,136	1,267,633

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

	2017 RUB'000	2016 RUB'000
Rolling stock[1]	**1,409,136**	1,267,633
	1,409,136	1,267,633

1 Property, plant and equipment that are leased under finance leases as at 31 December 2017 include rolling stock, with a net carrying amount of RUB 1,409,136 thousand (2016: RUB 1,267,633 thousand), pledged under finance leases that have been repaid by the Group as at 31 December 2017 and 31 December 2016. The relevant pledges on the rolling stock under these finance leases were not released as of 31 December 2017 and 31 December 2016, however the Group has the unilateral right to request for release of the pledged rolling stock with immediate effect.

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

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

	2017 RUB'000	2016 RUB'000
Rolling stock	**16,567,626**	29,488,385
Other (tank containers)	**1,395,772**	614,053
	17,963,398	30,102,438

In accordance with the terms of its bank borrowings, the Group had a commitment to pledge rolling stock with a market value of not less than RUB 6,000,000 thousand within 6 months from the date of bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018.

Depreciation expense of RUB 4,913,217 thousand in 2017 (2016: RUB 4,905,158 thousand) has been charged to "cost of sales" and RUB 49,242 thousand in 2017 (2016: RUB 53,015 thousand) has been charged to "selling, marketing and administrative expenses". Impairment charge of RUB 111,172 thousand in 2017 (2016: RUB 228,408 thousand) has been charged to "cost of sales".

14. Intangible assets

	Computer software RUB'000	Customer relationships RUB'000	Total RUB'000
At 1 January 2016			
Cost	1,272	6,780,787	6,782,059
Accumulated amortisation and impairment	(1,226)	(4,413,092)	(4,414,318)
Net book amount	**46**	**2,367,695**	**2,367,741**
Year ended 31 December 2016			
Opening net book amount	46	2,367,695	2,367,741
Amortisation charge (Note 6)	(1,417)	(834,260)	(835,677)
Additions	9,500	–	9,500
Closing net book amount	8,129	1,533,435	1,541,564
At 31 December 2016			
Cost	10,772	6,780,787	6,791,559
Accumulated amortisation and impairment	(2,643)	(5,247,352)	(5,249,995)
Net book amount	**8,129**	**1,533,435**	**1,541,564**
Year ended 31 December 2017			
Opening net book amount	8,129	1,533,435	1,541,564
Amortisation charge (Note 6)	(1,887)	(716,099)	(717,986)
Reversal of impairment charge	–	630,223	630,223
Closing net book amount	6,242	1,447,559	1,453,801
At 31 December 2017			
Cost	10,772	6,780,787	6,791,559
Accumulated amortisation and impairment	(4,530)	(5,333,228)	(5,337,758)
Net book amount	**6,242**	**1,447,559**	**1,453,801**

As of 31 December 2017, the Group's intangible assets include a customer relationship with MMK Group with a carrying amount of RUB 1,447,559 thousand (2016: with Metalloinvest and MMK Groups with carrying amounts of RUB 143,260 thousand and RUB 1,390,175 thousand, respectively). The customer relationships were allocated to the Russian gondola cars/operator's services CGU. During the year 2017, the customer relationships with Metalloinvest reached the end of its useful economic life.

Amortisation of RUB 717,968 thousand (2016: RUB 835,659 thousand) has been charged to cost of sales' in the income statement and RUB 18 thousand (2016: RUB 18 thousand) to "administrative expenses".

Useful lives of customer relationships
The estimation of the useful lives of the customer relationships is a matter of judgement based on expectations of the duration of the relationship with the customers.

The contract with MMK Group was concluded in February 2013 for 5 years expiring in February 2018, and the contract with Metalloinvest Group was concluded in May 2012 for 3 years expiring in May 2016. In assessing the useful life of these customer relationships on initial recognition, management took the view that the cooperation with Metalloinvest and MMK Groups would not terminate after the expiry of the underlying contracts as the relationships are based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the customers. In view of these considerations, management estimated the useful economic lives of the customer relationships with Metalloinvest and MMK Group to be 5 and 7 years, respectively, on the initial acquisition of these customer relationships.

During 2014 the terms of the contracts with MMK and Metalloinvest Groups were prolonged for a further 1 year and 1.5 year to February 2019 and December 2016, respectively.

During 2016 the terms of the contracts with Metalloinvest Group were prolonged for a further 3 years until December 2019. Management reassessed the useful economic life of the customer relationships as of 31 December 2016 and concluded that despite the prolongation of the contracts in years 2014 and 2016, the remaining useful economic lives of the customer relationships remained reasonable.

Based on management's assessment as of 31 December 2017, the useful economic life of the customer relationship with MMK Group remains appropriate.

14. Intangible assets continued

(1) Assessment for impairment/reversal of impairment as of 31 December 2016
Based on impairment assessment performed by the Group as of 31 December 2015, an impairment charge of RUB 996,160 thousand was recognised during the year ended 31 December 2015 against the carrying amount of the customer relationship with MMK Group.

The Group assessed whether there were any indications of additional impairment/reversal of impairment of the customer relationship with MMK Group as of 31 December 2016. The Group's assessment did not reveal any indicators of additional impairment/reversal of the previously recognised impairment and, as a result, management did not estimate the recoverable amount of this customer relationship.

(2) Assessment of reversal of previously recognised impairment of customer relationship as of 31 December 2017
The carrying amount of the Group's intangible assets as of 31 December 2017, includes a customer relationship with MMK Group with a carrying amount of RUB 1,447,559 thousand, as of that date. This customer relationship has been allocated to the Russian gondola cars/operators services CGU.

Based on impairment assessment performed by the Group as of 31 December 2015, an impairment charge of RUB 996,160 thousand was recognised during the year ended 31 December 2015 against the carrying amount of this customer relationship.

The Group assesses as of each reporting date whether there are any indications for impairment or reversal of previously recognised impairment for its customer relationships, in accordance with its accounting policy for impairment of non-current assets (Note 2).

The analysis of indicators for reversal of the previously recognised impairment for the customer relationship with MMK Group showed that there were indicators of reversal in place as of 30 June 2017, reflecting the general recovery in the market and industry conditions. Therefore, management performed an impairment assessment to determine the customer relationship's recoverable amount as of that date.

The recoverable amount of this customer relationship as of 30 June 2017 was estimated based on value-in-use calculations and was determined to be higher than its carrying amount if no impairment charge was recognised in the past in respect of it. As a result, a reversal of impairment of RUB 630,223 thousand was recognised during the six-month period ended 30 June 2017 increasing the carrying amount of the customer relationship to the one that would have been if no impairment charge was recognised in the past.

The value-in-use calculations required the use of estimates and were not sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this customer relationship.

The projections prepared were based on 3.5-year post-tax cash flow projections, being the period over which cash flows are expected from this customer relationship. A post-tax discount rate of 14.9% was applied for the projected period.

The key assumptions were transportation volumes and tariffs per trip, which are the main components of revenue, as well as cost drivers, which were projected on the actual results for the six months to 30 June 2017, and the estimated growth in the EBITDA margin during the projected period and the discount rate. The projected volumes reflected past experience and management's estimates. The transportation prices were estimated in accordance with the past performance of the Group and management's expectations of market development.

Any reasonable change in the assumptions used in the calculation for the recoverable amount of this customer relationship would not decrease the amount of the reversal of impairment recognised.

Taking into account the above as well as the continuing strong performance of the Russian gondola cars/operators services CGU in the six-month period to 31 December 2017, the management concluded that there were no indicators for impairment with respect to the customer relationship as of 31 December 2017.

15. Investments

15.1 Investment in associate

Set out below is the associate of the Group as at 31 December 2016. The associate had share capital consisting solely of ordinary shares, which were held directly by the Group; the country of incorporation or registration is also the associate's principal place of business. During the year 2017, the Group disposed the investment in associate for a consideration of RUB 60,888 thousand, realising profit on disposal of RUB 60,888 thousand (Note 8).

	2017 RUB'000	2016 RUB'000
At beginning of year	**–**	65,497
Share of loss after tax	**–**	(60,831)
Currency translation difference	**–**	(4,666)
At end of year	**–**	–

Nature of investment in associate during 2016:

Name of entity	Place of business/ Country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	25.27	Associate	Equity

The fair value of the Group's share in the investment in associate based on the closing price quoted on Riga Stock Exchange as at 31 December 2016 was RUB 20,195 thousand. However, the market for these shares is not considered as active.

15.2 Principal subsidiaries

The Group had the following subsidiaries at 31 December 2017 and 31 December 2016:

Name	Place of business/ Country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non-controlling interest (%)	
			2017	2016	2017	2016	2017	2016
New Forwarding Company, AO	Russia	Railway transportation	100	100	100	100	–	–
GTI Management, OOO	Russia	Railway transportation	100	100	100	100	–	–
Ural Wagonrepair Company, AO	Russia	Repair and maintenance of rolling stock	100	100	100	100	–	–
Ukrainian New Forwarding Company, OOO	Ukraine	Railway transportation	100	100	100	100	–	–
BaltTransServis, OOO	Russia	Railway transportation	60	60	60	60	40	40
RemTransServis, OOO[1]	Russia	Repair and maintenance of rolling stock	–	–	59.4	59.4	40.6	40.6
SyntezRail LLC	Russia	Railway transportation	–	–	60	60	40	40
SyntezRail Ltd[3]	Cyprus	Intermediary holding company	60	60	60	60	40	40
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	65.25	65.25	65.25	65.25	34.75	34.75
Ekolinja Oy[2]	Finland	Operating sub-lease of rolling stock	–	–	65.25	65.25	34.75	34.75
Spacecom Trans AS	Estonia	Operating lease of rolling stock	65	65	65	65	35	35

1 RemTransServis, OOO is a 99% subsidiary of BaltTransServis, OOO.
2 Ekolinja Oy is a 100% subsidiary of Spacecom AS.
3 SyntezRail LLC is a 100% subsidiary of SyntezRail Ltd.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

15. Investments continued

15.2 Principal subsidiaries continued

The accumulated non-controlling interest as of 31 December 2017 and 31 December 2016 comprised the following:

	2017 RUB'000	2016 RUB'000
BaltTransServis, OOO (including RemTransservis, OOO)	**1,668,540**	2,303,744
Spacecom AS (including Ekolinja Oy)	**3,105,411**	2,879,538
Spacecom Trans AS	**1,008,312**	916,065
SyntezRail, OOO; SyntezRail Limited	**(57,364)**	(4,640)
Total	**5,724,899**	6,094,707

Significant restrictions

There are no significant restrictions, statutory, contractual, regulatory, or arising from protective rights of non-controlling interests, on the ability of the Group to access or use the assets and settle the liabilities of the Group.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The financial information of Spacecom AS (including Ekolinja Oy) and Spacecom Trans AS have been aggregated since both entities operate in the Estonian rail tank cars segment, have significant transactions between them, and management reviews their performance as a single operation. The financial information of BaltTransServis, OOO includes RemTransservis, OOO.

No summarised financial information is presented for SyntezRail, OOO and SyntezRail Limited as their operations and financial position are not material to the Group.

Summarised balance sheet

	BaltTransServis, OOO		Spacecom AS – Spacecom Trans AS	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Current				
Assets	**2,625,172**	4,218,254	**716,544**	222,067
Liabilities	**1,395,496**	2,198,882	**49,972**	109,638
Total current net assets	**1,229,676**	2,019,372	**666,572**	112,429
Non-current				
Assets	**5,300,163**	5,505,516	**11,081,530**	10,843,434
Liabilities	**2,358,489**	1,765,529	**–**	125,584
Total non-current net assets	**2,941,674**	3,739,987	**11,081,530**	10,717,850
Net assets	**4,171,350**	5,759,359	**11,748,102**	10,830,279

Summarised income statement

	BaltTransServis, OOO		Spacecom AS – Spacecom Trans AS	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Revenue	**21,458,824**	24,200,298	**755,622**	1,145,652
Profit before income tax	**4,926,219**	5,649,439	**58,589**	(378,524)
Income tax expense	**(1,014,228)**	(1,154,587)	**–**	(29,597)
Post-tax profit from continuing operations	**3,911,991**	4,494,852	**58,589**	(408,121)
Post-tax profit from discontinued operations	**–**	–	**–**	–
Other comprehensive income	**–**	–	**716,756**	(2,783,614)
Total comprehensive income	**3,911,991**	4,494,852	**775,345**	(3,191,735)
Total comprehensive income allocated to non-controlling interests	**1,564,796**	1,797,941	**270,120**	(1,110,645)
Dividends paid to non-controlling interest	**(2,200,000)**	(1,967,200)	**–**	(41,375)

Summarised cash flow statements

	BaltTransServis, OOO		Spacecom AS – Spacecom Trans AS	
	2017 RUB'000	2016 RUB'000	**2017 RUB'000**	2016 RUB'000
Cash flows from operating activities				
Cash generated from operations	**5,980,883**	6,942,918	**493,096**	295,941
Income tax paid	**(1,027,999)**	(971,860)	**(1,203)**	(69,887)
Net cash generated from operating activities	**4,952,884**	5,971,058	**491,893**	226,054
Net cash generated (used in)/from investing activities	**(347,927)**	529,453	**167,713**	188,395
Net cash generated used in financing activities	**(5,901,728)**	(5,598,232)	**(136,287)**	(466,997)
Net increase/decrease in cash and cash equivalents	**(1,296,771)**	902,279	**523,319**	(52,548)
Cash and cash equivalents at beginning of year	**2,429,582**	1,601,141	**42,618**	97,233
Exchange differences on cash and cash equivalents	**134**	(73,838)	**16,072**	(2,067)
Cash and cash equivalents at end of year	**1,132,945**	2,429,582	**582,009**	42,618

The information above includes the amounts before intercompany eliminations.

16. Share-based payments

Starting 1 January 2015, the Group introduced a new remuneration program for some of the members of management, including members of key management of the Group. The new remuneration program introduced, amongst other things, a three-year compensation scheme in accordance to which, members of management receive a yearly cash compensation calculated based on the weighted average market quotations of the GDRs of the Company. This compensation was set for a three-year period and divided on three instalments to be paid after the end of each assessment period which equals to one year. The award was conditional on the performance of the participants and on meeting certain key performance indicators (KPIs) each year during the three years vesting period.

The scheme falls within the scope of IFRS 2 "Share-based payment" and has therefore been classified as a cash-settled share based payment arrangement.

In accordance with the terms of the remuneration program, the compensation was calculated based on the weighted average fair value of the Company's GDRs, quoted in US Dollar multiplied by the weighted average RUB/USD exchange rate for each period.

The Group recognised an employee benefit expense of RUB 97,229 thousand in this respect for the year ended 31 December 2017 (2016: RUB 77,985 thousand) and the Group's liability in respect of this amounted to RUB 226,560 as of 31 December 2017 (2016: RUB 145,745 thousand).

The share-based payment liability as of 31 December 2016 was determined based on the assumption that all participants will remain with the Group and all KPIs will be met and that there will be no significant fluctuation in the value of the Company's GDRs during the vesting period. The significant inputs into the valuation were the weighted average fair value of the Company's GDRs of USD 4.36 and the weighted average USD/RUB exchange of USD 66.833. There were no changes in the number of instruments over the years ended 31 December 2017 and 31 December 2016.

17. Financial instruments by category

	2017		2016	
	Loans and receivables RUB'000	Total RUB'000	Loans and receivables RUB'000	Total RUB'000
Financial assets as per balance sheet				
Trade and other receivables	2,875,613	2,875,613	2,608,410	2,608,410
Cash and cash equivalents	4,966,171	4,966,171	4,773,414	4,773,414
Total	**7,841,784**	**7,841,784**	**7,381,824**	**7,381,824**

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

17. Financial instruments by category continued

	2017		2016	
	Financial liabilities measured at amortised cost RUB'000	Total RUB'000	Financial liabilities measured at amortised cost RUB'000	Total RUB'000
Financial liabilities as per balance sheet				
Borrowings	16,331,356	16,331,356	16,292,469	16,292,469
Trade and other payables	778,764	778,764	663,633	663,633
Total	**17,110,120**	**17,110,120**	**16,956,102**	**16,956,102**

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

18. Credit quality of financial assets

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

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

	2017 RUB'000	2016 RUB'000
Trade and other receivables		
Counterparties with external credit rating		
Moody's[2] (B1 – Ba1)	**3,170**	29,081
Standard & Poor's[3] (BB- – BB)	**7,875**	–
Fitch[4] (B- – BB+)	**369,679**	259,367
	380,724	288,448

	2017 RUB'000	2016 RUB'000
Counterparties without external credit rating		
Group 1	**1,527,462**	1,134,605
Group 2	**94,133**	248,238
	1,621,595	1,382,843
Total trade and other receivables	**2,002,319**	1,671,291

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

Cash at bank and short-term bank deposits

	Rating	2017 RUB'000	2016 RUB'000
Moody's[2]	A3 – Aaa	**1,002,389**	102,214
Moody's[2]	Ba2 – Baa1	**3,101,414**	3,582,232
Moody's[2]	B1	**174**	34,399
Moody's[2]	Caa1 – Caa3	**1,844**	1,682
Standard & Poor's[3]	BB+	**658,258**	454,931
Fitch[4]	BBB- BBB+	**151,920**	591,127
Other non-rated banks – satisfactory credit quality		**49,715**	5,612
Total cash at bank and bank deposits[1]		**4,965,714**	4,772,197

1 The rest of the balance sheet item Cash and cash equivalents is cash on hand.
2 International rating agency Moody's Investors Service.
3 International rating agency Standard & Poor's.
4 International rating agency Fitch Rating.

19. Trade and other receivables

	2017 RUB'000	2016 RUB'000
Trade receivables – third parties	**2,504,806**	2,579,788
Trade receivables – related parties (Note 30)	**–**	1,449
Less: Provision for impairment of trade receivables	**(141,336)**	(263,972)
Trade receivables – net	**2,363,470**	2,317,265
Other receivables	**89,153**	77,690
Less: Provision for impairment of other receivables	**(39,786)**	(29,163)
Other receivables – net	**49,367**	48,527
Loans receivables – third parties	**16,857**	29,533
Prepayments – third parties	**1,949,999**	2,464,705
Finance leases to third parties	**445,919**	213,085
VAT recoverable	**610,451**	719,763
	5,436,063	5,792,878

	2017 RUB'000	2016 RUB'000
Less non-current portion:		
Trade receivables – third parties	**203,153**	214,210
Less: Provision for impairment of trade receivables	**(19,637)**	(39,351)
Trade receivables – net	**183,516**	174,859
Loans receivables – third parties	**16,857**	29,533
Finance leases to third parties	**414,869**	202,131
Prepayments for property, plant and equipment	**21,986**	65,837
Total non-current portion	**637,228**	472,360
Current portion	**4,798,835**	5,320,518

The finance lease receivables are scheduled as follows:

	Less than one year RUB'000	Between 1 to 5 years RUB'000	Over 5 years RUB'000	Total RUB'000
At 31 December 2017				
Minimum lease receivable	79,801	319,499	270,154	669,454
Less: Unearned finance income	(48,751)	(153,535)	(21,249)	(223,535)
Present value of minimum lease receivables	**31,050**	**165,964**	**248,905**	**445,919**
At 31 December 2016				
Minimum lease receivable	–	181,082	166,239	347,321
Less: Unearned finance income	–	(110,257)	(23,979)	(134,236)
Present value of minimum lease receivables	**–**	**70,825**	**142,260**	**213,085**

According to the management's estimates, the fair values of trade and other receivables do not materially differ from their carrying amounts as the impact of discounting is not significant.

The effective interest rates on non-current receivables at the balance sheet were as follows:

	2017 %	2016 %
Loans receivables – third parties	**12**	12
Finance leases to third parties	**11.28**	12.12

Receivables amounting to RUB 2,002,319 thousand as of 31 December 2017 were fully performing (2016: RUB 1,671,291 thousand).

