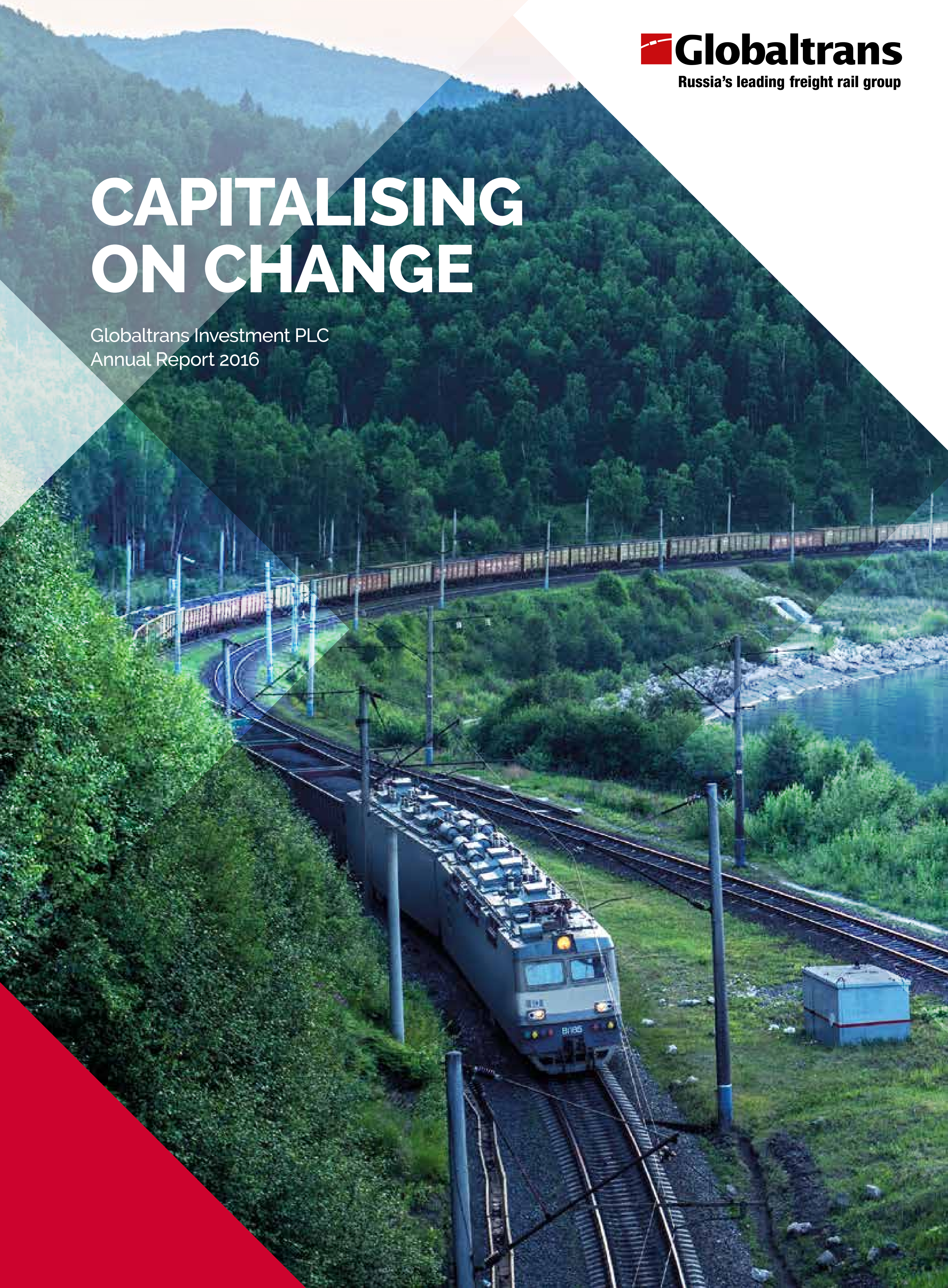
Globaltrans
Russia's leading freight rail group

CAPITALISING ON CHANGE

Globaltrans Investment PLC
Annual Report 2016



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Overview

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Strategic Report

CEO'S REVIEW

"It gives me great pleasure to introduce Globaltrans' Annual Report for 2016, when the Group again rose to the challenge of withstanding a less than favourable economic environment and reconfirmed its leadership of Russia's freight rail transportation business by outperforming the market.

Globaltrans not only navigated changing macroeconomic and sector conditions successfully, but also improved its headline financial indicators and demonstrated continued cost discipline. In addition, it maintained strong Free Cash Flow and further reduced debt levels. At the end of 2016, its balance sheet remained one of the strongest in the industry and the Board of Directors has therefore proposed a strong dividend for the year.

Globaltrans is also proud of its commitment to international best practice in corporate governance. It was the first and is still the only Russia-focused freight rail transportation group to have conducted an Initial Public Offering on the London Stock Exchange, which took place in 2008. It currently has a free float of over 50% and a Board of Directors that features four independent members, including the chairman."

Valery Shpakov
Chief Executive Officer

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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 2016 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 financial information for the full year 2015 has been restated to reflect the harmonisation of the Group's accounting policy in respect of capitalisation of capital repairs and associated spare parts. Historically, due to the low numbers of these repairs they were expensed as incurred.

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.

Highlights of 2016

MARKET OUTPERFORMANCE, KEY CONTRACTS RENEWED

- The Group's Freight Rail Turnover rose by 8% year-on-year to 182.0 billion tonnes-km[1], while the Russian market increased by just 2%.
- The long-term partnership concept received further validation, as two major clients extended their contracts with the Group again: Rosneft (until the end of March 2021) and Metalloinvest (until the end of 2019).
- Operational efficiency improved further, with the Empty Run Ratio for gondola cars declining to 38% (2015: 39%) and the Total Empty Run Ratio to 48% (2015: 51%).

+8%

Year-on-year increase in Freight Rail Turnover

48%

Total Empty Run Ratio (2015: 51%)

SOLID RECOVERY ACROSS KEY FINANCIAL INDICATORS

- Adjusted Revenue rose by 5% year-on-year to RUB 44.2 billion*, supported by strong results in the gondola business.
- Excellent cost control was maintained, with Total Operating Cash Costs up 1% year-on-year.
- Adjusted EBITDA recovered strongly, up 10% year-on-year to RUB 17.7 billion*, driving the Adjusted EBITDA Margin to 40%* (2015: 38%*).
- Free Cash Flow was strong at RUB 8.9 billion* (2015: RUB 9.6 billion*), despite an increase in capital expenditure.

+5%

Year-on-year increase in Adjusted Revenue

+10%

Year-on-year rise in Adjusted EBITDA

The above discussion is focused on the Group's key financial and operating indicators which 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 Financial Review section of this Annual Report.

CONTINUED DELEVERAGING

- The Group's balance sheet is one of the strongest in the industry.
- Net Debt fell by 29% to RUB 11.5 billion* (end of 2015: RUB 16.3 billion)*.
- Net Debt to Adjusted EBITDA further improved to 0.7x* (end of 2015: 1.0x)*.
- Almost 100% of debt is rouble-denominated.

-29%

Decline in Net Debt compared to the end of 2015

0.7x*

Net Debt to Adjusted EBITDA (end of 2015: 1.0x*)

DIVIDENDS: POLICY ENHANCED AND STRONG DIVIDEND FOR 2016 PROPOSED

- Dividend policy enhanced to balance opportunistic investments and returns to shareholders; linked to the Leverage Ratio and Attributable Free Cash Flow.
- Strong dividend proposed for 2016 of RUB 7.0 billion, or RUB 39.2 per share/ global depositary receipt[2], to optimise the capital structure.

RUB 7.0bn

Total dividend proposed

RUB 39.2

Per share/GDR[2]

1 Globaltrans' Freight Rail Turnover (excluding the Engaged Fleet) increased by 10% year-on-year in 2016.
2 Subject to shareholder approval, dividends will be paid in US dollars, with conversion from roubles to be made at the official exchange rate of the Central Bank of Russia as of the date of the Annual General Meeting, which has been called for 24 April 2017.

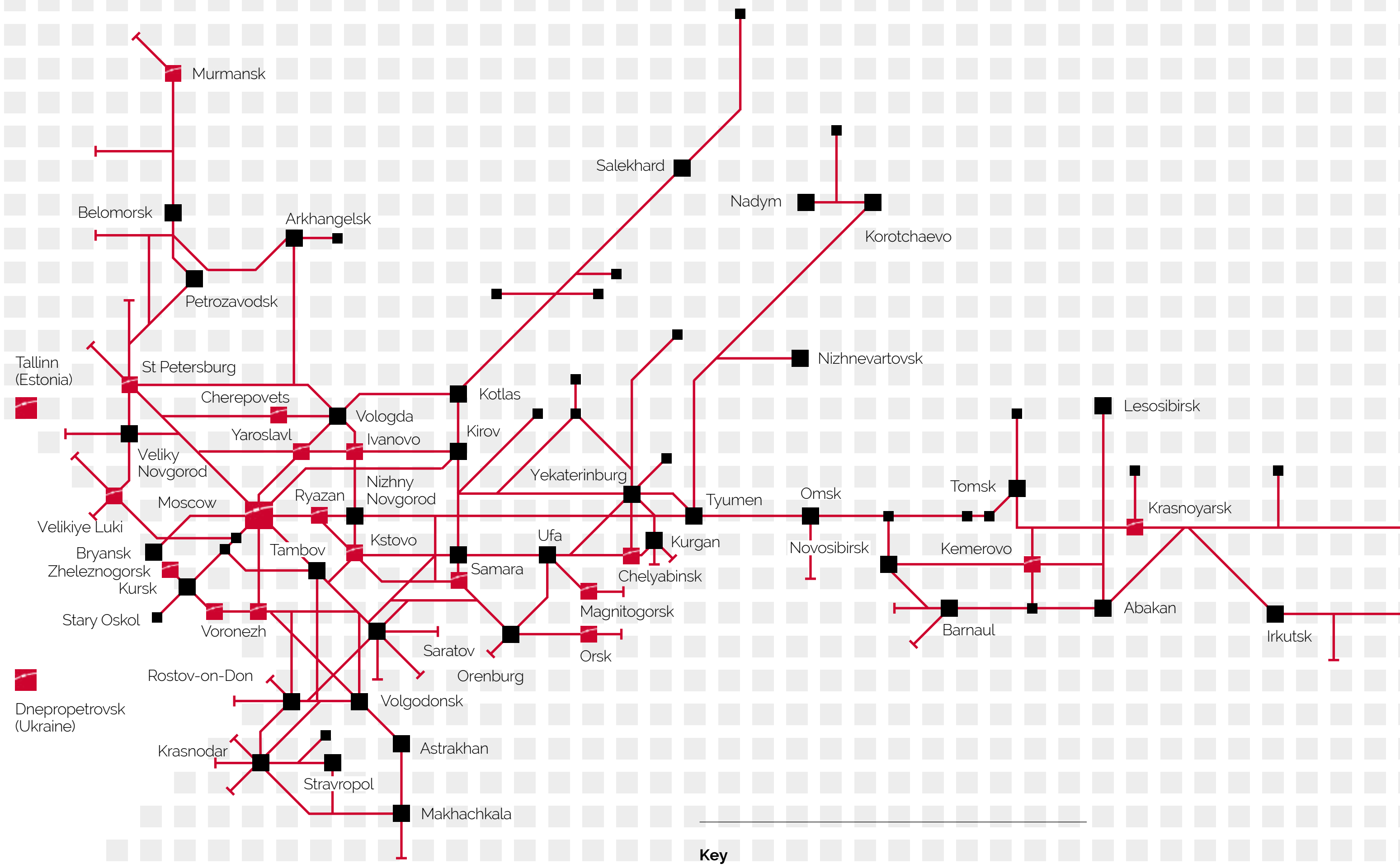
Operations

LEADING POSITIONS, EFFICIENT OPERATIONS

Established in 2004, Globaltrans is a leading freight rail transportation group, with a network stretching throughout Russia, the CIS and the Baltic countries.

From the outset, it has focused on creating one of the largest and most modern railcar fleets and one of the most efficient operational platforms in the industry, with a view to offering best-in-class service. Today, the Group has an established base of clients across a broad range of sectors.

Globaltrans operates across Russia's entire railway network, which is the second longest in the world, with over 86 thousand kilometres of operational track. In 2016, the network carried around 87% of national freight turnover, excluding pipeline traffic, and the Group had a 7.8% market share[1].



Key

Russia's rail network's key illustrative routes

Globaltrans operating subsidiaries, their branches and representative offices

1 Market share of Russia's overall freight rail turnover in 2016.

Globaltrans

At a glance

>68,500

Total Fleet at end-2016 (units)

182.0bn

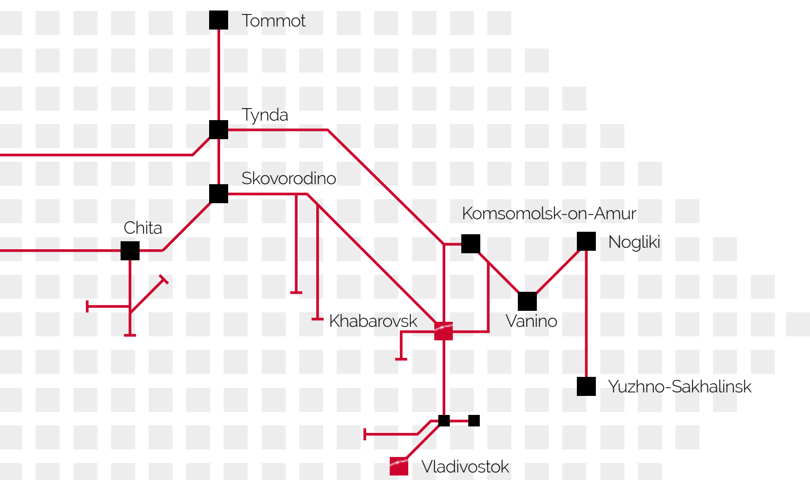
Freight Rail Turnover in 2016 (tonnes-km)

7.8%

Market share of Russia's overall freight rail turnover in 2016

38%

Empty Run Ratio for gondola cars



Globaltrans

Operating subsidiaries

НОВАЯ ПЕРЕВОЗОЧНАЯ

BaltTransServis

GTI MANAGEMENT

SYNTEZ RAIL

SPACECOM

SPACECOM TRANS AS

НОВА ПЕРЕВІЗНА

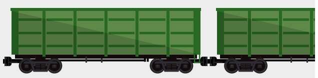
Assets and Customers

BEST-IN-CLASS FLEET AND LOGISTICS, LONGSTANDING CLIENTS

Globaltrans Total Fleet

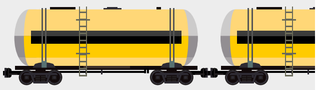
Gondola cars
Gondola cars have open tops and are used to transport various bulk cargoes. Given this flexibility, Globaltrans has made them the core of its fleet, as they enable it to respond quickly to changes in market environment and reduce Empty Runs.

43,276 units
63%



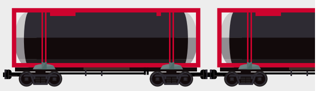
Rail tank cars
Rail tank cars are used primarily to transport oil products and oil.

22,475 units
33%



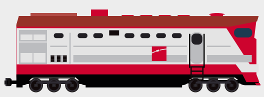
Tank containers
Tank containers are intermodal containers designed to transport petrochemicals. This is a new niche segment that the Group entered in 2014.

1,080 units
2%



Locomotives
The vast majority of Globaltrans' locomotives are used for the traction of block trains[2] carrying primarily oil products and oil.

75 units
<1%



Other railcars
Globaltrans' other railcars include flat and hopper cars, among others.

1,605 units
2%

Large, modern fleet

Globaltrans has invested heavily in establishing one of the largest and most modern fleets in the industry, enabling it to offer scale, efficiency and reliable high-quality service to clients. At the end of 2016, its Total Fleet comprised 68,511 units. The backbone of the fleet is universal gondola cars and rail tank cars. To enhance operational flexibility, the Group maintains an appropriate commercial balance between the Owned Fleet (89%) and Leased-in Fleet (11%). At the year-end, the average age of the Owned Fleet was just 10.3 years[1]. Having a modern fleet is crucial, as, alongside fleet size, the reliability of rolling stock is a key contributor to both customer retention and high-quality service.

68,511
Total Fleet

89%
in ownership

10.3 years
average age of Owned Fleet

Key clients

ROSNEFT
MAGNITOGORSK IRON & STEEL WORKS
Metalloinvest
GAZPROM NEFT
EVRAZ
TMK
Severstal
Achieve more together

Efficient operational platform

Globaltrans is focused on effective route management from the outset, recognising that it is key to the success of the business. Over many years, the Group has developed an effective and reliable operational platform, underpinned by a deep understanding of client logistics and by long-term cooperation with clients. The hub of its centralised logistics system is a single dispatching centre, which works 24 hours a day, seven days a week. It monitors every aspect of the gondola car fleet, managing shipments and routes to maximise efficiency, productivity and service quality. Through long-term contracts, Globaltrans can offer key clients tailored freight rail solutions, while the logistics of interconnected plants enable inbound and outbound traffic to be matched efficiently, minimising Empty Runs for the Group's fleet. Globaltrans also widely uses block train logistics, scheduling cargo or client-specific trains bound in the same direction, improving delivery times and fleet utilisation. When transporting oil products and oil, the Group further enhances block train logistics by using its own locomotives.

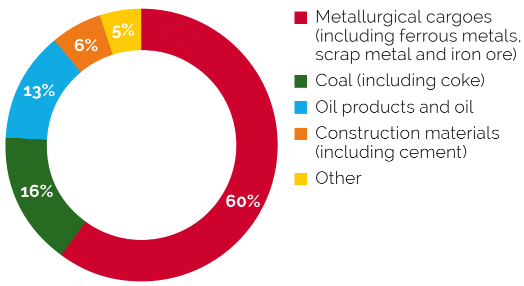
Long-term client partnerships

Globaltrans places great emphasis on offering the highest-quality service and building long-term relationships with clients. At the end of 2016, the Group was serving more than 500 industrial names, primarily in the metals and mining, oil and gas and construction sectors. Globaltrans has a very high client retention rate overall.

A central part of the client-oriented business model is long-term service agreements, pioneered by Globaltrans in 2012, which create mutual benefits by improving traffic management, facilitating planning and reducing costs. This approach has proven extremely successful. To date, all key long-term contracts have been renewed at least once, while for some clients the Group has become the sole provider of freight transportation services. In 2016, it received 62% of Net Revenue from Operation of Rolling Stock from long-term contracts.

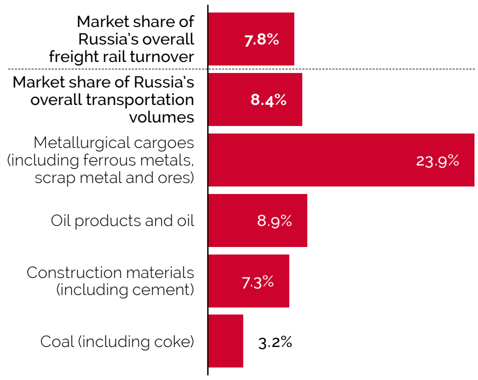
1 The useful life of gondola cars is 22 years, while for rail tank cars it is 32 years.
2 Block trains consist of Group-operated rolling stock bound for one destination.

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2016



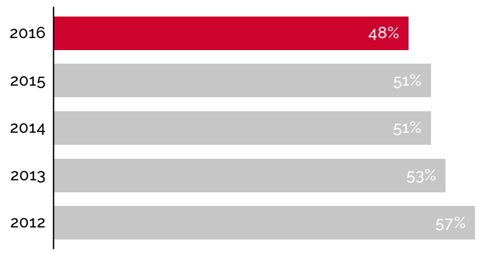
Source: Globaltrans

Globaltrans' market share, 2016



Source: Globaltrans, Rosstat

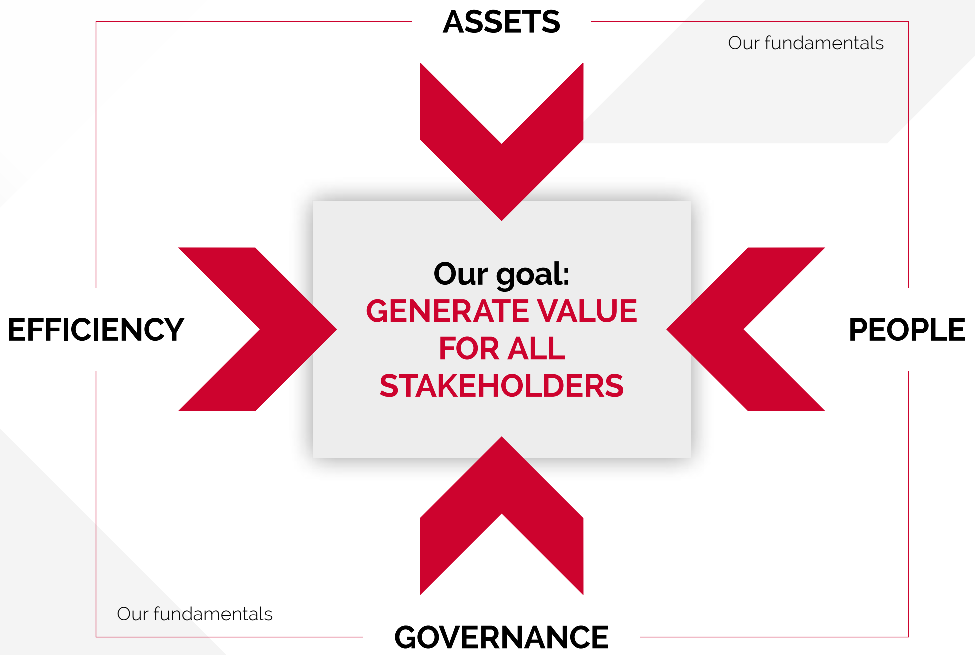
Globaltrans' Total Empty Run Ratio (for all types of rolling stock), 2012-16



Source: Globaltrans

Business Model and Strategy

SOLID FUNDAMENTALS, CLEAR OBJECTIVES



12+ 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) conducted to finance business expansion
- 50% of BaltTransServis is acquired[1]
- **>37,000 units** Total Fleet

2010

- **>50,000 units** Total Fleet
- Business is increasing by buying new rolling stock and expanding Leased-in Fleet

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

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
- Keep debt levels comfortable
- 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 accretive niches of the freight rail market
- Allocate capital prudently between investments in business growth and dividends

2012
- Captive rail operator of Metalloinvest is acquired
- SPO is conducted to finance growth

2013
- Captive rail operator of MMK is acquired
- Single gondola dispatching centre is created
- **>65,000 units** Total Fleet

2014
- >60% Share of long-term contracts in Net Revenue from Operation of Rolling Stock
- SyntezRail subsidiary is created to develop rail transportation of petrochemicals
- Intra-group reorganisation is conducted to streamline corporate structure in order to drive efficiency and cut costs

2015
- **>67,000 units** Total Fleet

2016
- **>68,000 units** Total Fleet

STRATEGIC REPORT

In 2016, Globaltrans remained a leader in the sector by embracing change and outperforming the market. Flexibility and resilience, along with a clear strategy, experienced management team and adaptability, ensure that the Group continues to deliver solid results.

Directors' Responsibility

Each of the Directors confirms that to the best of his or her knowledge the Strategic Report presented on pages 10 to 53 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

EMBRACING CHANGE

Globaltrans remains a leader in the sector by anticipating and adapting to change. While we are pleased with our position today, external influences will continue to shift. Whatever the circumstances, we will work tirelessly to keep moving forward.

Michael Zampelas
Chairman, Independent non-executive Director

Dear shareholders,

Some companies shy away from change, focusing too much on the challenges and not enough on the opportunities. I am proud to say that Globaltrans is not like that. Our clear strategy and experienced management team mean that we have always been able to adapt. By remaining flexible and resilient, a company should be able to deliver a solid performance, as we did in 2016, even in a shifting economic environment.

We are proud of what we accomplished last year. Once again, we outperformed the market, primarily due to a recovery in the gondola segment, where we remain well positioned thanks to our solid business model. Despite the weak market conditions in the oil products and oil segment, we improved our overall financial performance, as seen in the rise in our key indicators. Our balance sheet remains one of the strongest in the industry.

History of capitalising on change

By anticipating change and embracing it, Globaltrans has become and remains a leader in the sector. In the early 2000s, the founders saw that reforms were coming to the freight rail sector and they seized the opportunity. We were among the first to believe in a free and unregulated market for freight rail transportation in Russia. In a relatively short period of time, we established ourselves as a market leader. By investing in new rolling stock, we ensured that Globaltrans had the largest and most modern fleet, minimising maintenance costs and guaranteeing the reliability that our customers both need and value. This remains true today and has enabled us to pioneer long-term contracts with major clients. These not only underpin our business, but also reflect the confidence our clients have in our ongoing ability to deliver a service that can be relied on.

In 2016, underscoring our superior customer service, we renewed two of these contracts, with Rosneft and Metalloinvest. Both are blue-chip Russian companies that have relied on our services for many years now. They demand the best and know that we deliver.

RUB 8.9bn*

Free Cash Flow in 2016
(2015: RUB 9.6 billion*)

62%

of Net Revenue from Operation of Rolling Stock contributed by long-term contracts in 2016

Several years ago, we acquired two large captive freight rail operators, taking the overall gondola car fleet to more than 40 thousand units. To maintain a high level of efficiency, we created a central dispatching hub to manage all of our gondola cars. It remains a core component of our business, underpinning our ability to continue to both win and retain customers today. Separately, our vision of having a balanced fleet consisting of both gondola and rail tank cars has benefited us and helped us to withstand adverse sector trends: when the gondola business suffered, our rail tank business compensated. Now, the reverse is true: in 2016, our gondola cars delivered strong results even as the oil products and oil market remained weak. And while competitors are having to decommission older railcars as "end of useful life" regulations take hold, our modern fleet remains active and deployed.

Almost a decade ago, we decided to conduct an Initial Public Offering on the London Stock Exchange to give ourselves greater ability to invest and expand our business. We were the first and are still the only Russia-focused freight rail transportation group to do this. We are recognised for our ability to meet international standards: for financial reporting, corporate governance and clarity of strategy. As a result, we have a shareholder base of which we are truly proud.

We have developed astutely. We invested in railcars when the returns were positive, bought captive rail companies when the right opportunities arose and, when the market environment changed, we halted major investments and shifted our focus to new niche markets with a view to continuing to deliver value in the future. As a result of all this – our strength, resilience, ability to adapt and foresight – we have gained market share and delivered strong financial results.

Chairman's Statement continued

Balancing debt, CAPEX and dividends

In recent years, after sizeable investments in business expansion, we focused on repaying debt, particularly as economic instability and volatility increased from 2013. This was the right approach and proved our ability to adapt to changing market realities. Now, with debt levels low and Free Cash Flow strong, we are setting out a dividend policy for the future, one aimed at enhancing shareholder value and closely linked 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. In our view, reviewing our capital allocation plans every six months is a winning formula that will provide the best outcome for all stakeholders, ensuring efficient use of capital both for returns to shareholders and the long-term growth of the business.

0.7x*

Net Debt to Adjusted EBITDA at end-2016

RUB 39.2

Per share/GDR proposed dividend for 2016[2]

Therefore, 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[1] 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

Along the same lines, the Board has proposed a strong dividend for 2016 of RUB 7.0 billion or RUB 39.2 per share/global depositary receipt[2] to optimise the capital structure and bring leverage to a more efficient level.

The full version of the dividend policy can be found in the Corporate governance section of this Annual Report or at the corporate website: www.globaltrans.com.

We believe that the market remains attractive for opportunistic expansion and this structure allows us to retain the flexibility required for return-oriented growth.

GLOBALTRANS HAS BEEN FOUNDED ON THE PRINCIPLE OF RECOGNISING AND SEIZING OPPORTUNITY IN A CHANGING WORLD

Looking ahead

We have valued the support of our investors through these years. While our strategy has remained constant, much of the world around us has changed, with significant shifts in the economic and competitive environment. Rest assured that we leave nothing to chance. We listen carefully to all our stakeholders. Management regularly scans the horizon and considers new ways to progress, which helps us to find profitable investment opportunities even in a slow growth environment. We talk to our customers to ensure that we are always meeting their needs. We cherish the flexibility of our people and our business, which ensures that we often exceed their expectations. Constant dedication to detail has given us a solid business, a strong balance sheet and positive Free Cash Flow.

Globaltrans has been founded on the principle of recognising and seizing opportunity in a changing world. While the journey has not always been easy, our customers value us for high efficiency, a young fleet and extensive expertise to tackle the most complex logistics tasks. Today, Globaltrans counts more than 500 companies among its clients in Russia, the CIS and the Baltic states.

We are not just providing a service. We are responsible for delivering goods and materials throughout Russia and the region and in so doing we underpin the ability of companies and people to fulfil their obligations to their customers and employees. I would like once again to thank our clients and employees for their support on our journey.

While we are pleased with where we are today, this is only the beginning. We are now in a position to further capitalise on the recovery in the gondola segment and are moderately optimistic for 2017. Whatever the circumstances, we will never stand still. We will embrace change and turn it into success.

Michael Zampelas
Chairman, Independent non-executive Director

1 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.

2 Subject to shareholder approval, dividends will be paid in US dollars with conversion from roubles to be conducted at the official exchange rate of the Central Bank of Russia as of the date of the Annual General Meeting, which has been called for 24 April 2017.

CEO's Review

A YEAR OF ACCOMPLISHMENTS, DESPITE A MIXED INDUSTRY ENVIRONMENT

Globaltrans has come far by basing everything it does on innovation and value creation. We take our responsibilities extremely seriously and believe that many opportunities remain ahead. One of our true strengths is our ability to capitalise on changing market conditions. We are stronger and more competitive today than even a couple of years ago, and I am confident in our ability to create value for clients and investors.

Valery Shpakov
Chief Executive Officer

Dear shareholders,

I am pleased to say that in 2016 we remained competitive and outperformed the market once more. While the wider economic pressures continued, thanks to our large and modern fleet, long-term contracts and advanced route management, we were well positioned and able to really capitalise on the recovery in the gondola segment during the year. This helped us to deliver decent results, despite the soft market for oil products and oil transportation. In 2016, we increased Adjusted EBITDA by 10% year-on-year and pushed the Adjusted EBITDA Margin up to 40%*, real accomplishments given the market conditions.

Among other achievements was the renewal of the multi-year contracts with both Metalloinvest (until the end of 2019) and Rosneft (until the end of March 2021). These have now been renewed several times since they were first concluded and I am proud of the trust that both companies have in our team and services. We have worked with Metalloinvest for almost a decade, while Rosneft has also been a longstanding client. In both cases, we deliver significant volumes of cargo across a vast geographical area, requiring careful management of complex logistics. Our ability to dispatch gondola cars from a single logistics centre means that we can move freight efficiently across the largest country in the world. This is something at which we excel and is the reason why they and others choose us as their transportation partner. At present, 62% of our Net Revenue from Operation of Rolling Stock comes from long-term contracts with blue-chip clients, while the next contract is due to be extended in 2019.

I believe that this accomplishment is based on the commitment from the Globaltrans team at every level and a genuine focus on placing clients at the heart of our business. We have come far by basing everything we do on innovation and value creation for all our stakeholders, from logistics to new investment opportunities to ways to improve our corporate structure. We take our responsibilities towards our customers, shareholders and employees extremely seriously. We feel that many opportunities remain ahead and we are committed to taking advantage of them and doing so well.

+8%

Year-on-year increase in Freight Rail Turnover

7.8%

Market share of Russia's overall freight rail turnover (2015: 7.3%)

48%

Total Empty Run Ratio (2015: 51%)

Shift in supply and demand

I often tell investors that one of our real strengths is our ability to capitalise on changing market conditions. This is exactly what we demonstrated in 2016, when performance in the freight rail transportation sector was varied. With our diversified fleet of gondola and rail tank cars, we were able to tackle the challenges in one area, while maximising the opportunity in the other.

The market context highlights Globaltrans' successful performance. Russia's total freight rail turnover rose by 2% year-on-year, while the Group's Freight Rail Turnover increased by 8%, well ahead of the market. This was largely due to the performance of the bulk cargo segment, which remained relatively strong throughout 2016, with overall Russian volumes up 3% year-on-year, supported by greater shipments of coal and construction materials. However, overall Russian volumes of oil products and oil declined by 6% year-on-year, reflecting the negative effect of both new pipeline capacity and lower output of refined products.

The industry-wide, regulation-driven retirement of railcars that have reached the end of their useful life continued in 2016 and was beneficial overall, although oversupply remained an issue in oil products and oil. The largest decline in railcars was in the gondola segment, where Russia's gondola fleet has decreased by 16% over the last two years, even as demand has increased. While Russia's rail tank car fleet has declined as well, falling by 11% over the last two years, the oil products and oil segment as a whole has continued to suffer from weak demand. These differing supply/demand balances in the two segments have meant that while prices in the gondola car segment have gradually recovered, pricing for tank cars has continued to be negatively affected. Clearly, the picture for the industry was mixed overall in 2016 and we expect little change during 2017.

CEO's Review continued

Rapid and effective response

Our successful performance reflected our ability to respond quickly and take advantage of the increased demand in the bulk cargo segment. We expanded our fleet by leasing in more gondola cars, knowing that our logistical capabilities could easily and quickly manage the additional rolling stock. As a result, the average number of gondola cars operated increased by 4% year-on-year. With non-oil cargoes representing 87% of the Group's Freight Rail Turnover in 2016, our ability to successfully capitalise on this shift in the market was crucial. Freight Rail Turnover for metallurgical cargoes, coal and construction materials all rose, driving an 11% year-on-year increase in the Group's non-oil cargo turnover.

At the same time, we needed to act decisively given the deteriorating demand for freight rail transportation of oil products and oil, as Globaltrans was clearly not immune to this trend. Our team immediately started to relocate rail tank cars and change logistics to maximise deployment, achieving the Group's Transportation Volumes decline broadly in line with the market.

+10%

Year-on-year increase in Adjusted EBITDA

40%*

Adjusted EBITDA Margin (2015: 38%*)

While moving rapidly to address the changing market, we kept our focus on maintaining a high level of operational efficiency. This is evident in our Empty Run Ratio for gondola cars, which reduced to 38%, compared with 39% in 2015, while the Total Empty Run Ratio (for all types of rolling stock) improved further to 48%, from 51% in the previous year. As always, our team of experts worked hard to enhance our effectiveness by analysing data and operational options. Among other things, this resulted in improved logistics and gains in transportation speed. The Average Number of Loaded Trips per Railcar increased by 1% year-on-year and the Average Distance of Loaded Trip by 6% year-on-year.

All of this enabled us to reinforce our market share of overall Russian freight rail turnover, which reached 7.8%, compared with 7.3% in 2015.

Delivering results

Our strong performance in the gondola segment drove an improvement across key financial indicators. The Group's Adjusted Revenue rose by 5% year-on-year, fuelled by increased Net Revenue from Operation of Rolling Stock, which was up by 9% year-on-year. Efficient cost management enabled us to continue to control Total Operating Cash Costs, which increased by 1%, an unprecedentedly low level. Despite the weakness in the rail tank car segment, as mentioned, Adjusted EBITDA rose by 10% year-on-year to RUB 17.7 billion*, driving the Adjusted EBITDA Margin to 40%*, compared with 38%* in 2015, which is really quite an achievement.

As anticipated, there were more capital repairs required during the year. This and the continued selective acquisition of new petrochemical tank containers and second-hand gondola cars caused a year-on-year increase in the Group's capital expenditure (CAPEX) of 146% to RUB 4.9 billion*[1]. Large-scale CAPEX remained on hold in 2016. Importantly, Globaltrans continued to generate decent Free Cash Flow of RUB 8.9 billion* (2015: RUB 9.6 billion*), which enabled further deleveraging, with Net Debt to Adjusted EBITDA falling to 0.7x*, compared with 1.0x* at the end of 2015.

Given this comfortable debt level and the Group's overall solid financial position, the Board has proposed a strong dividend for 2016 and approved an enhanced dividend policy, which is now linked to Attributable Free Cash Flow and Leverage Ratio.

Opportunistic approach to investments

Our results clearly indicate that we are operating well and are positioned favourably in the market. Nonetheless, we are always looking for ways to create value for our business and our shareholders. As such, I am a firm believer in not only optimising existing investments, but also exploring new sectors and potential areas for development. As a result, for example, in 2014, we started a niche project and entered the segment for rail transportation of petrochemicals. This progressed well, and during 2016 we bought 550 new petrochemical tank containers to support the development of this area. This approach has paid off. While the business is small, it is doing well, and our total fleet of tank containers amounted to 1,080 units at the year-end. It is a great model of how we can leverage the experience and skillset at the heart of our business to reap real benefits for the future.

We have also taken this opportunistic approach to strengthening our fleet. We are fortunate to have one of the modern, large fleets in the industry and, as buying new rolling stock looked unattractive due to low returns, we turned to the secondary market, where we were able to acquire 665 gondola cars over the year. We will continue to pursue this approach to investment activity, with a focus on strengthening our business when we see an opportunity that adds clear longer-term value.

We have navigated various market cycles and are a stronger and more competitive company today than even a couple of years ago. We are moderately optimistic about the year ahead. During the first months of 2017, demand in the gondola segment was solid. While there are still some headwinds in oil products and oil, I am as confident as ever in our team's ability to mitigate the external pressures we may face and deliver outstanding service and create value for both our clients and investors.

Valery Shpakov
Chief Executive Officer

1 The Group's CAPEX on a cash basis (including "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets" and "Acquisition of subsidiary undertakings – net of cash acquired").

Market Review

MIXED PERFORMANCE AMONG SEGMENTS

In 2016, the market environment was mixed: despite weakness in the oil products and oil segment, overall transportation volumes in Russia rose amid growing demand for rail shipments of bulk cargoes.

Bulk cargoes top the list

Rail remains one of the favoured methods of cargo shipment and plays a key role in servicing Russia's economic growth. In 2016, it accounted for 87% of the country's overall freight turnover, excluding pipeline traffic.

In the reporting period, the economic environment in Russia remained challenging, with industrial production increasing by 1% year-on-year. The country's freight rail turnover rose by 2% year-on-year to 2,343.8 billion tonnes-km and overall transportation volumes by 1% to 1,227.0 million tonnes. In terms of volumes, the best performer was bulk cargoes: non-oil product shipments climbed by 3% year-on-year.

Rail shipments of coal (including coke), the largest segment by volumes, rose by 2% year-on-year to 342.8 million tonnes, primarily due to an increase in coal output of 3% in 2016. The share of coal (including coke) in overall Russian rail shipments was 28%.

The oil products and oil segment was weak, with volumes falling by 6% year-on-year to 236.2 million tonnes. This was due to new pipeline capacity coming online, as well as output of refined products and fuel oil declining. While oil products and oil have always been a key cargo, the share of oil shipments by rail is significantly smaller, as crude is mostly transported by pipeline. In 2016, oil products and oil accounted for 19% of overall Russian volumes.

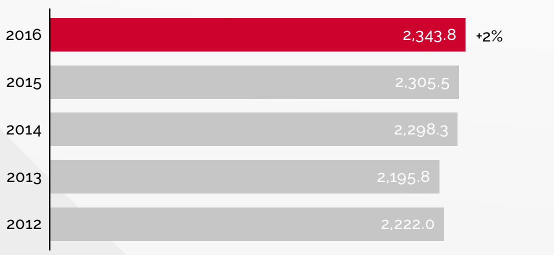
In the reporting period, transportation of metallurgical cargoes (including ferrous metals, scrap metal and ore) remained broadly flat at 216.7 million tonnes. Russia's steel production and iron ore output stayed largely the same year-on-year. The share of metallurgical cargoes in Russia's overall shipment volumes was 18%.

Rail shipments of construction materials (including cement) increased by 5% year-on-year to 168.0 million tonnes. An 8% rise in shipments of construction materials was partly offset by a 7% fall in cement volumes.

87%

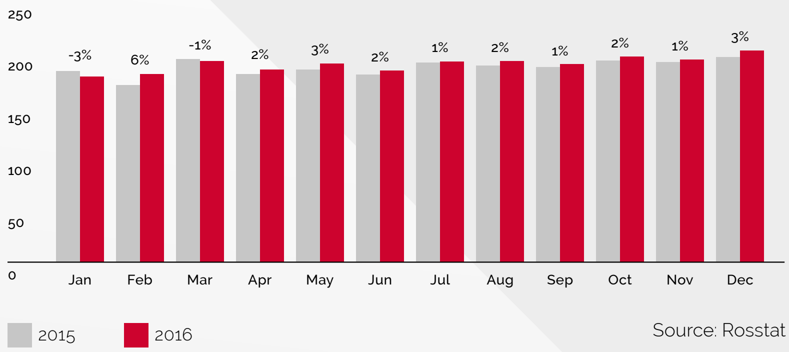
of the Russia's overall freight turnover are from rail excluding pipeline traffic

Russia's freight rail turnover, 2012-16 (billion tonnes-km)



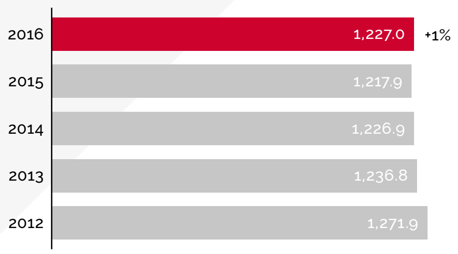
Source: Rosstat

Russia's monthly freight rail turnover, 2015-16 (billion tonnes-km)



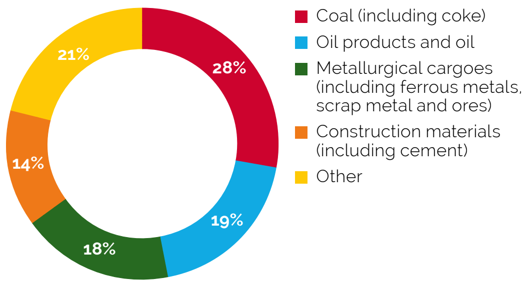
Source: Rosstat

Russia's freight rail transportation volumes, 2012-16 (million tonnes)



Source: Rosstat

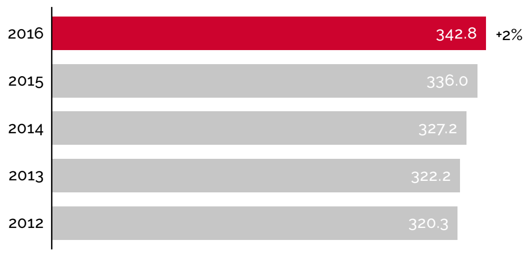
Breakdown of Russia's freight rail transportation volumes by cargo, 2016



Source: Rosstat

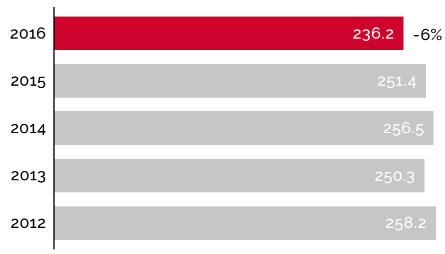
Russia's freight rail transportation volumes by cargo, 2012-2016 (million tonnes)

Coal (including coke)



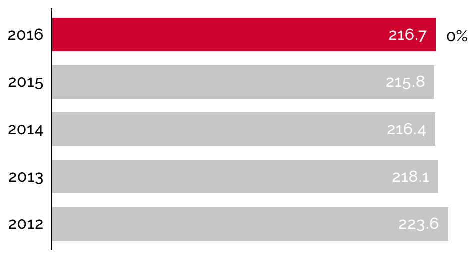
Source: Rosstat

Oil products and oil



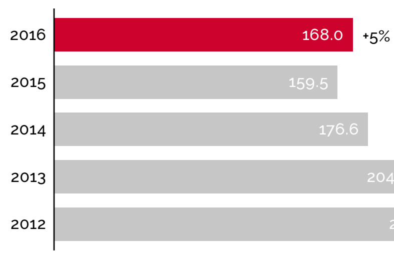
Source: Rosstat

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



Source: Rosstat

Construction materials (including cement)



Source: Rosstat

Market Review continued

RAIL REMAINS ONE OF THE FAVOURED METHODS OF SHIPPING CARGO AND PLAYS A KEY ROLE IN DRIVING RUSSIA'S ECONOMIC GROWTH

Continued scrappage of old railcars improves supply-demand balance

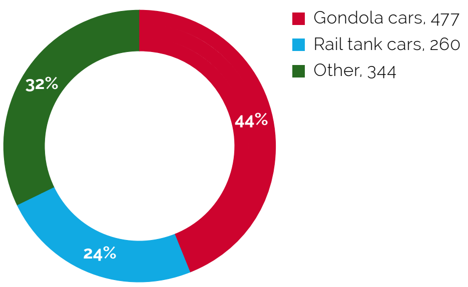
At the end of 2016, Russia's fleet of rolling stock comprised 1,081 thousand units, with gondolas accounting for 44% or some 477 thousand units and rail tank cars for 24% or around 260 thousand units. The share of other railcars (including flat and hopper cars) was 32%.

Over the last few years, the freight rail transportation market, in particular the gondola segment, has been under pressure from oversupply of railcars. This situation began to improve from the end of 2014, when rail operators began actively scrapping old stock. Due to regulatory changes, starting from January 2016, all railcars at the end of their useful life must be retired (excluding certain types of specialised units).

Amid this industry-wide scrappage of old railcars and minimal replacement production, Russia's railcar fleet decreased by 13% or 164 thousand units in 2015-2016. The numbers slumped in both main segments: the gondola fleet fell by 16% or 88 thousand units and the rail tank car fleet by 11% or 32 thousand units.

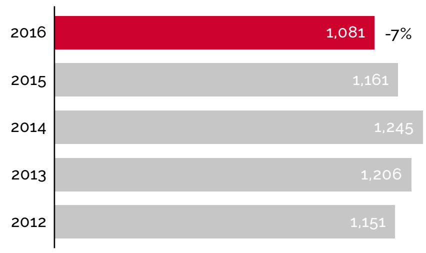
The regulatory changes mostly affected players who had inherited and/or purchased old units from Russian Railways (RZD). Companies with modern fleets like Globaltrans (whose Owned Fleet had an average age of 10.3 years at the end of 2016) were able to strengthen their market position.

Total Russia's railcar fleet by car type, at end-2016 (thousand units)

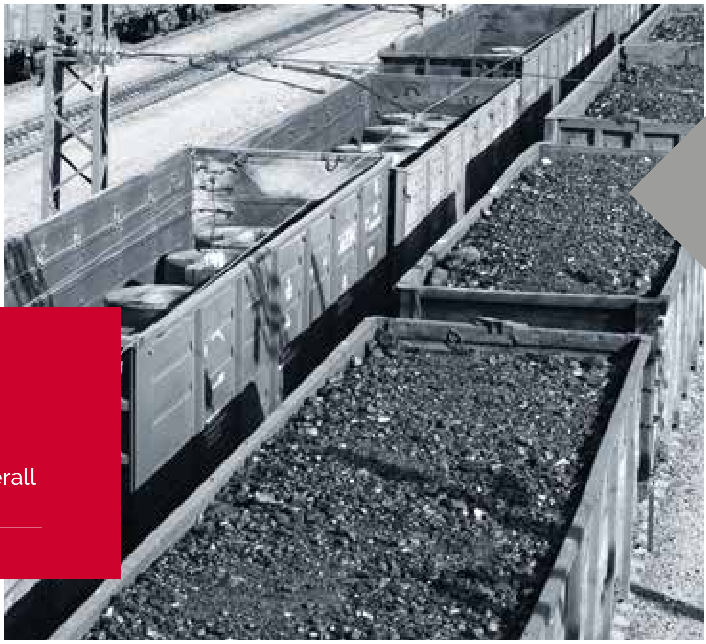


Source: Company estimations

Total Russia's railcar fleet at year-end, 2012-16 (thousand units)



Source: RZD, Railsovet, Company estimations



+2%

Year-on-year increase in Russia's overall freight rail turnover in 2016

Case study

НОВАЯ ПЕРЕВОЗОЧНАЯ

"Last year brought a recovery in the bulk cargo segment, driven predominantly by demand for rail freight services for coal and construction materials. As the market picked up, our management team demonstrated their ability to excel in leadership.

In 2016, the operational efficiency of the Group's gondola fleet remained one of the highest among peers. Throughout the year, we focused closely on increasing the use of block trains and double runs, optimising Empty Runs and improving railcar turnover.

Our business model again demonstrated its advantages in 2016. Globaltrans has a network spanning the whole region, own dispatching centres that work around the clock, and a large, modern fleet. As such, we can react promptly to clients' needs and ensure the highest standards of service quality, which have enabled us to establish a solid client base underpinned by long-term contracts with some of the largest names in Russian industry.

We were able to both stand strong in 2016 and take advantages of new opportunities to grow. For example, in 2016, some parts of the network experienced a shortage of gondola cars particularly during peak periods. As one of Russia's largest fleet owners we were able to step in, attracting new clients.

In addition, we continued to work closely with MMK and Metalloinvest, two key clients. In December 2016, Metalloinvest extended its long-term contract with us for another three years.

We are committed to developing our service based on clients' needs, and we deeply value their trust in us, which has been built over years of cooperation. This is something that we work on every day by remaining focused on an ambitious, but attainable, objective: to contribute to our clients and partners' efficiency and profitability."

Vyacheslav Stanislavsky
Deputy Chief Executive Officer,
Head of Operations, Globaltrans

Operational Performance

SOLID RESULTS, CONTINUED OUTPERFORMANCE

In 2016, Globaltrans outperformed the market yet again, underscoring that it has the appropriate asset balance, best-in-class operational platform and the right strategy to withstand challenging conditions.

The Group demonstrated both its resilience and its flexibility, by making timely adjustments to fleet deployment and expanding its market share. We received further endorsement of our attention to customer service when key clients extended important contracts with us. We also further improved key operational indicators, confirming that the emphasis on efficiency is delivering results.

Highlights of Globaltrans' freight rail transportation business, 2015-16

	2015	2016	Change %
Freight Rail Turnover, billion tonnes-km (including Engaged Fleet)	168.5	**182.0**	8%
Transportation Volume, million tonnes (including Engaged Fleet)	101.3	**103.3**	2%
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	146.5	**160.7**	10%
Transportation Volume, million tonnes (excluding Engaged Fleet)	90.1	**92.6**	3%
Market share of overall Russian freight rail turnover	7.3%	**7.8%**	–
Average Price per Trip, RUB	27,294	**28,975**	6%
Average Rolling Stock Operated, units	54,251	**55,178**	2%
Average Distance of Loaded Trip, km	1,620	**1,723**	6%
Average Number of Loaded Trips per Railcar	25.9	**26.1**	1%
Total Empty Run Ratio, %	51%	**48%**	–
Empty Run Ratio for gondola cars, %	39%	**38%**	–
Share of Empty Run kms Paid by Globaltrans	88%	**88%**	–

Source: Globaltrans

Case study

CONTRACT WITH METALLOINVEST EXTENDED FOR THREE YEARS

At the end of 2016 Globaltrans extended its long-term contract with Metalloinvest, a leading global producer of iron ore and hot briquetted iron, for three years. The key terms remain unchanged: Globaltrans will continue serving 100% of Metalloinvest's freight rail transportation needs.

"Client service is at the heart of everything we do," said Valery Shpakov, CEO at Globaltrans. "We are pleased to continue our highly successful partnership with Metalloinvest, which we have been developing for many years."

"The contract extension builds on years of hard work and a rewarding business relationship," said Andrey Varichev, CEO at Metalloinvest. "As in the past, we look forward to the exceptional service received from Globaltrans."

Highlights

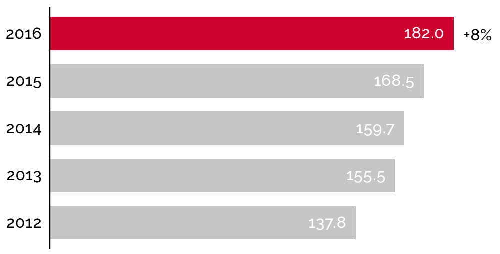
- Continued market outperformance and business growth, with further gains in market share.
  - The Group's Freight Rail Turnover (including Engaged Fleet) rose by 8% year-on-year to 182.0 billion tonnes-km[1], while the overall Russian market expanded by just 2%.
  - The Group's share of overall Russian freight rail turnover increased to 7.8% (2015: 7.3%)[2].
- The Average Price per Trip improved, climbing by 6% year-on-year.
- The long-term partnership concept received further validation, as two major clients extended their contracts again: Rosneft (until the end of March 2021) and Metalloinvest (until the end of 2019).
- Long-term contracts continued to strongly support the business, contributing 62% of Net Revenue from Operation of Rolling Stock in 2016.
- Operational efficiency improved further, with the Empty Run Ratio for gondola cars declining to 38% (2015: 39%) and the Total Empty Run Ratio to 48% (2015: 51%). Railcar turnover improved, with the Average Number of Loaded Trips per Railcar rising by 1% year-on-year, while the Average Distance of Loaded Trips increased by 6%.
- The Group's Total Fleet expanded to 68,511 units (end of 2015: 67,729 units), primarily reflecting the acquisition of gondola cars from the secondary market and new petrochemical tank containers[3].

Significant Freight Rail Turnover growth in bulk cargo segment

In 2016, Globaltrans delivered strong operational results, with its overall Freight Rail Turnover rising by 8% year-on-year to 182.0 billion tonnes-km, outperforming the overall market, which expanded by 2%. The Group's Transportation Volumes climbed by 2% to 103.3 million tonnes. Globaltrans' market share of Russian freight rail turnover increased to 7.8%, from 7.3% in 2015.

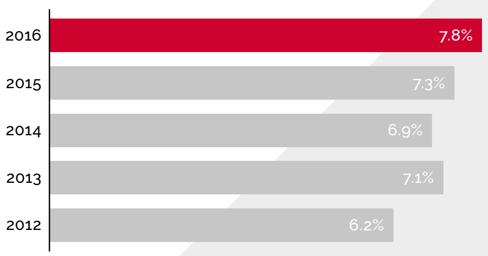
Globaltrans strengthened its position in the bulk cargo segment in the reporting period, exploiting its solid operational platform and superior customer service. Its Freight Rail Turnover for bulk cargoes climbed by 11% year-on-year, driven mainly by metallurgical cargoes (up 11%), coal (up 13%) and construction materials (up 3%). Bulk cargoes comprised 87% of the Group's Freight Rail Turnover in 2016.

Globaltrans' Freight Rail Turnover (billion tonnes-km), 2012-16



Source: Globaltrans

Globaltrans' market share of Russia's overall freight rail turnover, 2012-16



Source: Globaltrans

1 Globaltrans' Freight Rail Turnover (excluding the Engaged Fleet) increased by 10% year-on-year in 2016.
2 The Group's market share of overall Russian transportation volumes was 8.4% in 2016 (2015: 8.3%).
3 In 2016 the Group acquired 665 gondola cars from the secondary market and 550 new petrochemical tank containers; 278 railcars having reached the end of useful life were scrapped and 422 specialised railcars were sold. The Group's Total Fleet as of the end of 2015 was restated to include 380 petrochemical tank containers leased-in from third parties.

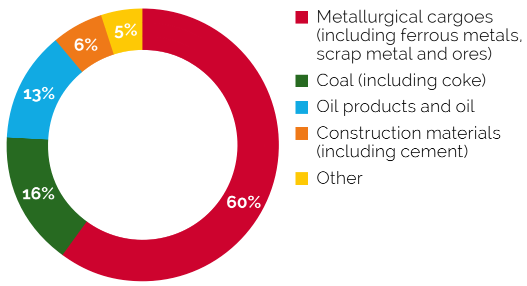
Operational Performance continued

Globaltrans' Freight Rail Turnover, 2015-16 (billion tonnes-km)

	2015	2016	Change, %
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	98.5	**109.8**	11%
Coal (including coke)	26.2	**29.7**	13%
Oil products and oil	25.7	**22.8**	-11%
Construction materials (including cement)	10.4	**10.7**	3%
Other	7.7	**9.0**	18%
Total	**168.5**	**182.0**	**8%**

Source: Globaltrans

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2016



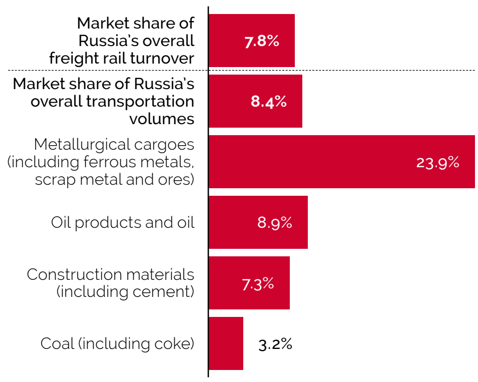
Source: Globaltrans

Thanks to a proven track record of successful collaboration with Russia's largest metals companies, Globaltrans maintains a strong position in the metallurgical cargoes segment, with a 23.9% market share of respective overall volumes. In 2016, its Freight Rail Turnover for metallurgical cargoes (including ferrous metals, iron ore and scrap metal) rose by 11% year-on-year to 109.8 billion tonnes-km, accounting for 60% of the Group total. The main drivers were ferrous metal (up 13%), iron ore (up 9%) and scrap metal (up 41%).

Globaltrans' key clients in this segment include such names as MMK, Metalloinvest, EVRAZ, TMK and Severstal. It works with the two main ones, MMK and Metalloinvest, under long-term contracts and covers most of their freight rail transportation needs.

Globaltrans' Freight Rail Turnover for coal (including coke) increased by 13% year-on-year to 29.7 billion tonnes-km in 2016, or 16% of the total. In 2016, the Group's market share of coal shipments by rail was 3.2%.

Globaltrans' market share, 2016



Source: Globaltrans, Rosstat

23.9%

The Group's market share of Russia's rail shipments of metallurgical cargoes in 2016

Demand for transportation of oil products and oil was weak in the reporting period. This was primarily due to new pipeline capacity being commissioned and refined product output declining. Against this backdrop, Globaltrans' Freight Rail Turnover for this segment decreased by 11% year-on-year to 22.8 billion tonnes-km, and volumes by 7%. Its market share of the segment amounted to 8.9%. This segment contributed 13% of the Group's Freight Rail Turnover in 2016.

Rosneft and Gazprom Neft, two major players in the oil industry, remain Globaltrans' key clients in this segment. Globaltrans also serves Rosneft under a long-term contract.

As for construction materials (including cement), the Group's Freight Rail Turnover rose by 3% year-on-year to 10.7 billion tonnes-km in 2016, or 6% of the total, while its market share stood at 7.3%. Globaltrans' Freight Rail Turnover of other cargoes also increased by 18% to 9.0 billion tonnes-km, or 5% of its total. Other cargoes include bitumen, forest products, slag and others.

In the reporting period, the Group's Average Rolling Stock Operated grew by 2% year-on-year to 55,178 units. An increase in the average number of gondolas operated was partly offset by a fall in that of rail tanks and other railcars operated. Changes in logistics enabled gains in transportation speed. The Average Number of Loaded Trips per Railcar increased by 1% year-on-year and the Average Distance of Loaded Trips by 6%.

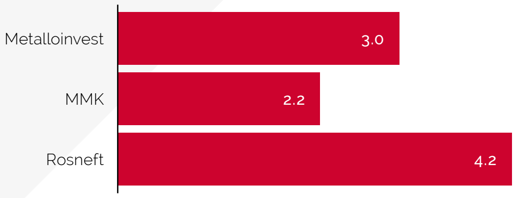
Long-term partnerships with clients

Notable achievements by Globaltrans in 2016 included the successful extension of long-term contracts with two major clients. At the beginning of the year, the Group extended its long-term service agreement with Rosneft, Russia's largest oil company, for a further five years. Globaltrans has been handling Rosneft's transportation needs for many years now, providing its unique block train service, which optimises delivery times and enhances operational efficiency. At the year-end, the Group extended its long-term contract with Metalloinvest, a leading global producer of iron ore and hot briquetted iron, for three years. Globaltrans fulfils 100% of its freight rail transportation needs, and the agreement underscores its commitment to efficiency and service quality.

Globaltrans also has a long-term contract with MMK, one of the largest steelmakers in Russia and in the world. In addition, the Group works under framework agreements with clients EVRAZ, UGMK-Trans, TMK, Severstal and others.

In 2016, long-term contracts accounted for 62% of Globaltrans' Net Revenue from Operation of Rolling Stock.

Remaining period of key long-term service contracts (years; at end-2016)



Source: Globaltrans

High operational efficiency

Globaltrans recognises that efficient fleet management is the key to operational excellence. The Group has a single 24/7 dispatching centre, which monitors more than 40 thousand gondola cars in real time. In 2016, its Empty Run Ratio for gondola cars improved to 38%, from 39% a year earlier.

The logistics in certain segments can also be exploited to improve efficiency. With metals companies, railcars delivering raw materials can be turned around to ship finished goods, enabling Globaltrans to conduct end-to-end operations. The transportation of construction materials helps to optimise our Empty Run Ratio. In 2016, amid changes in logistics in the oil products and oil segment, the Group's Empty Run Ratio for rail tank cars and other railcars improved to 99%, compared with 104% in 2015. The Group's Total Empty Run Ratio (for all types of rolling stock) was reduced to 48%, compared with 51% a year earlier.

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

	2015	2016
Rosneft	40%	**34%**
MMK	12%	**14%**
Metalloinvest	11%	**13%**
Gazprom Neft	8%	**8%**
EVRAZ	4%	**5%**
Sovfracht	3%	**1%**
UGMK-Trans	2%	**2%**
TMK	1%	**1%**
Severstal	1%	**1%**
NNK	1%	**1%**
Other (including small and medium enterprises)	17%	**20%**
Total	**100%**	**100%**

Source: Globaltrans

Operational Performance continued

Large and modern fleet

At the end of 2016, Globaltrans' Total Fleet stood at 68,511 units, of which 89% was Owned Fleet (60,846 units) and 11% Leased-in Fleet (7,665 units). The Leased-in Fleet enables the Group to adapt to a changing market environment. Occasionally, to meet additional orders, Globaltrans engages railcars from third parties for individual trips. As of the year-end, the Group engaged about 8 thousand units of rolling stock.

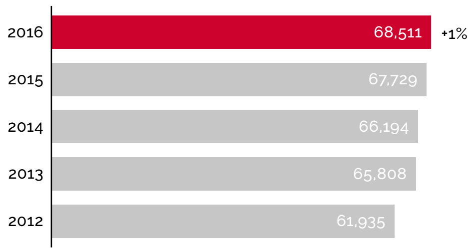
Globaltrans' railcar fleet remains one of the largest and most modern in the industry, with an average age of 10.3 years at the end of 2016. Gondola cars, which are used for bulk cargo transportation, have always been the Group's key focus. At the year-end, its gondola fleet consisted of 43,276 units or 63% of the Total Fleet. The average age of the gondola fleet was 8.9 years, while the useful life of gondola cars is 22 years.

At the end of 2016, Globaltrans' rail tank cars, which are used to transport oil products and oil, accounted for 33% of the Total Fleet (22,475 units). The useful life of rail tank cars is 32 years, while the average age of the Group's rail tank fleet is 13.3 years. Globaltrans also operates other railcars (platforms, hoppers and others), which make up 2% of the Total Fleet (1,605 units). The tank container fleet, which comprises 1,080 units, is used to transport petrochemicals, a niche project that the Group started in 2014.

One of Globaltrans' competitive advantages is its ability to offer clients shipments in block trains using its own locomotives. The Group has one of the largest privately owned locomotive fleets in Russia: at the end of 2016, it comprised 75 units, which are primarily used for oil products and oil.

Globaltrans deploys about 85% of its rolling stock in the core freight rail transportation business. The remaining 15% (10,222 units), which primarily consists of rail tanks, is leased to clients in Russia and the CIS.

Globaltrans' Total Fleet, year-end, 2012-16



Source: Globaltrans

Globaltrans' Total Fleet by type, at end-2016 (units)

	Owned	Leased-in	Total	% of total
Gondola cars	40,702	2,574	**43,276**	**63%**
Rail tank cars	18,387	4,088	**22,475**	**33%**
Petrochemical tank containers	700	380	**1,080**	**2%**
Other cars (including flat and hopper cars, etc)	982	623	**1,605**	**2%**
Locomotives	75	0	**75**	**0.1%**
Total	**60,846**	**7,665**	**68,511**	**100%**

63%

The share of gondola cars in the Group's Total Fleet at the end of 2016

Case study

SYNTEZ RAIL

"Globaltrans founded SyntezRail two years ago as part of a niche project to develop its petrochemicals transportation business.

The move has proved to be prudent. SyntezRail is expanding successfully. At the end of 2016, the subsidiary had more than 1,000 petrochemical tank containers in its fleet, of which around 700 were owned. It plans to continue this drive in 2017 and beyond, depending on market demand.

In another promising sign, SyntezRail's client base more than doubled in 2016. In less than two full years, the subsidiary has shown that it can fulfil the needs of Russia's largest petrochemicals producers and consumers across the wider region. Clients include both leading petrochemicals, metals and freight-forwarding companies in the industry, such as EVRAZ, Metalloinvest, Bashkhim, Transneftekhim, MMK, NLMK and Kazanorgsintez, among others."

Pavel Shidlovsky
Chief Executive Officer of SyntezRail

Financial Review

SOLID RECOVERY ACROSS KEY FINANCIAL INDICATORS AND CONTINUED DELEVERAGING

Globaltrans reported a strong set of financial results in 2016, and I am particularly proud of the improvement in key financial indicators given the prevailing conditions. One of the main drivers was the gondola segment, where volumes of bulk cargoes increased strongly, compensating for weaker demand for rail tank cars in the oil product and oil business. Alongside increasing the top and bottom lines, we demonstrated exemplary cost control, particularly given the inflationary environment. We also continued to generate strong cash flow, and the proposed strong 2016 dividend again reinforces our commitment to delivering value to shareholders.

Going into 2017, the Group is in excellent shape, with leading market positions, a first-class reputation among clients and one of the strongest balance sheets in the industry. I look forward to us capitalising on these advantages further as conditions improve.

Alexander Shenets
Chief Financial Officer

+10%

Year-on-year increase in Adjusted EBITDA

40%*

Adjusted EBITDA Margin (2015: 38%*)

Highlights

- Adjusted Revenue rose by 5% year-on-year to RUB 44.2 billion*, supported by strong results in the gondola business.
- Excellent cost control was maintained, with Total Operating Cash Costs up just 1% year-on-year, well below the rise in the Group's Freight Rail Turnover and regulated RZD tariffs[1].
- Operating profit increased by 24% year-on-year to RUB 10.8 billion.
- Adjusted EBITDA recovered strongly, up by 10% year-on-year to RUB 17.7 billion*, driving the Adjusted EBITDA Margin to 40%* (2015: 38%*).
- Free Cash Flow was strong at RUB 8.9 billion* (2015: RUB 9.6 billion*), despite a RUB 2.9 billion increase in capital expenditure[2].
- Profit for the year increased by 37% year-on-year to RUB 6.1 billion. Profit attributable to owners of the Company[3] was up by 113% year-on-year to RUB 4.5 billion, supported by the good performance of the wholly owned gondola business.
- Net Debt to Adjusted EBITDA improved to 0.7x* (end of 2015: 1.0x*), making the Group's balance sheet one of the strongest in the industry.
- Net Debt was down by 29% to RUB 11.5 billion*, compared with the end of 2015. Almost 100% of debt is rouble-denominated.

RUB 8.9bn*

Free Cash Flow (2015: 9.6 billion*)

0.7x*

Net Debt to Adjusted EBITDA (end of 2015: 1.0x*)

1 Globaltrans' Freight Rail Turnover (excluding the Engaged Fleet) increased by 10% year-on-year in 2016. The RZD-regulated infrastructure and locomotive tariffs (including for the traction of empty railcars) rose by 9% year-on-year from January 2016. Empty Run Cost is the largest component of the Group's Total Operating Cash Costs.

2 The Group's CAPEX on a cash basis (including "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets" and "Acquisition of subsidiary undertakings – net of cash acquired").