Receivables of RUB 689,778 thousand as of 31 December 2017 were past due but not impaired (2016: RUB 762,260 thousand). These relate to a number of independent customers for whom there is no history of either non-repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

19. Trade and other receivables continued

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

	2017 RUB'000	2016 RUB'000
Less than 1 month	**433,790**	461,599
From 1 to 3 months	**72,246**	75,963
From 3 to 6 month	**6,773**	15,130
From 6 months to 1 year	**9,055**	16,681
Over one year	**167,914**	192,887
	689,778	762,260

Trade receivables amounting to RUB 121,699 thousand as of 31 December 2017, were impaired and fully provided for (2016: RUB 224,621 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Trade receivables amounting to RUB 203,153 thousand as of 31 December 2017 (RUB 214,210 thousand as of 31 December 2016) relate to receivable from Georgian Railways for services rendered by the Group prior to 1 April 2015. The amount receivable is under dispute and the Group initiated a claim to the Georgian Court demanding the repayment of the entire balance due. Based on assessment performed as at 31 December 2017, the Group recognised a provision for impairment of RUB 19,637 thousand (RUB 39,351 thousand as at 31 December 2016) in order to account for the expected time until receipt of the amount due (Note 28).

Other receivables amounting to RUB 39,786 thousand as of 31 December 2017, were impaired and provided for in full (2016: RUB 29,163 thousand). It was assessed that no portion of these receivables is expected to be recovered.

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

	2017 RUB'000	2016 RUB'000
Currency:		
US Dollar	**240,445**	307,471
Russian Roubles	**5,032,254**	5,423,503
Ukrainian Hryvnia	**62,423**	24,256
Euro	**84,085**	8,115
Other	**16,856**	29,533
	5,436,063	5,792,878

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

	2017			2016		
	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000
At 1 January	263,972	29,163	293,135	367,909	29,500	397,409
Provision for receivables impairment (Note 7)	42,267	18,488	60,755	81,610	1,988	83,598
Bad debt written off	(167,639)	(7,834)	(175,473)	(130,085)	(2,813)	(132,898)
Unused amounts reversed (Note 7)	–	–	–	(1,397)	(7)	(1,404)
Currency translation differences	2,736	–	2,736	(52,765)	(80)	(52,845)
Other	–	(31)	(31)	(1,300)	575	(725)
At 31 December	**141,336**	**39,786**	**181,122**	**263,972**	**29,163**	**293,135**

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

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security for any receivables other than finance lease receivables which are effectively secured as the rights to the leased asset revert to the Group in the event of default.

20. Inventories

	2017 RUB'000	2016 RUB'000
Raw materials, spare parts and consumables	**776,341**	565,200
	776,341	565,200

All inventories are stated at cost.

21. Cash and cash equivalents

	2017 RUB'000	2016 RUB'000
Cash at bank and in hand	**3,313,155**	1,416,760
Short-term bank deposits	**1,653,016**	3,356,654
Total cash and cash equivalents	**4,966,171**	4,773,414

The weighted average effective interest rate on short-term deposits was 7.61% in 2017 (2016: 7.28%) and these deposits have a maturity of 1 to 30 days (2016: 10 to 35 days).

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

	2017 RUB'000	2016 RUB'000
Cash and cash equivalents	**4,966,171**	4,773,414
Total cash and cash equivalents	**4,966,171**	4,773,414

Cash and cash equivalents are denominated in the following currencies:

	2017 RUB'000	2016 RUB'000
Russian Rouble	**4,016,241**	3,533,283
US Dollar	**441,311**	1,166,995
Euro	**482,936**	42,022
Ukrainian Hryvnia	**25,683**	31,114
Total cash and cash equivalents	**4,966,171**	4,773,414

The carrying value of cash and cash equivalents approximates their fair value.

22. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2016/31 December 2016/ 1 January 2017/31 December 2017	**178,740,916**	**17,875**	**949,471**	**967,346**

	Number of shares	Share capital RUB'000	Share premium RUB'000	Total RUB'000
At 1 January 2016/31 December 2016/ 1 January 2017/31 December 2017	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2017 was 233,918,128 shares with a par value of USD 0.10 per share (31 December 2016: 233,918,128 shares with a par value of USD 0.10 per share. All issued shares are fully paid.

23. Dividends

In April 2016, the shareholders of the Company approved the payment of final dividend in respect of the financial year ended 31 December 2015 in the amount of 12.41 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of USD 34,041 thousand).

In April 2017, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2016 in the amount of 39.20 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 7,006,644 thousand (US Dollar equivalent of USD 124,605 thousand).

In August 2017, the Board of Directors of the Company approved payment of total dividend in the amount of 44.8 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,007,593 thousand, including interim dividend in the amount of RUB 3,603,417 thousand or RUB 20.16 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,404,176 thousand or RUB 24.64 per ordinary share/GDR (US Dollar equivalent of USD 135,401 thousand).

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group, recommends a payment of dividend for the year 2017 total dividend in the amount of 44.85 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,016,530 thousand, including final dividend for 2017 in the amount of RUB 4,155,726 thousand or RUB 23.25 per ordinary share/GDR and a special final dividend in the amount of RUB 3,860,804 thousand or RUB 21.60 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to the approval of the shareholders at the Annual General Meeting on 23 April 2018.

During the years ended 31 December 2017 and 2016, the Group declared and paid dividends in favour of the equity holders of the Company and the non-controlling interests as detailed in the table below.

	2017 RUB'000	2016 RUB'000
Dividends declared to equity holders of the Company	**15,014,237**	2,218,175
Dividends paid to equity holders of the Company	**15,014,237**	2,218,175
Dividends declared to non-controlling interest	**2,200,000**	2,008,575
Dividends paid to non-controlling interest	**2,200,000**	2,065,107

24. Borrowings

	2017 RUB'000	2016 RUB'000
Current		
Bank borrowings	**7,280,588**	6,598,226
Total current borrowings	**7,280,588**	6,598,226
Non-current		
Bank borrowings	**9,050,768**	9,694,243
Total non-current borrowings	**9,050,768**	9,694,243
Total borrowings	**16,331,356**	16,292,469
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**5,727,105**	5,499,808
Between 2 and 5 years	**3,323,663**	4,194,435
	9,050,768	9,694,243

Bank borrowings

Bank borrowings mature by 2022 (2016: by 2021) and bear average interest of 9.38% per annum (2016: 11.02% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2017 and 31 December 2016.

The current and non-current bank borrowings amounting to RUB 4,746,499 thousand and RUB 6,559,101 thousand, respectively (2016: RUB 6,598,226 thousand and RUB 9,694,243 thousand, respectively), are secured by pledge of rolling stock and tank-containers with a total carrying net book value of RUB 17,963,398 thousand (2016: RUB 30,102,438 thousand) (Note 13). In accordance with the terms of its bank borrowings, the Group had a commitment to pledge rolling stock with a market value of not less than RUB 6,000,000 thousand within six months from the date of bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018.

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:

	2017 RUB'000	2016 RUB'000
6 months or less	**3,635,970**	3,593,364
6 to 12 months	**3,644,631**	3,004,863
1 to 5 years	**9,050,755**	9,694,242
	16,331,356	16,292,469

Note: The amounts above are based on the earliest of their contractual re-pricing dates and maturity dates.

Movements in borrowings are analysed as follows:

	Bank borrowings and loans (excl. overdrafts) RUB'000	Finance lease RUB'000	Total RUB'000
Year ended 31 December 2016			
Opening amount as at 1 January 2016	20,358,931	129	20,359,060
Cash flows:			
Amounts advanced	9,855,265	–	9,855,265
Repayments of borrowings	(13,943,497)	(87)	(13,943,584)
Interest paid	(2,251,802)	(2)	(2,251,804)
Interest charged	2,273,564	–	2,273,564
Non-cash changes:			
Net foreign exchange	8	(40)	(32)
Closing amount as at 31 December 2016	**16,292,469**	**–**	**16,292,469**
Year ended 31 December 2017			
Opening amount as at 1 January 2017	16,292,469	–	16,292,469
Cash flows:			
Amounts advanced	15,710,000	–	15,710,000
Repayments of borrowings	(15,722,698)	–	(15,722,698)
Interest paid	(1,943,746)	–	(1,943,746)
Interest charged	1,991,826	–	1,991,826
Non-cash changes:			
Other	3,505	–	3,505
Closing amount as at 31 December 2017	**16,331,356**	**–**	**16,331,356**

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

	Carrying amount		Fair value	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Bank borrowings	**16,331,356**	16,292,469	**16,646,324**	16,569,521
	16,331,356	16,292,469	**16,646,324**	16,569,521

The fair value as at 31 December 2017 and 31 December 2016 of fixed interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble-denominated instruments entered into by the Group close to 31 December 2017 and 31 December 2016. The discount rates was 8% p.a. (2016: 10% p.a.).

The fair value measurement of the bank borrowings and loans from third parties are within Level 2 of the fair value hierarchy (2016: Level 2).

The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

24. Borrowings continued

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

	2017 RUB'000	2016 RUB'000
US Dollar	–	22
Russian Rouble	**16,331,356**	16,292,447
	16,331,356	16,292,469

The Group has the following undrawn borrowing facilities:

	2017 RUB'000	2016 RUB'000
Fixed rate:		
Expiring within one year	**2,640,000**	4,320,000
Expiring beyond one year	**16,500,000**	16,500,000
	19,140,000	20,820,000

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

	2017 %	2016 %
Bank borrowings	**9.4**	11.0

25. Deferred income tax

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

	2017 RUB'000	2016 RUB'000
Beginning of year	**5,245,331**	4,642,708
Income statement charge (Note 11)	**662,988**	602,623
End of year	**5,908,319**	5,245,331

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 RUB'000	Withholding tax provision RUB'000	Intangible assets RUB'000	Total RUB'000
At 1 January 2016	**4,449,624**	**228,572**	**473,532**	**5,151,728**
Charged/(Credited) to:				
Income statement (Note 11)	725,554	269,558	(166,851)	828,261
Currency translation differences	(4,209)	–	–	(4,209)
At 31 December 2016/1 January 2017	**5,170,969**	**498,130**	**306,681**	**5,975,780**
Charged/(Credited) to:				
Income statement (Note 11)	309,021	211,103	(17,174)	502,950
At 31 December 2017	**5,479,990**	**709,233**	**289,507**	**6,478,730**

Deferred tax assets	Tax losses RUB'000	Trade and other payables RUB'000	Lease liabilities and borrowings RUB'000	Other assets/ Liabilities RUB'000	Total RUB'000
At 1 January 2016	**(134,373)**	**(113,580)**	**(118,485)**	**(142,582)**	**(509,020)**
Charged/(Credited) to:					
Income statement (Note 11)	115,064	(14,920)	(369,307)	43,525	(225,638)
Currency translation differences	–	–	–	4,209	4,209
At 31 December 2016/1 January 2017	**(19,309)**	**(128,500)**	**(487,792)**	**(94,848)**	**(730,449)**
Charged/(Credited) to:					
Income statement (Note 11)	(40,599)	45,636	210,865	(55,864)	160,038
At 31 December 2017	**(59,908)**	**(82,864)**	**(276,927)**	**(150,712)**	**(570,411)**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred tax assets in the amount of RUR 428,551 thousand (2016: RUR 475,220 thousand) for tax losses amounting to RUR 2,701,554 thousand (2016: RUR 2,994,373 thousand) available to be carried forward as it is not probable that future taxable profits will be available against which these tax losses can be utilised.

Deferred income tax liabilities of RUB 2,785,978 thousand (2016: RUB 2,728,252 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled RUB 20,506,150 thousand as at 31 December 2017 (2016: RUB 22,103,185 thousand).

26. Trade and other payables

	2017 RUB'000	2016 RUB'000
Current		
Trade payables to third parties	**707,143**	609,153
Other payables to third parties	**867,985**	715,863
Accrued expenses	**85,336**	97,163
Accrued key management compensation, including share-based payment (Note 30)	**523,886**	267,354
Advances from customers for transportation services	**2,229,306**	1,729,928
	4,413,656	3,419,461

	2017 RUB'000	2016 RUB'000
Non-current		
Accrued key management compensation, including share-based payment (Note 30)	**–**	117,890
	–	117,890

Note: Advances from customers consist of prepayments received in accordance with contracts on transportation services.

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

27. Earnings per share

Basic and diluted

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

	2017	2016
Profit attributable to equity holders of the company (RUB thousand)	**12,288,777**	4,472,817
Weighted average number of ordinary shares in issue (thousand)	**178,741**	178,741
Basic and diluted earnings per share (expressed in RUB per share) attributable to the equity holders of the Company during the year	**68.75**	25.02

28. Contingencies

Operating environment

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

Russian Federation.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

28. Contingencies continued

Operating environment continued

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation. Management believes that its pricing policy used in 2016 and 2017 and preceding years is arm's length and it has implemented internal controls to be in compliance with this transfer pricing legislation.

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

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate.

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

Estonia and Finland

Estonia and Finland represent well-developed markets and economies with stable political systems and developed legislation based on EU requirements and regulations.

Ukraine

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of state finances, volatility of financial markets, illiquidity on capital markets, higher inflation and depreciation of the national currency against major foreign currencies has continued in both 2016 and 2017, though, to a much lesser extent, as compared to 2014 and 2015.

The year over year inflation rate in Ukraine has slightly decreased to 12.2% during the first half of 2017 (as compared to 12.4% in 2016) while GDP continued to grow at 2% (after 9% decline in 2015).

As at 31 December 2017, the official exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH 28.10 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016. In 2017, there has been a further easing of currency control restrictions that were introduced in 2014–15. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 50% starting from 4 April 2017 and the settlement period for export-import transactions in foreign currency was increased from 90 to 180 days starting from 26 May 2017. In addition, starting from 13 June 2016 Ukrainian companies are permitted to pay dividends to non-residents with a limit of USD 5 million per month.

The IMF has continued to support the Ukrainian government under the four-year Extended Fund Facility (EFF) Programme approved in March 2015, providing the fourth tranche of approximately USD 1 billion in April 2017. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other factors.

Despite certain improvements in 2016 and 2017, the final resolution and the ongoing effects of the political and economic situation are difficult to predict, but they may have further severe effects on the Ukrainian economy and the Group's business.

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 2017 and 31 December 2016 (Note 24).

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

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

Legal proceedings
During the years ended 31 December 2017 and 31 December 2016, the Company's subsidiaries were involved as a claimants and defendants in a number of court proceedings.

Georgian Railways case
As at 31 December 2017 the Group has outstanding receivable amounting to EUR 2,950 thousand/RUB 203,153 thousand (2016: EUR 3,357 thousand/RUB 214,210 thousand) from Georgian Railways relating to invoices issued for services rendered prior to 1 April 2015. The Georgian Railways dispute the tariffs applied in computing the outstanding balance and thus have not proceeded with the repayment of the amount which remains outstanding. The Group has initiated a claim to the Georgian Court demanding the repayment of the entire balance due as well as additional penalties and interest.

Whereas the Group has not recognised any penalties or interest income on this receivable balance, management considers that the Group will receive the amount outstanding. Based on assessment performed as at 31 December 2017, management recognised a provision for impairment of EUR 285 thousand (2016: EUR 617 thousand) in order to account for the expected time until receipt of the amount due.

The Group issued additional invoices of EUR 1,555 thousand (RUB 102,663 thousand) to Georgian Railways in the intervening period during 2015 that the rail cars remained in Georgia. The revenue arising from these invoices has not been recognised as it was not assessed as probable at that time that future economic benefits would flow to the Group.

In February 2016, the first court hearing took place during which the facts of the claim were presented. No decisions were taken.

In March 2016, Georgian Railways have initiated a claim of approximately GEL 16,122 thousand (approximately RUB 370,000 thousand) claiming compensation for storage costs incurred during the period the wagons remain in Georgia plus interest.

In March 2018, the Georgian Court ruled in favour of the Group an amount of USD 10 million. The Group has not recognised a receivable for the amount awarded as this might not constitute a final decision on the matter.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2017 and 2016 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

29. Commitments

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

	2017 RUB'000	2016 RUB'000
Property, plant and equipment	–	120,671

(b) Operating lease commitments – Group as lessee
The Group leases offices under non-cancellable operating lease agreements.

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease expenditure charged to the income statement during the years is disclosed in Note 7.

29. Commitments continued

(b) Operating lease commitments – Group as lessee continued

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	**280,530**	268,231
Later than 1 year not later than 5 years	**107,891**	139,625
	388,421	407,856

(c) Operating lease commitments – Group as lessor

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	**200,975**	172,454
	200,975	172,454

Contingent-based rents recognised in the income statement were RUB Nil for the year ended 31 December 2017 (2016: RUB Nil).

30. Related party transactions

Marigold Investments, Onyx Investments and Maple Valley Investments, are Company's shareholders with a direct shareholding as at 31 December 2016 and as at 31 December 2017 of 11.5%, 11.5% and 11.2%, accordingly (2016: 11.5% each).

As of 31 December 2017 and 31 December 2016, Litten Investment Limited, controlled by a member of key management of the Company has a shareholding in the Company of 6.3%.

As at 31 December 2017, 59.4% (2016: 59%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company. The remaining 0.1% (2016: 0.2%) of the shares of the Company are controlled by Directors and key management of the Company.

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

	2017 RUB'000	2016 RUB'000
Sales of services:		
Associate	**484,208**	339
	484,208	339

(b) Purchases of goods and services

	2017 RUB'000	2016 RUB'000
Purchases of services:		
Associate	**115,820**	–
	115,820	–

(c) Key management compensation

	2017 RUB'000	2016 RUB'000
Key management salaries and other short-term employee benefits[1]	**961,204**	681,393
Share-based compensation (Note 16)	**97,229**	77,985
	1,058,433	759,378

(1) "Key management salaries and other short-term employee benefits" include Directors' remuneration paid to the Directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to RUB 130,387 thousand (2016: RUB 131,382 thousand).

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

	2017 RUB'000	2016 RUB'000
Trade receivable from related parties (Note 19):		
Associate	**–**	1,449
	–	1,449

	2017 RUB'000	2016 RUB'000
Accrued key management remuneration (Note 26):		
Accrued salaries and other short-term employee benefits	**297,326**	239,499
Share-based payment liability (Note 16)	**226,560**	145,745
	523,886	385,244

(e) Operating lease commitments – Group as lessee

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	**–**	31,136
	–	31,136

Operating lease commitments – Group as lessor

The future aggregate minimum lease payments under operating leases with associates are as follows:

	2017 RUB'000	2016 RUB'000
Not later than 1 year	**–**	99,196
	–	99,196

31. Events after the balance sheet date

In February 2018, New Forwarding Company AO successfully placed a five-year Russian Rouble-denominated exchange-traded bond for a total amount of RUB 5 billion, out of RUB 100 billion registered programme, priced at a coupon rate of 7.25% p.a.

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group, recommends a payment of dividend for the year 2017 total dividend in the amount of 44.85 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,016,530 thousand, including final dividend for 2017 in the amount of RUB 4,155,726 thousand or RUB 23.25 per ordinary share/GDR and a special final dividend in the amount of RUB 3,860,804 thousand or RUB 21.60 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to the approval of the shareholders at the Annual General Meeting on 23 April 2018.

There were no other material post balance sheet events which have a bearing in the understanding of these Consolidated Financial Statements.

Independent Auditor's Report on pages 89 to 93.