3 Adjusted profit attributable to owners of the Company was up by 44% year-on-year. For 2015, it was adjusted to exclude the impact of the impairment of customer relationships related to the service contracts with MMK, totalling RUB 996 million. For 2016, no adjustments were made.

Financial Review continued

Results in detail

The following table provides the Group's key financial and operational information for 2016 and 2015.

EU IFRS financial information

	2015 RUB mln	2016 RUB mln	Change %
Revenue	68,200	**69,488**	2%
Including			
Total revenue – operators' services	65,177	**67,195**	3%
Total revenue – operating lease	2,408	**1,473**	−39%
Total cost of sales, selling and marketing costs and administrative expenses	(58,763)	**(58,780)**	0%
Operating profit	8,757	**10,824**	24%
Finance costs – net	(2,945)	**(2,312)**	−21%
Profit before income tax	5,758	**8,451**	47%
Income tax expense	(1,290)	**(2,336)**	81%
Profit for the year	4,468	**6,115**	37%
Attributable to:			
Owners of the Company	2,104	**4,473**	113%
Non-controlling interests	2,365	**1,642**	−31%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	11.77	**25.02**	113%

	2015 RUB mln	2016 RUB mln	Change %
Cash generated from operating activities	16,228	**17,663**	9%
Tax paid	(1,322)	**(1,588)**	20%
Net cash from operating activities	14,905	**16,076**	8%
Net cash used in investing activities	(1,725)	**(4,482)**	160%
Net cash used in financing activities	(13,614)	**(10,615)**	−22%

Non-GAAP financial information

	2015 RUB mln	2016 RUB mln	Change %
Adjusted Revenue	42,176*	**44,249***	5%
Including			
Net Revenue from Operation of Rolling Stock	38,332*	**41,757***	9%
Operating leasing of rolling stock	2,408	**1,473**	−39%
Net Revenue from Engaged Fleet	821*	**199***	−76%
Total Operating Cash Costs	26,201*	**26,490***	1%
Including			
Empty Run Cost	11,804*	**12,428***	5%
Repairs and maintenance	3,681	**3,605**	−2%
Employee benefit expense	3,440	**2,946**	−14%
Operating lease rentals – rolling stock	1,334	**1,557**	17%
Adjusted EBITDA	16,086*	**17,677***	10%
Adjusted EBITDA Margin, %	38%*	**40%***	–
Free Cash Flow	9,614*	**8,882***	−8%
Attributable Free Cash Flow	7,249*	**7,240***	0%
Adjusted profit attributable to owners of the Company[4]	3,100*	**4,473***	44%

4 For 2015, profit was adjusted to exclude the impact of the impairment of customer relationships related to the service contracts with MMK, totalling RUB 996 million. For 2016, no adjustments were made.

Debt profile

	As of 31 Dec 2015 RUB mln	As of 31 Dec 2016 RUB mln	Change %
Total debt	20,359	**16,292**	–20%
Cash and cash equivalents	4,104	**4,773**	16%
Net Debt	16,255*	**11,519***	–29%
Net Debt to Adjusted EBITDA (x)	1.0*	**0.7***	–

Operational information

	2015	2016	Change, %
Freight Rail Turnover, billion tonnes-km (including Engaged Fleet)	168.5	**182.0**	8%
Transportation Volume, million tonnes (including Engaged Fleet)	101.3	**103.3**	2%
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	146.5	**160.7**	10%
Transportation Volume, million tonnes (excluding Engaged Fleet)	90.1	**92.6**	3%
Market share of overall Russian freight rail turnover, %	7.3%	**7.8%**	–
Average Price per Trip, RUB	27,294	**28,975**	6%
Average Rolling Stock Operated, units	54,251	**55,178**	2%
Average Distance of Loaded Trip, km	1,620	**1,723**	6%
Average Number of Loaded Trips per Railcar	25.9	**26.1**	1%
Total Empty Run Ratio (for all types of rolling stock), %	51%	**48%**	–
Empty Run Ratio for gondola cars, %	39%	**38%**	–
Share of Empty Run Kilometres paid by Globaltrans	88%	**88%**	–
Total Fleet, units (at year-end), including:	67,729	**68,511**	1%
Owned Fleet, units (at year-end)	60,181	**60,846**	1%
Leased-in Fleet, units (at year-end)	7,548	**7,665**	2%
Average age of Owned Fleet, years (at year-end)	9.5	**10.3**	–
Leased-out Fleet, units (at year-end)	9,958	**10,222**	3%
Total number of employees (at year-end)	1,537	**1,552**	1%

Revenue

The Group's Total revenue rose by 2% year-on-year to RUB 69,488 million in 2016, reflecting a 5% year-on-year increase in Adjusted Revenue, which was partly offset by a 3% year-on-year decline in "pass-through" items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations").

The following table provides details of Total revenue, broken down by revenue-generating activity, for 2016 and 2015.

	2015 RUB mln	2016 RUB mln	Change %
Railway transportation – operators' services (tariff borne by the Group)[5]	46,505	**42,658**	–8%
Railway transportation – operators' services (tariff borne by the client)	18,672	**24,538**	31%
Operating leasing of rolling stock	2,408	**1,473**	–39%
Other	615	**820**	33%
Total revenue	**68,200**	**69,488**	**2%**

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 RZD, which are reflected in equal amounts in 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 the Group's Total revenue and Cost of sales. The net result of Engaged Fleet operations is reflected as Net Revenue from Engaged Fleet, being a part of Adjusted Revenue.

The Group's Adjusted Revenue was up by 5% year-on-year to RUB 44,249 million* in 2016, primarily reflecting the 9% year-on-year increase in Net Revenue from Operation of Rolling Stock and a decline in revenues from auxiliary leasing and Engaged Fleet operations.

5 Includes "Infrastructure and locomotive tariffs: loaded trips" for 2016 of RUB 22,251 million (2015: RUB 23,326 million) and "Services provided by other transportation organisations" of RUB 2,988 million (2015: RUB 2,698 million).

Financial Review continued

The following table provides details of Adjusted Revenue for 2016 and 2015 and its reconciliation to Total revenue.

	2015 RUB mln	2016 RUB mln	Change %
Total revenue	68,200	**69,488**	2%
Minus "pass-through" items			
Infrastructure and locomotive tariffs: loaded trips	23,326	**22,251**	–5%
Services provided by other transportation organisations	2,698	**2,988**	11%
Adjusted Revenue	**42,176***	**44,249***	**5%**

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 Adjusted Revenue for 2016 and 2015.

	2015 RUB mln	2016 RUB mln	Change %
Net Revenue from Operation of Rolling Stock	38,332*	**41,757***	9%
Operating leasing of rolling stock	2,408	**1,473**	–39%
Net Revenue from Engaged Fleet	821*	**199***	–76%
Other	615	**820**	33%
Adjusted Revenue	**42,176***	**44,249***	**5%**

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure describing the net revenue generated from freight rail transportation and is defined as "Total revenue – operators' 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 94% of the Group's Adjusted Revenue in 2016.

The following table provides Net Revenue from Operation of Rolling Stock for 2016 and 2015, and its reconciliation to "Total revenue – operators' services".

	2015 RUB mln	2016 RUB mln	Change %
Total revenue – operators' services[6]	65,177	**67,195**	3%
Minus			
Infrastructure and locomotive tariffs: loaded trips	23,326	**22,251**	–5%
Services provided by other transportation organisations	2,698	**2,988**	11%
Net Revenue from Engaged Fleet	821*	**199***	–76%
Net Revenue from Operation of Rolling Stock	**38,332***	**41,757***	**9%**

The Group's Net Revenue from Operation of Rolling Stock increased by 9% year-on-year to RUB 41,757 million* in 2016. The key factors that contributed to this performance included:

- Strong results for the gondola car segment, partly offset by a weak performance in the rail tank car segment;
- Average Price per Trip increased by 6% year-on-year to RUB 28,975;
- Average Rolling Stock Operated rose by 2% year-on-year to 55,178 units, primarily reflecting a rise in the number of leased-in gondola cars; and
- Average Number of Loaded Trips per Railcar increased by 1% year-on-year to 26.1 trips, while the Average Distance of Loaded Trips rose by 6% year-on-year to 1,723 km.

Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock, which contributed 3% of the Group's Adjusted Revenue in 2016, was down by 39% year-on-year to RUB 1,473 million, primarily reflecting a combination of the decline in the leasing rates for rail tank cars and a lower average number of rolling stock leased out during the reporting year.

Net Revenue from Engaged Fleet

Net Revenue from Engaged Fleet is a non-GAAP financial measure 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").

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

Net Revenue from Engaged Fleet, comprising less than 1% of the Group's Adjusted Revenue in 2016, decreased by 76% year-on-year to RUB 199 million*. This was primarily driven by lower profitability of the Engaged Fleet operations on the back of the gondola segment recovery.

As of the end of 2016, the Group engaged about 8 thousand units of rolling stock from third parties to meet demand under service contracts not covered by Owned and Leased-in Fleets.

Other revenue

Other revenue (2% of the Group's Adjusted Revenue), which primarily includes revenues from auxiliary services, increased by 33% year-on-year to RUB 820 million. This primarily reflected a rise in revenue from the transportation of petrochemicals in tank containers, as newly acquired tank containers started to be gradually commissioned into operation throughout 2016.

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 2016 and 2015.

	2015 RUB mln	2016 RUB mln	Change %
Cost of sales	54,228	**54,906**	1%
Selling and marketing costs	295	**235**	–20%
Administrative expenses	4,240	**3,639**	–14%
Total cost of sales, selling and marketing costs and administrative expenses	**58,763**	**58,780**	**0%**

In 2016, the Group's Total cost of sales, selling and marketing costs and administrative expenses remained flat year-on-year at RUB 58,780 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") decreased by 3% year-on-year to RUB 25,239 million*;
- The Group's Cost of sales, selling and marketing costs and administrative expenses adjusted for the "pass-through" cost items increased by 2% year-on-year to RUB 33,541 million* in 2016, which reflected:
  - Excellent cost control, with Total Operating Cash Costs maintained broadly at the level of the previous year – up 1% year-on-year to RUB 26,490 million*. This is substantially below the rise in business volumes (the Group's Freight Rail Turnover (excluding Engaged Fleet) was up by 10% year-on-year) and the 9% year-on-year increase in regulated RZD tariffs (including for the traction of empty railcars).
  - Total Operating Non-cash Costs rose by 8% year-on-year to RUB 7,051 million* in 2016, as the decline in the amortisation of intangible assets was more than offset by an increased loss on the derecognition arising on capital repairs[7], as the number of capital repairs increased during the reporting year.

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:

	2015 RUB mln	2016 RUB mln	Change %
"Pass-through" cost items	**26,024***	**25,239***	**–3%**
Infrastructure and locomotive tariffs: loaded trips	23,326	**22,251**	–5%
Services provided by other transportation organisations	2,698	**2,988**	11%
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass-through" cost items)	**32,739***	**33,541***	**2%**
Total Operating Cash Costs	**26,201***	**26,490***	**1%**
Empty Run Costs	11,804*	**12,428***	5%
Repairs and maintenance	3,681	**3,605**	–2%
Employee benefit expense	3,440	**2,946**	–14%
Operating lease rentals – rolling stock	1,334	**1,557**	17%
Fuel and spare parts – locomotives	1,615	**1,494**	–8%
Infrastructure and Locomotive Tariffs – Other Tariffs	1,318*	**1,438***	9%
Engagement of locomotive crews	516	**576**	12%
Other Operating Cash Costs	2,493*	**2,447***	–2%
Total Operating Non-cash Costs	**6,538***	**7,051***	**8%**
Depreciation of property, plant and equipment	5,016	**4,958**	–1%
Amortisation of intangible assets	1,078	**836**	–23%
Loss on derecognition arising on capital repairs	203	**887**	337%
Impairment of receivables	119	**82**	–31%
Impairment of property, plant and equipment	141	**228**	62%
Net (profit)/loss on sale of property, plant and equipment	(20)	**59**	NM
Total cost of sales, selling and marketing costs and administrative expenses	**58,763**	**58,780**	**0%**

7 Following the harmonisation of the Group's accounting policy, 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.

Financial Review continued

"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[8] and is reflected in equal amounts in the Group's Total revenue and Cost of sales. This cost item decreased by 5% year-on-year to RUB 22,251 million in 2016, primarily due to the decline in business volumes in the rail tank car segment.

Services provided by other transportation organisations

Services provided by other transportation organisations is in principle a "pass-through" cost item for the Group. It is reflected in equal amounts in 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).

Services provided by other transportation organisations increased by 11% year-on-year to RUB 2,988 million in 2016, primarily reflecting the gondola segment recovery.

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 increased by 1% year-on-year to RUB 26,490 million* in 2016 due to a combination of factors described below.

The following table provides a breakdown of the Total Operating Cash Costs for 2016 and 2015.

	2016 % of total	2015 RUB mln	2016 RUB mln	Change %
Empty Run Costs	**47%**	11,804*	**12,428***	5%
Repairs and maintenance	**14%**	3,681	**3,605**	–2%
Employee benefit expense	**11%**	3,440	**2,946**	–14%
Operating lease rentals – rolling stock	**6%**	1,334	**1,557**	17%
Fuel and spare parts – locomotives	**6%**	1,615	**1,494**	–8%
Infrastructure and Locomotive Tariffs – Other Tariffs	**5%**	1,318*	**1,438***	9%
Engagement of locomotive crews	**2%**	516	**576**	12%
Other Operating Cash Costs	**9%**	2,493*	**2,447***	–2%
Total Operating Cash Costs	**100%**	**26,201***	**26,490***	**1%**

Empty Run Costs

Empty Run Costs (a non-GAAP financial measure) accounted for 47% of the Group's Total Operating Cash Costs in 2016. Empty Run Costs rose by 5% year-on-year to RUB 12,428 million* in 2016, less than the combined increase in the regulated RZD tariffs (including for the traction of empty railcars) and growth in the Group's Freight Rail Turnover. The increase was the result of a combination of the following factors:

- A 9% year-on-year increase in regulated RZD tariffs (including for the traction of empty railcars) and a 10% rise in the Group's Freight Rail Turnover (excluding Engaged Fleet) as well as changed logistics;
- The Group's Total Empty Run Ratio (for all types of rolling stock) declined to 48% (2015: 51%), while the Empty Run Ratio for gondola cars improved to 38% (2015: 39%); and
- The Share of Empty Run Kilometres paid by Globaltrans remained unchanged year-on-year at 88%.

Repairs and maintenance

Repairs and maintenance costs, which comprised 14% of the Group's Total Operating Cash Costs in 2016, decreased by 2% year-on-year to RUB 3,605 million. The reduction in the number of required depot repairs as a large portion of the Group's fleet went through their first capital repair was partly offset by an increase in the number of current repairs, due to strengthened industry safety regulations coupled with cost inflation related to works and spare parts.

Employee benefit expense

Employee benefit expense, which accounted for 11% of the Group's Total Operating Cash Costs, decreased by 14% year-on-year to RUB 2,946 million in 2016. This reflected a selective rise in wages and salaries as well as lower bonus payments. In addition, as the Group completed a corporate restructuring in 2015, only a small amount of termination benefit was paid in 2016.

8 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.

Operating lease rentals – rolling stock
Operating lease rentals – rolling stock, which comprised 6% of the Group's Total Operating Cash Costs in 2016, was up by 17% year-on-year to RUB 1,557 million, primarily reflecting the higher average number of gondola cars leased in from third parties as well as a rise in leasing rates for this type of rolling stock. This was partly offset by the reduction in the average number of rail tank cars leased in, as well as a decline in leasing rates for this type of rolling stock compared with 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 1,494 million in 2016, 8% lower than in the previous year. The decrease in this cost item primarily reflected the decline in the number of block train runs[9] with owned locomotives, due to weak market conditions in the oil products and oil segment.

Infrastructure and Locomotive Tariffs – Other Tariffs
Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure), 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, accounted for 5% of the Group's Total Operating Cash Costs in 2016. This cost item includes the costs of 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 the petrochemical tank container business.

Infrastructure and Locomotive Tariffs – Other Tariffs totalled RUB 1,438 million* in 2016, up 9% year-on-year, mainly reflecting a combination of the 9% year-on-year rise in the regulated RZD tariffs and an increase in relocation costs.

Engagement of locomotive crews
Costs related to the engagement of locomotive crews from RZD (2% of the Group's Total Operating Cash Costs) were up by 12% year-on-year to RUB 576 million in 2016, primarily reflecting inflationary increases effective from the second half of 2016, which were partly offset by lower service volumes due to weak market conditions in the oil products and oil segment.

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

Other Operating Cash Costs, which comprised 9% of the Group's Total Operating Cash Costs, were down by 2% year-on-year to RUB 2,447 million* in 2016. The reduction in this cost primarily reflected a decrease in Taxes (other than income tax and value added taxes), which predominantly includes property tax, and decreases in Operating lease rentals – office and Legal, consulting and other professional fees, which were partly offset by an increase in the Rental of tank containers costs and 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", "Impairment of receivables", "Impairment of property, plant and equipment", "Net profit/(loss) on sale of property, plant and equipment" and "Loss on derecognition arising on capital repairs".

The following table provides a breakdown of the Total Operating Non-cash Costs for 2016 and 2015.

	2015 RUB mln	**2016 RUB mln**	Change %
Depreciation of property, plant and equipment	5,016	**4,958**	–1%
Amortisation of intangible assets	1,078	**836**	–23%
Loss on derecognition arising on capital repairs	203	**887**	337%
Impairment of receivables	119	**82**	–31%
Impairment of property, plant and equipment	141	**228**	62%
Net (profit)/loss on sale of property, plant and equipment	(20)	**59**	NM
Total Operating Non-cash Costs	**6,538***	**7,051***	**8%**

Total Operating Non-cash Costs were up by 8% year-on-year to RUB 7,051 million* in 2016, mainly reflecting a combination of the following factors:
- Amortisation of intangible assets decreased by 23% year-on-year to RUB 836 million, due to the impairment of customer relationship with MMK booked in 2015; and
- Loss on derecognition arising on capital repairs[10] rose to RUB 887 million (2015: RUB 203 million), due to the increase in the number of capital repairs undertaken in the reporting year.

9 A block train consists of Group-operated rolling stock bound for one destination.
10 Following the harmonisation of the Group's accounting policy, 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.

Financial Review continued

Adjusted EBITDA (non-GAAP financial measure)

The Group's Adjusted EBITDA in 2016 increased by 10% year-on-year to RUB 17,677 million*. The Adjusted EBITDA Margin expanded to 40%* from 38%* in the previous year, on the back of a 5% year-on-year increase in Adjusted Revenue and broadly stable Total Operating Cash Costs (up 1% year-on-year).

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

The following table provides details on Adjusted EBITDA for 2016 and 2015, and its reconciliation to EBITDA and Profit for the year.

	2015 RUB mln	2016 RUB mln	Change %
Profit for the year	**4,468**	**6,115**	**37%**
Plus (Minus)			
Income tax expense	1,290	**2,336**	81%
Finance costs – net	2,945	**2,312**	–21%
Net foreign exchange transaction losses on financing activities	(209)	**(291)**	39%
Amortisation of intangible assets	1,078	**836**	–23%
Depreciation of property, plant and equipment	5,016	**4,958**	–1%
EBITDA	**14,589***	**16,266***	**11%**
Minus (Plus)			
Loss on derecognition arising on capital repairs	(203)	**(887)**	337%
Net foreign exchange transaction losses on financing activities	(209)	**(291)**	39%
Other gains – net	86	**116**	36%
Share of loss of associate	(54)	**(61)**	13%
Net profit/(loss) on sale of property, plant and equipment	20	**(59)**	–399%
Impairment of property, plant and equipment	(141)	**(228)**	62%
Impairment of intangible assets	(996)	**–**	–100%
Adjusted EBITDA	**16,086***	**17,677***	**10%**

Finance income and costs

The following table provides a breakdown of Finance income and costs for 2016 and 2015.

	2015 RUB mln	2016 RUB mln	Change %
Included in finance costs:			
Borrowings from third parties	(2)	(2)	–3%
Bank borrowings	(2,758)	(2,271)	–18%
Non-convertible bond	(194)	–	–100%
Finance leases	(1)	–	–100%
Total interest expense	(2,955)	(2,274)	–23%
Other finance costs	(42)	(7)	–84%
Total finance costs	**(2,996)**	**(2,280)**	**–24%**
Included in finance income:			
Loans receivables from third parties	5	0.2	–97%
Bank balances	96	60	–38%
Short-term deposits	159	183	15%
Finance leases	–	16	NM
Total interest income	260	259	0%
Total finance income	**260**	**259**	**0%**
Net foreign exchange transaction losses on borrowings and other liabilities	(163)	(1)	–99%
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	(46)	(290)	528%
Net foreign exchange transaction losses on financing activities	**(209)**	**(291)**	**39%**
Net finance costs	**(2,945)**	**(2,312)**	**–21%**

Total finance costs
Total finance costs decreased by 24% year-on-year to RUB 2,280 million in 2016, primarily reflecting the reduction of the Group's total debt and the decline in the Group's weighted average effective interest rate.

Total finance income
In 2016, the Group's total finance income stood unchanged year-on-year at RUB 259 million, reflecting a decrease in interest rates on bank balances, an increase in the amount of short-term bank deposits and additional income derived from finance leases.

Net foreign exchange transaction losses on financing activities
Net foreign exchange transaction losses on borrowings and other liabilities amounted to RUB 1 million in 2016, compared with RUB 163 million in the previous year, which reflects the increase in the proportion of rouble-denominated debt to almost 100% of the Group's debt as of the end of 2016.

In 2016, the Group recorded Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets of RUB 290 million, compared with RUB 46 million in the previous year. This increase reflects the foreign exchange volatility on the available cash and cash equivalents denominated in foreign currency.

Profit before income tax
The Group reported Profit before income tax of RUB 8,451 million in 2016, up 47% compared with the previous year. This increase was driven by the 24% year-on-year rise in the Group's Operating profit to RUB 10,824 million, largely reflecting the factors described above, along with a 21% year-on-year reduction in Net finance costs to RUB 2,312 million.

Income tax expense
Income tax expense increased by 81% year-on-year to RUB 2,336 million in 2016, reflecting the 47% year-on-year rise in the Group's Profit before income tax as well as the higher weighted average effective tax rate for 2016 of 27.6% (22.4% in 2015).

The increase in the weighted average effective tax rate primarily reflects the increase in the provision for withholding tax on intra-group dividends due to the expected rise in dividend distribution by subsidiaries in the foreseeable future.

Profit for the year/Profit attributable to owners of the Company
The Group's Profit for the year was RUB 6,115 million in 2016, up 37% year-on-year, reflecting the factors described above.

Profit attributable to owners of the Company increased by 113% year-on-year to RUB 4,473 million, benefiting from the positive contribution from the wholly owned gondola business, which delivered a strong performance as described above.

Adjusted profit attributable to owners of the Company increased by 44% year-on-year. For 2015, it was adjusted to exclude the impact of the impairment of customer relationships related to the service contracts with MMK, totalling RUB 996 million. For 2016, no adjustments were made.

Liquidity and capital resources
In 2016, the Group's large-scale capital expenditure (CAPEX) for expansion remained on hold and 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 2015, and proceeds from borrowings.

The Group manages its liquidity based on expected cash flows. As at 31 December 2016, it had Net Working Capital of RUB 2,565 million*. Using its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to operate successfully.

Financial Review continued

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for 2016 and 2015.

	2015 RUB mln	**2016 RUB mln**
Cash flows from operating activities	16,249	**17,875**
Changes in working capital:		
Inventories	56	**202**
Trade and other receivables	1,449	**(268)**
Trade and other payables	(1,527)	**(146)**
Cash generated from operating activities	16,228	**17,663**
Tax paid	(1,322)	**(1,588)**
Net cash from operating activities	**14,905**	**16,076**
Cash flows from investing activities		
Loans granted to third parties	(86)	**–**
Loan repayments received from third parties	20	**16**
Purchases of property, plant and equipment	(2,007)	**(4,932)**
Purchases of intangible assets	–	**(10)**
Proceeds from disposal of property, plant and equipment	93	**177**
Interest received	255	**262**
Receipts from finance lease receivable	–	**4**
Net cash used in investing activities	**(1,725)**	**(4,482)**
Cash flows from financing activities		
Net cash outflows from borrowings and financial leases[11]	(7,634)*	**(4,088)***
Interest paid	(3,285)	**(2,252)**
Proceeds from disposal of non-controlling interests	0.2	**–**
Contribution from non-controlling interests	–	**8**
Dividends paid to Company's shareholders	–	**(2,218)**
Dividends paid to non-controlling interests	(2,696)	**(2,065)**
Net cash used in financing activities	**(13,614)**	**(10,615)**
Net (decrease)/increase in cash and cash equivalents	(434)	**978**
Exchange losses on cash and cash equivalents	(109)	**(309)**
Cash and cash equivalents at beginning of year	4,648	**4,104**
Cash and cash equivalents at the end of year	**4,104**	**4,773**

11 Net cash inflows (outflows) from borrowings and financial leases are defined as the balance between the following line items: "Proceeds from borrowings", "Repayments of borrowings" and "Finance lease principal payments".

Net cash from operating activities

Net cash generated from operating activities rose by 8% year-on-year to RUB 16,076 million in 2016, reflecting a combination of the 10% year-on-year increase in Cash flows from operating activities[12], primarily due to the factors described above, and the 20% year-on-year increase in Tax paid.

Net cash used in investing activities

Net cash used in investing activities rose by 160% year-on-year to RUB 4,482 million, mostly reflecting an increase in CAPEX, which was partly offset by an increase in proceeds from the sale of property, plant and equipment and interest received. Purchases of property, plant and equipment increased 146% to RUB 4,932 million, due to selective acquisitions of gondola cars and petrochemical tank containers as well as higher maintenance CAPEX amid a rise in the number of capital repairs (as a large portion of the fleet reached the age of a first capital repair).

Net cash used in financing activities

Net cash used in financing activities was RUB 10,615 million in 2016, down 22% compared with the previous year. This was due to a combination of the following factors:

- Net cash outflows from borrowings and finance leases[11] down by 46% year-on-year to RUB 4,088 million* in 2016, as the Group combined deleveraging with use of cash for dividends and increased CAPEX in the reporting year;
- The 31% year-on-year decrease in Interest paid to RUB 2,252 million in 2016, mainly reflecting the improvement in the Group's weighted average effective interest rate and a decrease in total debt;
- The payment of dividends to Company's shareholders of RUB 2,218 million in 2016; and
- The payment of RUB 2,065 million in dividends to non-controlling interests, compared with the RUB 2,696 million paid in the previous year.

Free Cash Flow

Free Cash Flow (a non-GAAP financial measure) is calculated as "Cash generated from operating activities" (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 8,882 million* in 2016, down 8% year-on-year, which primarily reflected a combination of the following factors:

- An increase in Cash generated from operating activities (after changes in working capital) by 9% year-on-year, primarily due to the factors described above; and
- A 146% year-on-year rise in costs related to Purchase of property, plant and equipment (which includes maintenance CAPEX) and a 20% year-on-year increase in Tax paid, partly offset by a 31% year-on-year reduction in Interest paid.

The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for 2016 and 2015, and its reconciliation to Cash generated from operating activities.

	2015 RUB mln	2016 RUB mln	Change %
Cash generated from operating activities	16,228	**17,663**	9%
Tax paid	(1,322)	**(1,588)**	20%
Interest paid	(3,285)	**(2,252)**	–31%
Purchases of property, plant and equipment	(2,007)	**(4,932)**	146%
Purchases of intangible assets	–	**(10)**	NM
Free Cash Flow	**9,614***	**8,882***	**–8%**
Minus			
Adjusted Profit Attributable to Non-controlling Interests[13]	2,365*	**1,642***	–31%
Attributable Free Cash Flow	**7,249***	**7,240***	**0%**

12 Before changes in working capital.

13 For 2015 and 2016, there was no "Impairment of property, plant and equipment" nor "Impairment of intangible assets" attributable to non-controlling interests.

Financial Review continued

Capital expenditure

The Group's capital expenditure for the acquisition of fleet (including maintenance CAPEX) on an accrual basis[14] was RUB 4,808 million in 2016, up 157% compared with the previous year.

This higher capital expenditure reflects selective acquisitions of gondola cars and petrochemical tank containers, as well as the increased number of capital repairs in the reporting year due to a large portion of the Group's fleet reaching the age of requiring a first capital repair. In 2016, the Group had acquired 665 gondola cars from the secondary market and 550 new petrochemical tank containers.

Capital resources

The Group continued deleveraging in 2016. Its financial indebtedness consisted of bank borrowings for an aggregate principal amount of RUB 16,292 million (including accrued interest of RUB 36 million*) as of the end of 2016, down 20% compared with the end of the previous year.

The Group's Net Debt was RUB 11,519 million* at the end of 2016, down 29% from the end of 2015.

The Group's leverage further improved with a ratio of Net Debt to Adjusted EBITDA of 0.7x* at the end of 2016, compared with 1.0x* at the end of 2015.

The following table sets out details on the Group's total debt, Net Debt and Net Debt to Adjusted EBITDA at the end of 2016 and 2015, and reconciliation of Net Debt to total debt.

	As of 31 Dec 2015 RUB mln	**As of 31 Dec 2016 RUB mln**	Change %
Total debt	20,359	16,292	–20%
Minus			
Cash and cash equivalents	4,104	4,773	16%
Net Debt	**16,255***	**11,519***	**–29%**
Net Debt to Adjusted EBITDA (x)	**1.0***	**0.7***	**–**

Rouble-denominated borrowings accounted for almost 100% of the Group's debt portfolio at the end of 2016.

The weighted average effective interest rate further reduced to 11.0%* at the end of 2016, compared with 12.0%* at the end of the previous year, on the back of improving conditions in the Russian financial market. The vast majority of the Group's debt had fixed interest rates at the end of 2016.

The Group has a balanced maturity profile, supported by the Group's strong cash flow generation and available cash and cash equivalents, as well as undrawn credit facilities[15] totalling RUB 20,820 million at the end of 2016.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of RUB 36 million*) at the end of 2016.

	As of 31 Dec 2016 RUB mln
Q1 2017	**2,173***
Q2 2017	**1,420***
Q3 2017	**1,577***
Q4 2017	**1,428***
2018	**4,841***
2019	**3,868***
2020–22	**985***
Total	**16,292**
Free Cash Flow	**8,882***
Cash and cash equivalents	**4,773**
Undrawn credit facilities[15]	**20,820**

14 Including assets under construction.
15 Including unissued registered rouble-denominated exchange-traded bonds totalling RUB 15,000 million.

Related party transactions

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

Marigold Investments, Onyx Investments and Maple Valley Investments[16] are Company shareholders with a direct shareholding as at 31 December 2015 and as at 31 December 2016 of 11.5% each.

As at 1 January 2015, Litten Investments Limited[17] and Goldriver Resources Limited[18], both controlled by members of key management of the Group, had a shareholding in the Company of 6.3% and 4.5% respectively through ordinary shares and global depository receipts (GDRs). As from November 2015, Goldriver Resources Limited is not a related party to the Group. As of 31 December 2016, Litten Investment Limited, controlled by a member of key management of the Group, has a shareholding in the Company of 6.3% (31 December 2015: 6.3%).

As at 31 December 2016, 59% (31 December 2015: 59%) of the shares represent the free market float of GDRs and ordinary shares held by investors not affiliated or associated with the Company. The remaining 0.2% (31 December 2015: 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 2016 and 2015.

	2015 RUB mln	**2016 RUB mln**
Sales of services	2	**0.3**
Purchases of goods and services	209	**–**
Additions of property, plant and equipment	22	**–**
Profit on disposal of property, plant and equipment	1	**–**
Key management compensation[19]	1,036	**759**

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

	2015 RUB mln	**2016 RUB mln**
Trade receivable: associate	8	**1**
Accrued key management remuneration	504	**385**

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

	2015 RUB mln	**2016 RUB mln**
Group as a lessee	–	**31**
Group as a lessor	–	**99**

More information is available in Note 30 to the Group's consolidated financial statements included in the Financial Statements section of this Annual Report.

16 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, a leading container port operator, servicing Russian cargo flows, which is also listed on the London Stock Exchange.

17 Beneficially owned by Alexander Eliseev, non-executive Director and co-founder of Globaltrans.

18 Goldriver Resources Limited has been beneficially owned by Sergey Maltsev, co-founder and former Chief Executive Officer of Globaltrans. Mr Maltsev resigned in November 2015 and transferred his 4.5% shareholding in Globaltrans to a trust. Mr Maltsev therefore no longer has the power to vote or otherwise exercise control over the shareholding.

19 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 131 million (2015: RUB 230 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 probability of occurrence or magnitude of 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), in the future.

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 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 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, increased the cost of borrowing, 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, 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. 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. 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 regulation 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 freight rail 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 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. 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 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.

Risk Management continued

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

Risk	Description	Controls and mitigating factors
Competition and customer concentration	The Russian 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 80% of the Group's Net Revenue from Operation of Rolling Stock in 2016. 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 62% of the Group's Net Revenue from Operation of Rolling Stock in 2016 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. 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.

Risk Management continued

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 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.	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 borrowings in its credit portfolio. As of 31 December 2016, around 100% of the Group's debt was denominated in Russian roubles.

Risk Management continued

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 2016, the proportion of total debt with a fixed interest rate amounted to around 100%*. 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 its affiliates and suppliers. Its top 10 clients accounted for 70% of the Group's trade and other receivables as of 31 December 2016 and around 80% of the Group's Net Revenue from Operation of Rolling Stock in 2016.	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 limited the Group's access to international sources of funding. The lack of available funding from international and Russian sources and 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.

Case study

BaltTransServis

"One of our most noteworthy achievements in 2016 was the extension of our long-term contract with Rosneft, Russia's largest oil producer, for another five years. Globaltrans fulfils Rosneft's needs, providing best-in-class rail freight services for its oil products and oil, including using client-dedicated block trains.

Throughout 2016, the oil products and oil segment of the freight rail market was under pressure amid sluggish demand. In response to this and our clients' changing needs, we sought to enhance logistics and operational efficiency even further, with a view to mitigating the impact on our business.

Alongside Rosneft, our longstanding clients include major names like Gazprom Neft and TAIF-NK."

Kirill Prokofiev
Chief Executive Officer of BaltTransServis

Corporate Social Responsibility

FOCUSED ON FUNDAMENTAL HUMAN VALUES

Any company seeking to expand successfully needs to be founded on fundamental human values. Globaltrans considers corporate social responsibility to be one of its overriding priorities and has identified four key areas on which it focuses: employees, health and safety, charity work and the environment.

Employees

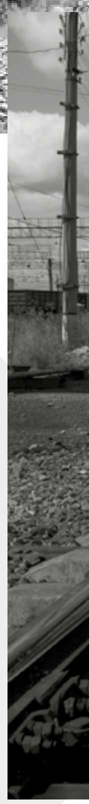
Globaltrans considers the wellbeing of employees central to its success and strives to maintain exemplary working standards, ensure job satisfaction and create opportunities for professional growth. The Group's personnel policy focuses on creating a positive atmosphere at all offices and facilities to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

Employees' wellbeing is central to our success.

Health and safety

The health and safety of every employee is of paramount importance to Globaltrans. To that end, the Group actively trains and educates personnel in occupational safety with a view to developing a culture of awareness and responsibility in the workplace. It also regularly checks conditions in the workplace to ensure that standards remain high.

Employee health and safety is our number-one priority.



Charity work

From the outset, charity work has been part of Globaltrans' philosophy, and the Group seeks to give to society in various ways, including helping sick children and the elderly, supporting cultural, spiritual and educational initiatives, and sponsoring sports programmes. In 2016, Globaltrans continued to work with the Life Line Fund, which assists children with life-threatening illnesses. The Group 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.

Charity work is part of our philosophy.

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 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.

Rail is one of the most environmentally friendly modes of transport.

GOVERNANCE

Recognising the crucial role that transparency and effective oversight play in fostering confidence in any business, Globaltrans has invested extensive time and effort in building a rigorous system of corporate governance and continuously strives to meet the highest standards of international best practices.

Board of Directors

BRINGING TOGETHER A WEALTH OF GLOBAL EXPERIENCE

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.

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 18 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. He worked from 2002 to 2004 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
Non-executive Director

Alexander Eliseev joined the Board in March 2008 and serves as a non-executive director.

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 16 years in senior management positions, mostly in the rail sector. He is also the chairman of the boards of the New Forwarding Company, GTI Management, AS Spacecom and BaltTransServis, all Globaltrans subsidiaries.

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

Zarema Mamukaeva
Non-executive Director

Zarema Mamukaeva was appointed to the Board as a non-executive director in April 2016.

Ms Mamukaeva has extensive hands-on experience of working in various positions related to financial management. Duties have included coordinating the activities of accountants and financial departments and developing procedures for planning, accounting and management at Ural Wagon Repair Company, a Globaltrans subsidiary.

Ms Mamukaeva previously served as an acting head of department in the Transport Regulation office of Russia's Federal Tariff Service. Later, she set up and managed the work of the Procurement department at Federal Freight, one of Russia's largest transport companies. She is also a member of the boards of GTI Management, AS Spacecom, New Forwarding Company and BaltTransServis, all Globaltrans subsidiaries.

Ms Mamukaeva graduated from the MEPhI National Nuclear Research University, majoring in nuclear reactors and power plants.

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

Elia Nicolaou joined the Board in March 2008 and serves as 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 other boards of 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 24 years of experience in corporate law and is also a registered insolvency practitioner. Prior to joining Pyrgou Vakis Law firm, she was Director of Legal Services with PricewaterhouseCoopers in Cyprus. 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.

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

Board of Directors continued

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' Internal Audit function.

Mr Shirokov has over 11 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 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 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 member of the boards of GTI Management, New Forwarding Company, BaltTransServis and AS Spacecom, 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.

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 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 the London South Bank 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

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.

Executive Management

ENSURING EFFECTIVE DAY-TO-DAY OVERSIGHT

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.

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 Wagon Repair 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. He is also currently a member of the boards of GTI Management, New Forwarding Company, BaltTransServis and AS Spacecom, 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 Saint 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.

Corporate Governance

STRONG FOUNDATIONS DURING TURBULENT TIMES

A high degree of transparency and effective oversight play a crucial role in fostering confidence in any business. Recognising this, Globaltrans has invested extensive time and effort in building a rigorous system of corporate governance and continuously strives to meet the highest standards of international best practices. The Group's presence on the main market of the London Stock Exchange underscores this commitment.

Throughout its activities, Globaltrans is guided by its main corporate governance priorities: protect the rights and interests of all stakeholders; promote its financial and economic interests; and return value to shareholders.

Corporate Governance Policies

The Group has policies 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:

- Appointment Policy for the Board of Directors and Committees;
- Business Continuity Policy;
- Code of Ethics and Conduct;
- Code of Practice on Dealings in Securities;
- Disclosure Policy;
- Dividend Policy;
- External Auditor Independence and Objectivity Policy;
- Policy on the treatment of the rights of minority shareholders;
- Terms of Reference of the Audit Committee;
- Terms of Reference of the Board of Directors;
- Terms of Reference of the Nomination Committee; and
- Terms of Reference of the Remuneration Committee.

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 strength of a construction depends on its foundations and can be especially important during turbulent times. In 2016, Globaltrans' corporate governance system continued to demonstrate its robustness, acting as a solid framework while the Group navigated ongoing volatility.

Michael Zampelas
Chairman of the Board, Independent non-executive Director

Board of Directors

The body responsible for the overall management of Globaltrans' activities is the Board of Directors (the "Board"), which consists of executive and non-executive directors, including independent members.

Board members are nominated based on their extensive industry knowledge, expertise and experience in areas such as accounting, finance, business management and strategic planning. 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. It also believes that such a composition is critical to ensuring strong performance.

The Board meets regularly and its 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 performance of the Group and management;
- Maintaining an effective system of internal control and risk management to safeguard shareholders' rights and interests and the Group's assets; and
- Ensuring an effective governance framework and compliance with relevant regulations.

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.

In selecting candidates, 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 minority shareholder interests are represented fairly, there is an objective check on proposals submitted by and the work of management, and the interests of all stakeholders are taken into account.

The chairman is a non-executive director and was independent upon appointment, 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 (INED);
- Dr Johann Franz Durrer (INED);
- Alexander Eliseev;
- Zarema Mamukaeva;
- Elia Nicolaou;
- George Papaioannou (INED);
- Melina Pyrgou;
- Konstantin Shirokov;
- Alexander Storozhev;
- Alexander Tarasov;
- Michael Thomaides;
- Marios Tofaros; and
- Sergey Tolmachev.

The directors' biographies are on pages 56 to 59.

In 2016, members of the Board of Directors held 11,479,515 shares and global depositary receipts in Globaltrans.

Corporate Governance continued

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. The Board accepts that, while these committees have the authority to examine particular issues and report back with decisions and/or recommendations, the ultimate responsibility for all matters lies with the entire 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 • Efficiency of the chairman of the Board's performance.
Number of meetings in 2016	Six
Issues considered in 2016	• Review of the Group's consolidated financial statements for 2015 and interim financial results for the six months ended 30 June 2016, including significant financial reporting judgements made by management. The committee recommended approval of the same to the Board; • Review of the external auditor's report to the Audit Committee following its full-year audit for 2015 and review for the six months ended 30 June 2016; • Consideration of the independence of the external auditor; • Review of the Group's external auditor and terms of reappointment for 2016. 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 2016; • Review of regulatory announcements of a financial nature by the Group; • Review of internal control 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), Michael Zampelas
Responsibilities	• Preparation of selection criteria and appointment procedures for Board members; • Regular review of the Board's structure, size and composition; • Future appointments regarding the Board's composition; and • Recommendations regarding the membership of the Audit and Remuneration committees.
Number of meetings in 2016	Two
Issues considered in 2016	• Composition of the Board; • Advice to the Annual General Meeting on the appointment of Board members; and • Recommendation on appointment of CEO of the Group.

Remuneration Committee	
Number of members	Two; two independent
Minimum meetings a year	One
Members	Johann Franz Durrer (chairman), Michael Zampelas
Responsibilities	• Amount of 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 2016	Two
Issues considered in 2016	• Board remuneration levels; and • Key management remuneration plan and directors' remuneration.

External auditor

The Audit Committee manages the relationship with the external auditor on behalf of the Board. Every year, it considers the reappointment of the external auditor, reviews requirements of rotation of the audit partner, 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.

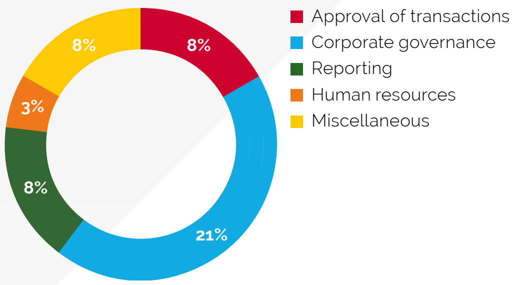
In 2016, the Audit Committee carried out a review of the Group's auditor. Following the recommendation of the Audit Committee, the Board has reappointed PricewaterhouseCoopers until the next Annual General Meeting, to be held in April 2017.

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 and decision in between the scheduled meetings. Directors may participate in meetings either in person or via telephone or video conference.

The Board met 12 times during 2016 and considered 48 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 CEO of the Group;
- Approval of dividend distribution by subsidiaries;
- Review and consideration of potential acquisitions and other business development opportunities;
- Approval of the Group's budgeting process regulations;
- Changes in responsibilities of Board members and other matters; and
- Approval of the Group's medium-term strategy for the gondola and rail tank car segments.

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.

Corporate Governance continued

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 assists the Board in this task by reviewing and assessing 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, at once.

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 next Annual General Meeting. Levels of remuneration for non-executive directors reflect their 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 at the Annual General Meeting held on 28 April 2016. For details of remuneration paid to the Board and key members of management, please refer to Note 30d of the 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 2016 amounted to RUB 131 million.

Board and board committees meetings in 2016 and the attendance of directors

	Board of Directors		Nomination Committee		Remuneration Committee		Audit Committee	
	E	A	E	A	E	A	E	A
John Carroll Colley	12	11					6	6
Johann Franz Durrer	12	12	2	2	2	2		
Alexander Eliseev	12	8						
Zarema Mamukaeva[1]	8	7						
Elia Nicolaou	12	11					6	6
George Papaioannou	12	12					6	6
Melina Pyrgou	12	12						
Konstantin Shirokov	12	12						
Alexander Storozhev	12	11						
Alexander Tarasov	12	9						
Michael Thomaides	12	10						
Marios Tofaros	12	12						
Sergey Tolmachev	12	12						
Michael Zampelas (chairman)	12	12	2	2	2	2		
Total	**164**	**151**	**4**	**4**	**4**	**4**	**18**	**18**

1 Appointed to the Board on 28 April 2016.

Relations with shareholders

Globaltrans strives to maintain an effective, ongoing dialogue with shareholders through regular communications, the Annual General Meeting and other investor relations (IR) activities.

The Group announces financial results semi-annually, while each year the executive management and IR team give presentations to institutional investors and analysts in face-to-face meetings and via webcasts and teleconferences. The annual and interim results are available on the Group's corporate website at www.globaltrans.com.

In 2016, Globaltrans held more than 350 individual meetings with investors.

Dividend Policy

ENHANCED DIVIDEND POLICY AS APPROVED BY THE BOARD 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 or in 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 and 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 than 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 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 regulatory, economic and market environment; (iv) the ability of the Company and its subsidiaries to meet their obligations as they fall due; (v) the availability of distributable reserves at the Company's and its subsidiaries' levels and (vi) 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 the 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;
- the dividend record date for owners of shares[1].

3.8 Dividends shall not be accrued and paid if shares are un-issued (unplaced) or held in treasury by the Company, or 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 members 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 the dividend record date set for owners of global depositary receipts, which is set and announced by the Depositary that issued global depositary receipts.

Dividend Policy continued

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 innovates and adapts its Dividend Policy provisions to remain competitive in a changing and uncertain world, so that it can respond to existing opportunities and exploit new ones.

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 any reasonable basis in its sole discretion.

Adjusted EBITDA	(a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction gains/(losses) on borrowings and other liabilities", "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets", "Share of profit/(loss) of associate", "Other gains – net", "Net profit/(loss) on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Impairment of intangible assets" and "Loss on derecognition arising on capital repairs".
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.
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 gains/(losses) on borrowings and other liabilities" and "Net foreign exchange transaction gains/(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 operating activities" (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 year to Adjusted EBITDA in respect of that financial year.
Net Debt	(a non-GAAP financial measure) is defined as the sum of total borrowings (including interest accrued) less "Cash and cash equivalents".

FINANCIAL STATEMENTS

- Consolidated Management Report and Consolidated Financial Statements
- Management Report and Parent Company Financial Statements

Globaltrans Investment PLC
Consolidated Management Report and Consolidated Financial Statements
For the Year Ended 31 December 2016

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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
Non-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

Ms Zarema Mamukaeva
Non-executive Director
Appointed on 28 April 2016
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 2016. 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 2016. 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 2% year on year to RUB 69,487,991 thousand in 2016 (2015: RUB 68,199,831 thousand). The Group's Operating profit rose 24% year on year to RUB 10,824,728 thousand in 2016 (2015: RUB 8,757,090 thousand). The Profit of the Group for the year ended 31 December 2016 was RUB 6,114,912 thousand (2015: RUB 4,468,182 thousand).

On 31 December 2016 the total assets of the Group were RUB 78,430,489 thousand (2015: RUB 83,070,445 thousand) and net assets were RUB 53,208,258 thousand (2015: RUB 54,303,377 thousand).

On 31 December 2016 the total debt of the Group was RUB 16,292,469 thousand and decreased by 20% as compared to end of 2015 which amounted to RUB 20,359,060 thousand. Total cash and cash equivalents on 31 December 2016 grew by 16% and amounted to RUB 4,773,414 thousand (31 December 2015: 4,104,079 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 5% year on year to RUB 44,248,568 thousand (2015: 42,175,762 thousand) supported by the strong performance of the gondola business. Total Operating Cash Costs were up 1% year on year to RUB 26,489,774 thousand (2015: 26,201,065 thousand).

Adjusted EBITDA rose 10% year on year to RUB 17,676,600 thousand (2015: 16,086,092 thousand) with the Adjusted EBITDA Margin expanding to 40% (2015: 38%). The Group' Free Cash Flow remained strong at RUB 8,882,205 thousand (2015: RUB 9,613,565 thousand), down 8% year on year reflecting primarily the increase in the Group's capital expenditure.

The Group had a strong balance sheet with Net Debt to Adjusted EBITDA further improved to 0.7x (2015 end: 1.0x). Net Debt was reduced by 29% to RUB 11,519,055 thousand (2015 end: RUB 16,254,981 thousand). Almost 100% of the Group's debt was denominated in Russian roubles.

During 2016 the Group renewed the long-term contracts with its key clients, Metalloinvest and Rosneft. The long-term service contracts with the Group's three key clients strongly support the business, contributing 62% of the Group's Net Revenue from Operation of Rolling Stock in 2016.

In 2016, management continued to make disciplined decisions on capital allocation whilst pursuing cost improvement and productivity measures.

Operational information
In 2016, the Group's Freight Rail Turnover was up 8% year on year to 182.0 billion tonnes-km (2015: 168.5 billion tonnes-km). Average Price per Trip improved – increasing 6% year on year.

The high operational efficiency was maintained with the Empty Run Ratio for gondola cars improved to 38% (2015: 39%) and the Total Empty Run Ratio improved to 48% (2015: 51%).

The railcar turnover improved with the Average Number of Loaded Trips per Railcar up 1% year on year, while the Average Distance of Loaded Trips rose 6% year on year.

Total Fleet increased to 68,511 units (2015 end: 67,729 units) primarily reflecting the acquisition of gondola cars from the secondary market and new petrochemical tank containers.

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 (a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction gains/(losses) on borrowings and other liabilities", "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets", "Share of profit/(loss) of associate", "Other gains – net", "Net profit/(loss) on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Impairment of intangible assets" and "Loss on derecognition arising on capital repairs".

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".

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 period" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction gains/(losses) on borrowings and other liabilities" and "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets"), "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).

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 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".

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 (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 profit/(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 2016. For the principal subsidiaries of the Group, refer to Note 14.2 of the consolidated financial statements.

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.

Consolidated Management Report continued

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 and Ukraine 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 80% of the Group's Net Revenue from the operation of rolling stock in 2016; the dependence on RZD to issue permits allowing the Group to operate locomotives; 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 and to approve is use of locomotives for particular routes.

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 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 62% of the Group's Net Revenue from the Operation of Rolling Stock in 2016 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 operations risks faced by the Group that could influence the Group's operational efficiency include the physical state of the Russian and Ukrainian railway infrastructure which may negatively impact the condition of the Group's rolling stock and the performance of the Group; the impact of rising 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, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Foreign exchange risk

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 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 nearly all of its US dollar-denominated liabilities with long-term debt denominated in Russian roubles. As of 31 December 2016, almost 100% of the Group's debt was denominated in Russian roubles.

Had US Dollar exchange rate strengthened/weakened by 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2016, would have increased/decreased by RUB 301,930 thousand and equity would have increased/decreased by RUB 808,361 thousand. 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 US Dollar exchange rate strengthened/weakened by 30% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged and the equity of the Group for the year ended 31 December 2016, would have decreased/increased by 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 2016, 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 2016, 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 70% of the Group's trade and other receivables on 31 December 2016.

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 limited the Group's access to international sources of funding. The lack of available funding from international and Russian sources and 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.

Consolidated Management Report continued

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 93 and 94. The Board of Directors recommends the payment of a dividend as detailed below and the remaining net profit for the year is retained.

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

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

In 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, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of US$ 34,041 thousand).

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group as well as the amended dividend policy of the Group which has been adopted on the date of this report, as outlined below, recommends a payment of dividend out of retained earnings earned prior to 31 December 2014 in the amount of 39.20 Russian Roubles per ordinary share, amounting to a total dividend of RUB 7,006,644 thousand to 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 24 April 2017.

New enhanced dividend policy as adopted by the Board on 31 March 2017
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. The enhanced dividend policy enables the Group to invest when it identifies value accretive growth opportunities and, when such opportunities are limited, to return a substantial portion of free cash flow to shareholders.

Depending on the actual Leverage Ratio[1] of the Group as 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 the payment of dividends in amounts not less than the following proportions of Attributable Free Cash Flow for such financial year:

Leverage Ratio	Dividends, % of Attributable Free Cash Flow[3]
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

1 Leverage Ratio (a non-IFRS financial measure) means the ratio of Net Debt on the last day of a particular financial year to Adjusted EBITDA in respect of that financial year.
2 The Board reserves the right to recommend to the general shareholder meeting the dividend for the financial year in the amount calculated on a reasonable basis other than that described above at 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 regulatory, economic and market environment; (iv) the ability of the Company and its subsidiaries to meet their obligations as they fall due; (v) the availability of distributable reserves at the Company and subsidiaries level and (vi) other factors considered by the Board of Directors as important in light of the current circumstances, including maintenance of the Company's credit ratings.
3 The Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted profit attributable to non-controlling interests.

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 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 General Meeting to approve the final dividend and the final decision regarding declaration or distribution of dividends, if any, shall be taken by the General Meeting at its sole discretion.

Share capital

As at 31 December 2016 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 US$0.10 per share.

Research and development activities

The Group has not undertaken any research and development activities during the year ended 31 December 2016.

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 eleven branches and ten representative offices during 2016 (eleven branches and eleven representative offices during 2015).

Treasury shares

In 2016 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 2017, 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.

Consolidated Management Report continued

Members of the Board of Directors

As at 31 December 2016 and at the date of this report, the Board comprises 14 members (2015: 13 members), 11 (2015: 10 members) of whom are non-executive directors (including the Chairman). 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 judgment with a view to the best interests of the Company, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2016 and at the date of this report are shown on page 1. There were no significant changes in the assignment of responsibilities of the Board of Directors. Mr Valery Shpakov, who has been acting as interim CEO since 6 November 2015, has been appointed as the new CEO of the Group on 30 March 2016.

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 2016 amounted to RUB 131,382 thousand (2015: RUB 229,823 thousand).

Board performance

The Board held 12 meetings in 2016. The Directors' attendance is presented in the table below.

	Eligible	Attended
John Carroll Colley	12	11
Johann Franz Durrer	12	12
Alexander Eliseev	12	8
Zarema Mamukaeva	8	7
Elia Nicolaou	12	11
George Papaioannou	12	12
Melina Pyrgou	12	12
Konstantin Shirokov	12	12
Alexander Storozhev	12	11
Alexander Tarasov	12	9
Michalakis Thomaides	12	10
Marios Tofaros	12	12
Sergey Tolmachev	12	12
Michael Zampelas	12	12

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 28 April 2016.

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

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.

Consolidated Management Report continued

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] 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 is as follows:

Shareholder structure	
Maple Valley Investments[5]	11.5%
Onyx Investments[5]	11.5%
Marigold Investments[5]	11.5%
Litten Investments[6]	6.3%
Controlled by Directors and management of Globaltrans	0.2%
Free float[4]	59%

4 For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.
5 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, a leading container and oil products terminal operator servicing Russia's cargo flows which is also listed on the London Stock Exchange.
6 Beneficially owned by Alexander Eliseev, Non-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 2016 and 31 December 2015 are shown below:

Name	Type of holding	2016	2015
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, 31 March 2017

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 93 to 148) 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 2016 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) and (vi) 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 (hereinafter "the Company") and its subsidiaries (together with the Company hereinafter "the Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated 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.

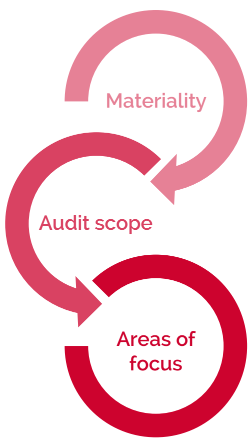
What we have audited
We have audited the consolidated financial statements which comprise:
- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 are independent of the Group 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. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach
Overview
We designed our audit by determining materiality and assessing 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 considered 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: RUR 422,500 thousands, which represents 5% of profit before tax

- We conducted full scope audit procedures for the parent entity, 6 components in 4 countries, assessed as significant components due to their individual financial significance to the Group, and the consolidation process.
- For 2 components assessed as significant because of the size or risk characteristics of specific financial statement lines, audit work over these specific financial statement lines was performed.
- For the remaining non-significant components we performed analytical procedures.

We have identified the following as key audit matters:
- Change in the Group's accounting policy for capitalisation of periodical capital repair costs of rolling stock;
- Assessment of impairment of rolling stock; and
- Assessment of impairment/reversal of impairment of customer relationships.

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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	RUR 422,500 thousand
How we determined it	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 Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them individual misstatements identified during our audit above RUR 21,125 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. The financial information of this Group is included in the consolidated financial statements of Globaltrans Investment PLC .

Considering our ultimate responsibility for the opinion on the Group 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, taking into account the structure of the Group, the significance and/or risk profile of the group entities or activities, the accounting processes and controls, and the industry in which the Group operates.

The Group's operations are made up of reporting units situated in a number of territories in Russia, Ukraine, Estonia and Cyprus. For financial reporting purposes, the Group is structured into 10 reporting units, comprising the Company and subsidiary or sub-subsidiary entities of the Company.

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. Accordingly, out of the Group's 10 components, we performed an audit of the complete financial information of the parent entity and 6 components, in 4 countries, which were assessed as significant components due to their individual financial significance to the Group. For 2 components, assessed as significant because of the size or risk characteristics of specific financial statements lines, audit work over the specific financial statement lines was performed. For the remaining non-significant components we performed analytical procedures.

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 components to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Our involvement in that work included, amongst others, review of the audit work in the files of component auditors, including the nature, timing and extent of the work impacting the group audit opinion and frequent communications with component audit teams to ensure that our audit plan was appropriately executed.

We focused our review on significant/complex areas, such as the change in the Group's accounting policy for capitalisation of periodical capital repair costs of rolling stock, the assessment for impairment of rolling stock and the assessment for impairment/reversal of impairment of customer relationships. The group consolidation and financial statement disclosures were audited by the group engagement team.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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
Change in the Group's accounting policy for capitalisation of periodical capital repair costs of rolling stock	
The Group's accounting policy for property, plant and equipment, as documented in Note 2 to the consolidated financial statements, is to capitalise the cost of major repairs when it is probable that future economic benefits will flow to the Group and their cost can be reliably measured. Historically, the Group's accounting policy was to expense all repair and maintenance costs relating to periodical repairs of its rolling stock as incurred and not consider any of these repairs as major periodic capital repairs that would warrant capitalisation as part of the cost of the relevant rolling stock. The Board of Directors reconsidered the nature, size and impact of each type of repair of rolling stock on the rolling stock's estimated future economic benefits and concluded that only costs of capital repairs, being 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 they should be capitalised with all other types of repair costs being expenses. Following this assessment, the Board of Directors proceeded to change its approach to capitalise all such major repairs and has accounted for this as a change in accounting policy, resulting into a restatement of comparatives. We focused on this area due to the fact that: • the Board of Directors exercised significant judgment in assessing whether any, and if so which, types of repairs performed by the Group on its rolling stock constitute major repairs meeting the criteria for capitalisation, as set out in the accounting standards; • complex and subjective estimates and judgments were made by the Board of Directors in estimating the impact of the change in accounting policy on the comparatives; and • the impact of the change in accounting policy was material to warrant a restatement of the comparatives. *Note 2 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments Note 5 Segmental information and Note 12 Property, plant and equipment, to the consolidated financial statements, provide detailed information on this change in accounting policy.*	We evaluated and challenged the Board of Directors' judgments around the application of the relevant accounting requirements and the process and methodology used in determining whether any types of repairs performed by the Group on its rolling stock constitute major repairs, and if so, which types are these. We involved PwC accounting technical experts to assist us in this process. In particular, we challenged the Board of Directors, and the external appraisers appointed by the Board of Directors to consult on this matter, as to which repairs should be capitalised and which ones should be expensed, considering the specific requirements of the relevant accounting standard, notably IAS 16. We involved PwC valuation experts to assist us in this process. We further evaluated the accounting policy and the treatment followed for capital repairs upon initial recognition of rolling stock and the judgments made by the Board of Directors in determining the carrying amount of the repaired rolling stock that was attributable to the previous periodic capital repair and/or significant component replaced that was derecognised upon a capital repair. We tested the underlying calculations prepared by the Board of Directors for the purpose of quantifying the impact of the change in accounting policy on the comparative period. In particular, we: • verified the accuracy and completeness of the inputs included in the calculation; and • tested the source and rationale of adjustments made in the calculation. We lastly evaluated the adequacy of the disclosures made in Note 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'.

pwc

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of rolling stock	
Based on the requirements of the applicable standards and in line with its accounting policy for impairment of non-financial assets, as documented in Note 2 to the consolidated financial statements, the Board of Directors assessed whether there were any indications of impairment of the Group's rolling stock as of 31 December 2016. The analysis did not show impairment indicators for the Group's cash generating units ("CGUs"), except for 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 the Group performed an impairment assessment. As a result, the Group recognised an impairment loss amounting to RUB 228,408 thousand in respect of the rolling stock within the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs. We focused our audit effort on the Board of Directors' assessment of impairment indicators for the Russian gondola cars/operator's services CGU, due to: • the size of the CGU's rolling stock balance, of RUB 42,952,605 thousand as at 31 December 2016; • the fact that the prior year's impairment model prepared as of 31 December 2015 for this CGU was sensitive to changes to key assumptions; and • the fact that the current year's assessment of whether there were any indicators of impairment as of 31 December 2016 involved certain assumptions and judgments that were considered to be key estimates and judgements. These include the discount rate, EBITDA growth margin and tariffs per trip. In addition, we focused our audit effort on the Board of Directors' assessment of the recoverable amount of the Estonian rail tank cars/operating leasing CGU, due to: • the size of the CGU's rolling stock balance, of RUB 10,419,689 thousand as at 31 December 2016; • the fact that the prior year's impairment model prepared as of 31 December 2015 for this CGU was sensitive to changes to key assumptions; and • the fact that certain assumptions made by the Board of Directors in the determination of the CGU's recoverable amount were considered key estimates. These include the selling price and adjustments thereon, used in the level 3 fair value less costs to sell calculation. *Note 2 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments and Note 12 Property, plant and equipment, to the consolidated financial statements, provide detailed information on the provision for impairment of the Group's rolling stock.*	We evaluated and challenged the analysis of indicators for impairment performed by Board of Directors with respect to the Russian gondola cars/operator's services CGU. In particular: • We challenged the Board of Directors' assessment of changes in macroeconomic and industry assumptions, such as inflation and interest rates, by comparing them to publicly available information; • We challenged the Board of Directors' assessment of changes in market interest rates that are likely to affect the discount rate applied in prior year's impairment model, by calculating the weighted average cost of capital of the Group, with the involvement of PwC valuation experts; • We assessed whether there were any indicators of physical or technological obsolescence of the rolling stock within the CGU during the year ended 31 December 2016 by tracing the rolling stock held by the CGU to the railway tracking system, reviewing the average ageing of the rolling stock and by reviewing changes in market prices for the rolling stock, by reference to publicly available quoted prices; • We compared current year's actual results with the figures for the same period included in the impairment model prepared as of 31 December 2015 to assess whether the actual performance indicated deterioration in the recoverable amount of the CGU; • We obtained the Board of Director's budget for the CGU for the year ending 31 December 2017 and assessed whether expected cash flows in this budget are comparable with those included in prior year's impairment model for year 2017; and • We assessed the impact of the above assumptions and forecasts made by the Board of Directors, on the recoverable amount of the CGU. For the Estonian rail tank cars/operating leasing CGU, we evaluated the valuation methodology and calculations used by the Board of Directors in determining the CGU's recoverable amount, including the underlying inputs and assumptions used. In particular, we examined the valuation technique applied by the Board of Directors as to whether this incorporated all factors, inputs, estimates and assumptions that market participants would consider in setting a price for the specific rolling stock in the CGU. We further compared the prices included in the model to publicly available quoted prices. We lastly evaluated the adequacy of the disclosures made in Note 4 of the consolidated financial statements by reference to the requirements of IAS 36 'Impairment of assets' and IAS 1 'Presentation of financial statements.'

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

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment/reversal of impairment of customer relationships	
The Group balance sheet includes intangible assets of RUB 1,533,435 thousand as of 31 December 2016, of which RUB 1,390,175 thousand relate to customer relationship with MMK Group, allocated to the Russian gondola cars/operator's 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. In line with its accounting policy for impairment of non-financial assets, as documented in Note 2 to the consolidated financial statements, the Board of Directors assessed whether there were any indications of additional impairment/reversal of impairment of this customer relationship as of 31 December 2016. The analysis did not reveal any indicators of impairment or reversal of impairment and as a result the Group did not estimate the recoverable amount of this customer relationship. We focused on this area due: • to the carrying amount of the customer relationship, of RUB 1,390,175 thousand as at 31 December 2016; • the fact that the Board of Directors' impairment assessment as of 31 December 2015 for this customer relationship resulted in an impairment loss of RUB 996,160 thousand; and • the fact that the Board of Directors' assessment of whether there were indicators of additional impairment or reversal of impairment for this customer relationship involved complex and subjective judgements. These include the discount rate, transportation volume, tariffs per trip and inflation rates in Russia. *Note 2 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments and Note 13 Intangible assets to the consolidated financial statements provide detailed information on this customer relationship.*	We evaluated and challenged the analysis of indicators for impairment/reversal of impairment performed by Board of Directors. In particular: • We challenged the Board of Directors' assessment of changes in macroeconomic and industry assumptions, such as inflation rates and market interest rates in Russia, by comparing them to publicly available information; • We challenged the Board of Directors' assessment of changes in market interest rates that are likely to affect the discount rate applied in prior year's impairment model, by calculating the weighted average cost of capital of the Group, with the involvement of PwC valuation experts; • We compared current year's actual results with the figures for the same period included in the impairment model prepared as of 31 December 2015 to assess whether the actual performance evidences further deterioration or significant improvement in the recoverable amount of the customer relationship; • We challenged the Board of Directors' forecasted growth rates of key drivers of the recoverable amount of the customer relationship, such as transportation volumes, tariffs per trip and cost components, by comparing them to historic results, economic and industry forecasts and publicly available information; and • We assessed the impact of the above assumptions and forecasts, made by the Board of Directors, on the recoverable amount of the customer relationship. We lastly evaluated the adequacy of the disclosures made in Note 4 of the consolidated financial statements, in relation to the judgments applied, by reference to the requirements of IAS 1 'Presentation of financial statements'.

Other information

The Board of Directors is responsible for the other information. The other information comprises the consolidated Management report, which we obtained prior to the date of this auditor's report, and the Company's complete Annual report, 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, 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 judgment 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 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 fair presentation.
- 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. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Report on other legal and regulatory requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Consolidated Management Report, whose preparation is the responsibility of the Board of Directors, 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.
- In our opinion and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Consolidated Management Report.
- In our opinion, 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, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not 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.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 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

Limassol, 31 March 2017

Consolidated Income Statement
For the Year Ended 31 December 2016

	Note	2016 RUB'000	As restated* 2015 RUB'000
Revenue	5	**69,487,991**	68,199,831
Cost of sales	6	**(54,905,940)**	(54,227,504)
Gross profit		**14,582,051**	13,972,327
Selling and marketing costs	6	**(234,773)**	(295,076)
Administrative expenses	6	**(3,639,328)**	(4,240,445)
Impairment of intangible assets	13	**–**	(996,160)
Other income		**–**	230,727
Other gains – net	7	**116,328**	85,717
Operating profit		**10,824,278**	8,757,090
Finance income	9	**258,803**	259,900
Finance costs	9	**(2,280,202)**	(2,996,197)
Net foreign exchange transaction losses on financing activities	9	**(291,068)**	(209,129)
Finance costs – net	9	**(2,312,467)**	(2,945,426)
Share of loss of associate	14	**(60,831)**	(53,739)
Profit before income tax		**8,450,980**	5,757,925
Income tax expense	10	**(2,336,068)**	(1,289,743)
Profit for the year		**6,114,912**	4,468,182
Profit attributable to:			
Owners of the Company		**4,472,817**	2,103,633
Non-controlling interest		**1,642,095**	2,364,549
		6,114,912	4,468,182
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	**25.02**	11.77

* Refer to Note 2 for details regarding the restatement.