Management Report and Parent Company Financial Statements
For the Year Ended 31 December 2017

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Board of Directors and Other Officers

Board of Directors

Mr Michael Zampelas
Chairman of the Board of Directors
Independent Non-executive Director
Member of Remuneration and Nomination Committees

Dr Johann Franz Durrer
Senior Independent Non-executive Director
Chairman of the Remuneration and Nomination Committees

Mr John Carroll Colley
Independent Non-executive Director
Chairman of the Audit Committee

Mr George Papaioannou
Independent Non-executive Director
Member of the Audit Committee

Ms Elia Nicolaou
Non-executive Director
Member of the Audit Committee
Company Secretary
Secretary of the Board
Alternate Director: Mr Marios Tofaros

Mr Alexander Eliseev
Executive Director
Alternate Director: Ms Ekaterina Golubeva

Mr Marios Tofaros
Non-executive Director

Mr Sergey Tolmachev
Executive Director

Mr Alexander Storozhev
Executive Director
Alternate Director: Ms Elia Nicolaou

Mr Konstantin Shirokov
Executive Director

Mr Alexander Tarasov
Non-executive Director
Alternate Director: Mr Maxim Rubin

Mr Michalakis Thomaides
Non-executive Director

Ms Melina Pyrgou
Non-executive Director

Mr Andrey Gomon
Non-executive Director
Appointed on 24 April 2017
Alternate Director: Ms Melina Pyrgou

Ms Zarema Mamukaeva
Non-executive Director
Resigned on 24 April 2017
Alternate Director: Ms Melina Pyrgou

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
Dimitriou Karatasou, 15
Anastasio Building, 6th floor, Office 601
Strovolos, 2024, Nicosia, Cyprus
Assistant Secretary: Mr Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos,
CY-3095 Limassol, Cyprus

Management Report

The Board of Directors presents its Management Report together with the audited parent company financial statements for the year ended 31 December 2017. The parent company'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 Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

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

The Company's profit for the year increased to RUB 9,967,841 thousand compared to RUB 2,708,737 thousand for the year ended 31 December 2016. This was mainly the result of the increase in the dividend income earned from the subsidiaries from RUB 3,026,561 thousand during the year ended 31 December 2016 to RUB 10,700,007 thousand in the current year.

The total asset position of the Company as of 31 December remains at similar levels as at 31 December 2016, with total assets on 31 December 2017 amounting to RUB 46,304,334 thousand compared to RUB 47,029,082 thousand as at 31 December 2016. The net asset position of the Company has decreased as of 31 December 2017 compared to 31 December 2016, with net assets as of 31 December 2017 amounting to RUB 41,210,933 thousand compared to RUB 46,257,329 thousand as of 31 December 2016. The decrease in the net asset position of the Company was the result of the dividend distributions to the owners of the Company made during the year ended 31 December 2017 which exceeded the net profit for the year by RUB 5,046,396 thousand.

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

Changes in Group structure

There were no changes in the Group structure of the Company during the year ended 31 December 2017. For the principal subsidiaries of the Company, refer to Note 14 of the financial statements.

Non-Financial Information and Diversity Statement

The Group will be publishing its first Non-Financial Information and Diversity Statement within its Annual Report that will be issued within four months after the balance sheet date and will be available on the Company's website, www.globaltrans.com.

Environmental matters

Rail is one of the most environmentally-friendly modes of transport. Nonetheless, any commercial activity has an environmental impact and Globaltrans strives to minimise those from its operations where possible. To this end, the Group ensures that its activities fully comply with local environmental regulations. It also aims to help business and nature co-exist by focusing on applying modern technology in its operations and using natural resources rationally.

Human resources

Globaltrans considers the wellbeing of employees central to its success and strives to maintain exemplary working standards, ensure job satisfaction and create opportunities for professional growth. The Group's personnel policy focuses on creating a positive atmosphere at all offices and facilities to maximise productivity. As part of this, it offers medical insurance, support for education, opportunities to obtain additional qualifications and training, and financial aid in particularly difficult times.

The Group's future success will partly depend on its ability to continue to attract, retain and motivate key employees and qualified personnel, in particular an experienced management team. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.

Adequate remuneration packages, which are in line with or in excess of market levels, are offered to all employees and key managers and remuneration is linked to the Group's financial results. The Human Resource function regularly monitors salary levels and other benefits offered by competitors to ensure that the Group's remuneration packages are adequate.

Principal risks and uncertainties

The Company faces a number of diverse potential and actual risks to its business. The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Company and its subsidiaries.

To identify, evaluate and mitigate these, the Company has established an in-house system to monitor and control uncertainties and threats throughout its activities. This is overseen by a dedicated Risk Management function, which works directly with the Board of Directors in this area.

The Company has grouped the risks that it considers to be significant into key categories – strategic, operational, compliance and financial – and they are presented below.

Strategic risks

The strategic risks faced by the Company and its subsidiaries, together referred to as "Group", that pose risks that influence the Group's ability to achieve its strategy include: the general economic situation and operating environment in Russia, Kazakhstan, Ukraine, CIS and Baltic countries in which the Group operates; the regulatory risk relating to the operation of the Russian railway transportation market including railway tariff regulation and technical requirements for fleet maintenance; the highly competitive Russian rail transportation market with unregulated operators' services tariffs; the oversupply of railcars on the market; the significant concentration of the Group's customer base with the top 10 customers accounting for around 74% of the Group's Net Revenue from the operation of rolling stock in 2017; cost of borrowing and/or deterioration in market conditions with potential impacts on the profitability and payback period of investments; and reliance on RZD for issuing permits allowing the Group to operate locomotives.

The Group operates mainly in Russia, other emerging markets and Estonia. Emerging markets, such as Russia, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative uncertainties. Moreover, the Group's business depends on the demand in the Russian freight rail transportation market, which in turn depends on certain key commodity sectors and, accordingly, on economic conditions in Russia, Europe and elsewhere. A decrease in production and demand for key commodities in Russia, or in adjacent countries where the commodities of the Group's key customers are shipped by rail, as a result of a technological shift, economic downturn, political crisis or other event in Russia or another relevant country, negatively impacts the Group's business and growth prospects.

The management of the Group constantly monitors the developments in the operating environment and regulatory regime of the railway transportation market in the countries in which the Group operates. The Group's business model is to maintain a balanced fleet between universal gondola cars, adaptable to the demand for transportation of various bulk cargoes and rail tank cars, which are used for the transportation of oil products and oil. Further, the Group has long-term, established relationships with its key customers and their affiliates and suppliers and in some cases, the Group becomes an integrated part of its customers' operations. Around 55% of the Group's Net Revenue from the Operation of Rolling Stock in 2017 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.

Operational risks

The operational risks faced by the Group that could influence the Group's operational efficiency include: the physical state of the Russian, Ukrainian, CIS and Baltic countries railway infrastructure which may negatively impact the condition of the Group's rolling stock and the performance of the Group; the impact of inflation in Russia on the Group's costs with limited opportunities to increase tariffs to customers; the competition for personnel with relevant expertise and experience in Russia and the impact on the Group's ability to continue to attract, retain and motivate key employees and qualified personnel; reliance on RZD for locomotive traction and infrastructure usage and the impact of this on the quality of the Group's freight transportation services and therefore customer satisfaction; IT availability and continuity considerations due to reliance on specialised trail transport and logistics software for ensuring efficient and effective logistics, dispatching and rolling stock tracking services; and risks of terrorist attacks, natural disasters or other catastrophic events beyond the Group's control.

The Group is managing operational risk by ensuring that practically all of the Group's rolling stock is insured against damage. Further, the Group monitors its rolling stock through the Group's dispatch centre on a 24/7 basis and plans routes accordingly to minimise the risks of disruption. The Group monitors FAS initiatives with the aim of detecting possible changes in tariff-setting methodology and tries to reflect respective changes in contracts with customers. Among the Group's key objectives are to increase operational efficiency and to focus on control and reduction of costs. The Group continuously monitors its costs to maintain efficiency.

The Human Resource function regularly monitors salary levels and other benefits offered by competitors to ensure that the Group's remuneration packages are adequate. Customer satisfaction is one of the key metrics that the Group's management monitors, with customer feedback being analysed and appropriate follow-up actions being taken. Local IT specialists have introduced solutions to maintain the availability of IT services and ensure their recovery in case of disruption. The IT function and Internal Audit function monitor all IT-related activities and performance for compliance with IT policies and procedures.

Further the Group permanently monitors any disruptive events and applies a Business Continuity Policy to: ensure the safety of employees and human life; maintain continuity of time-critical services; minimise disruptions to clients and partners; and minimise operational, financial and reputational impact.

Compliance risks

The Group is also subject to compliance risk, being the risks that influence the Group's adherence to relevant laws and regulations. The Group is involved in material legal actions from time to time. Some of it may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and might result in claims from different government authorities. Local tax, currency and customs legislation, especially in Russia, other emerging markets and Cyprus, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation.

The Group runs its operations in compliance with tax, currency, labour, customs, antimonopoly and other applicable legislation and constantly monitors any changes in the regulatory environment as well as compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to rigorous review by all of the Group functions concerned and a formal approval process prior to execution. The Group has controls in place, including highly-qualified and experienced personnel, to monitor changes in legislation and determine the appropriate action needed to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group retains external consultants.

Financial risks

The Company's activities expose it to a variety of financial risks that could influence the Company's financial performance. These include: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Foreign exchange risk

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

During the year 2017 the Russian Rouble showed signs of recovery. As of end of December 2017, the Russian Rouble has appreciated against the US Dollar from 60.6569 as of 31 December 2016 to 57.6002 Russian Roubles (5.0% revaluation).

The fluctuations in the exchange rate between US Dollar and Russian Rouble expose the Company to foreign exchange risk.

Had US Dollar exchange rate strengthened/weakened by 5% (2016: 30% change) against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2017 would have increased/decreased by RUB 24,641 thousand (2016: RUB 167,792 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of US Dollar-denominated loans receivable and cash and cash equivalents as of 31 December 2017 and as of 31 December 2016.

The Company's current policy is not to hedge this foreign exchange risk.

Interest-rate risk

The Company holds interest-bearing financial instruments at both fixed and floating rates interest rates.

Financial assets and liabilities issued at fixed rates expose the Company to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2017 and 31 December 2016 would not have any impact on the Company's post-tax profit or equity.

Financial assets and liabilities issued at floating rate expose the Company to cash flow interest rate risk. As of 31 December 2017 the Company did not have any floating interest rate borrowings or receivables, therefore was not exposed to cash flow interest rate risk. The Company's current policy is not to hedge interest rate risk.

Credit risk

Financial instruments which potentially subject the Company to credit risk, consist principally of loans and other receivables, cash and cash equivalents and financial guarantees issued by the Company for borrowings of the subsidiaries.

At each balance sheet date, the Company reviews its loans receivable from subsidiaries for any indication of impairment. The analysis of impairment indicators as of 31 December 2017 revealed indicators for impairment/reversal of impairment with respect to the loans to Ural Wagonrepair Company, AO and Ukrainian New Forwarding Company AO. Based on the impairment testing performed, no impairment loss or reversal of impairment was identified, other than the amounts already recognised in the financial statements, amounting to a reversal of impairment of RUB 120,960 thousand (reversal of RUB 84,920 thousand for the year ended 31 December 2016).

The majority of the Company's bank balances are held with independently rated banks with a minimum rating of "B". These policies enable the Company to reduce its credit risk significantly.

The Company has issued financial guarantees on the borrowings of its subsidiaries. As a result, the Company is exposed to credit risk arising from potential risk of default of the Company's subsidiaries on their external debt. As of 31 December 2017, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings.

Liquidity risk

As at 31 December 2017, the Company has an excess of current liabilities over current assets of RUB 1,961,776 thousand. Management believes that the Company will be able to meet its obligations as they fall due.

Management controls current liquidity based on expected cash flows, expected dividend and interest income receipts, expected dividend payments and advancements under borrowings from subsidiaries. In the long-term perspective, the liquidity risk is determined by forecasting future cash flows at the moment of signing new loans and by budgeting procedures.

Contingencies
The Company's contingencies are disclosed in Note 23 to the financial statements.

Future developments
The Board of Directors does not expect any significant changes in the activities of the Company in the foreseeable future.

The Company's strategic objective is to strengthen the position of the Group as a leading private freight rail group in Russia.

Results
The Group's results for the year are set out on pages 163 to 164. 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 declare dividends in Russian Roubles and pay such dividends in US Dollars. If dividends are not paid in US Dollars, except as otherwise described under "Terms and Conditions of the Global Depositary Receipts – Conversion of Foreign Currency", they will be converted into US Dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

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

In April 2016, the shareholders of the Company approved the payment of final dividend in respect of the financial year ended 31 December 2015 in the amount of 12.41 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of USD 34,041 thousand).

In April 2017, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2016 in the amount of 39.20 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 7,006,644 thousand (US Dollar equivalent of USD 124,605 thousand).

In August 2017, the Board of Directors of the Company approved payment of total dividend in the amount of 44.8 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,007,593 thousand, including interim dividend in the amount of RUB 3,603,417 thousand or RUB 20.16 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,404,176 thousand or RUB 24.64 per ordinary share/GDR (US Dollar equivalent of USD 135,401 thousand).

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group, recommends a payment of dividend for the year 2017 total dividend in the amount of 44.85 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,016,530 thousand, including final dividend for 2017 in the amount of RUB 4,155,726 thousand or RUB 23.25 per ordinary share/GDR and a special final dividend in the amount of RUB 3,860,804 thousand or RUB 21.60 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to the approval of the shareholders at the Annual General Meeting on 23 April 2018.

Share capital
As at 31 December 2017 the issued share capital of the Company, which remains unchanged from the prior year, comprised 178,740,916 ordinary shares with a par value of USD 0.10 per share.

Research and development activities
The Company has not undertaken any research and development activities during the year ended 31 December 2017.

Events after the balance sheet date
The events after the balance sheet date are disclosed in Note 24 to the financial statements.

Branches
The Company does not operate through any branches.

Treasury shares

In 2017 the Company did not own or acquire either directly or through a person in his own name, but on 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 financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2018, including cash flows and borrowing facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

Auditors

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

Corporate governance

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

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

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

The role of the Board of Directors

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

As at 31 December 2017 and at the date of this report, the Board comprises 14 members (2016: 14 members), 10 (2016: 11 members) of whom are Non-executive Directors (including the Chairman). Four (2016: four) 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 judgement with a view to the best interests of the Company, and they are able to exercise objective judgement on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2017 and at the date of this report are shown on page 149. There were no significant changes in the assignment of responsibilities of the Board of Directors.

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/her 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.

The total gross remuneration of the members of the Board of Directors incurred by the Company in 2017 amounted to RUB 45,375 thousand (2016: RUB 50,655 thousand).

Board performance

The Board held 14 meetings in 2017. The Directors' attendance is presented in the table below.

	Eligible	Attended
Michael Zampelas (Chairman)	14	14
Johann Franz Durrer	14	14
Carroll Colley	14	14
George Papaioannou	14	13
Alexander Eliseev	14	12
Melina Pyrgou	14	13
Konstantin Shirokov	14	14
Alexander Storozhev	14	14
Marios Tofaros	14	13
Elia Nicolaou	14	14
Sergey Tolmachev	14	14
Andrey Gomon	11	10
Zarema Mamukaeva	3	3
Alexander Tarasov	14	11
Michael Thomaides	14	13

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 three Directors, two of whom are independent, and meets at least four times each year. The Audit Committee is chaired by Mr J Carroll Colley and is also attended by Mr Papaioannou and Ms Nicolaou. The Audit Committee is responsible for considering, among other matters: the integrity of the Company's financial statements, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems; auditors' reports and the terms of appointment and remuneration of the auditor.

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

The Audit Committee manages the relationship with the external auditor on behalf of the Board. It considers the reappointment of the external auditor each year, as well as remuneration and other terms of engagement, and makes a recommendation to the Board. Shareholders are asked to approve the reappointment of the auditor each year at the Annual General Meeting.

The Internal Audit function is carried out internally by the Group's Internal Audit Service (IAS). IAS is responsible for testing the systems of risk management, internal control and corporate governance of the Group.

Nomination Committee

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

Remuneration Committee

The Remuneration Committee comprises two Independent Directors and meets at least once a year. The Remuneration Committee is chaired by Dr Durrer and Mr Zampelas is the other member. The Committee's responsibility is the determination and review of, among other matters, the remuneration of Executive Directors, and the review of the Company's remuneration policies. The remuneration of Independent Directors is a matter for the Chairman of the Board and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

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 24 April 2017.

Refer to Note 22 of the financial statements for details of remuneration of Directors and other key management personnel.

Diversity policy

The Company does not have a formal Board diversity policy to aspects such as age, gender or educational and professional backgrounds, but following best practice while making the new appointments and considering the current composition of the Board of Directors, these aspects are taken into account.

As of the date of publication of these financial statements the Board has two females representing approximately 14% from the total number of Directors. The age of the members of the Board of Directors ranges from over 30 to over 70 years, with the average age of directors being 51 years. The Board members have the following educational backgrounds: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management. The Board has a necessary balance of skills and expertise to run the Company and the Group.

Further details of the corporate governance regime of the Company can be found on the website: http://www.globaltrans.com/about-us/corporate-governance/.

Regulations with regards to the amendment of the article of association

The Articles of Association of the Company may be amended from time to time by special resolution at the General Meeting of the Shareholders.

Company's internal control and risk management systems in relation to the financial reporting process

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

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

The Board is primarily responsible for establishing a framework of prudent and effective controls that enables risks to be assessed and managed.

The Audit Committee assists the Board in this task by reviewing and assessing the Group's internal control and risk management processes in relation to Group's financial reporting process.

The system of controls is designed to manage rather than eliminate the risks relevant to the Group's operations and, therefore, can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of laws and regulations.

At Globaltrans, the body responsible for internal audit is the Internal Audit Service (IAS). It tests the Group's systems of risk management, internal control and corporate governance to obtain a reasonable assurance that:

- The risk management system functions efficiently;
- Material financial, management and operating information is accurate, reliable and up-to-date;
- The actions of employees and management bodies are in compliance with the Group's policies, standards and procedures and the applicable laws;
- Resources are procured reasonably and used efficiently and their safekeeping is fully guaranteed; and
- Group companies conduct their business in compliance with applicable laws.

Each year, the Audit Committee approves an internal audit plan, which is developed by identifying the audit universe, performing a risk analysis and obtaining input from management relative to risks, controls and governance processes. The internal auditor regularly reports to the Audit Committee on the progress of planned audits. If any material internal control deficiencies are identified, they are communicated to the Audit Committee, and consequently to the Board, at once.

Significant direct or indirect holdings (including indirect shareholding though structures or cross shareholdings)

The issued share capital of the Company consists of 178,740,916 ordinary shares with a nominal value of USD 0.10 each, a certain portion of which is held in the form of Global Depositary Receipts (GDRs). The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The free float of Globaltrans amounts to approximately 59.4%[1] of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of the Company.

The shareholder structure of the Company as at 31 December 2017 was follows:

Shareholder structure	
Maple Valley Investments[2]	11.2%
Onyx Investments[2]	11.5%
Marigold Investments[2]	11.5%
Litten Investments[3]	6.3%
Controlled by Directors and management of Globaltrans	0.1%
Free float[1]	59.4%

1 For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.
2 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are co-founders of Globaltrans and beneficiaries with regard to 11.2%, 11.5% and 11.5%, respectively, of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments).
3 Beneficially owned by Alexander Eliseev, Executive Director and co-founder of Globaltrans.

Directors' interests

The interests in the share capital of Globaltrans Investment PLC, both direct and indirect, of those who were Directors of the Company as at 31 December 2017 and 31 December 2016 are shown below:

Name	Type of holding	2017	2016
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**11,318,909**	11,318,909
Johann Franz Durrer	Holding of GDRs	**160,606**	160,606

The holders of special titles that provide special control rights and description of such rights

The Company does not have any titles with special rights.

Any restrictions in exercising of voting rights of shares

There are no restrictions in the exercising of voting rights of shares issued by the Company.