The notes on pages 99 to 148 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2016

	2016 RUB'000	As restated* 2015 RUB'000
Profit for the year	**6,114,912**	4,468,182
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**(2,038,910)**	1,172,174
Items that may not subsequently be reclassified to profit or loss		
Currency translation differences attributable to non-controlling interest	**(952,681)**	697,904
Other comprehensive (loss)/income for the year, net of tax	**(2,991,591)**	1,870,078
Total comprehensive (loss)/income for the year	**3,123,321**	6,338,260
Total comprehensive income attributable to:		
– owners of the Company	**2,433,907**	3,275,807
– non-controlling interest	**689,414**	3,062,453
	3,123,321	6,338,260

* Refer to Note 2 for details regarding the restatement.

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 99 to 148 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Balance Sheet
At 31 December 2016

	Note	31 December 2016 RUB'000	As restated* 31 December 2015 RUB'000	As restated* 01 January 2015 RUB'000
ASSETS				
Non-current assets				
Property, plant and equipment	12	**65,653,581**	70,223,776	72,107,706
Intangible assets	13	**1,541,564**	2,367,741	4,442,396
Income tax assets		**21,899**	49,207	57,892
Trade and other receivables	19	**472,360**	101,264	32,233
Investment in associate	14	**–**	65,497	110,182
Total non-current assets		**67,689,404**	72,807,485	76,750,409
Current assets				
Inventories	20	**565,200**	722,381	735,694
Current income tax assets		**81,953**	139,428	1,010,322
Trade and other receivables	19	**5,320,518**	5,297,072	6,701,470
Cash and cash equivalents	21	**4,773,414**	4,104,079	4,647,787
Total current assets		**10,741,085**	10,262,960	13,095,273
Total assets		**78,430,489**	83,070,445	89,845,682
EQUITY AND LIABILITIES				
Equity attributable to the owners of the Company				
Share capital	22	**516,957**	516,957	516,957
Share premium	22	**27,929,478**	27,929,478	27,929,478
Common control transaction reserve		**(10,429,876)**	(10,429,876)	(10,429,876)
Translation reserve		**2,530,486**	4,569,396	3,397,222
Capital contribution		**2,694,851**	2,694,851	2,694,851
Retained earnings		**23,871,655**	21,617,013	19,506,573
Total equity attributable to the owners of the Company		**47,113,551**	46,897,819	43,615,205
Non-controlling interest		**6,094,707**	7,405,558	7,102,736
Total equity		**53,208,258**	54,303,377	50,717,941
Non-current liabilities				
Borrowings	24	**9,694,243**	11,064,576	10,049,915
Trade and other payables	26	**117,890**	61,053	13,278
Deferred tax liabilities	25	**5,245,331**	4,642,708	5,352,797
Total non-current liabilities		**15,057,464**	15,768,337	15,415,990
Current liabilities				
Borrowings	24	**6,598,226**	9,294,484	18,256,223
Trade and other payables	26	**3,419,461**	3,643,694	5,245,646
Current tax liabilities		**147,080**	60,553	209,882
Total current liabilities		**10,164,767**	12,998,731	23,711,751
Total liabilities		**25,222,231**	28,767,068	39,127,741
Total equity and liabilities		**78,430,489**	83,070,445	89,845,682

* Refer to Note 2 for details regarding the restatement.

On 31 March 2017, 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 99 to 148 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 2016

		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 2015 – as previously reported		**516,957**	**27,929,478**	**(10,429,876)**	**3,397,222**	**2,694,851**	**19,100,433**	**43,209,065**	**6,927,315**	**50,136,380**
Prior year adjustment*	2	**–**	**–**	**–**	**–**	**–**	**406,140**	**406,140**	**175,421**	**581,561**
Balance at 1 January 2015 – as restated*		**516,957**	**27,929,478**	**(10,429,876)**	**3,397,222**	**2,694,851**	**19,506,573**	**43,615,205**	**7,102,736**	**50,717,941**
Comprehensive income										
Profit for the year		–	–	–	–	–	2,103,633	2,103,633	2,364,549	4,468,182
Other comprehensive income										
Currency translation differences		–	–	–	1,172,174	–	–	1,172,174	697,904	1,870,078
Total comprehensive income for 2015		–	–	–	1,172,174	–	2,103,633	3,275,807	3,062,453	6,338,260
Transactions with owners of the Company										
Dividends to non-controlling interests	23	–	–	–	–	–	–	–	(2,753,022)	(2,753,022)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	–	–	(2,753,022)	(2,753,022)
Disposal of non-controlling interest	16	–	–	–	–	–	6,807	6,807	(6,609)	198
Total transactions with owners of the Company		**–**	**–**	**–**	**–**	**–**	**6,807**	**6,807**	**(2,759,631)**	**(2,752,824)**
Balance at 31 December 2015		**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**

* Refer to Note 2 for details regarding the restatement.

		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**

The notes on pages 99 to 148 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the Year Ended 31 December 2016

	Note	2016 RUB'000	As restated* 2015 RUB'000
Cash flows from operating activities			
Profit before tax		**8,450,980**	5,757,925
Adjustments for:			
Depreciation of property, plant and equipment	12	**4,958,173**	5,015,926
Amortisation of intangible assets	13	**835,677**	1,078,456
(Loss)/profit on sale of property, plant and equipment	12	**58,938**	(19,737)
Loss on derecognition arising on capital repairs	12	**887,454**	203,180
Impairment of property, plant and equipment	12	**228,408**	140,734
Impairment of receivables	6	**82,194**	119,332
Interest income	9	**(258,803)**	(259,900)
Finance costs	9	**2,280,202**	2,996,197
Other income		**–**	(41,898)
Share of profit of associates	14	**60,831**	53,739
Foreign exchange losses on financing activities	11	**291,068**	209,129
Impairment of intangible assets	13	**–**	996,160
		17,875,122	16,249,243
Changes in working capital:			
Inventories		**202,228**	56,049
Trade and other receivables		**(267,570)**	1,448,979
Trade and other payables		**(146,460)**	(1,526,698)
Cash generated from operations		**17,663,320**	16,227,573
Tax paid		**(1,587,792)**	(1,322,290)
Net cash from operating activities		**16,075,528**	14,905,283
Cash flows from investing activities			
Loans granted to third parties		**–**	(86,057)
Loans repayments received from third parties		**15,961**	20,374
Purchases of property, plant and equipment		**(4,932,019)**	(2,007,164)
Purchases of intangible assets	13	**(9,500)**	–
Proceeds from disposal of property, plant and equipment	12	**177,384**	92,658
Interest received		**261,564**	254,978
Receipts from finance lease receivable		**4,461**	–
Net cash used in investing activities		**(4,482,149)**	(1,725,211)
Cash flows from financing activities			
Proceeds from borrowings		**9,855,265**	15,018,939
Repayments of borrowings		**(13,943,584)**	(22,447,939)
Proceeds from disposal of non-controlling interest	16	**–**	198
Finance lease principal payments		**–**	(204,635)
Interest paid		**(2,251,804)**	(3,284,554)
Contribution from non-controlling interests		**8,310**	–
Dividends paid to Company's shareholders	23	**(2,218,175)**	–
Dividends paid to non-controlling interests	23	**(2,065,107)**	(2,696,490)
Net cash used in financing activities		**(10,615,095)**	(13,614,481)
Net increase/(decrease) in cash and cash equivalents		**978,284**	(434,409)
Exchange losses on cash and cash equivalents		**(308,949)**	(109,299)
Cash and cash equivalents at beginning of year	21	**4,104,079**	4,647,787
Cash and cash equivalents at end of year	21	**4,773,414**	4,104,079

* Refer to Note 2 for details regarding the restatement.

Principal non-cash investing and financing transactions

The principal non-cash investing and financing transactions consist of finance leases as a lessee (Note 24) and as a lessor (Note 12).

The notes on pages 99 to 148 these consolidated financial statements are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

Country of incorporation
The Company is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113 and converted into a public company on 15 April 2008. The address of its registered office is 20 Omirou Street, 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 31 March 2017.

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 and freight forwarding (agency) services.

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 2016 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards
(a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2016:

- **Annual Improvements to IFRSs 2012 (issued on 12 December 2013 and effective for annual periods beginning on or after 1 February 2015).** The improvements consist of changes to seven standards, as detailed below:
  - IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.
  - IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.
  - IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
  - The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
  - IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
  - IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Notes to the Consolidated Financial Statements continued

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

The Group was not materially impacted by the application of these amendments. The amendments to IFRS 8 did not result in additional segmental disclosures in the Group's consolidated financial statements as (1) no aggregation of operating segments has been performed for the purpose of the consolidated financial statements, and (2) the Group was already presenting a reconciliation of segment assets to its assets. Refer to Note 5.

- **Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).** In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group was not materially impacted by the application of this amendment.
- **Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).** The amendments impact 4 standards as follows:
  - IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such.
  - The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.
  - The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise.
  - IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

The Group was not materially impacted by the application of these amendments.

- **Disclosure Initiative Amendments to IAS 1 (issued on 18 December 2014 and effective for annual periods beginning on or after 1 January 2016).** The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. As a result of this disclosure initiative, the Group has applied the concept of materiality in disclosures in the financial statements.

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

(b) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning after 1 January 2016 or later, that are expected to have an impact on the Group's consolidated financial statements and which the Group has not early adopted.

- **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.

The Group is currently assessing the impact of the new standard on its financial statements.

- **IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the 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. The Group is currently assessing the impact of the new standard on its 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 1 January 2016. EU endorsement has been postponed; awaiting IASB developments).** 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.
- **IFRS 16 "Leases"* (issued on 13 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.
- **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 will have 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 Group is currently assessing the impact of the amendments on its financial statements.
- **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. The Group is currently assessing the impact of the new amendment on its financial statements.
- **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 amendment on its financial statements.
- **Annual Improvements to IFRSs 2014-2016 cycle* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).** The improvements impact three standards. 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. 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.

Notes to the Consolidated Financial Statements continued

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

- **Disclosure Initiative – Amendments to IAS 7* (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amended IAS 7 will requires disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.
- **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 judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its financial statements.
- **Transfers of Investment Property – Amendments to IAS 40* (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).** The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Group is currently assessing the impact of the amendments on its financial statements.

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.

Notes to the Consolidated Financial Statements continued

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

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

(a) Revenue from railway transportation services

The Group operates the following services:

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

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

There are three types of operator's services:

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

(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)	15-32
Locomotives	9-25
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10
Tank containers	20

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.

Notes to the Consolidated Financial Statements continued

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

Rolling stock repair and maintenance costs

Historically, the Group's accounting policy was to expense all repair and maintenance costs relating to periodical repairs of its rolling stock as incurred and not consider any of these repairs to constitute major periodic capital repairs that would warrant capitalisation as part of the cost of property, plant and equipment.

During the year, the Group reconsidered the nature, size and impact of each type of repair of wagon on the wagon's estimated future economic benefits and concluded that 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 they should be capitalised.

Following this assessment, the Group proceeded to change its approach to capitalise all such major repairs and has accounted for this as a change in accounting policy. The Group believes that the new accounting policy provides reliable and more relevant information, as periodical capital repairs result in enhanced economic benefits to be derived from the future use of the repaired rolling stock.

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 indications 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, continue to be 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.

The change in accounting policy is effective from 1 January 2016. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the change in accounting policy has been applied retrospectively and as a result the comparative financial information for the year ended 31 December 2015 has been restated. Further, in accordance with IAS 1 "Presentation of Financial Statements", a balance sheet as at 1 January 2015 was presented in these consolidated financial statements.

Refer to section '*Comparatives*' for the impact of the change in accounting policy on the comparative financial information for the year ended 31 December and the opening balance sheet as of 1 January 2015:

Intangible assets

(a) Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

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

(b) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships relate to transportation services contract with Metalloinvest Group and MMK 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.

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

Impairment of non-financial assets
Assets that have indefinite useful life and goodwill are not subject to amortisation and are tested annually for impairment.

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

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

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

Property, plant and equipment acquired under finance leases are depreciated over the 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.

Notes to the Consolidated Financial Statements continued

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

(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.

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

Notes to the Consolidated Financial Statements continued

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

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.

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

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

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 GDRs instruments is recognised as an expense. At each balance sheet date if required by terms of 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.

Comparatives
During the year 2016, the Company changed its accounting policy regarding capitalisation of periodical capital repairs of locomotives and other rolling stock and periodical middle repairs of locomotives. Refer to accounting policy on '*Property, plant and equipment – Rolling stock repair and maintenance costs*' above.

The change in accounting policy is effective from 1 January 2016. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the change in accounting policy has been applied retrospectively and as a result the comparative financial information for the year ended 31 December 2015 has been restated. Further, in accordance with IAS 1 "Presentation of Financial Statements", a balance sheet as at 1 January 2015 was presented in these consolidated financial statements.

The tables below show the impact of the change in accounting policy on the comparative financial information for the year ended 31 December and the opening balance sheet as of 1 January 2015:

Consolidated income statement
For the twelve months ended 31 December 2015

	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Cost of sales	54,427,692	(200,188)	54,227,504
Administrative expenses	4,248,125	(7,680)	4,240,445
Income tax expense	1,248,170	41,573	1,289,743
Profit attributable to:			
– owners of the Company	1,982,956	120,677	2,103,633
– non-controlling interests	2,318,931	45,618	2,364,549
Basic and diluted earnings per share (expressed in RUB per share)	11.09	0.68	11.77

Consolidated statement of comprehensive income
For the twelve months ended 31 December 2015

	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Total comprehensive income attributable to:			
– owners of the Company	3,155,130	120,677	3,275,807
– non-controlling interests	3,016,835	45,618	3,062,453

Notes to the Consolidated Financial Statements continued

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

Consolidated balance sheet
At 31 December 2015/1 January 2016

	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Property, plant and equipment	69,288,960	934,816	70,223,776
Total assets	82,135,629	934,816	83,070,445
Deferred income tax liabilities	4,455,748	186,960	4,642,708
Total liabilities	28,580,108	186,960	28,767,068
Retained earnings	21,090,196	526,817	21,617,013
Non-controlling interests	7,184,519	221,039	7,405,558
Total equity	53,555,521	747,856	54,303,377

Consolidated balance sheet
At 1 January 2015

	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Property, plant and equipment	71,380,758	726,948	72,107,706
Total assets	89,118,734	726,948	89,845,682
Deferred income tax liabilities	5,207,410	145,387	5,352,797
Total liabilities	38,982,354	145,387	39,127,741
Retained earnings	19,100,433	406,140	19,506,573
Non-controlling interests	6,927,315	175,421	7,102,736
Total equity	50,136,380	581,561	50,717,941

Consolidated cash flow statement
For the twelve months ended 31 December 2015

	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Profit before tax	5,550,057	207,868	5,757,925
Depreciation of property, plant and equipment	4,878,797	137,129	5,015,926
Loss on derecognition arising on capital repairs	–	203,180	203,180
Net cash from operating activities	14,357,106	548,177	14,905,283
Purchases of property, plant and equipment	(1,458,987)	(548,177)	(2,007,164)
Net cash used in investing activities	(1,177,034)	(548,177)	(1,725,211)

3. Financial risk management

Financial risks factors

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

Market risk

(a) Foreign exchange risk

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

Currently the Group attracts a negligible proportion of long-term borrowings and lease liabilities denominated in US Dollars, whereas a large proportion of the Group's expenses and revenues are denominated and settled in Russian Roubles. The Group does not have formal arrangements for hedging this foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency.

Following two years of high volatility in currency markets and significant fluctuation and devaluation of the Russian Rouble against some major currencies, during the year 2016 the Russian Rouble showed signs of recovery. As of end of December 2016, the Russian Rouble has appreciated against the US Dollar from 72.8827 as of 31 December 2015 to 60.6569 Russian Roubles (16.8% 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 carrying amounts of monetary assets and liabilities denominated in US Dollars as at 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Assets	**1,632,392**	1,657,749
Liabilities	**36,364**	250,587

Had US Dollar exchange rate strengthened/weakened by 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2016, would have increased/decreased by RUB 301,930 thousand (2015: 30% change, effect RUB 233,503 thousand) and equity would have increased/decreased by RUB 808,361 thousand (2015: 30% change, effect RUB 973,544 thousand).

This is mainly due to foreign exchange gains and losses arising upon retranslation of loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Group entities with Russian Rouble being their functional currency. Profit was more sensitive to fluctuations of the exchange rate of Russian Rouble to US Dollar for the year ended 31 December 2016 compared to 2015 mainly due to the decrease of the proportion of US Dollar denominated payables as at the end of 2016 combined with changes in allocation of the US Dollar denominated assets between Group companies resulting in higher US Dollar denominated assets being held by Group companies with functional currency the Russian Rouble. 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 2016, would have increased/decreased by RUB 22,779 thousand (2015: 10% change, effect RUB 11,221 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. Profit was more sensitive to fluctuations of the exchange rate of US Dollar to Euro for the year ended 31 December 2016 compared to 2015 mainly due to increase of the proportion of US Dollar denominated cash and cash equivalents and accounts receivable as compared to US Dollar denominated payable balances, due to lower US Dollar denominated payable balances at the end of 2016.

Had US Dollar exchange rate strengthened/weakened by 30% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged (2015: 30% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2016, would have decreased/increased by RUB 808,361 thousand (2015: 30% change, effect RUB 973,544 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.

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

As at 31 December 2016 and 31 December 2015, the Group did not have any material Russian Rouble and US Dollar lease and 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.

Notes to the Consolidated Financial Statements continued

3. Financial risk management continued

(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 'B'. These policies enable the Group to reduce its credit risk significantly.

However, the Group's business is heavily dependent on a few large key customers, with the top ten customers accounting for 70.25% of the Group's trade and other receivables (excluding VAT receivable and prepayments) as at 31 December 2016 (2015: 63.32%).

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 2016 and 31 December 2015:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	Total RUB'000
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**
As of 31 December 2015					
Trade receivables	1,480,550	1,055,122	367,909	(367,909)	**2,535,672**
Loans receivable	54,021	–	–	–	**54,021**
Other receivables	39,568	10,684	29,500	(29,500)	**50,252**
	1,574,139	**1,065,806**	**397,409**	**(397,409)**	**2,639,945**

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

Liquidity risk

The Group has an excess of current assets over current liabilities of RUB 576,318 thousand as at 31 December 2016 (2015: excess of current liabilities over current assets RUB 2,735,771 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 20,820,000 thousand as of 31 December 2016 (2015: RUB 19,576,000 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 2016 and 31 December 2015. 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 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**

	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 2015							
Borrowings	1,401,966	1,474,411	3,021,186	5,301,266	5,879,524	7,035,751	**24,114,104**
Trade and other payables	675,707	17,225	62,800	11,681	–	–	**767,413**
	2,077,673	**1,491,636**	**3,083,986**	**5,312,947**	**5,879,524**	**7,035,751**	**24,881,517**

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 lease liabilities and loan liabilities. To maintain or change its equity structure, the Company may vary the amount of dividend paid, or sell assets in order to reduce debts.

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

The rate of borrowings to total capitalisation as at 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	As restated 2015 RUB'000
Total borrowings	**16,292,469**	20,359,060
Total capitalisation	**63,406,020**	67,256,879
Total borrowings to total capitalisation ratio (percentage)	**25.70%**	30.27%

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 2016 and 2015. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(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 one 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. 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.

Notes to the Consolidated Financial Statements continued

3. Financial risk management continued

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 2016 and 31 December 2015 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 2016 and 31 December 2015 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 2016 and 31 December 2015, respectively. The discount rate used was 10% p.a. (2015: 12.30% p.a. to 13.15% p.a.) depending on the length and currency of the liability (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).

(ii) Assessment of impairment/reversal of impairment of customer relationships

The carrying amount of the Group's intangible assets as of 31 December 2016, includes a customer relationship with MMK Group with a carrying amount of RUB 1,390,175 thousand, as of that date. This customer relationship has been allocated to the Russian gondola cars/operator's 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 assessed as of 31 December 2016 whether there were any indications of additional impairment/reversal of the previously recognised impairment for this customer relationship, in accordance with the accounting policy for impairment of non-current assets (Note 2).

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.

The Group's assessment of impairment indicators required the use of estimates and judgments, including, amongst others, estimates and judgments around the impact of market and industry development on the future economic performance of the customer relationship.

In making this assessment, the Group considered the impairment assessment performed in respect of the customer relationship as of 31 December 2015 and external and internal developments since then in order to assess whether these indicate deterioration in the recoverable amount of the intangible.

Management analysed the macroeconomic environment and industry in which the CGU, to which the customer relationship has been allocated, operates, including inflation and market interest rates. Management noted that there have been no significant changes in the technological, market, economic or legal environment as compared to 31 December 2015 with an adverse or significantly favourable effect on the recoverable amount of the customer relationship. Management specifically noted that there was no increase in market interest rates or other market rates of return on investments during the period. In fact, the Group achieved a reduction in bank interest rates during the year 2016.

Further, management considered whether there were any changes in key inputs to the impairment model performed as of 31 December 2015 indicating a decrease/increase in the recoverable amount of the customer relationship. As part of this assessment, management noted that the CGU, to which the intangible asset is allocated, benefitted from the decrease in bank interest rates in year 2016 that resulted in decrease in the discount factor used in the impairment model. Further, management considered the actual performance of the customer relationship during the year 2016, as compared to that forecasted for the same period in the 2015 impairment model, and noted an improvement in tariffs per trip with transportation volumes at approximately the same levels as the ones budgeted.

At the same time, management assessed the future macroeconomic environment and industry outlook, including expectations about inflation, and the impact of these on the key assumptions in the impairment model as of 31 December 2015, namely tariffs per trip, volumes, cost drivers and EBITDA growth margin. Management concluded as a result of this re-assessment, the recoverable amount of the customer relationship would not significantly differ from its carrying amount as of 31 December 2016.

Taking into account the above, management concluded that there were no indicators for impairment/reversal of impairment with respect to the customer relationship as of 31 December 2016.

(iii) Assessment of impairment of rolling stock

The Group assesses at each balance sheet date whether there are indications for impairment for its property, plant and equipment, in accordance with the accounting policy for impairment of non-current assets (Note 2).

The management's assessment as of 31 December 2016 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.

Management's assessment of impairment indicators for the Russian gondola cars/operator's services CGU, with rolling stock of RUB 42,952,605 thousand as at 31 December 2016, required the use of estimates and judgments, including, amongst others, estimates and judgments around the impact of market and industry development on the future economic performance of the CGU.

In making this assessment, the Group considered the impairment assessment performed in respect of the CGU as of 31 December 2015 and external and internal developments since then in order to assess whether these indicate deterioration in the recoverable amount of the CGU.

Management analysed the macroeconomic environment and industry in which the CGU operates, including inflation and market interest rates, and noted that there have been no significant changes in the technological, market, economic or legal environment as compared to 31 December 2015 with an adverse effect on the recoverable amount of the CGU. Management specifically noted that there was no increase in market interest rates or other market rates of return on investments during the period. In fact, the Group achieved a reduction in bank interest rates during the year 2016.

Further, management considered whether there were any changes during the year 2016 in key inputs to the impairment model performed as of 31 December 2015 indicating a decrease in the recoverable amount of the CGU. As part of this assessment, management noted that the CGU benefitted from the decrease in bank interest rates in year 2016 that resulted in decrease in the discount rate used in the impairment model. In addition, management noted that the actual EBITDA growth margin and tariffs per trip for the year 2016, which were key assumptions in the 2015 model, have improved as compared to those of year 2015 and are also above those budgeted for the year 2016 in the 2015 model. Further management re-assessed estimates about EBITDA growth margin and tariffs per trip for the year 2017, compared these with the 2017 estimates included in the 2015 impairment model and concluded that there are no indications of impairment of the CGU.

Management also noted that there were no signs of technological obsolescence or physical damage on the rolling stock within the CGU. Further, management noted that the average prices on rolling stock within the CGU were found to be higher to those as of 31 December 2015.

With regards to the Russian tank cars/operator's services CGUs, with rolling stock of RUB 8,756,611 thousand as at 31 December 2016, management noted that despite the weaker financial performance, being the result of the weaker market for oil and oil products transportation, their financial performance is such that indicates no impairment indicators. As part of this assessment, management also took into consideration the fact that average prices on new rolling stock within the CGUs were found to be higher to those as of 31 December 2015.

For all other CGUs, other than the Russian skelp cars/operator's services and Russian skelp cars/operating leasing, Estonian rail tank cars/operating leasing and Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs, management concluded that no impairment indicators exist as of 31 December 2016 taking into account the fact that average market prices for the rolling stock held by the CGUs are broadly in line with those as of 31 December 2015.

4. Critical accounting estimates and judgements continued

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 RUR 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.

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.

(iv) Useful lives of rolling stock

The estimation of the useful lives of items of rolling stock is a matter of judgment 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 31 December 2016 and has concluded that their remaining useful economic lives remain reasonable.

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

(i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts 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 22,251,051 thousand for the year ended 31 December 2016 (RUB 23,325,581 thousand for the year ended 31 December 2015).

The above include contracts with several customers where under the legal form of these contracts the Group acts as an agent in respect of Russian Railway tariff and services provided by other transportation organisations and recharges such costs to its customers. Management believes that despite the legal form of the contracts the substance of the relationship with the customers is such that the Group acts as a principal, because the Group's customers do not interact with Russian Railways nor with the operators supplying the engaged fleet but have a contractual relationship with the Group, the Group has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Group bears the credit and price risk and controls the flow of receipts and payments. The Group accounts for full amounts of receipts from customers as revenue and the Russian Railways tariff and the services provided by other operators are included in cost of sales.

The Group has contracts with several customers where under the legal form of these contracts the Group acts as an agent in respect of services provided by other transportation organisations and recharges such costs to its customers. Management believes that despite the legal form of the contracts the substance of the relationship with the customers is such that the Group acts as a principal, because the Group's customers do not interact with operators supplying the engaged fleet but have a contractual relationship with the Group, the Group has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Group bears the credit and price risk and controls the flow of receipts and payments. The Group accounts for full amounts of receipts from customers as revenue and the services provided by other operators are included in 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 1,425,300 thousand for the year ended 31 December 2016 (RUB 1,239,295 thousand for the year ended 31 December 2015).

(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. Recognition of the provisions for such taxes by the Group is based on the management's intention for future dividend distribution by each respective subsidiary. Deferred income tax liabilities of RUB 2,728,252 thousand (2015: RUB 3,531,476 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 22,103,185 thousand as at 31 December 2016 (2015: RUB 28,382,638 thousand).

(iii) Capitalisation of repair and maintenance costs
The Group capitalises repair and maintenance costs relating to major repairs of rolling stock within the carrying amount of the relevant item of rolling stock repaired 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, in accordance with the accounting policy for property, plant and equipment, as reassessed as of 1 January 2016 and as discussed in Note 2.

In assessing the types of repairs of wagons that constitute major repairs, the Group considers the nature, size and impact of each type of repair on the wagon's estimated future economic benefits.

Based on the assessment performed, the Group concluded that repair and maintenance costs relating to periodical capital repairs of locomotives and other rolling stock and periodical middle repairs of locomotives constitute major repairs, as these result in enhancement of the economic benefits to be derived from the future use of the repaired rolling stock. On this basis, the cost of such repairs is capitalised within 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.

Other types of repairs of rolling stock, such as current repairs and depot repairs, continue to be 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 (Note 6).

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.

Upon a periodic major capital repair, 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 indications of what the cost of the replaced part was at the time the rolling stock was acquired.

Notes to the Consolidated Financial Statements continued

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 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.

Prior 1 January 2016, the information regarding rolling stock reported to the Board did not include IFRS adjustments relating to component approach for wheel pairs. As a result, the wheel-pairs were included within the Group's unallocated assets. In the current period, the reporting package reviewed by the Board changed so that wheel-pairs, including related information (such as depreciation charge for the period), are now included within the information presented to the Board. As a result, segment assets currently consist of rolling stock and customer relationships, which are measured in a manner consistent with that in the financial statements. Unallocated assets comprise all the assets of the Group.

The Group opted to restate the comparative information presented in these consolidated financial information so that the comparative segmental disclosures include information about wheel-pairs in a manner consistent with current year. The comparative information has also been restated as a result of the change in the Group's accounting policy regarding rolling stock repair and maintenance costs, as discussed in Note 2.

The effect of these restatements on the reportable segment assets as at 31 December 2015 and related information for the year ended 31 December 2015 was as follows:

Reportable segments assets At 31 December 2015	As previously reported RUB'000	Restatement RUB'000	As restated RUB'000
Gondola cars (including customer relationships)	44,878,676	2,151,198	47,029,874
Rail tank cars	21,386,056	1,080,117	22,466,173
Other railcars	1,815,166	168,859	1,984,025
Total segment assets	**68,079,898**	**3,400,174**	**71,480,072**

Depreciation and amortisation For the twelve months ended 31 December 2015	As previously reported RUB'000	Restatement RUB'000	As restated RUB'000
Gondola cars (including customer relationships)	4,112,575	395,480	4,508,055
Rail tank cars	1,032,233	193,955	1,226,188
Other railcars	214,160	10,503	224,663
Total depreciation and amortisation	**5,358,968**	**599,938**	**5,958,906**

Loss on derecognition For the twelve months ended 31 December 2015	As previously reported RUB'000	Restatement RUB'000	As restated RUB'000
Gondola cars (including customer relationships)	–	70,714	70,714
Rail tank cars	–	132,430	132,430
Other railcars	–	36	36
Total loss on derecognition	**–**	**203,180**	**203,180**

Additions to non-current assets For the twelve months ended 31 December 2015	As previously reported RUB'000	Restatement RUB'000	As restated RUB'000
Gondola cars (including customer relationships)	250,246	885,448	1,135,694
Rail tank cars	82,454	477,933	560,387
Other railcars	970	11,436	12,406
Total additions to non-current assets	**333,670**	**1,374,817**	**1,708,487**

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 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[7]	19,176,300	1,178,107	65,452,815

7 Includes RUB 1,533,435 thousand of intangible assets representing customer relationships.

Notes to the Consolidated Financial Statements continued

5. Segmental information continued

	As restated			
	Gondola cars RUB'000	Rail tank cars RUB'000	Other railcars RUB'000	Total RUB'000
Year ended 31 December 2015				
Total revenue – operator's services	32,263,459	31,618,300	1,295,228	65,176,987
Total revenue – operating lease	48,676	2,022,326	336,945	2,407,947
Revenue (from external customers)	32,312,135	33,640,626	1,632,173	67,584,934
less Infrastructure and locomotive tariffs – loaded trips	(12,610,946)	(10,152,542)	(562,093)	(23,325,581)
less Services provided by other transportation organisations	(2,454,112)	(152,842)	(91,534)	(2,698,488)
Adjusted revenue for reportable segments	**17,247,077**	**23,335,242**	**978,546**	**41,560,865**
Depreciation and amortisation	(4,508,055)	(1,226,188)	(224,663)	(5,958,906)
Impairment of customer relationships	(996,160)	–	–	(996,160)
Impairment of property, plant and equipment	–	–	(140,734)	(140,734)
Loss on derecognition arising on capital repairs	(70,714)	(132,430)	(36)	(203,180)
Additions to non-current assets (included in reportable segment assets)	1,135,694	560,387	12,406	1,708,487
Reportable segment assets	47,029,874[8]	22,466,173	1,984,025	71,480,072

8 Includes RUB 2,367,695 thousand of intangible assets representing customer relationships.

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

	2016 RUB'000	As restated 2015 RUB'000
Adjusted revenue for reportable segments	**43,428,687**	41,560,865
Other revenues	**819,881**	614,897
Total adjusted revenue	**44,248,568**	**42,175,762**
Cost of sales (excluding Infrastructure and locomotive tariffs – loaded trips, services provided by other transportation organisations, impairments, depreciation of property, plant and equipment and amortisation of intangible assets, loss on derecognition arising on capital repairs)	**(22,809,838)**	(21,820,532)
Selling, marketing and administrative expenses (excluding depreciation, amortisation and impairments)	**(3,738,874)**	(4,360,796)
Depreciation and amortisation	**(5,793,850)**	(6,094,382)
Impairment of customer relationships	**–**	(996,160)
Impairment charge for receivables	**(82,194)**	(119,332)
Impairment charge for property, plant and equipment	**(228,408)**	(140,734)
Loss on derecognition arising on capital repairs	**(887,454)**	(203,180)
Other income	**–**	230,727
Other gains – net	**116,328**	85,717
Operating profit	**10,824,278**	**8,757,090**
Finance income	**258,803**	259,900
Finance costs	**(2,280,202)**	(2,996,197)
Net foreign exchange transaction losses on financing activities	**(291,068)**	(209,129)
Share of loss of associate	**(60,831)**	(53,739)
Profit before income tax	**8,450,980**	**5,757,925**

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

	2016		2015	
			As restated	
	Assets RUB'000	Liabilities RUB'000	Assets RUB'000	Liabilities RUB'000
Segment assets/liabilities	**65,452,815**		71,480,072	
Unallocated:				
Deferred tax	**–**	**5,245,331**	–	4,642,708
Income tax assets/liabilities	**103,852**	**147,080**	188,635	60,553
Investment in associate	**–**	**–**	65,497	–
Inventories	**565,200**	**–**	722,381	–
Intangible assets	**8,129**	**–**	46	–
Current borrowings	**–**	**6,598,226**	–	9,294,484
Non-current borrowings	**–**	**9,694,243**	–	11,064,576
Property, plant and equipment	**1,734,201**	**–**	1,111,399	–
Receivables	**5,792,878**	**–**	5,398,336	–
Payables	**–**	**3,537,351**	–	3,704,747
Cash and cash equivalents	**4,773,414**	**–**	4,104,079	–
Total	**78,430,489**	**25,222,231**	**83,070,445**	**28,767,068**

Geographic information

Revenues from external customers

	2016 RUB'000	2015 RUB'000
Revenue		
Russia	**68,277,721**	66,547,569
Estonia	**269,045**	487,381
Finland	**870,373**	1,116,626
Ukraine	**70,852**	48,255
	69,487,991	68,199,831

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:

	2016		2015	
	RUB'000	% revenue	RUB'000	% revenue
Revenue				
Customer A – rail tank cars segment	**16,754,160**	**24**	19,501,505	29
Customer B – gondola cars segment	**18,132,075**	**26**	15,942,608	23
Customer C – gondola cars segment	**11,339,547**	**16**	8,875,465	13

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

	2016 RUB'000	Restated 2015 RUB'000
Non-current assets		
Russia	**56,052,479**	57,943,825
Estonia	**10,586,947**	13,855,557
Ukraine	**636,686**	949,946
Cyprus	**6,769**	9,070
	67,282,881	72,758,398

Notes to the Consolidated Financial Statements continued

5. Segmental information continued

Analysis of revenue by category:

	2016 RUB'000	As restated 2015 RUB'000
Railway transportation – operators services (tariff borne by the Group)	**42,657,682**	46,505,329
Railway transportation – operators services (tariff borne by the client)	**24,537,806**	18,671,658
Operating lease of rolling stock	**1,472,622**	2,407,947
Other	**819,881**	614,897
Total revenue	**69,487,991**	68,199,831

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 2016 amounting to RUB 22,251,051 thousand (for the year ended 31 December 2015: RUB 23,325,581 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to RUB 2,988,372 thousand (2015: RUB 2,698,488 thousand).

6. Expenses by nature

	2016 RUB'000	As restated 2015 RUB'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**22,251,051**	23,325,581
Empty run trips and other tariffs	**13,865,726**	13,121,826
Services provided by other transportation organisations	**2,988,372**	2,698,488
Operating lease rentals – rolling stock	**1,556,979**	1,333,561
Rental of tank-containers	**65,168**	35,980
Employee benefit expense	**1,025,623**	958,569
Repairs and maintenance	**3,604,648**	3,681,283
Depreciation of property, plant and equipment	**4,905,158**	4,960,764
Amortisation of intangible assets	**835,659**	1,078,225
Fuel and spare parts – locomotives	**1,493,863**	1,615,099
Engagement of locomotive crews	**575,689**	516,165
Loss/(profit) on sale of property, plant and equipment	**60,654**	(20,097)
Impairment of property, plant and equipment	**228,408**	140,734
Loss on derecognition arising on capital repairs	**887,454**	203,180
Other expenses	**561,488**	578,146
	54,905,940	54,227,504

	2016 RUB'000	As restated 2015 RUB'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**53,015**	55,162
Amortisation of intangible assets	**18**	231
(Profit)/loss on sale of property, plant and equipment	**(1,716)**	360
Employee benefit expense	**1,920,356**	2,481,843
Impairment charge of receivables	**82,194**	119,332
Operating lease rental – office	**208,065**	229,380
Auditors' remuneration	**63,652**	69,334
Legal, consulting and other professional fees	**71,316**	100,941
Advertising and promotion	**27,716**	26,383
Communication costs	**35,282**	43,234
Information services	**26,623**	27,368
Taxes (other than income tax and value added taxes)	**838,505**	911,696
Other expenses	**549,075**	470,257
	3,874,101	4,535,521

	2016 RUB'000	As restated 2015 RUB'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**4,958,173**	5,015,926
Amortisation of intangible assets (Note 13)	**835,677**	1,078,456
Impairment of property, plant and equipment (Note 12)	**228,408**	140,734
Net loss/(profit) on sale of property, plant and equipment (Note 12)	**58,938**	(19,737)
Loss on derecognition arising on capital repairs (Note 12)	**887,454**	203,180
Employee benefit expense (Note 8)	**2,945,979**	3,440,412
Impairment charge for receivables (Note 19)	**82,194**	119,332
Operating lease rentals – rolling stock	**1,556,979**	1,333,561
Operating lease rentals – office	**208,065**	229,380
Repairs and maintenance	**3,604,648**	3,681,283
Fuel and spare parts – locomotives	**1,493,863**	1,615,099
Engagement of locomotive crews	**575,689**	516,165
Infrastructure and locomotive tariffs:		
Loaded trips	**22,251,051**	23,325,581
Empty run trips and other tariffs	**13,865,726**	13,121,826
Services provided by other transportation organisations	**2,988,372**	2,698,488
Rental of tank-containers	**65,168**	35,980
Auditors' remuneration	**63,652**	69,334
Legal, consulting and other professional fees	**71,316**	100,941
Advertising and promotion	**27,716**	26,383
Communication costs	**35,282**	43,234
Information services	**26,623**	27,368
Taxes (other than income tax and value added taxes)	**838,505**	911,696
Other expenses	**1,110,563**	1,048,403
Total cost of sales, selling and marketing costs and administrative expenses	**58,780,041**	58,763,025

Note: The auditors' remuneration stated above includes fees of RUB 17,646 thousand (2015: RUB 22,744 thousand) for statutory audit services and RUB 6,960 thousand (2015: RUB 4,393 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 904 thousand for the year 2016 (RUB 627 thousand for the year 2015) in relation to fees paid to the Company's statutory auditor for tax consultancy services.

7. Other gains – net

	2016 RUB'000	2015 RUB'000
Other gains	**28,936**	19,074
Other losses	**(52,103)**	(87,377)
Net foreign exchange gains (Note 11)	**139,495**	154,020
Total other gains – net	**116,328**	85,717

8. Employee benefit expense

	2016 RUB'000	As restated 2015 RUB'000
Salaries	**1,719,794**	1,751,086
Termination benefits	**1,332**	163,978
Bonuses	**623,377**	880,009
Share based payment expense (Note 15)	**77,985**	79,847
Social insurance costs	**523,491**	565,492
Total employee benefit expense	**2,945,979**	3,440,412
Average number of employees during the year	**1,489**	1,436

Notes to the Consolidated Financial Statements continued

9. Finance income and costs

	2016 RUB'000	2015 RUB'000
Included in finance costs:		
Borrowings from third parties	**(2,098)**	(2,161)
Bank borrowings	**(2,271,466)**	(2,757,671)
Non-convertible bond	**–**	(193,621)
Finance leases	**–**	(1,178)
Total interest expense	**(2,273,564)**	(2,954,631)
Other finance costs	**(6,638)**	(41,566)
Total finance costs	**(2,280,202)**	(2,996,197)
Included in finance income:		
Loans receivables from third parties	**163**	4,887
Bank balances	**59,698**	96,333
Short term deposits	**182,930**	158,680
Finance leases	**16,012**	–
Total interest income	**258,803**	259,900
Total finance income	**258,803**	259,900
Net foreign exchange transaction losses on borrowings and other liabilities	**(1,103)**	(162,986)
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	**(289,965)**	(46,143)
Net foreign exchange transactions losses from financing activities (Note 11)	**(291,068)**	(209,129)
Net finance costs	**(2,312,467)**	(2,945,426)

10. Income tax expense

	2016 RUB'000	As restated 2015 RUB'000
Current tax:		
Corporation tax	**1,585,905**	1,804,832
Withholding tax on dividends	**147,540**	195,000
Total current tax	**1,733,445**	1,999,832
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**602,623**	(638,741)
Impact of merger of subsidiary	**–**	(71,348)
Total deferred tax	**602,623**	(710,089)
Income tax expense	**2,336,068**	1,289,743

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

	2016 RUB'000	As restated 2015 RUB'000
Profit before tax	**8,450,980**	5,757,925
Tax calculated at domestic tax rates applicable to profits in the respective countries	**2,056,520**	1,301,183
Tax effects of:		
Expenses not deductible for tax purposes	**107,060**	108,712
Allowances and income not subject to tax	**(13,426)**	(45,617)
Tax effect of tax losses for which no deferred tax asset was recognised	**5,428**	780
Estonian income tax arising on distribution[9]	**29,597**	110,088
Withholding taxes:		
Dividend withholding tax provision as a result of change in intention on dividend distribution of subsidiaries	**150,889**	(114,055)
Impact of merger of subsidiary on dividend withholding tax provision (Note 25)[10]	**–**	(71,348)
Tax charge	**2,336,068**	1,289,743

9 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, the Group incurred taxes on a non-recurring distribution from an Estonian subsidiary.

10 Following the merger of Steeltrans, OOO into New Forwarding Company, AO during the year ended 31 December 2015, the profits of Steeltrans, OOO as of the date of the merger are no longer available for distribution. As a result, deferred tax liability in relation to withholding tax provision amounting to RUR 71,348 thousand was released to the income statement during the year 2015.

The weighted average effective tax rate for the year ended 31 December 2016 was 27.6% (2015: 22.4%). The increase in the weighted average annual income tax rate is mainly due to the increase in the provision for withholding tax on intra-group dividends due to the expected rise in dividend distribution by each respective subsidiary in the foreseeable future.

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 (2015: RUB 110,088 thousand) as a result of distribution of dividends distributed by an Estonian subsidiary. This constituted a non-recurring distribution by an Estonian subsidiary of the Group for which no deferred tax liability had been recognised in the past. 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 by the Estonian subsidiaries out of their retained earnings as of 31 December 2016.

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.

11. Net foreign exchange losses

The exchange differences credited to the income statement are included as follows:

	2016 RUB'000	2015 RUB'000
Finance income and costs (Note 9)	**(291,068)**	(209,129)
Other gains – net (Note 7)	**139,495**	154,020
	(151,573)	(55,109)

Notes to the Consolidated Financial Statements continued

12. Property, plant and equipment

	As restated				
	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2015					
Cost	93,979,617	314,076	204,501	838,921	95,337,115
Accumulated depreciation	(22,801,716)	(56,665)	(106,573)	(264,455)	(23,229,409)
Net book amount	**71,177,901**	**257,411**	**97,928**	**574,466**	**72,107,706**
Year ended 31 December 2015					
Opening net book amount	71,177,901	257,411	97,928	574,466	72,107,706
Additions	1,712,336	30,717	42,507	204,934	1,990,494
Disposals	(127,927)	–	(5,192)	(3,335)	(136,454)
Depreciation charge (Note 6)	(4,902,832)	(9,961)	(30,544)	(72,589)	(5,015,926)
Impairment charge[11]	(140,734)	–	–	–	(140,734)
Transfer to inventories	(162,095)	–	–	(45)	(162,140)
Derecognition arising on capital repairs	(203,180)	–	–	–	(203,180)
Currency translation differences	1,758,910	1,917	2,853	20,330	1,784,010
Closing net book amount	**69,112,379**	**280,084**	**107,552**	**723,761**	**70,223,776**
At 31 December 2015					
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**

	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)
Impairment charge (Notes 4 and 6)	(228,408)	–	–	–	(228,408)
Transfer to inventories	(70,972)	–	–	(8)	(70,980)
Derecognition arising on capital repairs	(887,454)	–	–	–	(887,454)
Currency translation differences	(2,824,233)	(2,681)	(3,551)	(59,632)	(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**

11 Impairment assessment of rolling stock as of 31 December 2015.

The Group assesses at each balance sheet date whether there are indications for impairment for the property, plant and equipment, in accordance with the accounting policy for impairment of non-current assets (Note 2).

As of 31 December 2015, the management considered the deterioration in the general market and industry conditions as indicators for impairment for all CGUs, with the exception of BTS (BaltTransServis, OOO) rail tank cars/operator's services CGU, and performed impairment assessments to determine the recoverable amount of these CGUs, estimated at the higher of value-in-use and fair value less cost to sell.

The recoverable amount of each CGU was compared with the carrying amount of the assets in that CGU, which included rolling stock and for the Russian gondola cars/operator's services CGU also included customer relationships, after the recognition of any impairment losses relating to individual assets of the CGU.

As a result of the impairment assessment, no impairment charges were noted in any of the CGUs of the Group tested. An impairment loss amounting to of RUR 140,734 thousand arising on 6 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 a fair value less cost to sell measurement. This measurement did not involve significant estimates.

The impairment testing for all the CGUs, other than the Russian gondola cars/operator's services CGU and the Estonian rail tank cars/operating leasing CGU, indicated a significant headroom in the recoverable amount over the carrying amount of these CGUs. Any reasonable change in the assumptions used in the calculation for the recoverable amount of these CGUs would not trigger an impairment loss.

Russian gondola cars/operator's services CGU
The recoverable amount for the Russian gondola cars/operator's services CGU, amounting to RUB 54,475,000 thousand as of 31 December 2015, was estimated based on value-in-use calculations and was sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this CGU. These calculations required the use of estimates.

The value-in-use calculations for the Russian gondola cars/operator's services CGU were based on 7-year post-tax cash flow projections and all the assumptions in relation to growth rates were determined by reference to management's past experience and industry forecasts. A 7-year period was used in the value-in-use calculations in view of current volatile market and industry conditions. Cash flows beyond the seven-year period were extrapolated using the estimated growth rate stated below. The growth rate did not exceed the long-term average growth rate for the operator's business in which the CGUs operate. A terminal growth rate of 4% and discount rate of 16.36% for years 2016 and 2017 and 15% thereafter were applied.

The main assumptions were price per trip growth rate and as well as revenue and cost drivers which were projected on 2016 actual results. 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 developments. The key assumptions thereon, were the estimated growth in the EBITDA margin as well as the discount rate.

If the discount rate had been 0.5% higher than management's estimate at 31 December 2015 the recoverable amount would decrease, resulting in an impairment loss of RUB 1,843,000 thousand to be recognised in relation to the rolling stock of this CGU.

If the price per trip growth rate had been 1% lower than management's estimate at 31 December 2015 the recoverable amount would decrease, resulting in an impairment loss of RUR 324,000 thousand to be recognised in relation to the rolling stock of this CGU.

If the EBITDA margin had been 1% lower than management's estimate at 31 December 2015 the recoverable amount would decrease, resulting in an impairment loss of RUR 3,250,000 thousand to be recognised in relation to the rolling stock of this CGU.

Estonian rail tank cars/operating leasing CGU
The recoverable amount of the Estonian rail tank cars/operating leasing CGU 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 this CGU.

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.

If the selling price of new rolling stock or the adjustment to the selling price of new rolling stock to take into account the age of each specific asset had been 10% lower/higher than management's estimate at 31 December 2015, the recoverable amount would decrease resulting into an impairment loss of RUB 940,684 thousand to be recognised in respect of the rolling stock of this CGU.

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 show impairment indicators for the Group's CGUs, except for 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 the Group performed an impairment assessment.

Notes to the Consolidated Financial Statements continued

12. Property, plant and equipment continued

As a result, the Group recognised an impairment loss amounting to RUB 228,408 thousand in respect of the rolling stock within the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs. Refer to Note 4 for more information in this respect.

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

	2016 RUB'000	2015 RUB'000
Net book amount	**456,904**	136,454
(Loss)/profit on sale of property, plant and equipment (Note 6)	**(58,938)**	19,737
Consideration from sale of property, plant and equipment	**397,966**	156,191

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

	2016 RUB'000	2015 RUB'000
Cash consideration received within year	**177,384**	92,658
Property, plant and equipment disposed through finance lease transactions	**217,545**	–
Movement in advances received in accounts payable for sales of property, plant and equipment	**3,037**	63,533
	397,966	156,191

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

	2016 RUB'000	2015 RUB'000
Cost – capitalised finance leases	**1,546,114**	2,968,899
Accumulated depreciation	**(278,481)**	(497,063)
	1,267,633	2,471,836

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

	2016 RUB'000	2015 RUB'000
Rolling stock[12]	**1,267,633**	2,471,836
	1,267,633	2,471,836

12 Property, plant and equipment that are leased under finance leases as at 31 December 2016 include rolling stock, with a net carrying amount of RUB 1,267,633 thousand (2015: RUB 2,163,158 thousand), pledged under finance leases that have been repaid by the Group as at 31 December 2016 and 31 December 2015. The relevant pledges on the rolling stock under these finance leases have not been released as of 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 (excluding finance lease liabilities) are as follows (Note 24):

	2016 RUB'000	2015 RUB'000
Rolling stock	**29,488,385**	33,793,041
Other (tank-containers)	**614,053**	–
	30,102,438	33,793,041

Depreciation expense of RUB 4,905,158 thousand in 2016 (2015: RUB 4,960,764 thousand) has been charged to "cost of sales" and RUB 53,015 thousand in 2016 (2015: RUB 55,162 thousand) has been charged to "selling, marketing and administrative expenses". Impairment charge of RUB 228,408 thousand in 2016 (2015: RUB 140,734 thousand) has been charged to "cost of sales".

13. Intangible assets

	Goodwill RUB'000	Computer software RUB'000	Customer relationships RUB'000	Total RUB'000
At 1 January 2015				
Cost	5,828,085	1,749	6,780,785	12,610,619
Accumulated amortisation and impairment	(5,828,085)	(1,433)	(2,338,705)	(8,168,223)
Net book amount	**–**	**316**	**4,442,080**	**4,442,396**
Year ended 31 December 2015				
Opening net book amount	–	316	4,442,080	4,442,396
Amortisation charge (Note 6)	–	(231)	(1,078,225)	(1,078,456)
Impairment charge (1)	–	–	(996,160)	(996,160)
Write-off	–	(39)	–	(39)
Closing net book amount	–	46	2,367,695	2,367,741
At 31 December 2015				
Cost	5,828,085	1,272	6,780,787	12,610,144
Accumulated amortisation and impairment	(5,828,085)	(1,226)	(4,413,092)	(10,242,403)
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	5,828,085	10,772	6,780,787	12,619,644
Accumulated amortisation and impairment	(5,828,085)	(2,643)	(5,247,352)	(11,078,080)
Net book amount	**–**	**8,129**	**1,533,435**	**1,541,564**

As of 31 December 2016, the Group carries customers relationships with Metalloinvest and MMK Groups with a carrying amount of RUR 143,260 thousand (2015: RUB 526,695 thousand) and RUB 1,390,175 thousand (2015: RUB 1,841,000 thousand), respectively. The customer relationships have been allocated to the Russian gondola cars/operator's services CGU.

Amortisation of RUB 835,659 thousand (2015: RUB 1,078,225 thousand) has been charged to cost of sales' in the income statement and RUB 18 thousand (2015: RUB 231 thousand) to 'administrative expenses'.

Useful lives of customer relationships
The estimation of the useful lives of the customer relationships is a matter of judgment 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 2015. 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. Management has reassessed the useful economic life of the customer relationships as of 31 December 2015 and has concluded that despite the prolongation of the contracts, the remaining useful economic lives of the customer relationships remain reasonable in view of the current volatile market conditions.

During 2016 the terms of the contracts with Metalloinvest Group were prolonged for a further 3 years until December 2019. Management has reassessed the useful economic life of the customer relationships as of 31 December 2016 and has concluded that despite the prolongation of the contracts in years 2014 and 2016, the remaining useful economic lives of the customer relationships remain reasonable.

Notes to the Consolidated Financial Statements continued

13. Intangible assets continued

These customer relationships are valued using the income approach, with an attrition rate resulting in a dissipation of the cash flows over time. In view of the current volatile market conditions, it has been determined that the pattern of economic benefits to the Group cannot be reliably determined, in that the actual cash flows and their pattern cannot be estimated with a relatively high level of confidence. In view of the inability to determine the pattern of economic benefits arising from these customer relationships with a high level of confidence and the fact that the underlying cash flows supporting the measurement of the customer relationships show a decay over time, management believes that the straight-line amortisation of these intangibles with a shortened estimated useful life is appropriate.

(1) Assessment of impairment of customer relationships as of 31 December 2015

The Group assesses at each balance sheet date whether there are indications for impairment for these customer relationships with Metalloinvest and MMK Groups, in accordance with the accounting policy for impairment of non-current assets (Note 2).

As of 31 December 2015, the analysis of indicators for impairment for the customer relationship with Metalloinvest Group showed that there were no impairment indicators in place, despite the general deterioration in the market and industry conditions. Therefore no impairment testing was performed in relation to this customer relationship as of that date.

However, impairment indicators were noted in relation to the customer relationship with MMK Group. As a result, the Group performed an impairment assessment in relation to this customer relationship, based on which it was determined that its recoverable amount amounted to RUR 1,841,000 thousand, determined based on value-in-use calculations. These calculations required the use of estimates and were sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this customer relationship.

As a result of the impairment assessment of the customer relationship with MMK Group, 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 projections prepared were based on 6-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 16.36% was applied for the years 2016 and 2017 and 15.00% for the years 2018 to 2021.

Two of the main assumptions were transportation volumes and tariffs per trip which are the main components of revenue as well as cost drivers which were projected on 2015 actual results. These 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. The key assumptions thereon, were the estimated growth in the EBITDA margin during the projected period as well as the discount rate.

If the railway transportation volume growth rate had been 5% higher/lower than management's estimate at 31 December 2015, the recoverable amount would increase/decrease, resulting in a lower/an additional impairment loss of RUB 257,000 thousand to be recognised on the contractual relationship with MMK Group.

If the EBITDA margin had been 1% higher/lower than management's estimate at 31 December 2015, the recoverable amount would increase/decrease, resulting in a lower/an additional impairment loss of RUB 319,000 thousand and RUB 159 thousand respectively to be recognised on the contractual relationship with MMK Group.

(2) Assessment for impairment/reversal of impairment of as of 31 December 2016

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 analysis did not reveal any indicators of impairment or reversal of impairment and as a result the Group did not estimate the recoverable amount of this customer relationship. Refer to Note 4 for more details in this respect.

14. Investments

14.1 Investment in associate

Set out below is the associate of the Group as at 31 December 2016 and 31 December 2015. The associate has share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also the associate's principal place of business.

	2016 RUB'000	2015 RUB'000
At beginning of year	**65,497**	110,182
Share of loss after tax	**(60,831)**	(53,739)
Currency translation difference	**(4,666)**	9,054
At end of year	**–**	65,497

Nature of investment in associate during 2016 and 2015:

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 is RUB 20,195 thousand (31 December 2015: RUB 50,446 thousand). However the market for these shares is not considered as active.

14.2 Principal subsidiaries

The Group had the following subsidiaries at 31 December 2016 and 31 December 2015:

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 (%)	
			2016	2015	2016	2015	2016	2015
New Forwarding Company, AO[16]	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
GTI Management, OOO	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
Ural Wagonrepair Company, ZAO	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[13]	Russia	Repair and maintenance of rolling stock	**–**	–	**59.4**	59.4	**40.6**	40.6
SyntezRail LLC[14]	Russia	Railway transportation	**–**	–	**60**	60	**40**	40
SyntezRail Ltd[14]	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[15]	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

13 RemTransServis, OOO is a 99% subsidiary of BaltTransServis, OOO.
14 SyntezRail LLC and SyntezRail Ltd were incorporated in 2014 and started activity in December 2014. During 2015 the Group disposed 40% of its shareholding in SyntezRail Ltd and SyntezRail LLC to a third party (Note 16).
15 Ekolinja Oy is a 100% subsidiary of Spacecom AS.
16 During the year ended 31 December 2015, Steeltrans, OOO, a wholly owned subsidiary of the Company as of 31 December 2015, was merged with New Forwarding Company, AO. No gains or losses were recognised with regards to this transaction.

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.

The accumulated non-controlling interest as of 31 December 2016 and 31 December 2015 comprised the following:

	2016 RUB'000	As restated 2015 RUB'000
BaltTransServis, OOO (including RemTransservis, OOO)	**2,303,744**	2,464,756
Spacecom AS (including Ekolinja Oy)	**2,879,538**	3,801,476
Spacecom Trans AS	**916,065**	1,131,381
SyntezRail, OOO; SyntezRail Limited	**(4,640)**	7,945
Total	**6,094,707**	7,405,558

Notes to the Consolidated Financial Statements continued

14. Investments continued

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. See Note 16 for transactions with non-controlling interests. 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	
	2016 RUB'000	As restated 2015 RUB'000	**2016 RUB'000**	2015 RUB'000
Current				
Assets	**4,218,254**	4,776,758	**222,067**	636,656
Liabilities	**2,198,882**	2,369,145	**109,638**	369,251
Total current net assets	**2,019,372**	2,407,613	**112,429**	267,405
Non-current				
Assets	**5,505,516**	5,456,338	**10,843,434**	14,184,860
Liabilities	**1,765,529**	1,702,060	**125,584**	358,002
Total non-current net assets	**3,739,987**	3,754,278	**10,717,850**	13,826,858
Net assets	**5,759,359**	6,161,891	**10,830,279**	14,094,263

Summarised income statement

	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2016 RUB'000	As restated 2015 RUB'000	**2016 RUB'000**	2015 RUB'000
Revenue	**24,200,298**	29,945,108	**1,415,426**	1,958,285
Profit before income tax	**5,649,439**	7,177,165	**(378,524)**	(31,111)
Income tax expense	**(1,154,587)**	(1,460,965)	**(29,597)**	(110,088)
Post-tax profit from continuing operations	**4,494,852**	5,716,200	**(408,121)**	(141,199)
Post-tax profit from discontinued operations	**–**	–	**–**	–
Other comprehensive income	**–**	–	**(2,783,614)**	2,234,149
Total comprehensive income	**4,494,852**	5,716,200	**(3,191,735)**	2,092,950
Total comprehensive income allocated to non-controlling interests	**1,797,941**	2,286,480	**(1,110,645)**	728,568
Dividends paid to non-controlling interest	**(1,967,200)**	(2,600,000)	**(41,375)**	(153,022)

Summarised cash flow statements

	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2016 RUB'000	As restated 2015 RUB'000	**2016 RUB'000**	2015 RUB'000
Cash flows from operating activities				
Cash generated from operations	**6,942,918**	8,260,398	**295,941**	716,861
Income tax paid	**(971,860)**	(1,557,628)	**(69,887)**	(73,688)
Net cash generated from operating activities	**5,971,058**	6,702,770	**226,054**	643,173
Net cash generated from/(used in) investing activities	**529,453**	445,177	**188,395**	(134,940)
Net cash generated used in financing activities	**(5,598,232)**	(7,901,576)	**(466,997)**	(470,952)
Net increase/decrease in cash and cash equivalents	**902,279**	(753,629)	**(52,548)**	37,281
Cash and cash equivalents at beginning of year	**1,601,141**	2,413,621	**97,233**	41,849
Exchange differences on cash and cash equivalents	**(73,838)**	(58,851)	**(2,067)**	18,068
Cash and cash equivalents at end of year	**2,429,582**	1,601,141	**42,618**	97,198

The information above is the amount before inter-company eliminations.

15. Share-based payments

Starting 1 January 2015, the Group has introduced a new remuneration program for some of the members of management, including members of key management of the Group. The new remuneration program introduces, 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 is 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 is 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 is 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 has recognised an employee benefit expense of RUB 77,985 thousand in this respect for the year ended 31 December 2016 (2015: RUB 79,847 thousand) and the Group's liability in respect of this amounted to US$145,745 as of 31 December 2016 (2015: RUB 79,847 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 fair 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 (2015: USD 4.55) and the weighted average USD/RUB exchange of 66.833 (2015 USD 61.319). There were no changes in the number of instruments over the year ended 31 December 2016.

16. Transactions with non-controlling interests

Disposal of interest in a subsidiary without loss of control

On 20 February 2015, the Group disposed 40% interest in SyntezRail Limited for a total consideration of RUB 198 thousand. The difference between the consideration received and the carrying amount of the non-controlling interest, amounting to RUB 6,807 thousand, was recognised in retained earnings.

Notes to the Consolidated Financial Statements continued

17. Financial instruments by category

	2016		2015	
	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	**2,608,410**	**2,608,410**	2,639,945	2,639,945
Cash and cash equivalents	**4,773,414**	**4,773,414**	4,104,079	4,104,079
Total	**7,381,824**	**7,381,824**	6,744,024	6,744,024

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

	2016		2015	
	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	**16,292,469**	**16,292,469**	20,359,060	20,359,060
Trade and other payables	**663,633**	**663,633**	767,413	767,413
Total	**16,956,102**	**16,956,102**	21,126,473	21,126,473

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:

	2016 RUB'000	2015 RUB'000
Trade and other receivables		
Counterparties with external credit rating		
Moody's[18] (B1 – Ba2)	**29,081**	27,108
Fitch[20] (B- – BB+)	**259,367**	209,344
	288,448	236,452

	2016 RUB'000	2015 RUB'000
Counterparties without external credit rating		
Group 1	**1,134,605**	1,292,352
Group 2	**248,238**	45,335
	1,382,843	1,337,687
Total trade and other receivables	**1,671,291**	1,574,139

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	2016 RUB'000	2015 RUB'000
Moody's[18]	Aaa – A2	**102,214**	169,998
Moody's[18]	Baa1 – B1	**3,616,631**	2,187,179
Moody's[18]	Caa1 – Caa3	**1,682**	20,496
Standard & Poor's[19]	B – BBB+	**454,931**	1,249,797
Fitch[20]	BBB – BBB+	**591,127**	472,421
Other non-rated banks – satisfactory credit quality		**5,612**	3,457
Total cash at bank and bank deposits[17]		**4,772,197**	4,103,348

17 The rest of the balance sheet item Cash and cash equivalents is cash on hand.
18 International rating agency Moody's Investors Service.
19 International rating agency Standard & Poor's.
20 International rating agency Fitch Rating.

19. Trade and other receivables

	2016 RUB'000	2015 RUB'000
Trade receivables – third parties	**2,579,788**	2,895,970
Trade receivables – related parties (Note 30)	**1,449**	7,611
Less: Provision for impairment of trade receivables	**(263,972)**	(367,909)
Trade receivables – net	**2,317,265**	2,535,672
Other receivables	**77,690**	79,752
Less: Provision for impairment of other receivables	**(29,163)**	(29,500)
Other receivables – net	**48,527**	50,252
Loans receivables – third parties	**29,533**	54,021
Prepayments – third parties	**2,464,705**	2,226,932
Finance leases to third parties	**213,085**	–
VAT recoverable	**719,763**	531,459
	5,792,878	5,398,336

	2016 RUB'000	2015 RUB'000
Less non-current portion:		
Trade receivables – third parties	**214,210**	–
Less: Provision for impairment of trade receivables	**(39,351)**	–
Trade receivables – net	**174,859**	–
Loans receivables – third parties	**29,533**	49,087
Finance leases to third parties	**202,131**	–
Prepayments for property, plant and equipment	**65,837**	52,177
Total non-current portion	**472,360**	101,264
Current portion	**5,320,518**	5,297,072

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 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	**–**	**80,825**	**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.

Notes to the Consolidated Financial Statements continued

19. Trade and other receivables continued

The effective interest rates on non-current receivables at the balance sheet were as follows:

	2016 %	2015 %
Trade receivables – third parties	**7**	–
Loans receivables – third parties	**12**	12
Finance leases to third parties	**12.12**	–

Receivables amounting to RUB 1,671,291 thousand as of 31 December 2016 were fully performing (2015: RUB 1,574,139 thousand).

Receivables of RUB 762,260 thousand as of 31 December 2016 were past due but not impaired (2015: RUB 1,065,806 thousand). These relate to a number of independent customers for whom there is no history of either non-repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

	2016 RUB'000	2015 RUB'000
Less than 1 month	**461,599**	598,337
From 1 to 3 months	**75,963**	119,175
From 3 to 6 month	**15,130**	36,278
From 6 months to 1 year	**16,681**	258,851
Over one year	**192,887**	53,165
	762,260	1,065,806

Trade receivables amounting to RUB 224,621 thousand as of 31 December 2016, were impaired and fully provided for (2015: RUB 367,909 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 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 2016, the Group recognised a provision for impairment of RUB 39,351 thousand in order to account for the expected time until receipt of the amount due (Note 28).

Other receivables amounting to RUB 29,163 thousand as of 31 December 2016, were impaired and provided for in full (2015: RUB 29,500 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:

	2016 RUB'000	2015 RUB'000
Currency:		
US Dollar	**307,471**	560,562
Russian Roubles	**5,423,503**	4,752,259
Ukrainian Hryvnia	**24,256**	15,999
Euro	**8,115**	18,656
Other	**29,533**	50,860
	5,792,878	5,398,336

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

	2016			2015		
	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	**367,909**	**29,500**	**397,409**	315,345	45,476	360,821
Provision for receivables impairment (Note 6)	**81,610**	**1,988**	**83,598**	71,952	31,707	103,659
Bad debt written off	**(130,085)**	**(2,813)**	**(132,898)**	(15,541)	(44,490)	(60,031)
Unused amounts reversed (Note 6)	**(1,397)**	**(7)**	**(1,404)**	(288)	(59)	(347)
Currency translation differences	**(52,765)**	**(80)**	**(52,845)**	(6,482)	41	(6,441)
Other	**(1,300)**	**575**	**(725)**	2,923	(3,175)	(252)
At 31 December	**263,972**	**29,163**	**293,135**	367,909	29,500	397,409

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

	2016 RUB'000	2015 RUB'000
Raw materials, spare parts and consumables	**565,200**	722,381
	565,200	722,381

All inventories are stated at cost.

21. Cash and cash equivalents

	2016 RUB'000	2015 RUB'000
Cash at bank and in hand	**1,416,760**	1,552,299
Short term bank deposits	**3,356,654**	2,551,780
Total cash and cash equivalents	**4,773,414**	4,104,079

The effective interest rate on short-term deposits was 7.28% in 2016 (2015: 8.26%) and these deposits have a maturity of 10 to 35 days (2015: 1 to 44 days).

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

	2016 RUB'000	2015 RUB'000
Cash and cash equivalents	**4,773,414**	4,104,079
Total cash and cash equivalents	**4,773,414**	4,104,079

Cash and cash equivalents are denominated in the following currencies:

	2016 RUB'000	2015 RUB'000
Russian Rouble	**3,533,283**	3,179,710
US Dollar	**1,166,995**	903,833
Euro	**42,022**	5,298
Ukrainian Hryvnia	**31,114**	15,238
Total cash and cash equivalents	**4,773,414**	4,104,079

The carrying value of cash and cash equivalents approximates their fair value.

Notes to the Consolidated Financial Statements continued

22. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2015/31 December 2015/ 1 January 2016/31 December 2016	**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 2015/31 December 2015/ 1 January 2016/31 December 2016	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2016 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2015: 233,918,128 shares with a par value of US$0.10 per share. All issued shares are fully paid.

23. Dividends

No interim dividends were declared by the Board of Directors during the year ended 31 December 2016 and 31 December 2015.

On 31 March 2017, the Board of Directors of the Company recommended a payment of dividend out of retained earnings earned prior 31 December 2014 in the amount of 39.20 Russian Roubles per ordinary share, amounting to a total dividend of RUB 7,006,644 thousand to be paid in US Dollars at the rate as at the date of Annual General Meeting), subject to approval of the Company's shareholders at the next Annual General Meeting.