By Order of the Board

Sergey Tolmachev
Director

Limassol, 23 March 2018

Directors' Responsibility

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

In preparing the parent company financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Each of the Directors confirms to the best of his or her knowledge that the parent company financial statements (presented on pages 163 to 193) give a true and fair view of the financial position of Globaltrans Investment PLC (the "Company") as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

(i) proper books of account have been kept by the Company;

(ii) the Company's parent company financial statements are in agreement with the books of account;

(iii) the parent company financial statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required;

(iv) the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, and the information given therein is consistent with the financial statements;

(v) the information included in the corporate governance statement is in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the financial statements; and

(vi) the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

By order of the Board

Sergey Tolmachev
Director

Independent Auditor's Report
To the Members of Globaltrans Investment PLC

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Report on the Audit of the Parent Company Financial Statements

Our opinion

In our opinion, the accompanying parent company financial statements give a true and fair view of the financial position of the parent company Globaltrans Investment PLC (the "Company") as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the parent company financial statements which are presented in pages 163 to 193 and comprise:
- the balance sheet as at 31 December 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the parent company financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report.

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

Independence

We remained independent of the Company throughout the period of our appointment in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the parent company financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the parent company financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality	Overall materiality: RUB 525,000 thousand, which represents approximately 5% of profit before tax.
Key audit matters	We have determined that there are no key audit matters to communicate in our report.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the parent company financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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

Independent Auditor's Report continued
To the Members of Globaltrans Investment PLC

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the parent company financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the parent company financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the parent company financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the parent company financial statements as a whole.

Overall materiality	RUB 525,000 thousand
How we determined it	approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark, because in our view, it is the benchmark against which the performance of the Company is most commonly measured by the users of the parent company financial statements and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RUB 26,250 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud
We have determined that there are no Key Audit Matters to communicate in our report.

Reporting on other information
The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report, including the Corporate Governance Statement, and the Directors' responsibility which we obtained prior to the date of this auditor's report, and the Company's complete Annual Report, including the Non-Financial Information and Diversity Statement, which is expected to be made available to us after that date. Other information does not include the parent company financial statements and our auditor's report thereon.

Our opinion on the parent company financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the parent company financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company's complete Annual Report, including the Non-Financial Information and Diversity Statement, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

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

In preparing the parent company financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements
Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements
Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement
We were first appointed as auditors of the Company in 2005 by shareholders' resolution for the audit of the financial statements for the year ended 31 December 2004. Our appointment has been renewed annually since then, by shareholders' resolution. In 2008 the Company listed Global Depository Receipts on the Main Market of the London Stock Exchange and, accordingly, the first financial year after the Company qualified as an EU PIE was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 9 years.

Consistency of the Additional Report to the Audit Committee
We confirm that our audit opinion on the parent company financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and which have not been disclosed in the parent company financial statements or the management report.

Independent Auditor's Report continued
To the Members of Globaltrans Investment PLC

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the parent company financial statements.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the parent company financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 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.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

The engagement partner on the audit resulting in this independent auditor's report is Anna Loizou.

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

23 March 2018

Income Statement
For the Year Ended 31 December 2017

	Note	2017 RUB'000	2016 RUB'000
Revenue	5	**10,806,345**	3,166,488
Selling and marketing costs		**(5,633)**	(6,752)
Administrative expenses		**(244,161)**	(160,631)
Reversal of impairment of loans receivable from related parties	17	**120,960**	84,920
Other income		**57,967**	–
Other gains/(losses)	6	**1,695**	(2,637)
Operating profit		**10,737,173**	3,081,388
Finance income	9	**51,845**	–
Finance costs	9	**(209,160)**	(105,428)
Net foreign exchange transaction losses on financing activities	9	**(77,017)**	(119,268)
Finance costs – net	9	**(234,332)**	(224,696)
Profit before tax		**10,502,841**	2,856,692
Income tax expense	10	**(535,000)**	(147,955)
Profit for the year		**9,967,841**	2,708,737

The notes on pages 168 to 193 are an integral part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2017

	2017 RUB'000	2016 RUB'000
Profit for the year	**9,967,841**	2,708,737
Other comprehensive income for the year, net of tax	**–**	–
Total comprehensive income for the year	**9,967,841**	2,708,737

The notes on pages 168 to 193 are an integral part of these financial statements.

Balance Sheet
At 31 December 2017

	Note	31 December 2017 RUB'000	31 December 2016 RUB'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	**45,252,722**	45,252,722
Property, plant and equipment	13	**4,468**	6,769
Loans and other receivables	17	**407,186**	1,199,771
Total non-current assets		**45,664,376**	46,459,262
Current assets			
Loans and other receivables	17	**206,083**	244,215
Income tax assets		**11,794**	10,928
Cash and cash equivalents	18	**422,081**	314,677
Total current assets		**639,958**	569,820
TOTAL ASSETS		**46,304,334**	47,029,082
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	**516,957**	516,957
Share premium	19	**27,929,478**	27,929,478
Capital contribution		**2,694,851**	2,694,851
Retained earnings		**10,069,647**	15,116,043
Total equity		**41,210,933**	46,257,329
Non-current liabilities			
Borrowings	20	**2,491,667**	752,000
Total non-current liabilities		**2,491,667**	752,000
Current liabilities			
Borrowings	20	**2,534,089**	3,703
Payables and accrued expenses	21	**67,645**	16,050
Total current liabilities		**2,601,734**	19,753
TOTAL LIABILITIES		**5,093,401**	771,753
TOTAL EQUITY AND LIABILITIES		**46,304,334**	47,029,082

On 23 March 2018 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Tolmachev,
Director

Konstantin Shirokov,
Director

The notes on pages 168 to 193 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2017

	Note	Share capital RUB'000	Share premium RUB'000	Capital contribution RUB'000	Retained earnings RUB'000	Total RUB'000
Balance at 1 January 2016		**516,957**	**27,929,478**	**2,694,851**	**14,625,481**	**45,766,767**
Comprehensive income						
Profit for the year		–	–	–	2,708,737	2,708,737
Total comprehensive income for 2016		–	–	–	2,708,737	2,708,737
Transactions with owners						
Dividend to owners of the Company	12	–	–	–	(2,218,175)	(2,218,175)
Total distributions to owners of the Company		–	–	–	(2,218,175)	(2,218,175)
Total transactions with owners		–	–	–	(2,218,175)	(2,218,175)
Balance at 31 December 2016/1 January 2017		**516,957**	**27,929,478**	**2,694,851**	**15,116,043**	**46,257,329**
Comprehensive income						
Profit for the year		–	–	–	9,967,841	9,967,841
Total comprehensive income for 2017		–	–	–	9,967,841	9,967,841
Transactions with owners						
Dividend to owners of the Company	12	–	–	–	(15,014,237)	(15,014,237)
Total distributions to owners of the Company		–	–	–	(15,014,237)	(15,014,237)
Total transactions with owners		–	–	–	(15,014,237)	(15,014,237)
Balance at 31 December 2017		**516,957**	**27,929,478**	**2,694,851**	**10,069,647**	**41,210,933**

The notes on pages 168 to 193 are an integral part of these financial statements.

Cash Flow Statement
For the Year Ended 31 December 2017

	Note	2017 RUB'000	2016 RUB'000
Cash flows from operating activities			
Profit before tax		**10,502,841**	2,856,692
Adjustments for:			
Depreciation of property, plant and equipment	13	**2,301**	2,301
Interest on loans to related parties	5	**(106,338)**	(139,927)
Bank interest income	9	**(51,845)**	–
Interest expense	9	**209,160**	105,428
Reversal of impairment loss of loans receivables	17	**(120,960)**	(84,920)
Net foreign exchange transaction losses on financing activities		**77,017**	118,890
Operating cash flows before working capital changes		**10,512,176**	2,858,464
Changes in working capital:			
Dividend income receivable		**–**	114,134
Other receivables		**(1,218)**	2,373
Payables and accrued expenses		**313,491**	(3,201)
Net cash generated from operations		**10,824,449**	2,971,770
Interest received from loans from related parties		**129,173**	6,216
Tax paid		**(535,000)**	(147,540)
Net cash generated from operating activities		**10,418,622**	2,830,446
Cash flows from investing activities			
Contribution into share capital of subsidiary	14	**–**	(12,464)
Loans granted to related parties	22	**(650,000)**	–
Loan repayments received from related parties	22	**1,564,249**	258,679
Bank interest received		**51,845**	–
Net cash generated from investing activities		**966,094**	246,215
Cash flows from financing activities			
Proceeds from bank borrowings	20	**5,000,000**	–
Proceeds from borrowings – related parties	22	**610,798**	–
Repayment of borrowings – related parties	22	**(1,362,798)**	(654,128)
Interest paid – related parties	22	**(47,649)**	(108,503)
Interest paid on bank borrowings		**(139,459)**	–
Dividends paid to the Company's shareholders	12	**(15,014,237)**	(2,218,175)
Net cash used in financing activities		**(10,953,345)**	(2,980,806)
Net increase in cash and cash equivalents		**431,371**	95,855
Exchange losses on cash and cash equivalents		**(323,967)**	(59,555)
Cash and cash equivalents at beginning of year		**314,677**	278,377
Cash and cash equivalents at end of year	18	**422,081**	314,677

The notes on pages 168 to 193 are an integral part of these financial statements.

Notes to the Parent Company 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.

Approval of the parent company financial statements

These financial statements were authorised for issue by the Board of Directors of the Company on 23 March 2018.

Global Depositary Receipts

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

Principal activities

The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

Consolidated financial statements

The Company has also prepared Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group). These Consolidated Financial Statements can be obtained from the Company's website at: www.globaltrans.com.

2. Summary of significant accounting policies

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

Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2017 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 and IFRS 14 "Regulatory Deferral Accounts".

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

The Company has prepared these parent company financial statements for compliance with the requirements of the Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

Users of these parent company financial statements should read them together with the Group's Consolidated Financial Statements as at and for the year ended 31 December 2017 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

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

New standards, interpretations and amendments to published standards

(a) The Company has adopted the following new standards, amendments and interpretations as of 1 January 2017:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). As a result of this amendment, the Company has disclosed a reconciliation of movements in liabilities arising from financing activities. Refer to Note 20.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity has to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Company was not materially impacted by the application of this amendment.
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for IFRS 12). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. The Company was not materially impacted by the application of these amendments.

(b) Certain new standards, amendments to existing standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2018, that are expected to have an impact on the Company's financial statements and which the Company has not early adopted. Items marked with * have not been endorsed by the European Union (EU). The Company will only be able to apply the new standards, amendments to existing standards or interpretations when these are endorsed by the EU.

- **IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).** Key features of the new standard are:
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - IFRS 9 introduces a new model for the recognition of impairment losses – The expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
  - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

In accordance with the transition provisions in IFRS 9 the Company has elected the simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the financial statements for the year ending 31 December 2018; which will be the first year when the Company will apply IFRS 9.

2. Summary of significant accounting policies continued

New standards, interpretations and amendments to published standards continued

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that existed at that date, the management of the Company is expecting that the adoption of the new standard on 1 January 2018 will not have a significant impact on the Company's financial statements.

- **IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- **Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).** IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Company is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **IFRIC 22 – Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)*.** The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgement in determining whether an item is monetary or non-monetary. The Company is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- **IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)*.** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- **Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.** The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example, at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Company is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

Revenue recognition
Revenues earned by the Company are recognised on the following basis:

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

(b) Interest income
Interest income is recognised on a time proportion basis using the effective interest method. When a loan and receivable is impaired the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Foreign currency translation
(a) Functional and presentation currency
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble. The financial statements are also presented in Russian Roubles ("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 spot exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Net foreign exchange differences arising from borrowings and other liabilities and from cash and cash equivalents and other monetary assets are presented on the face of the income statement in the line "Net foreign transaction losses on financing activities", with the appropriate disclosure of the split between the two in the note "Finance costs – net".

All other foreign exchange gains and losses are presented in the income statement within "Other gains/(losses)".

Employee benefits
Wages, salaries, contributions to the 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 Company. These are included in staff costs and the Company has no further obligations once the contributions have been paid.

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

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.

2. Summary of significant accounting policies continued

Current and deferred income tax continued

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the Company 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.

Dividend distribution

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

Operating 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. 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.

Property, plant and equipment

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

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

	Number of years
Motor vehicles	3-5

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.

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

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

Investments in subsidiary undertakings

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through income statement 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. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

In cases of acquisitions of subsidiaries from entities under common control or subsidiaries of the Company, the cost of acquisition is determined to be the fair value of the investment acquired as opposed to the transaction price. Any differences between the transaction price and the fair value of the investment acquired reflect notional contributions/distributions from entities under common control or subsidiaries and are recognised as such, i.e. directly in equity in cases of transactions with common control entities and as an additional contribution to or distribution from the subsidiary transferring the investment to the Company.

Group reorganisations resulting into an exchange of non-financial assets and where the future cash inflows before and after the reorganisation do not change as a result of the reorganisation are considered to lack commercial substance and no gains or losses are recognised relating to such restructurings.

Indemnification assets received for contingent liabilities of the investments in subsidiaries that existed at the time of acquisition of such subsidiaries are recognised against the cost of the relevant investment.

Deferred consideration

Deferred consideration arises when settlement of all or any part of the cost of an acquisition is deferred. Deferred consideration is stated at fair value at the date of acquisition, which is determined by discounting the amounts due to present value using market interest rates at the date of initial recognition. Interest is accrued on the fair value of deferred consideration at the original effective interest rate and is recognised in finance costs.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts, including costs or fees incurred for the modification, is recognised in profit or loss within finance costs. When the terms of the existing financial liability are not substantially modified, the existing liability is not derecognised and the gain/loss arising on the modification, including costs or fees incurred for the modification, is recognised in profit or loss within finance costs.

Impairment of non-financial assets

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

Financial assets

The Company 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 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise loans and other receivables and cash and cash equivalents in the balance sheet.

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

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

2. Summary of significant accounting policies continued

Financial assets continued

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

Share capital, share premium and treasury shares

Ordinary shares are classified as equity.

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

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

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

Capital contribution

Capital contribution constitutes contributions made by the Company's shareholders other than for the issue of shares by the Company in their capacity as equity owners of the Company for which the Company has no contractual obligation to repay them. Such contributions are recognised directly in equity as they constitute transactions with equity owners in their capacity as equity owners of the Company.

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial guarantees

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

Fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investment in the respective subsidiary in the financial statements of the Company.

Amortisation of financial guarantees is recognised in "other gains/(losses)" in the income statement on a straight-line basis.

Trade and other payables

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

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less. 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.

Transactions with equity owners/subsidiaries

The Company enters into transactions with its shareholders and subsidiaries. When consistent with the nature of the transaction, the Company's accounting policy is to recognise: (a) any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contribution or the payment of dividends; and (b) any losses with subsidiaries as cost of investment in subsidiaries. Similar transactions with non-equity holders, or subsidiaries, are recognised through the income statement in accordance with IAS 39, Financial Instruments Recognition and Measurement.

Cash flow statement

Cash flows arising from dividend income and interest income on loans granted to related parties which form part of the revenue of the Company are reported as part of operating activities in the cash flow statement. Interest income received on other balances which form part of the Company's finance income are reported within cash flows from investing activities in the cash flow statement. Interest expense arising from deferred consideration for acquisition in subsidiaries is recognised within financing activities. Principal payments of deferred consideration are recognised as acquisition of subsidiaries within cash flows from investing activities.

3. Financial risk management

Financial risk factors

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

Market risk

(a) Foreign exchange risk

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

During the year 2017 the Russian Rouble showed signs of recovery. As of end of December 2017, the Russian Rouble has appreciated against the US Dollar from 60.6569 as of 31 December 2016 to 57.6002 Russian Roubles (5.0% revaluation).

The fluctuations in the exchange rate between US Dollar and Russian Rouble expose the Company to foreign exchange risk.

3. Financial risk management continued

Market risk continued

The carrying amounts of monetary assets denominated in US Dollars as at 31 December 2017 and 31 December 2016 are as follows:

	2017 RUB'000	2016 RUB'000
Assets	**563,223**	639,208

There were no monetary liabilities denominated in US Dollars as at 31 December 2017 and 31 December 2016.

Had US Dollar exchange rate strengthened/weakened by 5% (2016: 30% change) against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2017 would have increased/decreased by RUB 24,641 thousand (2016: RUB 167,792 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of US Dollar-denominated loans receivable and cash and cash equivalents as of 31 December 2017 and as of 31 December 2016.

In prior years, the Company has impaired fully loans receivable from its subsidiary, Ukrainian New Forwarding Company, OOO, which were denominated in US Dollars. The carrying amount of the said loans is RUB 1,954,255 thousand as of 31 December 2017 (2016: RUB 2,185,342 thousand). Therefore, although the Company is subject to foreign exchange risk in relation to these loans, yet, any foreign exchange difference arising on these loans as a result of fluctuations in the Russian Rouble to US Dollar exchange rate would trigger an opposite and equivalent adjustment to the impairment for these loans and therefore would not have an impact on the profit or loss of the Company.

The Company's current policy is not to hedge this foreign exchange risk.

(b) Cash flow and fair value interest rate risk

The Company holds interest bearing financial instruments at both fixed and floating rates interest rates.

Financial assets and liabilities issued at fixed rates expose the Company to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2017 and 31 December 2016 would not have any impact on the Company's post-tax profit or equity.

Financial assets and liabilities issued at floating rate expose the Company to cash flow interest rate risk. As of 31 December 2017 and 31 December 2016 the Company did not have any floating interest rate borrowings or receivables, therefore was not exposed to cash flow interest rate risk.

(c) Credit risk

Financial instruments which potentially subject the Company to credit risk, consist principally of loans and other receivables (Note 17), cash and cash equivalents (Note 18) and financial guarantees (Note 22).

At each balance sheet date, the Company reviews its loans receivable from subsidiaries for any indication of impairment in accordance with the accounting policy stated in Note 2. The analysis of impairment indicators as of 31 December 2017 revealed indicators for reversal of impairment with respect to the loans to Ural Wagonrepair Company, AO and Ukrainian New Forwarding Company, OOO. Based on the impairment testing performed, a reversal of impairment was identified amounting to RUB 120,960 thousand (2016: RUB 84,920 thousand).

The majority of bank balances are held with reliable banks. This enables the Company to reduce its credit risk significantly. Refer to Notes 16 and 17 for more information of the Company's exposure to credit risk.

The Company has issued financial guarantees on the borrowings of its subsidiaries (Note 22). As a result, the Company is exposed to credit risk arising from potential risk of default of the Company's subsidiaries on their external debt. As of 31 December 2017 and 31 December 2016, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings.

(d) Liquidity risk

As at 31 December 2017, the Company has an excess of current liabilities over current assets of RUB 1,961,776 thousand. Management believes that the Company will be able to meet its obligations as they fall due.

Management controls current liquidity based on expected cash flows, expected dividend and interest income receipts, expected dividend payments and advancements under borrowings from subsidiaries. In the long-term perspective, the liquidity risk is determined by forecasting future cash flows at the moment of signing new loans and by budgeting procedures.

The table below summarises the analysis of financial liabilities of the Company by maturity as of 31 December 2017 and 31 December 2016. The amounts in the table are contractual undiscounted cash flows. Non-interest-bearing 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 RUB'000	Between one month and three months RUB'000	Between three and six months RUB'000	Between six months to one year RUB'000	Over one year RUB'000	Total RUB'000
As of 31 December 2017						
Payables and accrued expenses[1]	–	11,218	–	–	–	**11,218**
Borrowings	–	1,399,575	54,252	1,424,402	2,607,890	**5,486,119**
Financial guarantee contracts[2]	4,160,401	201,386	–	–	–	**4,361,787**
	4,160,401	1,612,179	54,252	1,424,402	2,607,890	**9,859,124**
As of 31 December 2016						
Payables and accrued expenses[1]	–	16,050	–	–	–	**16,050**
Borrowings	–	–	–	81,535	829,832	**911,367**
Financial guarantee contracts[2]	11,735,442	–	–	–	–	**11,735,442**
	11,735,442	16,050	–	81,535	829,832	**12,662,859**

1 Payables and accrued expenses exclude statutory liabilities as the analysis is provided for financial liabilities only.
2 The maximum possible amount of obligation under financial guarantee contracts is disclosed at the earliest time it may be called.