On 30 March 2016, the Board of Directors of the Company recommended a payment of dividend in relation to the financial year ended 31 December 2015 in the amount of 12.41 Russian Roubles per ordinary share, amounting to a total dividend of RUB 2,218,175 thousand paid in US Dollars at the rate as at the date of Annual General Meeting (US Dollar equivalent of US$ 34,041 thousand.

During the years ended 31 December 2016 and 2015, 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.

	2016 RUB'000	2015 RUB'000
Dividends declared to equity holders of the Company	**2,218,175**	–
Dividends paid to equity holders of the Company	**2,218,175**	–
Dividends declared to non-controlling interest	**2,008,575**	2,753,022
Dividends paid to non-controlling interest	**2,065,107**	2,696,490

24. Borrowings

	2016 RUB'000	2015 RUB'000
Current		
Bank borrowings	**6,598,226**	9,294,389
Finance lease liabilities	**–**	95
Total current borrowings	**6,598,226**	9,294,484
Non-current		
Bank borrowings	**9,694,243**	11,040,278
Loans from third parties	**–**	24,264
Finance lease liabilities	**–**	34
Total non-current borrowings	**9,694,243**	11,064,576
Total borrowings	**16,292,469**	20,359,060
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**5,499,808**	4,811,847
Between 2 and 5 years	**4,194,435**	6,252,695
	9,694,243	11,064,542

Finance lease liabilities

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

	2016 RUB'000	2015 RUB'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	–	97
Later than 1 year and not later than 5 years	–	34
Future finance charges of finance leases	–	(2)
Present value of finance lease liabilities	–	129
The present value of finance lease liabilities is as follows:		
Not later than 1 year	–	95
Later than 1 year and not later than 5 years	–	34
	–	129

Bank borrowings

Bank borrowings mature by 2021 (2015: by 2020) and bear average interest of 11.02% per annum (2015: 11.98% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2016 and 31 December 2015.

The current and non-current bank borrowings amounting to RUB 6,598,226 thousand and RUB 9,694,243 thousand respectively (2015: RUB 8,921,923 thousand and RUB 10,209,509 thousand respectively) are secured by pledge of rolling stock and tank-containers with a total carrying net book value of RUB 30,102,438 thousand (2015: RUB 33,793,041 thousand) (Note 12).

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:

	2016 RUB'000	2015 RUB'000
6 months or less	**3,593,364**	5,004,688
6 to 12 months	**3,004,863**	4,347,876
1 to 5 years	**9,694,242**	11,006,496
	16,292,469	20,359,060

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

	Carrying amount		Fair value	
	2016 RUB'000	2015 RUB'000	2016 RUB'000	2015 RUB'000
Bank borrowings	**16,292,469**	20,334,667	**16,569,521**	20,106,213
Loans from third parties	–	24,264	–	24,264
Finance lease liabilities	–	129	–	42
	16,292,469	20,359,060	**16,569,521**	20,130,519

The fair value as at 31 December 2016 and 31 December 2015 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 2016 and 31 December 2015. The discount rates was 10% p.a. (2015: 12.30% p.a. to 13.15% p.a.) depending on the length and currency of the liability.

The fair value measurement of the bank borrowings, loans from third parties and lease liabilities are within level 2 of the fair value hierarchy (2015: 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.

Notes to the Consolidated Financial Statements continued

24. Borrowings continued

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

	2016 RUB'000	2015 RUB'000
US Dollar	**22**	129
Russian Rouble	**16,292,447**	20,358,931
	16,292,469	20,359,060

The Group has the following undrawn borrowing facilities:

	2016 RUB'000	2015 RUB'000
Floating rate:		
Expiring beyond one year	**–**	1,000,000
Fixed rate:		
Expiring within one year	**4,320,000**	1,076,000
Expiring beyond one year	**16,500,000**	17,500,000
	20,820,000	19,576,000

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

	2016 %	2015 %
Bank borrowings	**11.0**	12.0
Loans from third parties	**–**	10.0
Finance lease liabilities	**–**	2.5

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:

	2016 RUB'000	As restated 2015 RUB'000
Beginning of year	**4,642,708**	5,352,797
Income statement charge/(credit) (Note 10)	**602,623**	(710,089)
End of year	**5,245,331**	4,642,708

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	Restated Property, plant and equipment RUB'000	Withholding tax provision RUB'000	Intangible assets RUB'000	Total RUB'000
At 1 January 2015	**4,224,216**	**473,349**	**888,465**	**5,586,030**
Charged/(credited) to:				
Income statement (Note 10)	228,065	(244,777)	(414,933)	(431,645)
Currency translation differences	(2,657)	–	–	(2,657)
At 31 December 2015/1 January 2016	**4,449,624**	**228,572**	**473,532**	**5,151,728**
Charged/(credited) to:				
Income statement (Note 10)	**725,554**	**269,558**	**(166,851)**	**828,261**
Currency translation differences	**(4,209)**	**–**	**–**	**(4,209)**
At 31 December 2016	**5,170,969**	**498,130**	**306,681**	**5,975,780**

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 2015	**–**	**(81,892)**	**(46,642)**	**(104,699)**	**(233,233)**
Charged/(credited) to:					
Income statement (Note 10)	(134,373)	(31,688)	(71,843)	(40,540)	(278,444)
Currency translation differences	–	–	–	2,657	2,657
At 31 December 2015/1 January 2016	**(134,373)**	**(113,580)**	**(118,485)**	**(142,582)**	**(509,020)**
Charged/(credited) to:					
Income statement (Note 10)	**115,064**	**(14,920)**	**(369,307)**	**43,525**	**(225,638)**
Currency translation differences	**–**	**–**	**–**	**4,209**	**4,209**
At 31 December 2016	**(19,309)**	**(128,500)**	**(487,792)**	**(94,848)**	**(730,449)**

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 475,220 thousand (2015: RUR 381,385 thousand) for tax losses amounting to RUR 2,994,373 thousand (2015: RUR 3,579,829) 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 2,728,252 thousand (2015: RUB 3,531,476 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 22,103,185 thousand as at 31 December 2016 (2015: RUB 28,382,638 thousand).

26. Trade and other payables

	2016 RUB'000	2015 RUB'000
Current		
Trade payables to third parties	**609,153**	691,211
Other payables to third parties	**715,863**	575,113
Accrued expenses	**97,163**	134,584
Accrued key management compensation, including share based payment (Note 30)	**267,354**	442,778
Advances from customers for transportation services	**1,729,928**	1,743,476
Dividends payable to non-controlling interest	**–**	56,532
	3,419,461	3,643,694

	2016 RUB'000	2015 RUB'000
Non-current		
Accrued key management compensation, including share based payment (Note 30)	**117,890**	61,053
	117,890	61,053

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

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

27. Earnings per share

Basic and diluted

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

	2016	As restated 2015
Profit attributable to equity holders of the company (RUB thousand)	**4,472,817**	2,103,633
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	**25.02**	11.77

Notes to the Consolidated Financial Statements continued

28. Contingencies

Operating environment

The Group and its subsidiaries 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. During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. 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 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.

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 2015 and 2016 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

Estonia represents a well-developed market economy 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 2016, though to a lesser extent as compared to 2014–2015.

The inflation rate in Ukraine during 2016 reduced to 12% (as compared to 43% in 2015), while GDP returned to growth of 1% (after 9% decline in 2015).

Devaluation during 2016 has been moderate. As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 26.91 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016 (31 December 2015: UAH 24.00 per USD 1). In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 65% starting from 9 June 2016 and the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 July 2016. Also starting from 13 June 2016, the NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of USD 5 million per month.

The central bank of Ukraine prolonged these restrictions several times during 2015 – 2016 years and the current restrictions are effective until rescinded by the NBU (with minor exceptions, including mandatory conversion of foreign currency proceeds, which are set to expire on 16 June 2017). The IMF continued to support the Ukrainian government under the four-year Extended Fund Facility ("EFF") Programme approved in March 2015, providing the third tranche of approximately USD 1 billion in September 2016. 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, 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 2016 and 31 December 2015 (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 2016 and 31 December 2015, the Company's subsidiaries were involved as a claimants and defendants in a number of court proceedings.

Georgian Railways case
As at 31 December 2016 the Group has outstanding receivable amounting to EUR 2,740 thousand/RUB 174,859 thousand (2015: EUR 3,231 thousand/RUB 257,501 thousand) from Georgian Railways relating to invoices issued for services rendered prior to 1 April 2015 amounting to EUR 3,231 thousand. 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 2016, management recognised a provision for impairment of EUR 617 thousand in order to account for the expected time until receipt of the amount due.

In February 2016, the first court hearing took place during which the facts of the claim were presented. No decisions were taken.

The Group issued additional invoices of EUR 1,555 thousand (RUB 99,266 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 is not probable that future economic benefits will flow to the Group.

In March 2016, Georgian Railways have initiated a claim of approximately GEL 16,122 thousand (approximately RUB 371,000 thousand) claiming compensation for storage costs incurred during the period the wagons remain in Georgia plus interest.

Management cannot estimate with sufficient certainty what the outcome of the above case will be since the court case is still in its early stages.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2016 and 2015 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.

Notes to the Consolidated Financial Statements continued

29. Commitments

(a) Capital commitments

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

	2016 RUB'000	2015 RUB'000
Property, plant and equipment	**120,671**	124,739

(b) Operating lease commitments – Group as lessee

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

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

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

	2016 RUB'000	2015 RUB'000
Not later than 1 year	**268,231**	425,896
Later than 1 year not later than 5 years	**139,625**	3,030
	407,856	428,926

(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:

	2016 RUB'000	2015 RUB'000
Not later than 1 year	**172,454**	443,403
Later than 1 year not later than 5 years	**–**	51,141
	172,454	494,544

Contingent-based rents recognised in the income statement were RUB Nil for the year ended 31 December 2016 (2015: 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 2015 and as at 31 December 2016 of 11.5% each.

As at 1 January 2015, Litten Investments Limited and Goldriver Resources Limited, both controlled by members of key management of the Group had a shareholding in the Company of 6.3% and 4.5% respectively through ordinary shares and GDRs. As from November 2015, Goldriver Resources Limited is not a related party to the Group. As of 31 December 2016, Litten Investment Limited, controlled by a member of key management of the Group, has a shareholding in the Company of 6.3% (31 December 2015: 6.3%).

As at 31 December 2016, 59% (31 December 2015: 59%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated or associated with the Company. The remaining 0.2% (31 December 2015: 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

	2016 RUB'000	2015 RUB'000
Sales of services:		
Associate	**339**	1,326
Other related parties:		
Entities under significant influence of members of key management	**–**	519
	339	1,845

(b) Purchases of goods and services

	2016 RUB'000	2015 RUB'000
Purchases of services:		
Other related parties		
Entities under significant influence of members of key management	**–**	209,022
	–	209,022

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

	2016 RUB'000	2015 RUB'000
Additions:		
Entities under significant influence of members of key management	**–**	22,329
	–	22,329

Profit on disposal of property, plant and equipment:		
Entities under significant influence of members of key management	**–**	1,199
	–	1,199

(d) Key management compensation

	2016 RUB'000	2015 RUB'000
Key management salaries and other short term employee benefits[21]	**681,393**	956,041
Share based compensation (Note 15)	**77,985**	79,847
	759,378	1,035,888

21 '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 131,382 thousand (2015: RUB 229,823 thousand).

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

	2016 RUB'000	2015 RUB'000
Trade receivable from related parties (Note 19):		
Associate	**1,449**	7,611
	1,449	7,611

	2016 RUB'000	2015 RUB'000
Accrued key management remuneration (Note 26):		
Accrued salaries and other short term employee benefits	**239,499**	423,984
Share based payment liability (Note 15)	**145,745**	79,847
	385,244	503,831

Notes to the Consolidated Financial Statements continued

30. Related party transactions continued

(g) Operating lease commitments – Group as lessee

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

	2016 RUB'000	2015 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 Associate are as follows:

	2016 RUB'000	2015 RUB'000
Not later than 1 year	**99,196**	–
	99,196	–

31. Events after the balance sheet date

On the date of this report, the Board of Directors of the Company recommends a payment of dividend out of retained earnings earned prior to 31 December 2014 in the amount of 39.20 Russian Roubles per ordinary share, amounting to a total dividend of RUB 7,006,644 thousand to be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to approval from the Company's shareholders at the next Annual General Meeting.

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 86 to 92.

Globaltrans Investment PLC
Management Report and Parent Company Financial Statements
For the Year Ended 31 December 2016

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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
Non-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

Ms Zarema Mamukaeva
Non-executive Director
Appointed on 28 April 2016
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 2016. 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 dropped to RUB 2,708,737 thousand compared to RUB 3,764,715 thousand for the year ended 31 December 2015. This was mainly the result of a decrease in the dividend income earned from the subsidiaries from RUB 4,153,222 thousand during the year ended 31 December 2015 to RUB 3,026,561 thousand in the current year.

The total asset position of the Company as of 31 December remains at similar levels as at 31 December 2015, with total assets on 31 December 2016 amounting to RUB 47,029,082 thousand compared to RUB 47,198,924 thousand as at 31 December 2015. The net asset position of the Company has improved as of 31 December 2016 compared to 31 December 2015, with net assets as of 31 December 2016 amounting to RUB 46,257,329 thousand compared to RUB 45,766,767 thousand as of 31 December 2015. The improvement in the net asset position of the Company was the result of the net profit for the year ended 31 December 2016 exceeding the dividend distribution to owners of the Company by RUB 490,562 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 2016. For the principal subsidiaries of the Company, refer to Note 14 of the financial statements.

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 and Ukraine 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 80% of the Group's Net Revenue from the operation of rolling stock in 2016; the dependence on RZD to issue permits allowing the Group to operate locomotives; 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 and to approve is use of locomotives for particular routes.

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 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 62% of the Group's Net Revenue from the Operation of Rolling Stock in 2016 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.

Management Report continued

Operational risks

The operations risks faced by the Group that could influence the Group's operational efficiency include the physical state of the Russian and Ukrainian railway infrastructure which may negatively impact the condition of the Group's rolling stock and the performance of the Group; the impact of rising 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 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, cash flow interest rate risk and price 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.

Following two years of high volatility in currency markets and significant fluctuation and devaluation of the Russian Rouble against some major currencies, during the year 2016 the Russian Rouble showed signs of recovery. As of end of December 2016, the Russian Rouble has appreciated against the US Dollar from 72.8827 as of 31 December 2015 to 60.6569 Russian Roubles (16.8% 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 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2016 would have increased/decreased by 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 2016.

The Company's current policy is not to hedge this foreign exchange risk.

Interest-rate risks

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 2016 and 31 December 2015 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 2016 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 2016 revealed indicators for impairment/reversal of impairment with respect to the loans to Ural Wagonrepair Company, ZAO 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 160,631 thousand.

The majority of bank balances are held with reliable banks.

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 2016, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings.

Liquidity risk

As at 31 December 2016, the Company has an excess of current assets over current liabilities of RUB 550,067 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 165 and 166. The Board of Directors recommends the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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

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

In 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, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of US$ 34,041 thousand).

Management Report continued

On the date of this report, the Board of Directors of the Company, having considered the profitability and liquidity position of the Group as well as the amended dividend policy of the Company which has been adopted on the date of this report, as outlined below, recommends a payment of dividend out of retained earnings earned prior to 31 December 2014 in the amount of 39.20 Russian Roubles per ordinary share, amounting to a total dividend of RUB 7,006,644 thousand to 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 24 April 2017.

New enhanced dividend policy as adopted by the Board on 31 March 2017

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.

The enhanced dividend policy enables the Group to invest when it identifies value accretive growth opportunities and, when such opportunities are limited, to return a substantial portion of free cash flow to shareholders.

Depending on the actual Leverage Ratio[1] of the Group as 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 the payment of dividends in amounts not less than the following proportions of Attributable Free Cash Flow for such financial year:

Leverage Ratio	Dividends, % of Attributable Free Cash Flow[3]
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

1 Leverage Ratio (a non-IFRS financial measure) means the ratio of Net Debt on the last day of a particular financial year to Adjusted EBITDA in respect of that financial year.
2 The Board reserves the right to recommend to the general shareholder meeting the dividend for the financial year in the amount calculated on a reasonable basis other than that described above at 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 regulatory, economic and market environment; (iv) the ability of the Company and its subsidiaries to meet their obligations as they fall due; (v) the availability of distributable reserves at the Company and subsidiaries level and (vi) other factors considered by the Board of Directors as important in light of the current circumstances, including maintenance of the Company's credit ratings.
3 The Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted profit attributable to non-controlling interests.

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 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 General Meeting to approve the final dividend and the final decision regarding declaration or distribution of dividends, if any, shall be taken by the General Meeting at its sole discretion.

Share capital

As at 31 December 2016 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 US$0.10 per share.

Research and development activities

The Company has not undertaken any research and development activities during the year ended 31 December 2016.

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 2016 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 2017, 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 2016 and at the date of this report, the Board comprises 14 members (2015: 13 members), 11 (2015: 10 members) of whom are non-executive directors (including the Chairman). 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 judgment with a view to the best interests of the Company, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2016 and at the date of this report are shown on page 1. There were no significant changes in the assignment of responsibilities of the Board of Directors. Mr Valery Shpakov, who has been acting as interim CEO since 6 November 2015, has been appointed as the new CEO of the Group on 30 March 2016.

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 2016 amounted to RUB 50,655 thousand (2015: RUB 162,144 thousand).

Board performance

The Board held 12 meetings in 2016. The Directors' attendance is presented in the table below.

	Eligible	Attended
John Carroll Colley	12	11
Johann Franz Durrer	12	12
Alexander Eliseev	12	8
Zarema Mamukaeva	8	7
Elia Nicolaou	12	11
George Papaioannou	12	12
Melina Pyrgou	12	12
Konstantin Shirokov	12	12
Alexander Storozhev	12	11
Alexander Tarasov	12	9
Michalakis Thomaides	12	10
Marios Tofaros	12	12
Sergey Tolmachev	12	12
Michael Zampelas	12	12

Management Report continued

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 28 April 2016.

Refer to Note 22 of the financial statements for details of remuneration of directors and other key management personnel.

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] 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 is as follows:

Shareholder structure

Maple Valley Investments[5]	11.5%
Onyx Investments[5]	11.5%
Marigold Investments[5]	11.5%
Litten Investments[6]	6.3%
Controlled by Directors and management of Globaltrans	0.2%
Free float[4]	59%

4 For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.
5 Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, a leading container and oil products terminal operator servicing Russia's cargo flows which is also listed on the London Stock Exchange.
6 Beneficially owned by Alexander Eliseev, Non-Executive Director and co-founder of Globaltrans.

Management Report continued

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 2016 and 31 December 2015 are shown below:

Name	Type of holding	2016	2015
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, 31 March 2017

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 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 financial statements (presented on pages 20 to 53) give a true and fair view of the financial position of Globaltrans Investment PLC (the Company") as at 31 December 2016 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 financial statements are in agreement with the books of account;
(iii) the 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 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) and (vi) 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 parent company financial statements

Our opinion

In our opinion, the accompanying parent company financial statements (hereinafter the "financial statements") of Globaltrans Investment PLC (hereinafter "the Company") give a true and fair view of the financial position of the Company as at 31 December 2016, and 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.

What we have audited

We have audited the financial statements which comprise:

- the balance sheet as at 31 December 2016;
- the income statement for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 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.

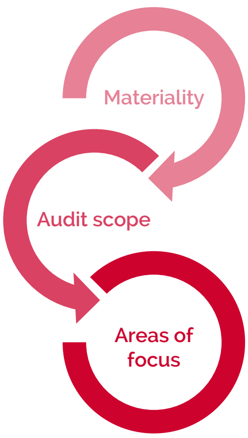
Independence

We are independent of the Company 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 financial statements in Cyprus. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

We designed our audit by determining materiality and assessing the risks of material misstatement in the 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 considered 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 materiality: RUR 142,835 thousand, which represents 5% of profit before tax.

- We audited the complete financial information of the Company.

- We have identified the assessment of impairment of investments in subsidiaries as a key audit matter.

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Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

Overall materiality	RUR 142,835 thousand
How we determined it	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 users, and is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them individual misstatements identified during our audit above RUR 7,142 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our audit scope

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Company, the accounting processes, controls and the industry in which the Company operates.

Globaltrans Investment PLC controls a number of entities situated in a number of territories namely Russia, Estonia, Ukraine and Cyprus. Overall, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Company to provide a basis for our audit opinion on the financial statements.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of investments in subsidiaries	
Based on the requirements of the applicable standards and in line with its accounting policy for investment in subsidiaries, as documented in Note 2 to the financial statements, the Board of Directors assessed whether there were any indicators of impairment of the Company's investments in subsidiaries as of 31 December 2016. The analysis did not reveal any indicators of impairment for any of the Company's subsidiaries. We focused our audit effort on the Board of Directors' assessment of impairment indicators for the Russian subsidiaries of the Company, New Forwarding Company AO and GTI Management OOO, due to: • the carrying amount of the subsidiaries being RUB 33,217,366 thousand, on a combined basis, as at 31 December 2016; • the fact that the prior year's impairment assessment revealed indicators of impairment as of 31 December 2015; and • the fact that the current year's assessment of whether there were any indicators of impairment as of 31 December 2016 involved certain assumptions and judgments that were considered to be key estimates and judgements. These include the discount rate, EBITDA growth margin and tariffs per trip. *Note 2 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments and Note 14 Investments in subsidiary undertakings to the financial statements provide detailed information on the assessment for impairment of the Company's investments in subsidiaries.*	We evaluated the judgments made by the Board of Directors around the application of the relevant accounting standards and the process and methodology used in determining the level at which the impairment assessment would be performed. Specifically, we evaluated the Board of Directors' methodology of assessing for impairment New Forwarding Company AO and GTI Management OOO on a combined basis. We further evaluated and challenged the analysis of indicators for impairment performed by Board of Directors with respect to the two subsidiaries of the Company. In particular: • We challenged the Board of Directors' assessment of changes in macroeconomic and industry assumptions, such as inflation and interest rates, by comparing them to publicly available information; • We challenged the Board of Directors' assessment of changes in market interest rates that are likely to affect the discount rate applied in prior year's value-in-use impairment models, by calculating the weighted average cost of capital of the subsidiaries, with the involvement of PwC valuation experts; • We assessed whether there were any indicators of physical or technological obsolescence of the rolling stock held by the subsidiaries during the year ended 31 December 2016 by tracing the rolling stock to the wagons' tracking system, reviewing the average ageing of the rolling stock and by reviewing changes in market prices for the rolling stock, by reference to publicly available quoted prices; • We compared current year's actual results with the figures for the same period included in the value-in-use impairment models prepared as of 31 December 2015 to assess whether the actual performance indicated deterioration in relation to prior expectations in the prior year's model; • We obtained the Board of Director's budget for the gondola cars/operator's services cash generating unit ("CGU") within the subsidiaries for the year ending 31 December 2017 and assessed whether expected cash flows in this budget are comparable with those included in prior year's impairment model for year 2017, including assumptions around EBITDA growth margin and tariffs per trip; and • We assessed the impact of the above assumptions and forecasts made by the Board of Directors, on the recoverable amount of the subsidiaries. We lastly evaluated the adequacy of the disclosures made in Note 4 of the financial statements in relation to the judgments applied by reference to the requirements of IAS 1 'Presentation of financial statements.'

Other information
The Board of Directors is responsible for the other information. The other information comprises the Management report, which we obtained prior to the date of this auditor's report, and the Company's complete Annual report, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 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 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, 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 financial statements
The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union 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.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report, whose preparation is the responsibility of the Board of Directors, 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.
- In our opinion and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.
- In our opinion, 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 financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not 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.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other matter
This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 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 2016.

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

Limassol, 31 March 2017

Income Statement
For the Year Ended 31 December 2016

	Note	2016 RUB'000	2015 RUB'000
Revenue	5	**3,166,488**	4,243,124
Selling and marketing costs		**(6,752)**	(7,530)
Administrative expenses		**(160,631)**	(302,962)
Reversal of impairment/impairment charge for loans receivable from related parties – net	17	**84,920**	(195,034)
Other income		**–**	188,827
Other (losses)/gains – net	6	**(2,637)**	19,477
Operating profit		**3,081,388**	3,945,902
Finance costs	9	**(105,428)**	(225,861)
Net foreign exchange transaction (losses)/gains on financing activities	9	**(119,268)**	239,674
Finance (costs)/income – net	9	**(224,696)**	13,813
Profit before tax		**2,856,692**	3,959,715
Income tax expense	10	**(147,955)**	(195,000)
Profit for the year		**2,708,737**	3,764,715

The notes on pages 170 to 197 are an integral part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2016

	2016 RUB'000	2015 RUB'000
Profit for the year	**2,708,737**	3,764,715
Other comprehensive income for the year, net of tax	**–**	–
Total comprehensive income for the year	**2,708,737**	3,764,715

The notes on pages 170 to 197 are an integral part of these financial statements.

Balance Sheet
At 31 December 2016

	Note	31 December 2016 RUB'000	31 December 2015 RUB'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	**45,252,722**	45,240,258
Property, plant and equipment	13	**6,769**	9,070
Loans and other receivables	17	**1,199,771**	1,460,286
Total non-current assets		**46,459,262**	46,709,614
Current assets			
Loans and other receivables	17	**244,215**	197,284
Income tax assets		**10,928**	13,649
Cash and cash equivalents	18	**314,677**	278,377
Total current assets		**569,820**	489,310
Total assets		**47,029,082**	47,198,924
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		**15,116,043**	14,625,481
Total equity		**46,257,329**	45,766,767
Non-current liabilities			
Borrowings	20	**752,000**	1,406,128
Total non-current liabilities		**752,000**	1,406,128
Current liabilities			
Borrowings	20	**3,703**	6,778
Payables and accrued expenses	21	**16,050**	19,251
Total current liabilities		**19,753**	26,029
Total liabilities		**771,753**	1,432,157
Total equity and liabilities		**47,029,082**	47,198,924

On 31 March 2017 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Tolmachev
Director

Konstantin Shirokov
Director

The notes on pages 170 to 197 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2016

	Note	Share capital RUB'000	Share premium RUB'000	Capital contribution RUB'000	Retained earnings RUB'000	Total RUB'000
Balance at 1 January 2015		**516,957**	**27,929,478**	**2,694,851**	**10,860,766**	**42,002,052**
Comprehensive income						
Profit for the year		–	–	–	3,764,715	3,764,715
Total comprehensive income for 2015		–	–	–	3,764,715	3,764,715
Balance at 31 December 2015/1 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 relating to 2015	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		**516,957**	**27,929,478**	**2,694,851**	**15,116,043**	**46,257,329**

The notes on pages 170 to 197 are an integral part of these financial statements.

Cash Flow Statement
For the Year Ended 31 December 2016

	Note	2016 RUB'000	2015 RUB'000
Cash flows from operating activities			
Profit before tax		**2,856,692**	3,959,715
Adjustments for:			
Depreciation of property, plant and equipment	13	**2,301**	1,558
Profit on sale of subsidiaries	6	**–**	(159)
Interest income not received		**(133,711)**	(32,401)
Interest expense	9	**105,428**	208,918
Loss on extinguishment of financial liabilities	9	**–**	16,943
Net (reversal of impairment)/impairment loss of loans receivables	17	**(84,920)**	195,034
Net foreign exchange transaction losses/(gains) on financing activities		**118,890**	(185,366)
Amortisation of financial guarantees	6	**–**	(13,786)
Dividend income not received		**–**	(114,134)
Operating cash flows before working capital changes		**2,864,680**	4,036,322
Changes in working capital:			
Dividend income receivable		**114,134**	–
Other receivables		**2,373**	5,022
Payables and accrued expenses		**(3,201)**	5,460
Net cash generated from operations		**2,977,986**	4,046,804
Tax paid		**(147,540)**	(195,000)
Net cash generated from operating activities		**2,830,446**	3,851,804
Cash flows from investing activities			
Contribution into share capital of subsidiary	14	**(12,464)**	(1)
Disposal of subsidiaries	14	**–**	201
Purchases of property, plant and equipment	13	**–**	(8,810)
Loans granted to related parties	22	**–**	(2,401,050)
Loan repayments received from related parties	22	**258,679**	801,936
Net cash generated from/(used in) investing activities		**246,215**	(1,607,724)
Cash flows from financing activities			
Repayment of borrowings – related parties	22	**(654,128)**	(2,007,866)
Interest paid – related parties	22	**(108,503)**	(274,214)
Dividends paid to Company's shareholders	12	**(2,218,175)**	–
Net cash used in financing activities		**(2,980,806)**	(2,282,080)
Net increase/(decrease) in cash and cash equivalents		**95,855**	(38,000)
Exchange (losses)/gains on cash and cash equivalents		**(59,555)**	144,509
Cash and cash equivalents at beginning of year		**278,377**	171,868
Cash and cash equivalents at end of year	18	**314,677**	278,377

The notes on pages 170 to 197 are an integral part of these financial statements.

Notes to the 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 financial statements
These financial statements were authorised for issue by the Board of Directors of the Company on 31 March 2017.

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). The 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 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 2016 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

The Company has prepared these separate financial statements for compliance with the requirements of the Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2016 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 2016:

- Equity Method in Separate Financial Statements – Amendments to IAS 27. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company has opted to continue account for investments in subsidiaries at cost less impairment in its separate financial statements.

- Disclosure Initiative Amendments to IAS 1 – The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. As a result of this disclosure initiative, the Company has applied the concept of materiality in disclosures in the financial statements.

(b) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning after 1 January 2016 or later, 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 new IFRS and IFRICs when 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.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

The Company is currently assessing the impact of the new standard on its 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.

- **Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12* (issued in 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 will have 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 is currently assessing the impact of the amendments on its financial statements.

- **Disclosure Initiative – Amendments to IAS 7* (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)**. The amended IAS 7 will requires disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company is currently assessing the impact of the amendment on its financial statements.

- **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 judgment in determining whether an item is monetary or non-monetary. The Company is currently assessing the impact of the amendments on its financial statements.

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 income and costs".

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

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.

Termination benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company 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.

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the 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.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

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 income as part of operating 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 twelve 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 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.

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.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

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 twelve 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 losses/gains in profit or loss 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. 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.

Reclassifications
During the year ended 31 December 2016, the Company reclassified "reversal of impairment/impairment charge for loans receivable from related parties-net" from "selling and marketing costs" to a separate line on the face of the income statement. The reclassification has also been made in the comparatives for consistency with the presentation in the current year.

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.

Following two years of high volatility in currency markets and significant fluctuation and devaluation of the Russian Rouble against some major currencies, during the year 2016 the Russian Rouble showed signs of recovery. As of end of December 2016, the Russian Rouble has appreciated against the US Dollar from 72.8827 as of 31 December 2015 to 60.6569 Russian Roubles (16.8% revaluation).

The fluctuations in the exchange rate between US Dollar and Russian Rouble expose the Company to foreign exchange risk.

The carrying amounts of monetary assets denominated in US dollars as at 31 December 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Assets	**639,208**	765,692

There were no monetary liabilities denominated in US dollars as at 31 December 2016 and 31 December 2015.

Had US Dollar exchange rate strengthened/weakened by 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2016 would have increased/decreased by RUB 167,792 thousand (2015: 30% change, effect RUB 200,994 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 2016 and as of 31 December 2015.

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 2,185,342 thousand as of 31 December 2016 (2015: RUB 2,177,628 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.

Notes to the Financial Statements continued

3. Financial risk management continued

(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 2016 and 31 December 2015 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 2016 and 31 December 2015 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 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, a reversal of impairment was identified amounting to 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 2016 and 31 December 2015, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings.

(d) Liquidity risk

As at 31 December 2016, the Company has an excess of current assets over current liabilities of RUB 550,067 thousand (2015: excess of current assets over current liabilities of RUB 463,281 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 2016 and 31 December 2015. 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 6 months to 1 year RUB'000	Over 1 year RUB'000	Total RUB'000
As of 31 December 2016						
Payables and accrued expenses[7]	–	16,050	–	–	–	**16,050**
Borrowings	–	–	–	81,535	829,832	**911,367**
Financial guarantee contracts[8]	11,735,442	–	–	–	–	**11,735,442**
	11,735,442	16,050	–	81,535	829,832	**12,662,859**
As of 31 December 2015						
Payables and accrued expenses[7]	–	16,769	–	–	–	**16,769**
Borrowings	–	–	–	152,313	1,697,196	**1,849,509**
Financial guarantee contracts[8]	15,170,857	241,737	–	–	–	**15,412,594**
	15,170,857	**258,506**	**–**	**152,313**	**1,697,196**	**17,278,872**

7 Payables and accrued expenses exclude statutory liabilities as the analysis is provided for financial liabilities only.
8 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 2016 and 31 December 2015 are as follows:

	2016 RUB'000	2015 RUB'000
Total borrowings	**755,703**	1,412,906
Total capitalisation	**47,013,032**	47,179,673
Total borrowings to total capitalisation ratio (percentage)	**1.61%**	2.99%

(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.

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 2016 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 2016 was 8% (31 December 2015: 8%). The discount rates used for Russian Rouble denominated loans to related parties as at 31 December 2016 ranged between 10% and 17.9% (31 December 2015: ranged between 12.3% and 17.7%). The fair value measurements of loans to related parties as at 31 December 2016 and 31 December 2015 are within level 3 of the fair value hierarchy. The fair value as of 31 December 2016 was found to approximate their carrying amount. Refer to Note 17.

The fair value of financial assets payable on demand approximates their carrying amount.

Notes to the Financial Statements continued

3. Financial risk management continued

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

As at 31 December 2016 and 31 December 2015, 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 2016 and 31 December 2015.

The discount rate used for Russian Rouble denominated borrowings from related parties as at 31 December 2016 was used was 10.0% (2015: 12.30%) depending on the term of the facility (Note 20). There were no US Dollar denominated borrowings as at 31 December 2016 and 31 December 2015. The fair value measurements of liabilities as at 31 December 2016 and 31 December 2015 are within 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

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

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

(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 RUR 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 2016 and 31 December 2015, 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 2016 did not reveal any indicators of impairment for any of the Company's subsidiaries.