(e) Capital risk management

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

For defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalisation ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

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

The rate of borrowings to total capitalisation as at 31 December 2017 and 31 December 2016 are as follows:

	2017 RUB'000	2016 RUB'000
Total borrowings	**5,025,756**	755,703
Total capitalisation	**46,236,689**	47,013,032
Total borrowings to total capitalisation ratio (percentage)	**10.87%**	1.61%

(f) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The estimated fair values of financial instruments have been determined by the Company, 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 Company has used all available market information in estimating the fair value of financial instruments.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one measurements are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

3. Financial risk management continued

Market risk continued

If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The fair values in Level 2 and Level 3 of fair value hierarchy were estimated using discounted cash flows valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Refer to Note 17.

The fair value as at 31 December 2017 of fixed interest rate instruments with stated maturity with subsidiary entities was estimated based on expected cash flows discounted using the rate of similar instruments, denominated in the same currency, entered into by the subsidiaries of the Company on their bank borrowings close to the year end. In the absence of similar instruments entered into by a subsidiary of the Company with non-related parties close to the year end, due to the adverse fluctuation of interest rates, the estimated fair value was estimated based on expected cash flows discounted at an estimated rate that reflects management's best estimate of the current interest rate of new instruments, denominated in a similar currency and with similar credit risk and remaining maturity.

The discount rate used for US Dollar-denominated loans to related parties as at 31 December 2017 was 8% (31 December 2016: 8%). The discount rates used for Russian Rouble-denominated loans to related parties as at 31 December 2017 were 17.7% (31 December 2016: ranged between 10% and 17.9%). The fair value measurements of loans to related parties as at 31 December 2017 and 31 December 2016 are within Level 3 of the fair value hierarchy. The fair value as of 31 December 2017 was found to approximate their carrying amount. Refer to Note 17.

The fair value of financial assets receivable on demand approximates their carrying amount.

Liabilities carried at amortised cost. Fair values of borrowings and other liabilities were determined using valuation techniques.

As at 31 December 2017 and 31 December 2016, the fair value of fixed interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble-denominated instruments entered into by the subsidiaries of the Company on their bank borrowings close to 31 December 2017 and 31 December 2016.

The discount rate used for Russian Rouble-denominated borrowings from related parties and bank borrowings as at 31 December 2017 was used was 8.0% (2016: 10.0%) depending on the term of the facility (Note 20). There were no US Dollar-denominated borrowings as at 31 December 2017 and 31 December 2016. The fair value measurements of liabilities as at 31 December 2017 and 31 December 2016 are within Level 2 (2016: Level 3) of the fair value hierarchy.

The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

4. Critical accounting estimate and judgements

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Critical accounting estimates

1. Fair value of guarantees issued

Management estimated the fair value of the free of charge guarantees issued by the Company to secure the liabilities of its subsidiaries based on the best estimate of expenditure required to settle the obligation.

The fair values on initial recognition of guarantees issued by the Company for unsecured obligations of its subsidiaries in accordance with loan agreements with financial institutions were estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries, and loss given default, as estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the guarantees.

The fair values on initial recognition of the financial guarantees issued by the Company for the obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary have been estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

At the end of each reporting period, the Company assesses whether any provision is needed for the guarantees in issue as of that date. As of 31 December 2017 and 31 December 2016, management has reviewed the financial condition and performance of the Company's subsidiaries and their ability to service the loans which are being guaranteed by the Company and has assessed that no need for provisioning arises in relation to any of the guarantees issued by the Company.

2. Assessment of recoverability of investment in subsidiaries

At each balance sheet date, the Company reviews its investments in subsidiaries for any indication of impairment in accordance with the accounting policy stated in Note 2. The analysis of impairment indicators as of 31 December 2017 did not reveal any indicators of impairment for any of the Company's subsidiaries.

In view of the fact that the activities of New Forwarding Company AO and GTI Management, OOO involve significant intra-Group transactions of rolling stock leases, management has assessed that allocation of value between New Forwarding Company AO and GTI Management, OOO would not be possible on a non-arbitrary basis. Therefore, management has assessed whether there are any indicators of impairment as of 31 December 2017 on a combined basis, rather than on a legal entity basis, which is consistent with how the operations of these two entities are monitored by management for the purposes of the Consolidated Financial Statements.

Further, in view of the fact that Spacecom AS and Spacecom Trans AS operate in the Estonian rail tank cars segment, have significant transactions between them and management reviews their performance as a single operation, management has assessed that allocation of value between them would not be possible on a non-arbitrary basis. Therefore, management has assessed whether there are any indicators of impairment as of 31 December 2017 on a combined basis, rather than on a legal entity basis, which is consistent with how the operations of these two entities are monitored by management for the purposes of the Consolidated Financial Statements.

3. Impairment assessment of loans receivable from subsidiaries

At each balance sheet date, the Company reviews its loans receivable from subsidiaries for any indication of impairment in accordance with the accounting policy stated in Note 2. The analysis of impairment indicators as of 31 December 2017 revealed indicators for impairment/reversal of impairment with respect to the loans to Ural Wagonrepair Company, AO and Ukrainian New Forwarding Company, OOO. Based on the impairment testing performed, no impairment loss or reversal of impairment was identified, other than the amounts already recognised in the financial statements.

The recoverable amount of the loans was determined based on the present value of the expected cash flows to be received from each loan, discounted at its original effective interest rate. The cash flow projections have been determined by reference to management's estimates which are based on historical financial performance of each subsidiary, as adjusted to take into consideration the impact of prevailing industry and market conditions.

If the present value of the projected cash flows had been 10% higher/lower than management's estimate at 31 December 2017, the recoverable amount would increase/decrease, resulting in increase/decrease in the reversal of impairment of RUB 61,171 thousand (2016: RUB 70,280 thousand) in relation to these loans receivable.

4. Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to Note 23.

(b) Critical judgements in the application of the Company's accounting policies

Initial recognition of related party transactions

In the normal course of business, the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 22.

Notes to the Parent Company Financial Statements continued

5. Revenue

	2017 RUB'000	2016 RUB'000
Interest on loans to related parties (Note 22)	**106,338**	139,927
Dividend income (Note 22)	**10,700,007**	3,026,561
Total	**10,806,345**	3,166,488

6. Other gains/(losses)

	2017 RUB'000	2016 RUB'000
Net foreign exchange transaction gains/(losses) on non-financing activities (Note 11)	**1,695**	(2,637)
Other gains/(losses)	**1,695**	(2,637)

7. Expenses by nature

	2017 RUB'000	2016 RUB'000
Statutory auditor's remuneration for statutory audit services	**16,762**	17,302
Statutory auditor's remuneration for other assurance services	**4,714**	6,960
Advertising and marketing expenses	**5,633**	6,752
Office rent	**2,057**	2,230
Depreciation of property, plant and equipment (Note 13)	**2,301**	2,301
Employee benefit expense (Note 8)	**132,181**	46,319
Legal, consulting and other professional services[1]	**29,045**	20,348
Bank charges	**2,525**	2,633
Non-executive Directors' fees (Note 22)	**20,950**	23,095
Travel expenses	**13,614**	13,145
Stock exchange and financial regulator fees	**4,058**	3,974
Taxes other than on income	**8,127**	9,610
Other expenses	**7,827**	12,714
Total selling and marketing costs and administrative expenses	**249,794**	167,383

1 Includes RUB 2,085 thousand for the year 2017 (RUB 904 thousand for the year 2016) in fees paid to the Company's statutory auditor for tax consultancy services and RUB Nil thousand for the year 2017 (RUB 332 for the year 2016) for other non-assurance services.

8. Employee benefit expense

	2017 RUB'000	2016 RUB'000
Salaries	**66,202**	33,073
Bonuses	**62,810**	10,239
Social security costs	**3,169**	3,007
Total employee benefit expense	**132,181**	46,319
Average number of staff employed during the year	**7**	5

9. Finance costs – net

	2017 RUB'000	2016 RUB'000
Included in finance costs:		
Interest expense on borrowings from related parties (Note 22)	**(43,945)**	(105,428)
Interest expense on bank borrowings	**(165,215)**	–
Total interest expense	**(209,160)**	(105,428)
Total finance costs	**(209,160)**	(105,428)
Included in finance income:		
Interest income on bank balances	**51,845**	–
Total interest income	**51,845**	–
Total finance income	**51,845**	–
Net foreign exchange transaction losses on cash and cash equivalents, loans and dividends receivable	**(339,728)**	(120,919)
Net foreign exchange transaction gains on borrowings, dividends payable and other financial liabilities	**262,711**	1,651
Net foreign exchange transactions losses from financing activities (Note 11)	**(77,017)**	(119,268)
Finance costs – net	**(234,332)**	(224,696)

10. Income tax expense

	2017 RUB'000	2016 RUB'000
Current tax:		
Corporation tax	**–**	408
Defence contribution	**–**	7
Withholding tax on dividends receivable	**535,000**	147,540
Total tax expense	**535,000**	147,955

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

	2017 RUB'000	2016 RUB'000
Profit before tax	**10,502,841**	2,856,692
Tax calculated at the applicable tax rate	**1,312,855**	357,087
Tax effect of expenses not deductible for tax purposes	**40,640**	11,327
Tax effect of allowances and income not subject to tax	**(1,353,495)**	(367,705)
Foreign withholding tax on dividends receivable	**535,000**	147,540
Tax effect of utilisation of tax losses for which deferred tax not was previously recognised	**–**	(301)
Defence contribution	**–**	7
Tax charge	**535,000**	147,955

The Company is subject to income tax on taxable profits at the rate of 12.5% as from 1 January 2013. As from tax year 2012 brought forward losses of only five years may be utilised.

Up to 31 December 2008, under certain conditions interest may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income 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 be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014.

In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence. Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon, etc.) are exempt from Cyprus income tax.

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.

10. Income tax expense continued

At 31 December 2017, the Company has tax losses carried forward amounting RUB 1,049,617 thousand (2016: RUB 1,159,410 thousand) for which no deferred tax was recognised as profits for future periods against which these losses can be utilised cannot be estimated with sufficient reliability.

11. Net foreign exchange losses

	2017 RUB'000	2016 RUB'000
Finance costs – net (Note 9)	**(77,017)**	(119,268)
Other gains/(losses) (Note 6)	**1,695**	(2,637)
Total foreign exchange (losses)/gains	**(75,322)**	(121,905)

12. Dividends

In April 2016, the shareholders of the Company approved the payment of final dividend in respect of the financial year ended 31 December 2015 in the amount of 12.41 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of USD$ 34,041 thousand).

In April 2017, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2016 in the amount of 39.20 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 7,006,644 thousand (US Dollar equivalent of USD$ 124,605 thousand).

In August 2017, the Board of Directors of the Company approved payment of total dividend in the amount of 44.8 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,007,593 thousand, including interim dividend in the amount of RUB 3,603,417 thousand or RUB 20.16 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,404,176 thousand or RUB 24.64 per ordinary share/GDR (US Dollar equivalent of USD$ 135,401 thousand).

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group, recommends a payment of dividend for the year 2017 total dividend in the amount of 44.85 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,016,530 thousand, including final dividend for 2017 in the amount of RUB 4,155,726 thousand or RUB 23.25 per ordinary share/GDR and a special final dividend in the amount of RUB 3,860,804 thousand or RUB 21.60 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to the approval of the shareholders at the Annual General Meeting on 23 April 2018.

During the years ended 31 December 2017 and 31 December 2016, the Company declared and paid as detailed in the table below.

	2017 RUB'000	2016 RUB'000
Dividends declared	**15,014,237**	2,218,175
Dividends paid	**15,014,237**	2,218,175

13. Property, plant and equipment

	Motor vehicles RUB'000	Total RUB'000
At 1 January 2016		
Cost	11,470	11,470
Accumulated depreciation	(2,400)	(2,400)
Net book amount	**9,070**	**9,070**
Year ended 31 December 2016		
Depreciation charge (Note 7)	(2,301)	(2,301)
Closing net book amount	**6,769**	**6,769**
At 31 December 2016/1 January 2017		
Cost	11,470	11,470
Accumulated depreciation	(4,701)	(4,701)
Net book amount	**6,769**	**6,769**
Year ended 31 December 2017		
Depreciation charge (Note 7)	(2,301)	(2,301)
Closing net book amount	**4,468**	**4,468**
At 31 December 2017		
Cost	11,470	11,470
Accumulated depreciation	(7,002)	(7,002)
Net book amount	**4,468**	**4,468**

14. Investments in subsidiary undertakings

	2017 RUB'000	2016 RUB'000
At beginning of year	**45,252,722**	45,240,258
Contribution into the capital of subsidiary	**–**	12,464
At end of year	**45,252,722**	45,252,722

14. Investments in subsidiary undertakings continued

Details of the direct and indirect investments in the subsidiary undertakings are as follows:

Name	Country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non-controlling interest (%)	
			2017	2016	2017	2016	2017	2016
New Forwarding Company, AO	Russia	Railway transportation	100	100	100	100	–	–
GTI Management, OOO	Russia	Railway transportation	100	100	100	100	–	–
Ural Wagonrepair Company, AO	Russia	Repair and maintenance of rolling stock	100	100	100	100	–	–
Ukrainian New Forwarding Company, OOO	Ukraine	Railway transportation	100	100	100	100	–	–
BaltTransServis, OOO	Russia	Railway transportation	60	60	60	60	40	40
RemTransServis, OOO[1]	Russia	Repair and maintenance of rolling stock	–	–	59.4	59.4	40.6	40.6
SyntezRail LLC[3]	Russia	Railway transportation	–	–	60	60	40	40
SyntezRail Ltd	Cyprus	Intermediary holding company	60	60	60	60	40	40
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	65.25	65.25	65.25	65.25	34.75	34.75
Ekolinja Oy[2]	Finland	Operating sub-lease of rolling stock	–	–	65.25	65.25	34.75	34.75
Spacecom Trans AS	Estonia	Operating lease of rolling stock	65	65	65	65	35	35

1 RemTransServis, OOO is a 99% subsidiary of BaltTransServis, OOO.
2 Ekolinja Oy is a 100% subsidiary of Spacecom AS.
3 SyntezRail LLC is a 100% subsidiary of SyntezRail Ltd.

Acquisition of subsidiary during the year 2016

During the year ended 31 December 2016, the Company subscribed to newly-issued share capital of BaltTransServis, OOO for an amount of RUB 12,464 thousand. There was no change in the proportion of the ordinary shares held by the Company in the subsidiary as a result of this acquisition of shares.

The following amounts are included in the statement of cash flows in relation to acquisitions of subsidiaries:

	2017 RUB'000	2016 RUB'000
Contribution to the share capital of BaltTransServis, OOO	**–**	(12,464)
Total cash outflow for the acquisition of subsidiaries	**–**	(12,464)

Impairment assessment of investments in subsidiaries

As of 31 December 2017 and 31 December 2016, management reviewed the Company's investments in subsidiaries for any indication of impairment. The analysis of impairment indicators as of 31 December 2017 and 31 December 2016 did not reveal any indicators of impairment for any of the Company's subsidiaries. Refer to Note 4 for more details.

15. Financial instruments by category

The accounting policies for financial instruments have been applied in the line items below:

31 December 2016	Loans and receivables RUB'000	**Total RUB'000**
Financial assets as per balance sheet		
Loans and other receivables[4]	1,442,782	**1,442,782**
Cash and cash equivalents	314,677	**314,677**
Total assets	1,757,459	**1,757,459**

	Financial liabilities measured at amortised cost RUB'000	**Total RUB'000**
Financial liabilities as per balance sheet		
Payables and accrued expenses	16,050	**16,050**
Borrowings	755,703	**755,703**
Total liabilities	771,753	**771,753**

31 December 2017	Loans and receivables RUB'000	**Total RUB'000**
Financial assets as per balance sheet		
Loans and other receivables[5]	611,714	**611,714**
Cash and cash equivalents	422,081	**422,081**
Total assets	1,033,795	**1,033,795**

	Financial liabilities measured at amortised cost RUB'000	**Total RUB'000**
Financial liabilities as per balance sheet		
Payables and accrued expenses	11,218	**11,218**
Borrowings	5,025,756	**5,025,756**
Total liabilities	5,036,974	**5,036,974**

4 Loans and other receivables do not include taxes and prepayments.
5 Payables and accrued expenses exclude statutory liabilities.

16. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating if available or to historical information about counterparty default rates:

	2017 RUB'000	2016 RUB'000
Counterparties without external credit rating		
Group 1	**–**	739,988
	–	739,988

Cash at bank and short-term bank deposits	Rating	**2017 RUB'000**	2016 RUB'000
Agency			
Moody's*	Aa3	**90,993**	60,682
Moody's*	A3	**328,783**	–
Moody's*	Baa2	**–**	251,809
Moody's*	Ba2	**499**	562
Moody's*	Caa1	**1,806**	1,624
Total cash at bank and short-term bank deposits		**422,081**	314,677

* International rating agency Moody's Investors Service.

Group 1 – Related party loans with no default in the past.

17. Loans and other receivables

	2017 RUB'000	2016 RUB'000
Loans to related parties	**2,870,327**	3,932,482
Less: Provision for impairment of loans to related parties	**(2,258,613)**	(2,489,700)
Loans to related parties – net (Note 22)	**611,714**	1,442,782
Prepayments – third parties	**1,555**	1,204
Total loans and other receivables	**613,269**	1,443,986
Less non-current portion:		
Loans to related parties (Note 22)	**407,186**	1,199,771
Non-current portion of loans to related parties – net (Note 22)	**407,186**	1,199,771
Total non-current portion	**407,186**	1,199,771
Current portion	**206,083**	244,215

The weighted average contractual interest rate on loans receivable from related parties was 6.90% at 31 December 2017 (31 December 2016: 8.6%). The weighted average effective interest rate on loans receivables from related parties was 12.60% (2016: 11.54%) at the 31 December 2017.

The fair values of non-current loans are as follows:

	2017 RUB'000	2016 RUB'000
Financial assets		
Loans to related parties	**407,186**	1,199,771
Total financial assets	**407,186**	1,199,771

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

As at 31 December 2017, the fair values of US Dollar-denominated loans to related parties are based on cash flows discounted using a rate 8% (31 December 2016: 8%). The discount rate used for Russian Rouble-denominated loans to related parties as at 31 December 2017 was 17.7% (31 December 2016: 10% and 17.9%). The fair values as of 31 December 2017 were found to approximate their carrying amounts. The fair value measurements of loans to related parties as at 31 December 2017 and 31 December 2016 are within Level 3 of the fair value hierarchy.

The table below summarises the analysis of loans and other receivables under contractual terms of settlement at the balance sheet date for the year ended 31 December 2017 and 31 December 2016:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	Total RUB'000
As of 31 December 2017					
Loans receivable	–	–	2,870,327	(2,258,613)	**611,714**
Other receivables	–	–	–	–	**–**
	–	**–**	**2,870,327**	**(2,258,613)**	**611,714**
As of 31 December 2016					
Loans receivable	739,988	–	3,192,494	(2,489,700)	**1,442,782**
Other receivables	–	–	–	–	**–**
	739,988	**–**	**3,192,494**	**(2,489,700)**	**1,442,782**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Company does not hold any collateral as security for any receivables.

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

	2017			2016		
	Loans receivable RUB'000	Other receivables RUB'000	Total RUB'000	Loans receivable RUB'000	Other receivables RUB'000	Total RUB'000
At 1 January	2,489,700	–	2,489,700	3,021,578	–	3,021,578
Reversal of provision for receivables impairment	(120,960)	–	(120,960)	(84,920)	–	(84,920)
Foreign exchange difference	(110,127)	–	(110,127)	(446,958)	–	(446,958)
At 31 December	**2,258,613**	**–**	**2,258,613**	**2,489,700**	**–**	**2,489,700**

The creation and release of provision for impaired receivables have been included on the face of the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(1) Impairment assessment of loans receivable from subsidiaries as of 31 December 2017 and 31 December 2016
At 31 December 2016 the Company reviewed its loans receivable from subsidiaries for any indication of impairment. The analysis of impairment indicators as of 31 December 2016 revealed indicators for impairment/reversal of impairment with respect to the loans to Ural Wagonrepair Company, ZAO and Ukrainian New Forwarding Company, OOO. Based on the impairment testing performed, no impairment loss or reversal of impairment was identified, other than the amounts already recognised in the financial statements. Refer to Note 4 for more information in this respect.

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

	2017 RUB'000	2016 RUB'000
US Dollars	**321,624**	329,383
Russian Roubles	**291,090**	1,113,863
Euro	**555**	740
Other	**–**	–
Total loans and other receivables	**613,269**	1,443,986

18. Cash and cash equivalents

	2017 RUB'000	2016 RUB'000
Cash at bank	**422,081**	314,677
Total cash and cash equivalents	**422,081**	314,677

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

	2017 RUB'000	2016 RUB'000
Cash and cash equivalents	**422,081**	314,677
	422,081	314,677

Cash and cash equivalents are denominated in the following currencies:

	2017 RUB'000	2016 RUB'000
US Dollars	**241,599**	309,825
Russian Roubles	**177,096**	1,603
Euro	**3,386**	3,249
Total cash and cash equivalents	**422,081**	314,677

19. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2016/31 December 2016/ 1 January 2017/31 December 2017	**178,740,916**	**17,875**	**949,471**	**967,346**

	Number of shares	Share capital RUB'000	Share premium RUB'000	Total RUB'000
At 1 January 2016/31 December 2016/ 1 January 2017/31 December 2017	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2017 was 233,918,128 shares with a par value of USD0.10 per share (31 December 2016: 233,918,128 shares with a par value of USD0.10 per share). All issued shares are fully paid.

20. Borrowings

	2017 RUB'000	2016 RUB'000
Current		
Bank borrowings	**2,534,089**	–
Loans from related parties (Note 22)	**–**	3,703
Total current borrowings	**2,534,089**	3,703
Non-current		
Bank borrowings	**2,491,667**	–
Loans from related parties (Note 22)	**–**	752,000
Total non-current borrowings	**2,491,667**	752,000
Total borrowings	**5,025,756**	755,703
Maturity of non-current borrowings		
Between 1 and 2 years	**2,491,667**	752,000
	2,491,667	752,000

As at 31 December 2016, Rouble-denominated loans advanced from related parties bear fixed average interest at 10.35% p.a. As at 31 December 2017, Rouble-denominated bank borrowings bear fixed average interest at 8.35% p.a. There were no US Dollar-denominated borrowings as at 31 December 2017 and 31 December 2016.

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

	2017 RUB'000	2016 RUB'000
6 months or less	**1,290,339**	–
6 to 12 months	**1,243,750**	3,703
1 to 5 years	**2,491,667**	752,000
	5,025,756	755,703

Note: The amounts disclosed are based on the earliest of the contractual re-pricing dates and the maturity date.

All of the loans were unsecured as of 31 December 2017 and 31 December 2016. In accordance with the terms of its bank borrowings, the Company had a commitment to pledge rolling stock held by its subsidiary New Forwarding Company, OOO with a market value of not less than RUB 6,000,000 thousand within six months from the date of the bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018.

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

	2017 %	2016 %
Bank borrowings	**8.35**	–
Loans from related parties	**–**	10.35

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

	Carrying amount		Fair value	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Bank borrowings	**5,025,756**	–	**5,087,607**	–
Loans from related parties	**–**	755,703	**–**	760,312
	5,025,756	755,703	**5,087,607**	760,312

The fair value of borrowings and other liabilities were determined using valuation techniques.

As at 31 December 2017 and 31 December 2016, the fair value of fixed interest rate instruments with stated maturity denominated in Russian Roubles was estimated based on expected cash flows discounted using the rate of similar Russian Rouble-denominated instruments entered into by the subsidiaries of the Company on their bank borrowings close to 31 December 2017 and 31 December 2016, respectively. The discount rate used for Russian Rouble-denominated borrowings from related parties as at 31 December 2017 was a Level 3 discount rate of 8.00% (10.00% as at 31 December 2016).

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

	2017 RUB'000	2016 RUB'000
Russian Roubles	**5,025,756**	755,703
Total borrowings	**5,025,756**	755,703

Reconciliation of liabilities arising from financing activities:

	Bank borrowings RUB'000	Loans from related parties RUB'000	Total liabilities from financing activities RUB'000
Opening Balance 1 January 2017	–	755,703	755,703
Cash flows:			
Proceeds from borrowings	5,000,000	610,798	5,610,798
Repayment of principal	–	(1,362,797)	(1,362,797)
Interest paid	(139,459)	(47,649)	(187,108)
Interest expense	165,215	43,945	209,160
At end of year	5,025,756	–	5,025,756

21. Payables and accrued expenses

	2017 RUB'000	2016 RUB'000
Current		
Accrued key management personnel compensation (Note 22)	**56,427**	–
Accrued expenses	**9,834**	9,568
Other payables to third parties	**1,384**	6,482
Total current trade and other payables	**67,645**	16,050

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

21. Payables and accrued expenses continued

The carrying amounts of the Company's payables and accrued expenses are denominated in the following currencies:

	2017 RUB'000	2016 RUB'000
Euro	**67,645**	16,050
Total payables and accrued expenses	**67,645**	16,050

22. Related party transactions

Marigold Investments, Onyx Investments and Maple Valley Investments, are Company's shareholders with a direct shareholding as at 31 December 2016 and as at 31 December 2017 of 11.5%, 11.5% and 11.2%, accordingly (2016: 11.5% each).

As of 31 December 2017 and 31 December 2016, Litten Investments Limited, controlled by a member of key management of the Company has a shareholding in the Company of 6.3%.

As at 31 December 2017, 59.4% (2016: 59%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company. The remaining 0.1% (2016: 0.2%) of the shares of the Company are controlled by Directors and key management of the Company.

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) Loans to related parties

	2017 RUB'000	2016 RUB'000
Loans to subsidiaries:		
At beginning of year	**1,442,782**	1,539,859
Loan advances	**650,000**	–
Interest charged (Note 5)	**106,338**	139,927
Loan repaid during the year	**(1,564,249)**	(258,679)
Interest repaid during the year	**(129,173)**	(6,216)
Reversal of provision for impairment charge	**120,960**	84,920
Net foreign exchange	**(14,943)**	(57,029)
At end of year	**611,714**	1,442,782

	2017 RUB'000	2016 RUB'000
Consists of:		
Non-current portion	**407,186**	1,199,771
Current portion	**204,528**	243,011
At end of year	**611,714**	1,442,782

Loans to related parties – gross amount	**2,870,327**	3,932,484
Less: Provision for impairment of loans to related parties	**(2,258,613)**	(2,489,700)
Loans to related parties – net	**611,714**	1,442,782

The balances at the 31 December 2017 carry a weighted average contractual interest rate of 6.9% (2016: 8.6%) per annum. The weighted average effective interest rate at the 31 December 2017 was 12.60% (2016: 11.54%).

(b) Loans from related parties

	2017 RUB'000	2016 RUB'000
Loans from subsidiaries:		
At beginning of year	**755,703**	1,412,906
Loans advanced during the year	**610,798**	–
Interest charged (Note 9)	**43,945**	105,428
Interest repaid during the year	**(47,649)**	(108,503)
Loan repaid during the year	**(1,362,797)**	(654,128)
At end of year	**–**	755,703
Consists of:		
Non-current portion	**–**	752,000
Current portion	**–**	3,703
At end of year	**–**	755,703

As at 31 December 2016 loans from subsidiaries carried a weighted average interest rate of 10.35%.

(c) Dividend income from related parties

	2017 RUB'000	2016 RUB'000
Dividend income from related parties:		
Subsidiaries	**10,700,007**	3,026,561
Total	**10,700,007**	3,026,561

(d) Interest income and finance costs

	2017 RUB'000	2016 RUB'000
Interest income:		
Subsidiaries	**106,338**	139,927
Total interest income	**106,338**	139,927
Interest expense:		
Subsidiaries – borrowings	**(43,945)**	(105,428)
Total interest expense	**(43,945)**	(105,428)
Total finance income/(costs)	**62,393**	34,499

(e) Directors' remuneration

	2017 RUB'000	2016 RUB'000
Directors' fees (Note 7)	**20,950**	23,095
Emoluments in their executive capacity	**24,425**	27,560
Total Directors' remuneration	**45,375**	50,655

(f) Guarantees in favour of subsidiaries

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following obligations:

	2017 RUB'000	2016 RUB'000
Subsidiaries[1]	**4,361,787**	11,735,442
Total guaranteed obligations	**4,361,787**	11,735,442

1 Represents the maximum amount of obligation under each contract, being the contractual undiscounted cash flows under the loan agreements as at 31 December 2017 and 2016.

22. Related party transactions continued

(f) Guarantees in favour of subsidiaries continued

During the years ended 31 December 2017 and 31 December 2016 the Company has acted as the guarantor for the obligation of its subsidiaries for loan agreements entered into with financial institutions and third parties. The fair values of such guarantees are amortised through the income statement. As at 31 December 2017 and 31 December 2016 there were no financial guarantees recognised by the Company.

The fair values on initial recognition of guarantees issued by the Company for unsecured obligations of its subsidiaries in accordance with loan agreements with financial institutions were estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries, and loss given default, as estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the guarantees, since, in case of default, the Company will be able to recover its losses under the issued guarantee from the respective subsidiaries.

The fair values on initial recognition of the financial guarantees issued by the Company for the obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary have been estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

(g) Impairment losses

	2017 RUB'000	2016 RUB'000
Reversal of impairment/impairment loss of loans to subsidiaries – net (Notes 4 and 17)	**120,960**	84,920

(h) Key management personnel compensation

	2017 RUB'000	2016 RUB'000
Key management salaries and other short-term employee benefits[1]	**135,893**	50,655
	135,893	50,655

1 "key management salaries and other short-term employee benefits" include Directors' remuneration amounting to RUB 45,735 thousand (2016: RUB 50,655 thousand).

(i) Year-end balances arising from purchases of services

	2017 RUB'000	2016 RUB'000
Accrued key management remuneration (Note 21):		
Accrued salaries and other short-term employee benefits	**56,427**	–
	56,427	–

23. Contingencies

Operating environment of the Company

The Company's subsidiaries operate in the Russian Federation, Estonia, Ukraine and Finland.

Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Tax contingencies
Cypriot tax legislation is subject to varying interpretations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company is incorporated outside Russia. Tax liabilities of the Company are determined on the assumption that it is not subject to Russian profits tax because it does not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the equity interest held directly and indirectly in its subsidiaries. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Company.

Estonia and Finland
Estonia and Finland represent well-developed markets and economies with stable political systems and developed legislation based on EU requirements and regulations.

Ukraine
The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of state finances, volatility of financial markets, illiquidity on capital markets, higher inflation and depreciation of the national currency against major foreign currencies has continued in both 2016 and 2017, though to a much lesser extent as compared to 2014 and 2015.

The year over year inflation rate in Ukraine has slightly decreased to 12.2% during the first half of 2017 (as compared to 12.4% in 2016) while GDP continued to grow at 2% (after 9% decline in 2015).

As at 31 December 2017, the official exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH 28.10 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016. In 2017, there has been a further easing of currency control restrictions that were introduced in 2014–15. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 50% starting from 4 April 2017 and the settlement period for export-import transactions in foreign currency was increased from 90 to 180 days starting from 26 May 2017. In addition, starting from 13 June 2016 Ukrainian companies are permitted to pay dividends to non-residents with a limit of USD 5 million per month.

The IMF has continued to support the Ukrainian government under the four-year Extended Fund Facility (EFF) Programme approved in March 2015, providing the fourth tranche of approximately USD 1 billion in April 2017. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other factors.

Despite certain improvements in 2016 and 2017, the final resolution and the ongoing effects of the political and economic situation are difficult to predict, but they may have further severe effects on the Ukrainian economy and the Company's business.

24. Events after the balance sheet date
In March 2018, the Company early repaid its bank borrowings with a carrying amount of RUB 5,025,756 as of 31 December 2017.

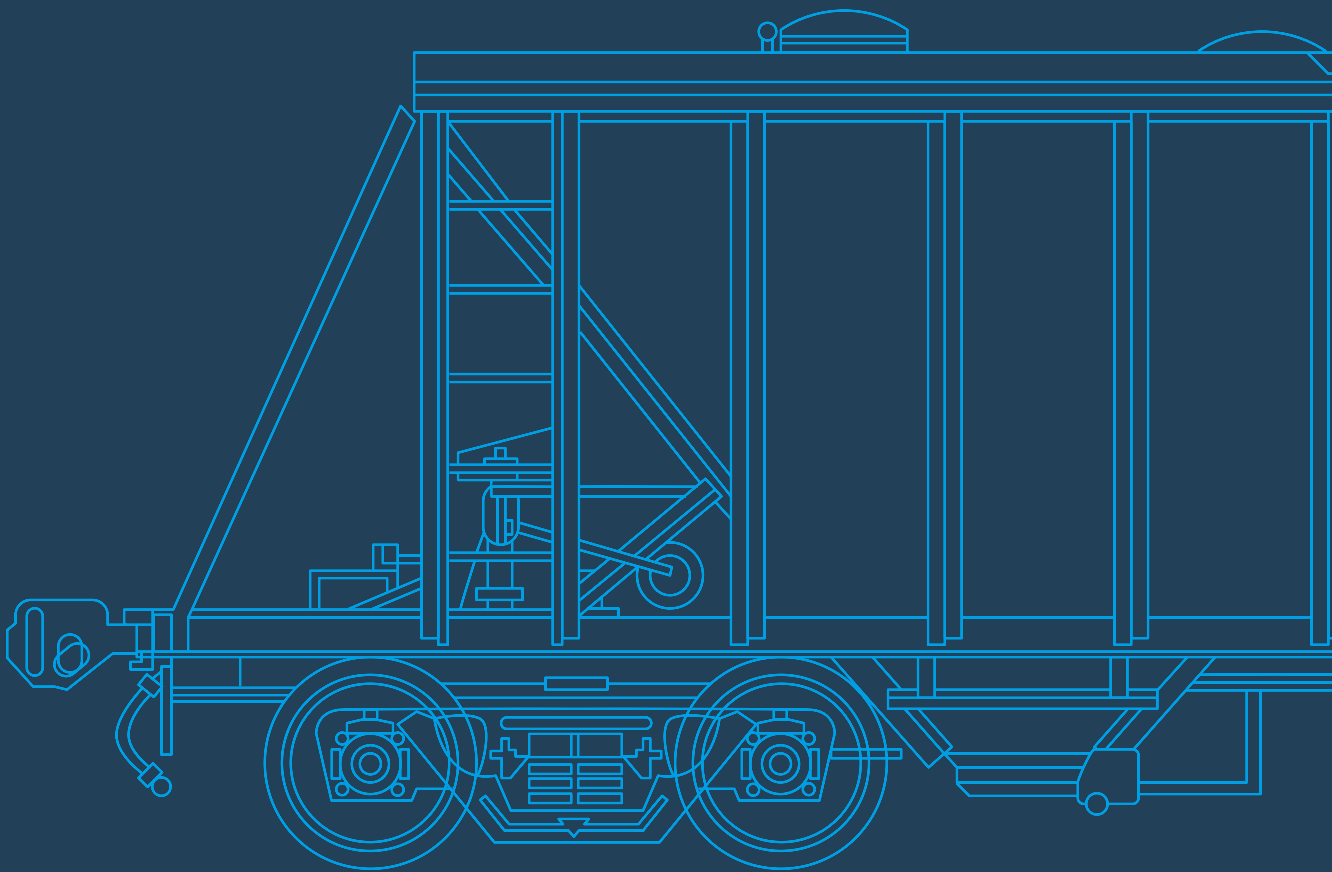
On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group, recommends a payment of dividend for the year 2017 total dividend in the amount of 44.85 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,016,530 thousand, including final dividend for 2017 in the amount of RUB 4,155,726 thousand or RUB 23.25 per ordinary share/GDR and a special final dividend in the amount of RUB 3,860,804 thousand or RUB 21.60 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to the approval of the shareholders at the Annual General Meeting on 23 April 2018.

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

Independent Auditor's Report on pages 159 to 162.

OTHER RAIL CARS

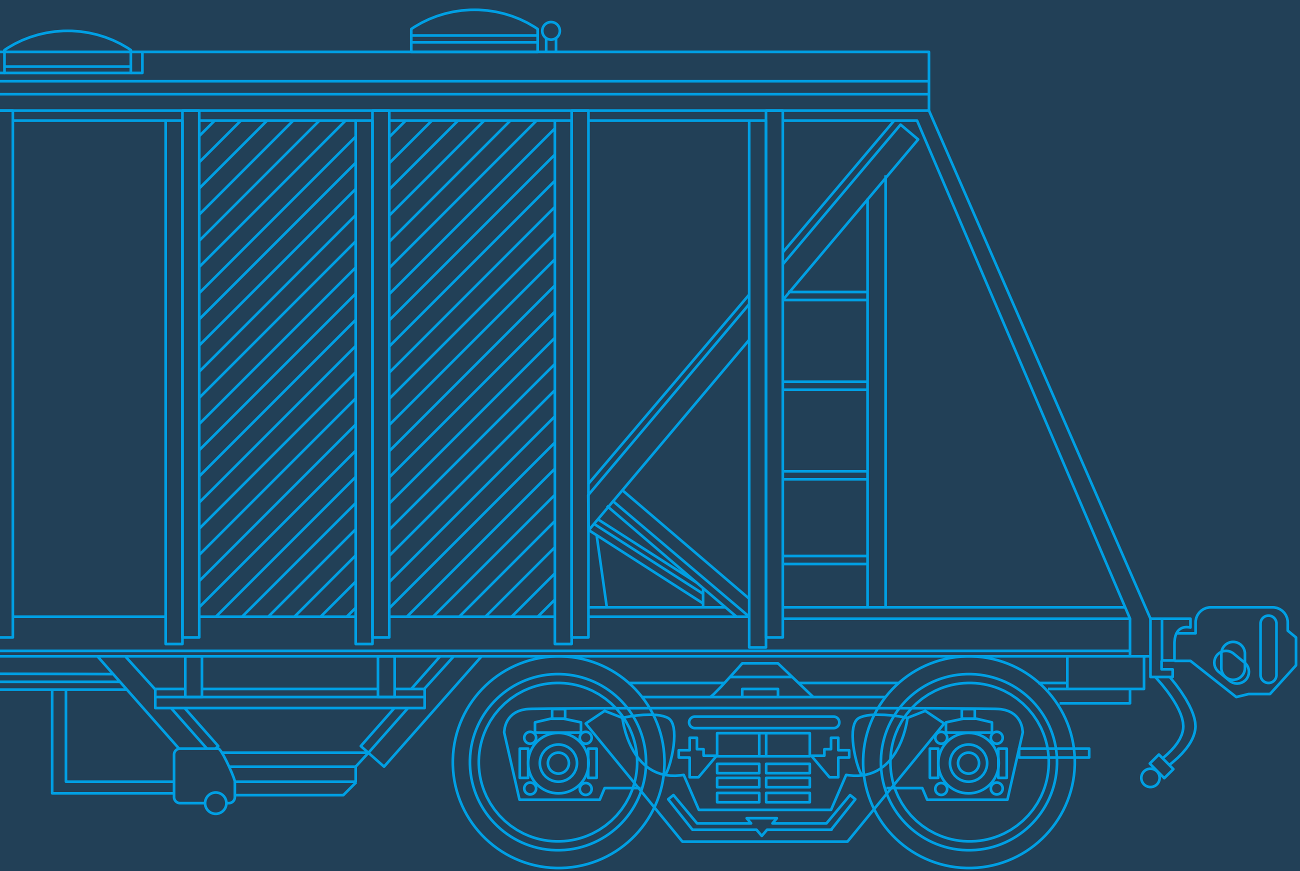
Globaltrans' other railcars include flatcars and hopper cars.



1,262 units

2% of Total Fleet

ADDITIONAL INFORMATION



Selected Operational Information

For the year ended 31 December 2017

Fleet (including rolling stock and tank containers)

	31/12/2017	31/12/2016	Change	Change, %
Owned Fleet				
Gondola cars	**41,282**	40,702	580	1%
Rail tank cars	**18,133**	18,387	(254)	-1%
Locomotives	**69**	75	(6)	-8%
Other railcars (including flat, hopper cars, etc.)	**510**	982	(472)	-48%
Petrochemical tank containers	**1,256**	700	556	79%
Total	**61,250**	**60,846**	**404**	**1%**
Owned Fleet as % of Total Fleet	92%	89%	–	–
Leased-in Fleet				
Gondola cars	**2,321**	2,574	(253)	-10%
Rail tank cars	**1,989**	4,088	(2,099)	-51%
Locomotives	**0**	0	0	n/a
Other railcars	**752**	623	129	21%
Petrochemical tank containers	**380**	380	0	0%
Total	**5,442**	**7,665**	**(2,223)**	**-29%**
Leased-in Fleet as % of Total Fleet	8%	11%	–	–
Total Fleet (Owned Fleet and Leased-in Fleet)				
Gondola cars	**43,603**	43,276	327	1%
Rail tank cars	**20,122**	22,475	(2,353)	-10%
Locomotives	**69**	75	(6)	-8%
Other railcars (including flat, hopper cars, etc.)	**1,262**	1,605	(343)	-21%
Petrochemical tank containers	**1,636**	1,080	556	51%
Total	**66,692**	**68,511**	**(1,819)**	**-3%**
Total Fleet by type, %				
Gondola cars	**65%**	63%	–	–
Rail tank cars	**30%**	33%	–	–
Locomotives	**0%**	0%	–	–
Other railcars (including flat, hopper cars, etc.)	**2%**	2%	–	–
Petrochemical tank containers	**2%**	2%	–	–
Total	**100%**	**100%**	**–**	**–**
Average age of Owned Fleet				
Gondola cars	**9.9**	8.9	–	–
Rail tank cars	**14.3**	13.3	–	–
Locomotives	**13.7**	14.8	–	–
Other railcars	**24.1**	18.7	–	–
Petrochemical tank containers	**1.2**	1.0	–	–
Total	**11.1**	**10.3**	**–**	**–**

Operation of rolling stock (excluding Engaged Fleet)[1]

	2017	2016	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**87.8**	**91.4**	**(3.6)**	**-4%**
Ferrous metals	**33.4**	36.5	(3.1)	-8%
Scrap metal	**4.1**	4.5	(0.4)	-8%
Iron ore	**50.2**	50.4	(0.2)	0%
Oil products and oil	**20.5**	**22.6**	**(2.1)**	**-9%**
Coal (including coke)	**34.3**	**27.5**	**6.9**	**25%**
Construction materials	**8.0**	**10.4**	**(2.4)**	**-23%**
Crushed stone	**6.6**	9.1	(2.5)	-27%
Cement	**0.3**	0.5	(0.2)	-35%
Other construction materials	**1.1**	0.8	0.2	27%
Other	**9.4**	**8.8**	**0.6**	**6%**
Total	**160.1**	**160.7**	**(0.7)**	**0%**

Freight Rail Turnover by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	**55%**	57%	–	–
Oil products and oil	**13%**	14%	–	–
Coal (including coke)	**21%**	17%	–	–
Construction materials (including cement)	**5%**	6%	–	–
Other	**6%**	5%	–	–
Total	**100%**	**100%**	**–**	**–**

Transportation Volume, million tonnes				
Metallurgical cargoes	**45.5**	**42.8**	**2.7**	**6%**
Ferrous metals	**16.1**	16.2	(0.1)	0%
Scrap metal	**3.5**	3.8	(0.4)	-9%
Iron ore	**25.9**	22.8	3.1	14%
Oil products and oil	**20.2**	**20.8**	**(0.6)**	**-3%**
Coal (including coke)	**10.4**	**10.0**	**0.4**	**4%**
Construction materials	**9.1**	**12.0**	**(2.9)**	**-24%**
Crushed stone	**8.2**	10.9	(2.7)	-25%
Cement	**0.2**	0.5	(0.2)	-46%
Other construction materials	**0.7**	0.7	0.0	-1%
Other	**6.6**	**6.9**	**(0.3)**	**-4%**
Total	**91.9**	**92.6**	**(0.7)**	**-1%**

1 Excluding operational and financial information of petrochemical tank container business segment. The revenue from this segment is included in "Other" revenue in EU IFRS statements.

Selected Operational Information continued
For the year ended 31 December 2017

Operation of rolling stock (excluding Engaged Fleet)[1]

	2017	2016	Change	Change, %
Average Rolling Stock Operated, units				
Gondola cars	**42,052**	41,824	228	1%
Rail tank cars	**10,961**	12,593	(1,631)	-13%
Locomotives	**48**	46	2	4%
Other railcars	**523**	715	(192)	-27%
Total	**53,584**	**55,178**	**(1,594)**	**-3%**
Average Number of Loaded Trips per Railcar				
Gondola cars	**25.1**	25.2	(0.1)	-1%
Rail tank cars	**30.9**	27.5	3.3	12%
Other railcars	**69.0**	55.1	13.9	25%
Total	**26.7**	**26.1**	**0.5**	**2%**
Average Distance of Loaded Trip, km				
Gondola cars	**1,985**	1,970	15	1%
Rail tank cars	**997**	1,069	(72)	-7%
Other railcars	**808**	914	(106)	-12%
Total	**1,720**	**1,723**	**(3)**	**0%**
Average Price per Trip, RUB	**34,790**	**28,975**	**5,815**	**20%**
Net Revenue from Operation of Rolling Stock by cargo type, RUB million				
Metallurgical cargoes	**18,753***	**13,787***	**4,966**	**36%**
Ferrous metals	**8,789***	7,451*	1,338	18%
Scrap metal	**1,503***	1,068*	435	41%
Iron ore	**8,460***	5,268*	3,192	61%
Oil products and oil	**17,124***	**18,684***	**(1,561)**	**-8%**
Coal (including coke)	**7,551***	**4,061***	**3,490**	**86%**
Construction materials (including cement)	**3,176***	**2,951***	**225**	**8%**
Other	**3,105***	**2,274***	**831**	**37%**
Total	**49,709***	**41,757***	**7,952**	**19%**

1 Excluding operational and financial information of petrochemical tank container business segment. The revenue from this segment is included in "Other" revenue in EU IFRS statements.

	2017	2016	Change	Change, %
Net Revenue from Operation of Rolling Stock by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	**38%**	33%	–	–
Oil products and oil	**34%**	45%	–	–
Coal (including coke)	**15%**	10%	–	–
Construction materials (including cement)	**6%**	7%	–	–
Other	**6%**	5%	–	–
Total	**100%**	**100%**	**–**	**–**

	2017	2016	Change	Change, %
Net Revenue from Operation of Rolling Stock by largest clients (including their affiliates and suppliers), %				
Rosneft	**25%**	34%	–	–
Metalloinvest	**15%**	13%	–	–
MMK	**15%**	14%	–	–
Gazpromneft	**7%**	8%	–	–
Evraz	**5%**	5%	–	–
TMK	**2%**	1%	–	–
Severstal	**1%**	1%	–	–
UGMK–Trans	**2%**	2%	–	–
SDS–Ugol	**2%**	0%	–	–
ChelPipe	**1%**	1%	–	–
Other (including small and medium enterprises)	**26%**	21%	–	–

	2017	2016	Change	Change, %
Empty Run Ratio, %				
Gondola cars	**37%**	38%	–	–
Rail tank cars and other railcars	**95%**	99%	–	–
Total Empty Run Ratio, %	**45%**	**48%**	**–**	**–**
Empty Run Costs, RUB million	**12,154***	**12,428***	**(274)**	**-2%**
Share of Empty Run Kilometres Paid by Globaltrans, %	**86%**	**88%**	**–**	**–**

Selected Operational Information continued
For the year ended 31 December 2017

Operation of rolling stock (including Engaged Fleet)[1]

	2017	2016	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**103.6**	**109.8**	**(6.2)**	**-6%**
Ferrous metals	**36.8**	41.4	(4.7)	-11%
Scrap metal	**4.1**	4.7	(0.5)	-11%
Iron ore	**62.7**	63.7	(1.0)	-2%
Oil products and oil	**20.7**	**22.8**	**(2.1)**	**-9%**
Coal (including coke)	**36.4**	**29.7**	**6.6**	**22%**
Construction materials	**8.0**	**10.7**	**(2.6)**	**-25%**
Crushed stone	**6.6**	9.3	(2.7)	-29%
Cement	**0.3**	0.5	(0.2)	-36%
Other construction materials	**1.1**	0.8	0.2	26%
Other	**9.5**	**9.0**	**0.4**	**5%**
Total	**178.2**	**182.0**	**(3.8)**	**-2%**

Transportation Volume, million tonnes				
Metallurgical cargoes	**53.2**	**51.8**	**1.5**	**3%**
Ferrous metals	**17.9**	18.8	(0.9)	-5%
Scrap metal	**3.5**	4.0	(0.4)	-11%
Iron ore	**31.8**	29.1	2.8	10%
Oil products and oil	**20.5**	**21.1**	**(0.6)**	**-3%**
Coal (including coke)	**11.4**	**11.0**	**0.4**	**4%**
Construction materials	**9.2**	**12.3**	**(3.1)**	**-25%**
Crushed stone	**8.3**	11.1	(2.8)	-26%
Cement	**0.2**	0.5	(0.2)	-47%
Other construction materials	**0.7**	0.7	0.0	-2%
Other	**6.8**	**7.2**	**(0.4)**	**-6%**
Total	**101.1**	**103.3**	**(2.2)**	**-2%**

1 Excluding operational and financial information of petrochemical tank container business segment. The revenue from this segment is included in "Other" revenue in EU IFRS statements.

Engaged Fleet

	2017	2016	Change	Change, %
Net Revenue from Engaged Fleet, RUB million	**173***	**199***	**(26)**	**-13%**

Operating leasing of rolling stock[1]

	31/12/2017	31/12/2016	Change	Change, %
Leased-out Fleet				
Gondola cars	**353**	298	55	18%
Rail tank cars	**8,631**	9,447	(816)	-9%
Locomotives	**0**	4	(4)	-100%
Other railcars (including flat, hopper cars, etc.)	**96**	473	(377)	-80%
Total	**9,080**	10,222	(1,142)	-11%
Leased-out Fleet as % of Total Fleet	14%	15%	–	–

Employees

	31/12/2017	31/12/2016	Change	Change, %
Total	**1,594**	**1,552**	**42**	**3%**

Ownership

Share capital

The issued share capital of Globaltrans consists of 178,740,916 ordinary shares with a nominal value of USD 0.10 each, a certain portion of which is held in the form of GDRs. The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The free float of Globaltrans amounts to approximately 54.8%[1] of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of Globaltrans.

Shareholder structure

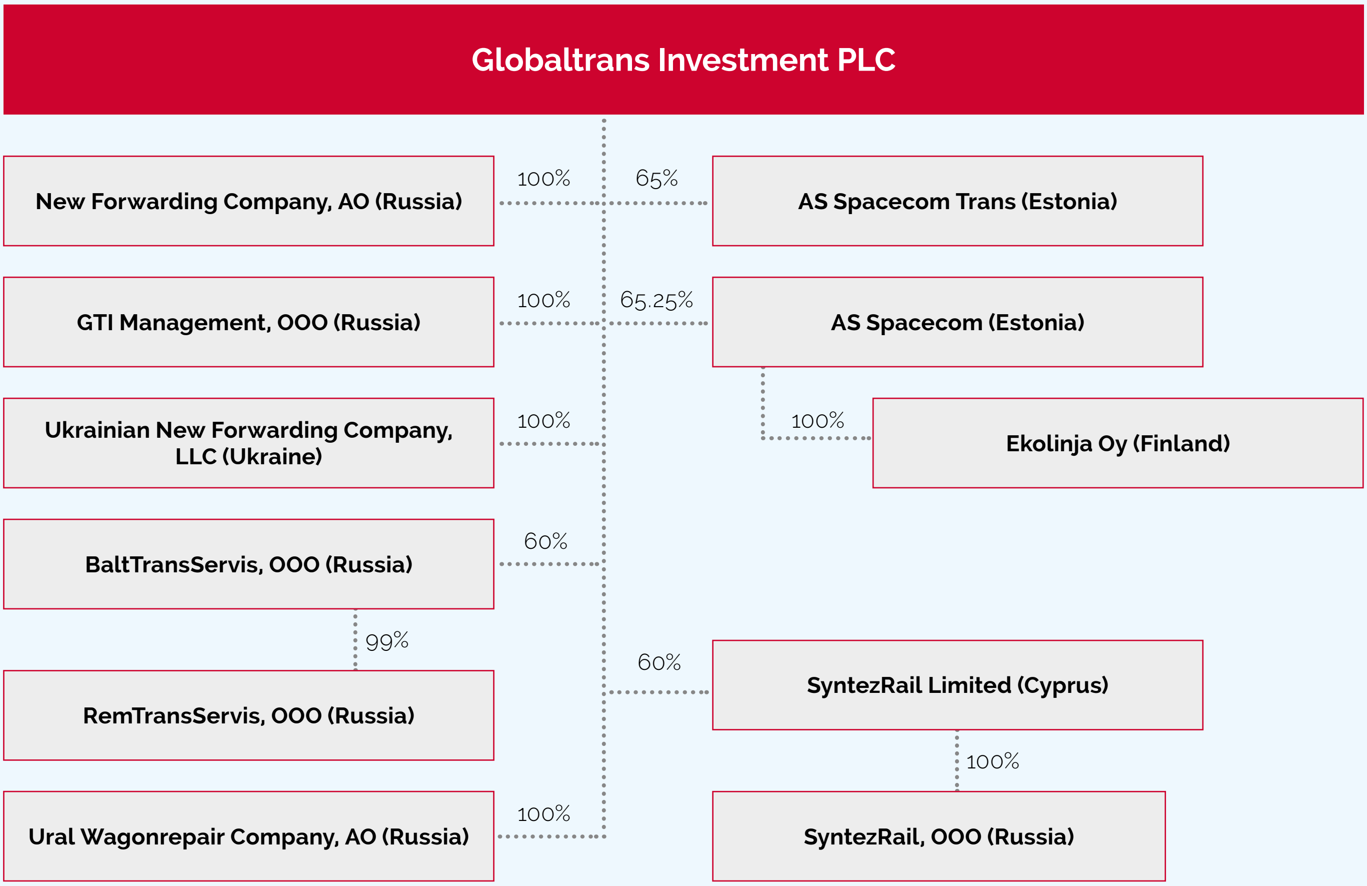
Maple Valley Investments Ltd[2]	11.2%
Onyx Investments Ltd[2]	11.5%
Marigold Investments Ltd[2]	11.5%
Litten Investments Limited[3]	6.3%
Goldriver Resources Limited[4]	4.6%
Controlled by Directors and management of Globaltrans	0.1%
Free float[1]	54.8%

The information above is based upon notifications and other information received by the Company with respect to beneficial ownership as of 3 April 2018.

1 For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.
2 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov co-founders of Globaltrans and are beneficiaries with regard to 11.2%, 11.5% and 11.5%, respectively, of Globaltrans' ordinary share through their respective SPVs (Maple Valley Investments Ltd, Onyx Investments Ltd and Marigold Investments Ltd).
3 Beneficially owned by Alexander Eliseev, Executive Director and co-founder of Globaltrans.
4 Beneficially owned by Sergey Maltsev, Chief Strategy Officer and co-founder of Globaltrans.

Corporate Structure

Globaltrans' corporate structure[5] ensures efficient asset management and operational control, while creating logical business segments. Since its creation, the Group has sought to streamline its structure to optimise management and ensure transparency. Today, Globaltrans is a well-honed business and recognised as adhering to the highest corporate standards, as evidenced by the listing on the London Stock Exchange.



5 The Group's corporate structure as of the end of 2017.

Dividend Policy
As approved by the Board of Directors on 31 March 2017

1. Introduction

1.1. This Dividend Policy (hereinafter the Dividend Policy) of Globaltrans Investment PLC (hereinafter GLTR or the Company) is designed to provide the Company's shareholders an opportunity to participate in the Company's profits and free cash flow and sets out the guiding principles to be followed by the Board of Directors of the Company (hereinafter the Board) when making recommendations to the shareholders or decisions, when applicable, on declaration and distribution of dividends.

1.2. When adopting the Dividend Policy, the Board expects that it will remain in force for an indefinite period of time. This Dividend Policy replaces the dividend policy adopted by the Board of Directors of the Company on 6 July 2012. The provisions of this Dividend Policy are subject to modification from time to time as the Board may deem appropriate, as a result of assessment of changes in the applicable laws and regulations, the Articles of Association of GLTR or as provided in clause 5.1 hereof.

1.3. This Dividend Policy outlines the basis upon which the Board will assess and make its recommendations to the shareholders with respect to, dividends on shares and the terms and methods of distribution of those dividends.

2. Main principles

2.1. Shareholders are entitled to receive dividends on their shares in the Company out of a portion of the Company's net profits and under this Dividend Policy with reference to the Attributable Free Cash Flow (as this term is defined in Annex 1 (Definitions) hereto) of the GLTR and its subsidiaries and associates (hereinafter the Group).

2.2. Dividends shall be allotted to the shareholders in proportion to the amount of GLTR shares owned by them.

2.3. The declaration and distribution of dividends on the shares are subject to the Cyprus Companies Law, Cap. 113 and the Articles of Association of GLTR.

2.4. The Company's dividend policy is based on a balance of long-term interests of the Group and its shareholders and respect for and strict observation of the shareholders' rights as provided by the applicable laws and regulations.

3. Amount of dividends. Decision on payment of dividends

3.1. Depending on the actual Leverage Ratio of GLTR as at the end of each financial year and subject to applicable laws and regulations, the Articles of Association of GLTR and clause 3.2 below, the Board will recommend the payment of dividends in the amounts of not less than the following proportions of Attributable Free Cash Flow of the Group for such financial year:

Leverage Ratio	Dividends, % of Attributable Free Cash Flow
Less 1.0x	Not less than 50%
From 1.0x to 2.0x	Not less than 30%
2.0x or higher	0% or more

3.2. The Board reserves the right to recommend to the GM the dividend in the amount calculated on a reasonable basis other than described in clause 3.1. above in its sole discretion. The factors that the Board should consider include but not limited to: (i) the Group's needs for business development and strategy implementation purposes; (ii) financial resources for business expansion; (ii) any adverse changes in regulatory, economic and market environment; (iii) the ability of the Company and its subsidiaries to meet their obligations as they fall due; (iv) the availability of distributable reserves at the Company's and subsidiaries level; and (v) other factors considered by the Board of Directors important in light of the current circumstances, including maintenance of the Company's credit ratings.

3.3. The decision to pay the final dividend and the amount of the total dividend in respect of each financial year shall be approved by the general meeting of shareholders (the "GM") upon the recommendation of the Board based on the audited stand-alone financial statements of the Company, the Company's retained earnings and the Consolidated Financial Statements of the Group for that financial year. The Board will recommend to the GM to approve the final dividend and the final decision regarding declaration or distribution of dividends, if any, shall be taken by the GM at its sole discretion.

3.4. The distribution of dividends shall take place at least once a year.

3.5. Interim dividends, if declared, are declared and approved at the discretion of the Board. When considering interim dividends, the Board will take into account the interim performance results based on the interim consolidated financial information provided by the management of the Group (semi-annual accounts) and prospects of the Group, its planned and committed capital expenditures, financial flexibility requirements, the availability and cost of funds from external sources, and other relevant matters.

3.6. The Company's dividends per one share shall be calculated according to the following formula:

D = Q/S

where D is the dividend to be paid by the Company per one share;
Q is the amount of dividends determined in accordance with clause 3.1; and
S is the quantity of shares issued by the Company.

3.7. The decision on payment (declaration) of dividends/interim dividends shall specify:
- the class of shares on which dividend is declared;
- the size of dividend corresponding to one share of a certain class;
- period of payment, which commences on the date of resolution to declare the dividends;
- form of payment; and
- dividend record day for owners of shares[1].

3.8. Dividends shall not be accrued and paid if shares are:
- un-issued (unplaced);
- held in treasury by the Company; and
- in other cases provided for by the applicable laws and regulations.

4. Payment of dividends

4.1. Only shareholders recorded as such in the register of member of GLTR as of the record date are entitled to receive dividends on shares issued by GLTR. The record date is the date of the declaration of dividends, unless otherwise determined by the Board.

4.2. GLTR is responsible for due and full distribution of declared dividends on the basis of the relevant information provided by its shareholders.

4.3. Certain dividend payments may be subject to withholding tax on their gross amount in accordance with tax laws of Cyprus and the countries of residence of shareholders. When calculating, withholding and transferring the tax amounts, GLTR will act with respect to taxes levied on dividends in the Republic of Cyprus as prescribed by the applicable law, including, if applicable, any international agreements for the avoidance of double taxation to which the Republic of Cyprus is a party. The shareholders will take all responsibility to pay taxes on the dividends received in the countries of their residence.

4.4. When calculating the amount of withholding tax, subject to paragraph 4.5 below, GLTR will take into account the existing Cyprus legislation, EU legislation and double tax treaties with the countries where shareholders are registered applicable as at the date of the dividend payment.

4.5. The shareholders shall be responsible for providing the information and documents necessary for proper taxation, including but not limited to, the information and documents required to apply any international agreements for the avoidance of double taxation to which the Republic of Cyprus is party, if applicable.

4.6. Unless the Board proposes and shareholders approve otherwise, dividends on GLTR shares will be declared in Russian Roubles and paid in US Dollars at the exchange rate of the Bank of Russia as at the date of the GM. In case the Board declares interim dividends on GLTR shares, such interim dividends will be declared in Russian Roubles and paid in US Dollars at the exchange rate of the Bank of Russia as at the record date stipulated by the Board meeting that has approved such interim dividend.

4.7. Unless the Board proposes and shareholders approve otherwise, dividends on GLTR shares shall be paid in cash through a cash transfer to the shareholders' accounts provided by shareholders.

4.8. Unless the shareholders or the Board decide otherwise, dividends shall be distributed not later than 30 (thirty) days after the Board or the GM pass the respective resolution. No shareholders shall enjoy the advantage of prior dividend payout.

1 The dividend record date for holders of the Company's shares may be different from dividend record date set for owners of global depositary receipts, which is set and announced by the Depositary that issued global depositary receipts.

5. Approval and updates to Dividend Policy

5.1. The way the Dividend Policy is applied might need to change over time to reflect changes in circumstances under which the Company operates. In these cases, the Company will innovate and adapt its Dividend Policy provisions to remain competitive in a changing and uncertain world, so that it can respond to existing and exploit new opportunities.

5.2. The resolution to approve the provisions of Dividend Policy, as well as any resolutions to make amendments or additions to these provisions and any resolutions to cancel them shall be made by the Board. The provisions shall enter into force upon their approval by the Board.

Annex 1

Definitions

Exclusively for the purpose of the current Dividend Policy, the definitions of terms below shall have the following meaning. The Board reserves the right to amend the definitions below on the reasonable basis in its sole discretion.

Adjusted EBITDA	(a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction gain/(losses) on borrowings, dividend payable and other liabilities", "Net foreign exchange transaction gain/(losses) on cash and cash equivalents and other monetary assets", "Share of profit/(loss) of associate", "Other gains – net", "Net (gain)/loss on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Impairment of intangible assets", "Loss on derecognition arising on capital repairs" and "Reversal of impairment of intangible assets".
Attributable Free Cash Flow	(a non-GAAP financial measure) means Free Cash Flow less Adjusted Profit Attributable to Non-controlling Interests.
EBITDA	(a non-GAAP financial measure) represents "Profit for the period" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction gain/(losses) on borrowings, dividend payable and other liabilities", "Net foreign exchange transaction gain/(losses) on cash and cash equivalents and other monetary assets"), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".
Free Cash Flow	(a non-GAAP financial measure) is calculated as "Cash generated from operations" (after "Changes in working capital") less "Tax paid", "Interest paid", "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets" and "Acquisition of subsidiary undertakings – net of cash acquired".
Leverage Ratio	(a non-GAAP financial measure) means the ratio of Net Debt on the last day of a particular financial period to Adjusted EBITDA in respect of that financial period.
Net Debt	(a non-GAAP financial measure) is defined as the sum of total borrowings (including interest accrued) less "Cash and cash equivalents".

Definitions

Terms that require definitions are marked with capital letters in this Annual Report and their definitions are provided below in alphabetical order:

Adjusted EBITDA (a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction gain/(losses) on borrowings, dividend payable and other liabilities", "Net foreign exchange transaction gain/(losses) on cash and cash equivalents and other monetary assets", "Share of profit/(loss) of associate", "Other gains – net", "Net (gain)/loss on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Impairment of intangible assets", "Loss on derecognition arising on capital repairs" and "Reversal of impairment of intangible assets".

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

Adjusted Profit Attributable to Non-controlling Interests (a non-GAAP financial measure) is calculated as "Profit attributable to non-controlling interests" less share of "Impairment of property, plant and equipment" and "Impairment of intangible assets" attributable to non-controlling interests.

Adjusted Revenue (a non-GAAP financial measure) is calculated as "Total revenue" less the following "pass through" items "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations".

Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted Profit Attributable to Non-controlling Interests.

Average Distance of Loaded Trip is calculated as the sum of the distances of all loaded trips for a period divided by the number of loaded trips for the same period.

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

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

Average Rolling Stock Operated is calculated as the average weighted (by days) number of rolling stock available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased out, Engaged Fleet, platforms and tank containers used in petrochemical business).

EBITDA (a non-GAAP financial measure) represents "Profit for the period" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction gain/(losses) on borrowings, dividend payable and other liabilities", "Net foreign exchange transaction gain/(losses) on cash and cash equivalents and other monetary assets"), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".

Engaged Fleet is defined as rolling stock subcontracted or otherwise engaged from a third-party rail operator for a loaded trip from the point of origination to the cargo's destination, at which point the railcar is then released to such third party.

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

Empty Run Costs (a non-GAAP financial measure meaning costs payable to RZD for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of "Cost of sales" reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased-in or leased out, Engaged Fleet, platforms and tank containers used in petrochemical business.

Empty Run Ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased out, Engaged Fleet, platforms and tank containers used in petrochemical business).

Free Cash Flow (a non-GAAP financial measure) is calculated as "Cash generated from operations" (after "Changes in working capital") less "Tax paid", "Interest paid", "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets" and "Acquisition of subsidiary undertakings – net of cash acquired".

Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km. It excludes volumes transported by Engaged Fleet and the performance of petrochemical tank container segment, unless otherwise stated.

Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure, derived from management accounts) is presented as part of the ''Infrastructure and locomotive tariffs: empty run trips and other tariffs'' component of "Cost of sales" reported under EU IFRS. This cost item includes the costs of relocation of rolling stock to and from maintenance, transition of purchased rolling stock to its first place of commercial utilisation, and relocation of rolling stock in and from lease operations, as well as other expenses including the empty run costs attributable to the petrochemical tank container business.

Leased-in Fleet is defined as fleet leased-in under operating leases, including railcars, locomotives and petrochemical tank containers.

Definitions continued

Leased-out Fleet is defined as fleet leased out to third parties under operating leases (excluding platforms and tank containers used in petrochemical business).

Leverage Ratio (a non-GAAP financial measure) means the ratio of Net Debt on the last day of a particular financial period to Adjusted EBITDA in respect of that financial period.

Market Share is calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of Russia as the denominator. It is defined as a percentage of the overall Russian freight rail transportation volume or freight rail turnover and includes volumes transported by Engaged Fleet, unless otherwise stated.

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

Net Revenue from Engaged Fleet (a non-GAAP financial measure, derived from management accounts) represents the net sum of the price charged for transportation to clients by the Group utilising Engaged Fleet less the loaded railway tariff charged by RZD (included in the EU IFRS line item "Infrastructure and locomotive tariffs: loaded trips") less the cost of attracting fleet from third-party operators (included in the EU IFRS line item "Services provided by other transportation organisations").

Net Revenue from Operation of Rolling Stock (a non-GAAP financial measure, derived from management accounts) is defined as the sum of "Revenue from railway transportation – operators services (tariff borne by the Group)" and "Revenue from railway transportation – operators services (tariff borne by the client)" less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisation" and Net Revenue from Engaged Fleet.

Net Working Capital (a non-GAAP financial measure) is calculated as the sum of the current portions of "Inventories", "Current income tax assets", "Trade receivables – net", "Prepayments – third parties", "Prepayments – related parties", "Other receivables – net" and "VAT and other taxes recoverable", less the sum of the current portions of "Trade payables to third parties", "Trade payables to related parties", "Advances from third parties", "Advances from related parties", "Accrued expenses", "Other payables to third parties", "Accrued key management compensation", "Other payables to related parties" and, "Current tax liabilities".

Total Operating Cash Costs (a non-GAAP financial measure) represent operating cost items payable in cash and calculated as "Total cost of sales, selling and marketing costs and administrative expenses" less the "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations" and non-cash items: "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment charge for receivables", "Impairment of property, plant and equipment", "Net (gain)/loss on sale of property, plant and equipment" and "Loss on derecognition arising on capital repairs".

Total Operating Non-Cash Costs (a non-GAAP financial measure) include cost items such as "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Loss on derecognition arising on capital repairs", "Impairment charge for receivables", "Impairment of property, plant and equipment" and "Net (gain)/loss on sale of property, plant and equipment".

Other Operating Cash Costs (a non-GAAP financial measure) include cost items such as "Advertising and promotion", "Auditors' remuneration", "Communication costs", "Information services", "Legal, consulting and other professional fees", "Rental of tank containers", "Operating lease rentals – office", "Taxes (other than income tax and value added taxes)" and "Other expenses".

Owned Fleet is defined as the fleet owned and leased-in under finance lease as at the end of the reporting period. It includes railcars, locomotives and petrochemical tank containers, unless otherwise stated, and excludes Engaged Fleet.

Share of Empty Run Kilometres paid by Globaltrans is defined as the percentage of empty run kilometres paid by Globaltrans divided by the total amount of empty run kilometres incurred by the fleet operated by Globaltrans (not including relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, and rolling stock leased out, Engaged Fleet, platforms and tank containers used in petrochemical business) in the relevant period.

Total Empty Run Ratio is calculated as total kilometres travelled empty divided by the total kilometres travelled loaded by the rolling stock fleet operated by Globaltrans (not including the relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, or rolling stock leased out, Engaged Fleet, platforms and tank containers used in petrochemical business) in the relevant period.

Total Fleet is defined as the fleet owned and leased-in under finance and operating leases as at the end of reporting period. It includes railcars, locomotives and petrochemical tank containers, unless otherwise stated, and excludes Engaged Fleet.

Transportation Volume is a measure of freight carriage activity over a particular period, measuring weight of cargo carried in million tonnes. It excludes volumes transported by Engaged Fleet and the performance of petrochemical tank container segment, unless otherwise stated.

Presentation of Financial and Other Information

Financial information

All financial information presented in this Annual Report is derived from the Consolidated Management Report and Consolidated Financial Statements of Globaltrans Investment PLC (the "Company" or, together with its subsidiaries, "Globaltrans" or the "Group") and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 (EU IFRS). The Group's Consolidated Management Report and Consolidated Financial Statements and the parent company financial statements for the year ended 31 December 2017 are included in the Financial Statements section of this Annual Report. Financial statements for prior years can be found on Globaltrans' corporate website (www.globaltrans.com).

Certain financial information derived from the management accounts is marked in this Annual Report with an asterisk (*). The presentational currency of the Group's financial results is Russian Roubles (RUB), which is the functional currency of the Company as well as of its Cypriot and Russian subsidiaries.

Non-GAAP financial information

In this Annual Report, the Group has used certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures"). The management believes that these non-GAAP measures provide valuable information to readers, because they enable them to focus more directly on the underlying day-to-day performance of the Group's business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. Further explanations of the reasons for presenting such measures are included in the Financial review section of this Annual Report.

The non-GAAP measures that have been used in this Annual Report as supplemental measures of the Group's operating performance. All non-GAAP financial information is calculated on the basis of EU IFRS financial statements and/or management accounts. Reconciliations to the closest IFRS measures are included in the Financial review section of this Annual Report. Non-GAAP measures requiring additional explanation or definitions appears with initial capital letters and the definitions and explanations are provided in the Definitions section of this Annual Report.

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

All non-GAAP financial information presented in this Annual Report should be used only as an analytical tool and investors should not consider such information, in isolation or in any combination, as a substitute for analysis of the Group's Consolidated Financial Statements reported under EU IFRS and included in the Financial Statements section of this Annual Report.

Operational and market information

Globaltrans reports certain operational information to illustrate the changes in the Group's operational and financial performance during the reporting periods.

This operational information is derived from management accounts. The Group's selected operational information for the year ended 31 December 2017 is provided in the Additional Information section of this Annual Report. Selected operational information for prior years can be found on Globaltrans' corporate website (www.globaltrans.com). Terms referring to such operational information appear with initial capital letters with definitions or explanations provided in the Definitions section of this Annual Report.

The Group has obtained certain statistical, market and pricing information that is presented in this announcement on such topics as the Russian freight rail transportation market and related subjects from the following third-party sources: Federal State Statistics Service of Russian Federation ("Rosstat"), OAO Russian Railways (RZD) and the Federal Antimonopoly Service (FAS). The Group has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third-party sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Group has not independently verified this third-party information. In addition, the official data published by Russian governmental agencies may be substantially less complete or researched than that of more developed countries.

Presentation of Financial and Other Information continued

Cautionary note

This Annual Report, including its appendices, may contain forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward-looking statements by terms such as expect, believe, estimate, anticipate, intend, will, could, may or might, the negative of such terms or other similar expressions. These forward-looking statements include matters that are not historical facts and statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth and strategies, and the development of the industry in which the Group operates, may differ materially from those described in or suggested by the forward-looking statements contained in this Annual Report.

In addition, even if the Group's results of operations, financial condition, liquidity, prospects, growth and strategies and the development of the industry in which the Group operates are consistent with the forward-looking statements contained in these materials, those results or developments may not be indicative of results or developments in future periods. The Group does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

Many factors could cause the actual results to differ materially from those contained in forward-looking statements of the Group. Among others, these include general economic conditions, the competitive environment, risks associated with operating in Russia, market change in the Russian freight rail market and many other risks specifically related to the Group and its operations. This Annual Report has been prepared to assist shareholders to assess the Group's financial condition, results of operations, business, strategies and prospects and for no other purpose. The Group, its Directors, employees, agents and advisers do not accept or assume responsibility for any other purpose or to any other person to whom this Annual Report is shown or who may have access to it, and any such responsibility or liability is expressly disclaimed.

Key Contacts

Globaltrans Investment PLC

Legal address
Omirou 20, Agios Nikolaos,
CY-3095 Limassol, Cyprus

Postal address
Office 202, 4 Profiti Ilia Street, Germasogeias,
CY-4046 Limassol, Cyprus

Phone: +357 25 212 382
Fax: +357 25 503 155
Website: www.globaltrans.com

Investor Relations
Phone: +357 25 328 860
Email: irteam@globaltrans.com

Media Relations
Phone: +357 25 328 863
Email: media@globaltrans.com

Company Secretary
Ms Elia Nicolaou
Anastasio Building, 6th Floor,
15 Dimitriou Karatasou Street,
CY-2024 Strovolos, Nicosia, Cyprus

Depositary Bank

Bank of New York Mellon
Shareholder correspondence should be mailed to:
BNY Mellon Shareowner Services
PO BOX 30170
College Station, TX 77842-3170, USA
Phone for domestic callers: +1 888 BNY ADRS (+1 888 269 2377)
Phone for international callers: +1 201 680 6825
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

Stock Exchange

London Stock Exchange plc
10 Paternoster Square, London EC4M 7LS, UK
Phone: +44 20 7797 1000
Website: www.londonstockexchange.com

Auditors

PricewaterhouseCoopers Limited
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus
Phone: +357 25 555 000
Fax: +357 25 555 001

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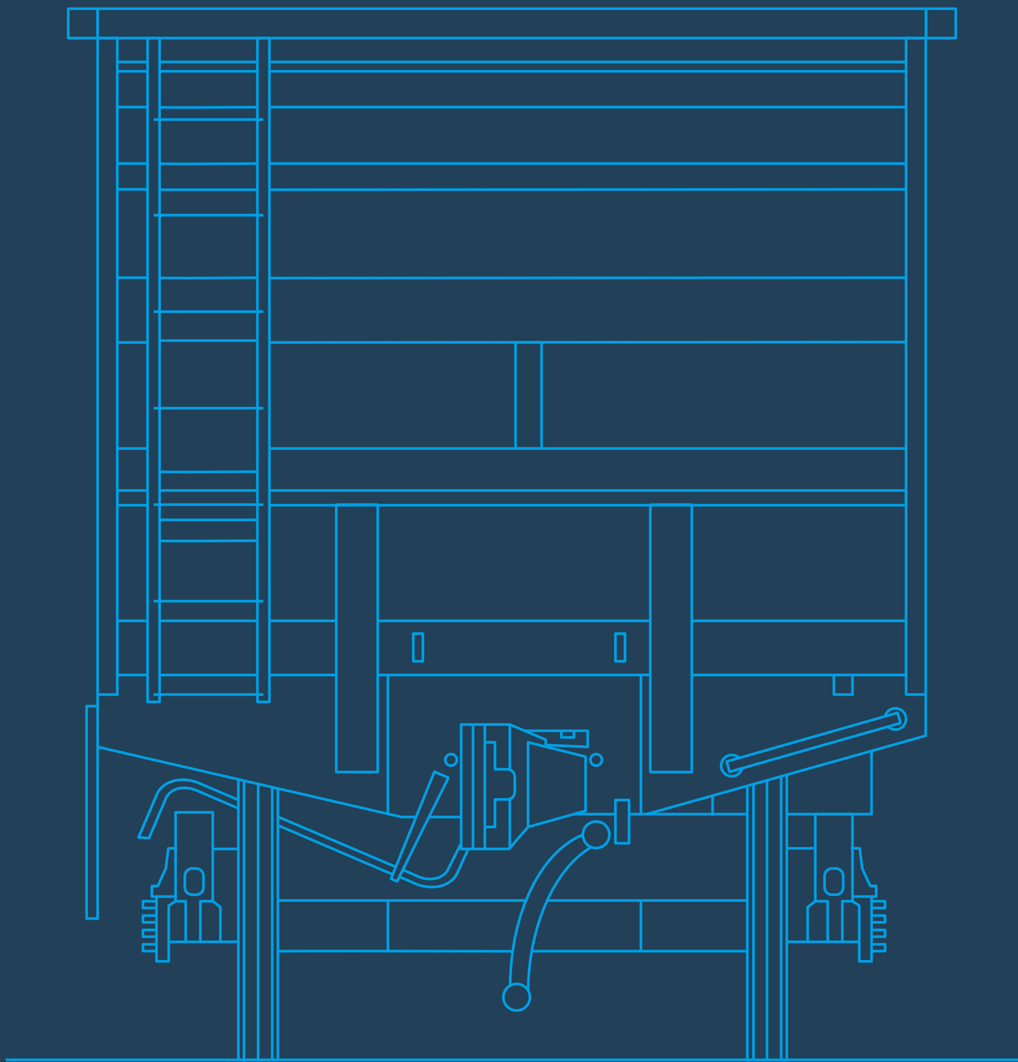

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