Management's assessment of impairment indicators for the Russian subsidiaries of the Company, New Forwarding Company AO, GTI Management OOO and BaltTransServis, OOO and the Estonian subsidiaries, Spacecom AS and Spacecom Trans AS, required the use of estimates and judgments, including, amongst others, estimates and judgments around the impact of market and industry developments on the future economic performance of the subsidiaries.

Russian 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 2016 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. The combined carrying amount of the subsidiaries as of 31 December 2016 was RUB 33,217,366 thousand.

In assessing whether there were any indicators of impairment with respect to New Forwarding Company AO and GTI Management OOO, management considered the impairment assessment performed in respect of these subsidiaries as of 31 December 2015, which revealed no impairment loss and external and internal developments since then, in order to assess whether these indicate deterioration in the recoverable amount of the subsidiaries. In doing this, the management has considered the performance and/or market price of the rolling stock held by the subsidiaries, on a case by case basis.

Management analysed the macroeconomic environment and industry in which the subsidiaries operate, including inflation and market interest rates, and noted that there have been no significant changes in the technological, market, economic or legal environment as compared to 31 December 2015 with an adverse effect on the subsidiaries. Management specifically noted that there was no increase in market interest rates or other market rates of return on investments during the period. In fact, the subsidiaries achieved a reduction in bank interest rates in 2016. Further, management considered whether there were any indicators of physical or technological obsolescence of the rolling stock held by the subsidiaries during the year ended 31 December 2016 and noted none. On the contrary, management noted that there was an increase in the average prices of the rolling stock held by the subsidiaries.

With respect to the gondola cars/operator's services CGU within the subsidiaries, management considered whether there were any changes in key inputs to the impairment model performed as of 31 December 2015 indicating decrease in the recoverable amount of the CGU. As part of this assessment, management noted that the CGU benefitted from the decrease in bank interest rates in year 2016 that resulted in decrease in the discount rate used in the impairment model. In addition, management noted that the actual EBITDA growth margin and tariffs per trip for the year 2016, which were key assumptions in the 2015 model, have improved as compared to those of year 2015 and are also above those budgeted for the year 2016 in the 2015 model. Further management re-assessed estimates about EBITDA growth margin and tariffs per trip for the year 2017, compared these with the 2017 estimates included in the 2015 impairment model and concluded that there are no indications of impairment of the CGU.

With regards to the tank cars/operator's services CGU within the subsidiaries, management noted that despite weaker financial performance, being the result of the weaker market for oil and oil products transportation, in view of the high headroom in prior year's fair value less costs to sell impairment model, and taking into consideration the fact that average prices of new tank cars operated by the subsidiaries were found to be higher to those as of 31 December 2015, no impairment indicators arose for the CGU.

For all other types of rolling stock held by the subsidiaries, management concluded that no impairment indicators exist as of 31 December 2016 taking into account the fact that average market prices are broadly in line with those as of 31 December 2015.

Further, the Company has assessed whether there were any impairment indicators in relation to the Russian subsidiary operating in the tank cars segment, namely BaltTransServis, OOO. Management noted that, despite the weaker performance in the year 2016, as compared to that for the year 2015 and budgeted for 2016, the financial performance of subsidiary is such that it indicates that no impairment indicators arise in respect of this investment. As part of this assessment, management also took into consideration the fact that average prices of new rolling stock operated by the subsidiary were found to be higher to those as of 31 December 2015.

Estonian subsidiaries

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 2016 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. The combined carrying amount of the subsidiaries as of 31 December 2016 was RUB 2,168,811 thousand.

In assessing whether there were any indicators of impairment with respect to Spacecom AS and Spacecom Trans AS, management considered the impairment assessment performed in respect of these subsidiaries as of 31 December 2015, which revealed no impairment loss and external and internal developments since then to assess whether these indicate deterioration in the recoverable amount of the subsidiaries.

Management noted that despite weaker financial performance, being the result of the weaker market for oil and oil products transportation, in view of the high headroom in prior year's fair value less costs to sell impairment model and taking into consideration the fact that average prices of new tank cars operated by the subsidiaries were found to be higher to those as of 31 December 2015, no impairment indicators arise.

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 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.

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 2016, the recoverable amount would increase/decrease, resulting in impairment charge/reversal of impairment of RUB 70,280 thousand in relation to these loans receivable.

Notes to the Financial Statements continued

4. Critical accounting estimate and judgements continued

4. Income taxes

Significant judgment 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.

5. Revenue

	2016 RUB'000	2015 RUB'000
Interest on loans to related parties (Note 22)	**139,927**	89,902
Dividend income (Note 22)	**3,026,561**	4,153,222
Total	**3,166,488**	4,243,124

6. Other (losses)/gains – net

	2016 RUB'000	2015 RUB'000
Net foreign exchange transaction (losses)/gains on non-financing activities (Note 11)	**(2,637)**	5,532
Profit from sale of subsidiaries (Note 14)	**–**	159
Amortisation of financial guarantees (Note 22)	**–**	13,786
Other (losses)/gains – net	**(2,637)**	19,477

7. Expenses by nature

	2016 RUB'000	2015 RUB'000
Statutory auditor's remuneration for statutory audit services	**17,302**	22,744
Statutory auditor's remuneration for other assurance services	**6,960**	4,393
Advertising and marketing expenses	**6,752**	7,530
Office rent	**2,230**	3,391
Depreciation of property, plant and equipment (Note 13)	**2,301**	1,558
Employee benefit expense (Note 8)	**46,319**	154,978
Legal, consulting and other professional services[9]	**20,348**	46,160
Bank charges	**2,633**	2,613
Non-executive directors' fees (Note 22)	**23,095**	21,427
Travel expenses	**13,145**	22,072
Stock exchange and financial regulator fees	**3,974**	3,111
Taxes other than on income	**9,610**	10,194
Other expenses	**12,714**	10,321
Total selling and marketing costs and administrative expenses	**167,383**	310,492

9 Includes RUB 904 thousand for the year 2016 (RUB 627 thousand for the year 2015) in fees paid to the Company's statutory auditor for tax consultancy services and RUB 332 thousand for the year 2016 (RUB nil for the year 2015) for other non-assurance services.

8. Employee benefit expense

	2016 RUB'000	2015 RUB'000
Salaries	**33,073**	65,526
Bonuses	**10,239**	467
Termination benefit	**–**	86,487
Social security costs	**3,007**	2,498
Total employee benefit expense	**46,319**	154,978
Average number of staff employed during the year	**5**	4

9. Finance (costs)/income – net

	2016 RUB'000	2015 RUB'000
Included in finance costs:		
Interest expense on borrowings from related parties (Note 22)	**(105,428)**	(208,918)
Total interest expense	**(105,428)**	(208,918)
Loss from extinguishment of financial liabilities[10]	**–**	(16,943)
Total finance costs	**(105,428)**	(225,861)
Net foreign exchange transaction (losses)/gains on cash and cash equivalents, loans and dividends receivable	**(120,919)**	274,990
Net foreign exchange transaction gains/(losses) on borrowings and other financial liabilities	**1,651**	(35,316)
Net foreign exchange transactions (losses)/gains from financing activities (Note 11)	**(119,268)**	239,674
Finance (costs)/income – net	**(224,696)**	13,813

10 During the year 2015, the Company fully repaid its borrowings from Steeltrans OOO, a wholly owned subsidiary of the Company that was merged with New Forwarding Company, AO during the year 2015 realising a loss of RUR 16,943 thousand, being the difference between the carrying amount and nominal amount of the loan as of the date of the repayment.

10. Income tax expense

	2016 RUB'000	2015 RUB'000
Current tax:		
Corporation tax	**408**	–
Defence contribution	**7**	–
Withholding tax on dividends receivable	**147,540**	195,000
Total tax expense	**147,955**	195,000

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

	2016 RUB'000	2015 RUB'000
Profit before tax	**2,856,692**	3,959,715
Tax calculated at the applicable tax rate	**357,087**	494,964
Tax effect of expenses not deductible for tax purposes	**11,327**	29,921
Tax effect of allowances and income not subject to tax	**(367,705)**	(520,896)
Foreign withholding tax on dividends receivable	**147,540**	195,000
Tax effect of utilisation of tax losses for which deferred tax not was previously recognised	**(301)**	(3,990)
Defence contribution	**7**	–
Tax charge	**147,955**	195,000

Notes to the Financial Statements continued

10. Income tax expense continued

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.

At 31 December 2016, the Company has tax losses carried forward amounting RUB 1,159,410 thousand (2015: RUB 1,461,026 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)/gains

	2016 RUB'000	2015 RUB'000
Finance (costs)/income – net (Note 9)	**(119,268)**	239,674
Other (losses)/gains (Note 6)	**(2,637)**	5,532
Total foreign exchange (losses)/gains	**(121,905)**	245,206

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, amounting to a total dividend of RUB 2,218,175 thousand (US Dollar equivalent of US$ 34,041 thousand).

On the date of this report, the Board of Directors of the Company recommends a payment of dividend out of retained earnings earned prior to 31 December 2014 in the amount of 39.20 Russian Roubles per ordinary share, amounting to a total dividend of RUB 7,006,644 thousand to be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to approval of the Company's shareholders at the next Annual General Meeting.

During the years ended 31 December 2016 and 31 December 2015, the Company declared and paid as detailed in the table below.

	2016 RUB'000	2015 RUB'000
Dividends declared	**2,218,175**	–
Dividends paid	**2,218,175**	–

13. Property, plant and equipment

	Motor vehicles RUB'000	Total RUB'000
At 1 January 2015		
Cost	2,710	2,710
Accumulated depreciation	(892)	(892)
Net book amount	**1,818**	**1,818**
Year ended 31 December 2015		
Additions	8,810	8,810
Depreciation charge (Note 7)	(1,558)	(1,558)
Closing net book amount	**9,070**	**9,070**
At 31 December 2015/1 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		
Cost	**11,470**	**11,470**
Accumulated depreciation	**(4,701)**	**(4,701)**
Net book amount	**6,769**	**6,769**

Notes to the Financial Statements continued

14. Investments in subsidiary undertakings

	2016 RUB'000	2015 RUB'000
At beginning of year	**45,240,258**	45,240,297
Contribution into the capital of subsidiary	**12,464**	–
Additions	**–**	1
Disposals	**–**	(40)
At end of year	**45,252,722**	45,240,258

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(%)	
			2016	2015	**2016**	2015	**2016**	2015
New Forwarding Company, AO[11]	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
GTI Management, OOO	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
Ural Wagonrepair Company, ZAO	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[12]	Russia	Repair and maintenance of rolling stock	**–**	–	**59.4**	59.4	**40.6**	40.6
SyntezRail LLC[13]	Russia	Railway transportation	**–**	–	**60**	60	**40**	40
SyntezRail Ltd[13]	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[14]	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

11 During the year ended 31 December 2015, Steeltrans, OOO, a wholly owned subsidiary of the Company, was merged with New Forwarding Company. No gains or losses were recognised with regards to this transaction.

12 RemTransServis, OOO is a 99% subsidiary of BaltTransServis, OOO.

13 SyntezRail LLC and SyntezRail Ltd were incorporated in 2014 and started activity in December 2014. During 2015 the Group disposed 40% of its shareholding in SyntezRail Ltd and SyntezRail LLC to a third party.

14 Ekolinja Oy is a 100% subsidiary of Spacecom AS.

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 RUR 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.

Acquisition of subsidiary during the year 2015
As of 1 January 2015, the Company had a 3% direct ownership in Ural Wagonrepair Company ZAO and 97% indirect ownership in the subsidiary through Steeltrans OOO. During the year ended 31 December 2015, the Company acquired from Steeltrans OOO the 97% of Ural Wagonrepair Company ZAO for a nominal consideration of US$ 1. In line with the Company's accounting policy for acquisition of subsidiaries from subsidiaries (Note 2) the shareholding acquired was recognised at fair value. Management assessed that the contractual consideration paid for the acquisition of the 97% interest in Ural Wagonrepair Company ZAO was equal the fair value of the interest acquired as of that date. As a result, no gains or losses were recognised in respect of this transaction.

Partial disposal of investment in subsidiary during the year 2015
During the year ended 31 December 2015 the Company disposed 40% of its shareholding in SyntezRail Ltd to a third party for a total consideration of RUR 201 thousand, realising a gain on disposal of RUR 159 thousand (Note 6). As a result, the effective interest of the Company in SyntezRail LLC also reduced to 60%.

The following amounts are included in the statement of cash flows in relation to (acquisitions)/disposals of subsidiaries:

	2016 RUB'000	2015 RUB'000
Disposal of SyntezRail Limited	–	201
Acquisition of Ural Wagonrepair Company, ZAO	–	(1)
Contribution to the share capital of BaltTransServis, OOO	(12,464)	–
Total cash (outflow)/inflow for/from the (acquisition)/disposal of subsidiaries	(12,464)	200

Impairment assessment of investments in subsidiaries as of 31 December 2015
As of 31 December 2015, the management considered the deterioration in the general market and industry conditions in the Russian Federation and has performed impairment assessment in relation to its investments in subsidiaries operating in this market, namely New Forwarding Company AO and GTI Management OOO.

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 and there is also ongoing restructuring of activities between these group entities at the time, 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 impairment 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.

The equity value of New Forwarding Company AO and GTI Management OOO was determined based on their enterprise value after deducting their net debt. The enterprise value of these subsidiaries has been estimated based on (i) value in use calculations for the purposes of estimating the enterprise value of the Russian gondola cars/operator's services segment and (ii) fair value less costs to sell and value in use calculations on a case by case basis for the remaining types of rolling stock held by these subsidiaries.

Based on the assessment performed, the equity value of New Forwarding Company AO and GTI Management OOO exceeds the carrying amount of the investments in subsidiaries in the Company's separate financial statements. Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of these subsidiaries is based would not cause their combined carrying amounts to exceed their combined recoverable amounts.

Further, the Company has assessed whether there were any impairment indicators in relation to the Russian subsidiary operating in the tank cars segment, namely BaltTransServis, OOO. Based on the financial performance of this entity, management has concluded that no impairment indicators arise in respect of this investment.

Impairment assessment of investments in subsidiaries as of 31 December 2016
As of 31 December 2016, management reviewed its investments in subsidiaries for any indication of impairment. The analysis of impairment indicators as of 31 December 2016 did not reveal any indicators of impairment for any of the Company's subsidiaries.

Management's assessment of impairment indicators for the Russian subsidiaries of the Company, New Forwarding Company AO, GTI Management OOO and BaltTransServis, OOO and the Estonian subsidiaries, Spacecom AS and Spacecom Trans AS, required the use of estimates and judgments, including, amongst others, estimates and judgments around the impact of market and industry developments on the future economic performance of the subsidiaries. Refer to Note 4 for more details in this respect.

Notes to the Financial Statements continued

15. Financial instruments by category

The accounting policies for financial instruments have been applied in the line items below:

31 December 2015	Loans and receivables RUB'000	Total RUB'000
Financial assets as per balance sheet		
Loans and other receivables[15]	1,653,993	1,653,993
Cash and cash equivalents	278,377	278,377
Total assets	1,932,370	1,932,370

	Financial liabilities measured at amortised cost RUB'000	Total RUB'000
Financial liabilities as per balance sheet		
Payables and accrued expenses[16]	16,769	16,769
Borrowings	1,412,906	1,412,906
Total liabilities	1,429,675	1,429,675

31 December 2016	**Loans and receivables RUB'000**	**Total RUB'000**
Financial assets as per balance sheet		
Loans and other receivables[15]	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]	16,050	**16,050**
Borrowings	755,703	**755,703**
Total liabilities	771,753	**771,753**

15 Loans and other receivables do not include taxes and prepayments.
16 Payables and accrued expenses do not include 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:

	2016 RUB'000	2015 RUB'000
Counterparties without external credit rating		
Group 1	**739,988**	1,209,164
	739,988	1,209,164

Cash at bank and short-term bank deposits	Rating	2016 RUB'000	2015 RUB'000
Agency			
Moody's*	Aa3	**60,682**	72,879
Moody's*	A2	**–**	–
Moody's*	Baa2	**251,809**	202,565
Moody's*	Ba2	**562**	597
Moody's*	Caa2	**–**	2,325
Moody's*	Caa1	**1,624**	–
No rating – assessed of satisfactory credit quality		**–**	11
Total cash at bank and short-term bank deposits		**314,677**	278,377

* International rating agency Moody's Investors Service.

Group 1 – Related party loans with no default in the past

17. Loans and other receivables

	2016 RUB'000	2015 RUB'000
Loans to related parties	**3,932,482**	4,561,437
Less: Provision for impairment of loans to related parties	**(2,489,700)**	(3,021,578)
Loans to related parties – net (Note 22)	**1,442,782**	1,539,859
Dividends receivable (Note 22)	**–**	114,134
Prepayments – third parties	**1,204**	3,577
Total loans and other receivables	**1,443,986**	1,657,570
Less non-current portion:		
Loans to related parties (Note 22)	**1,199,771**	1,460,286
Non-current portion of loans to related parties – net (Note 22)	**1,199,771**	1,460,286
Total non-current portion	**1,199,771**	1,460,286
Current portion	**244,215**	197,284

The weighted average contractual interest rate on loans receivable from related parties was 8.6% at 31 December 2016 (31 December 2015: 8.5%). Non-current receivables mature by 31 December 2018 (2015: 31 December 2018). The weighted average effective interest rate on loans receivables from related parties was 11.54% (2015: 11.72%).

The fair values of non-current loans are as follows:

	2016 RUB'000	2015 RUB'000
Financial assets		
Loans to related parties	**1,199,771**	1,386,783
Total financial assets	**1,199,771**	1,386,783

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

Notes to the Financial Statements continued

17. Loans and other receivables continued

As at 31 December 2016, the fair values of US Dollar denominated loans to related parties are based on cash flows discounted using a rate 8% (31 December 2015: 8%). The discount rates used for Russian Rouble denominated loans to related parties as at 31 December 2016 ranged between 10% and 17.9% (31 December 2015: 12.3% and 17.7%). The fair value as of 31 December 2016 was found to approximate their carrying amount. The fair value measurements of loans to related parties as at 31 December 2016 and 31 December 2015 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 2016 and 31 December 2015:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	Total RUB'000
As of 31 December 2016					
Loans receivable	739,988	–	3,192,494	(2,489,700)	**1,442,782**
Other receivables	–	–	–	–	**–**
	739,988	–	3,372,305	(2,669,511)	**1,442,782**
As of 31 December 2015					
Loans receivable	1,095,030	–	3,466,407	(3,021,578)	1,539,859
Other receivables	114,134	–	–	–	114,134
	1,209,164	–	3,466,407	(3,021,578)	1,653,993

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:

	2016			2015		
	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	**3,021,578**	**–**	**3,021,578**	2,177,628	–	2,177,628
Provision for receivables impairment	**–**	**–**	**–**	304,358	–	304,358
Reversal of provision for receivables impairment	**(84,920)**	**–**	**(84,920)**	(109,324)	–	(109,324)
Foreign exchange difference	**(446,958)**	**–**	**(446,958)**	648,916	–	648,916
At 31 December	**2,489,700**	**–**	**2,489,700**	3,021,578	–	3,021,578

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 2015

Taking into consideration the current weak market environment in the Russian Federation and the ongoing economic uncertainties in Ukraine, management has assessed the recoverable amount of its loans to subsidiaries as of 31 December 2015.

Loan granted to Ural Wagonrepair Company, ZAO

As at 31 December 2015 as a result of impairment assessment performed regarding the loan granted to Ural Wagonrepair Company, ZAO, a Russian subsidiary of the Company, an impairment provision amounting to RUB 304,358 thousand was recognised in relation to this loan.

The recoverable amount of the loan was determined based on the present value of the expected cash flows to be received from the loan, discounted at the 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 the 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 2015, the recoverable amount would increase/decrease, resulting in a lower/an additional impairment loss of RUB 44,483 thousand in relation to this loan receivable.

Loans granted to Ukrainian New Forwarding Company, OOO

During the year ended 31 December 2015 the Company provided a loan to UNFC. Management considered the fair value of the loan to UNFC on initial recognition and assessed that no fair value losses arise on initial recognition of this loan based on the discounted projected cash flows of UNFC, discounted at a market interest rate prevailing at the date of initial recognition.

The cash flow projections were determined by reference to management's estimates which were based on historical financial performance of the subsidiary, as adjusted to take into consideration the impact of prevailing industry and market conditions. These calculations required the use of estimates and were sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this loan receivable. The main assumption was the market interest rate prevailing for similar loans on the initial recognition of this loan, which was estimated at 8% p.a.

If the discount rate had been 1% higher than management's estimate at 31 December 2015 the recoverable amount would decrease, resulting in a fair value loss of RUB 6.589 thousand recognised on initial recognition of the loan receivable from the subsidiary.

In the period subsequent to the granting of the loan by the Company, the subsidiary made repayments to the Company under loan agreements the carrying amount of which had been fully impaired in 2014, resulting into a reversal of impairment amounting to RUR 109,324 thousand recognised during the year 2015.

Based on impairment assessment performed by management as of 31 December 2015, management concluded that no additional impairment provisions/reversal of impairment provisions are considered necessary in respect of this loan. In addition, in view of the ongoing uncertainty in Ukraine, management did not recognise any additional reversals of impairment under the previous loans to the subsidiary as it did not expect that the Company would recover in the foreseeable future any amount over the carrying amount of the loans as at the year end.

(2) Impairment assessment of loans receivable from subsidiaries as of 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:

	2016 RUB'000	2015 RUB'000
US Dollars	**329,383**	498,691
Russian Roubles	**1,113,863**	1,156,194
Euro	**740**	912
Other	**–**	1,773
Total loans and other receivables	**1,443,986**	1,657,570

18. Cash and cash equivalents

	2016 RUB'000	2015 RUB'000
Cash at bank	**314,677**	278,377
Total cash and cash equivalents	**314,677**	278,377

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

	2016 RUB'000	2015 RUB'000
Cash and cash equivalents	**314,677**	278,377
	314,677	278,377

Cash and cash equivalents are denominated in the following currencies:

	2016 RUB'000	2015 RUB'000
US Dollars	**309,825**	267,001
Russian Roubles	**1,603**	9,807
Euro	**3,249**	1,569
Total cash and cash equivalents	**314,677**	278,377

Notes to the Financial Statements continued

19. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2015/31 December 2015/1 January 2016/ 31 December 2016	**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 2015/31 December 2015/1 January 2016/ 31 December 2016	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2016 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2015: 233,918,128 shares with a par value of US$0.10 per share). All issued shares are fully paid.

20. Borrowings

	2016 RUB'000	2015 RUB'000
Current		
Loans from related parties (Note 22)	**3,703**	6,778
Total current borrowings	**3,703**	6,778
Non-current		
Loans from related parties (Note 22)	**752,000**	1,406,128
Total non-current borrowings	**752,000**	1,406,128
Total borrowings	**755,703**	1,412,906
Maturity of non-current borrowings		
Between 1 and 2 years	**752,000**	–
Between 2 and 5 years	**–**	1,406,128
	752,000	1,406,128

As at 31 December 2016, Rouble-denominated loans advanced from related parties bear fixed average interest at 10.35% p.a. (2015: 10.35% p.a.). There were no US Dollar denominated borrowings as at 31 December 2016 and 31 December 2015.

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:

	2016 RUB'000	2015 RUB'000
6 months or less	**–**	–
6 to 12 months	**3,703**	6,778
1 to 5 years	**752,000**	1,406,128
	755,703	1,412,906

All of the loans are unsecured.

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

	2016 %	2015 %
Loans from related parties	**10.35**	10.35

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

	Carrying amount		Fair value	
	2016 RUB'000	2015 RUB'000	2016 RUB'000	2015 RUB'000
Loans from related parties	**755,703**	1,412,906	**760,312**	1,326,593
	755,703	1,412,906	**760,312**	1,326,593

The fair value of borrowings and other liabilities were determined using valuation techniques.

As at 31 December 2016 and 31 December 2015, 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 2016 and 31 December 2015, respectively. The discount rate used for Russian Rouble denominated borrowings from related parties as at 31 December 2016 was a level 3 discount rate of 10.00% (12.30% as at 31 December 2016).

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

	2016 RUB'000	2015 RUB'000
Russian Roubles	**755,703**	1,412,906
Total borrowings	**755,703**	1,412,906

21. Payables and accrued expenses

	2016 RUB'000	2015 RUB'000
Current		
Payables to related party (Note 22)	**–**	2,795
Other payables to third parties	**6,482**	1,455
VAT payable	**–**	2,482
Accrued expenses	**9,568**	12,519
Total current trade and other payables	**16,050**	19,251

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

The carrying amounts of the Company's payables and accrued expenses are denominated in the following currencies:

	2016 RUB'000	2015 RUB'000
Euro	**16,050**	12,519
Russian Roubles	**–**	6,732
Total payables and accrued expenses	**16,050**	19,251

22. Related party transactions

Marigold Investments, Onyx Investments and Maple Valley Investments, are Company's shareholders with a direct shareholding as at 31 December 2015 and as at 31 December 2016 of 11.5% each.

As of 31 December 2016 and 31 December 2015, 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 2016 and 31 December 2015, 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 0.2% 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

	2016 RUB'000	2015 RUB'000
Loans to subsidiaries:		
At beginning of year	**1,539,859**	27,207
Loan advances	**–**	2,401,050
Interest charged (Note 5)	**139,927**	89,902
Loan repaid during the year	**(258,679)**	(801,936)
Interest repaid during the year	**(6,216)**	(57,501)
Impairment charge	**–**	(304,358)
Reversal of provision for impairment charge	**84,920**	109,324
Net foreign exchange	**(57,029)**	76,171
At end of year	**1,442,782**	1,539,859

Notes to the Financial Statements continued

22. Related party transactions continued

	2016 RUB'000	2015 RUB'000
Consists of:		
Non-current portion	**1,199,771**	1,460,286
Current portion	**243,011**	79,573
At end of year	**1,442,782**	1,539,859
Loans to related parties – gross amount	**3,932,484**	4,561,437
Less: Provision for impairment of loans to related parties	**(2,489,700)**	(3,021,578)
Loans to related parties – net	**1,442,782**	1,539,859

The balances at the 31 December 2016 carry an average contractual rate of 8.6% (2015: 8.5%) per annum and are payable by 31 December 2018 (2015: December 2018).

(b) Loans from related parties

	2016 RUB'000	2015 RUB'000
Loans from subsidiaries:		
At beginning of year	**1,412,906**	3,433,809
Interest charged (Note 9)	**105,428**	208,918
Interest repaid during the year	**(108,503)**	(274,214)
Loan repaid during the year	**(654,128)**	(2,007,866)
Fair value loss from extinguishment of financial liabilities (Note 9)	**–**	16,943
Net foreign exchange difference	**–**	35,316
At end of year	**755,703**	1,412,906
Consists of:		
Non-current portion	**752,000**	1,406,128
Current portion	**3,703**	6,778
At end of year	**755,703**	1,412,906

As at 31 December 2016 loans from subsidiaries carry a weighted average interest rate of 10.35% (2015: 10.35%) and are payable by December 2018 (2015: December 2018).

(c) Dividend income from related parties

	2016 RUB'000	2015 RUB'000
Dividend income from related parties:		
Subsidiaries	**3,026,561**	4,153,222
Total	**3,026,561**	4,153,222

(d) Year end balances with related parties

	2016 RUB'000	2015 RUB'000
Payables to related parties:		
Directors	**–**	2,795
Total payables to related parties (Note 21)	**–**	2,795
Payables to related parties:		
Current	**–**	2,795
Total payables to related parties (Note 21)	**–**	2,795
Receivables from related parties:		
Dividends receivable from subsidiary	**–**	114,134
Total receivables from related parties (Note 17)	**–**	114,134
Receivables from related parties:		
Current	**–**	114,134
Total receivables from related parties (Note 17)	**–**	114,134

(e) Interest income and finance costs

	2016 RUB'000	2015 RUB'000
Interest income:		
Subsidiaries	**139,927**	89,902
Total interest income	**139,927**	89,902
Interest expense:		
Subsidiaries – borrowings	**(105,428)**	(208,918)
Total interest expense	**(105,428)**	(208,918)
Fair value loss from extinguishment of financial liabilities	**–**	(16,943)
Total finance income/(costs)	**34,499**	(225,861)

(g) Directors' remuneration

	2016 RUB'000	2015 RUB'000
Directors' fees (Note 7)	**23,095**	21,427
Emoluments in their executive capacity	**27,560**	140,717
Total directors' remuneration	**50,655**	162,144

Key management compensation comprises solely directors' remuneration as stated above.

(h) 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:

	2016 RUB'000	2015 RUB'000
Subsidiaries[17]	**11,735,442**	15,412,594
Total guaranteed obligations	**11,735,442**	15,412,594

17 Represents the maximum amount of obligation under each contract, being the contractual undiscounted cash flows under the loan agreements as at 31 December 2016 and 2015.

During the years ended 31 December 2016 and 31 December 2015 the Company has acted as the guarantor for the obligation of its subsidiaries for unsecured non-convertible bonds issued by the subsidiaries and loan agreements entered into with financial institutions and third parties. The fair values of such guarantees are amortised through the income statement. The Company recognised during the year 2015 amortisation of financial guarantees of RUB 13,786 thousand). As at 31 December 2016 and 31 December 2015 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 RUR Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

(i) Impairment losses

	2016 RUB'000	2015 RUB'000
Reversal of impairment/impairment loss of loans to subsidiaries – net (Notes 4 and 17)	**84,920**	(195,034)

Notes to the Financial Statements continued

23. Contingencies

Operating environment of the Company

The Company's subsidiaries 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. During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. 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

Estonia represents a well-developed market economy 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 2016, though to a lesser extent as compared to 2014–2015.

The inflation rate in Ukraine during 2016 reduced to 12% (as compared to 43% in 2015), while GDP returned to growth of 1% (after 9% decline in 2015).

Devaluation during 2016 has been moderate. As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 26.91 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016 (31 December 2015: UAH 24.00 per USD 1). In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 65% starting from 9 June 2016 and the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 July 2016. Also starting from 13 June 2016, the NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of USD 5 million per month.

The central bank of Ukraine prolonged these restrictions several times during 2015 – 2016 years and the current restrictions are effective until rescinded by the NBU (with minor exceptions, including mandatory conversion of foreign currency proceeds, which are set to expire on 16 June 2017). The IMF continued to support the Ukrainian government under the four-year Extended Fund Facility ("EFF") Programme approved in March 2015, providing the third tranche of approximately USD 1 billion in September 2016. 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, 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.

24. Events after the balance sheet date

On the date of this report, the Board of Directors of the Company recommends a payment of dividend out of retained earnings earned prior to 31 December 2014 in the amount of 39.20 Russian Roubles per ordinary share, amounting to a total dividend of RUB 7,006,644 thousand to be paid in US Dollars at the rate as at the date of Annual General Meeting, subject to approval of the Company's shareholders at the next Annual General Meeting.

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 160 to 164.

Selected Operational Information

Selected operational information for the year ended 31 December 2016

Fleet (including rolling stock and tank containers)

	31/12/16	31/12/15	Change	Change, %
Owned Fleet				
Gondola cars	**40,702**	40,082	620	2%
Rail tank cars	**18,387**	18,573	(186)	-1%
Locomotives	**75**	75	0	0%
Other railcars (including flat, hopper cars, etc)	**982**	1,451	(469)	-32%
Petrochemical tank containers	**700**	0	700	NM
Total	**60,846**	**60,181**	**665**	**1%**
Owned Fleet as % of Total Fleet	89%	89%	–	–
Leased-in Fleet				
Gondola cars	**2,574**	2,602	(28)	-1%
Rail tank cars	**4,088**	4,249	(161)	-4%
Locomotives	**0**	0	–	–
Other railcars	**623**	317	306	97%
Petrochemical tank containers	**380**	380	0	0%
Total	**7,665**	**7,548**	**117**	**2%**
Leased-in Fleet as % of Total Fleet	11%	11%	–	–
Total Fleet (Owned Fleet and Leased-in Fleet)	**68,511**	**67,729**	**782**	**1%**
Total Fleet by type, %				
Gondola cars	**63%**	63%	–	–
Rail tank cars	**33%**	34%	–	–
Locomotives	**0.1%**	0.1%	–	–
Other railcars (including flat, hopper cars, etc)	**2%**	3%	–	–
Petrochemical tank containers	**2%**	1%	–	–
Total	**100%**	**100%**	**–**	**–**
Average age of Owned Fleet				
Gondola cars	**8.9**	8.0	–	–
Rail tank cars	**13.3**	12.4	–	–
Locomotives	**14.8**	13.8	–	–
Other railcars	**18.7**	15.4	–	–
Petrochemical tank containers	**1.0**	0.0	–	–
Total	**10.3**	**9.5**	**–**	**–**

Operation of rolling stock (including Engaged Fleet)[1]

	2016	2015	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**109.8**	**98.5**	**11.3**	**11%**
Ferrous metals	**41.4**	36.6	4.9	13%
Scrap metal	**4.7**	3.3	1.4	41%
Iron ore	**63.7**	58.7	5.1	9%
Oil products and oil	**22.8**	**25.7**	**(2.9)**	**-11%**
Coal (including coke)	**29.7**	**26.2**	**3.5**	**13%**
Construction materials	**10.7**	**10.4**	**0.3**	**3%**
Crushed stone	**9.3**	9.4	(0.1)	-1%
Cement	**0.5**	0.4	0.2	46%
Other construction materials	**0.8**	0.7	0.2	28%
Other	**9.0**	**7.7**	**1.3**	**18%**
Total	**182.0**	**168.5**	**13.5**	**8%**

	2016	2015	Change	Change, %
Freight Rail Turnover by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	**60%**	58%	–	–
Oil products and oil	**13%**	15%	–	–
Coal (including coke)	**16%**	16%	–	–
Construction materials (including cement)	**6%**	6%	–	–
Other	**5%**	5%	–	–
Total	**100%**	**100%**	**–**	**–**

	2016	2015	Change	Change, %
Transportation Volume, million tonnes				
Metallurgical cargoes	**51.8**	**48.7**	**3.1**	**6%**
Ferrous metals	**18.8**	18.2	0.6	3%
Scrap metal	**4.0**	3.2	0.7	23%
Iron ore	**29.1**	27.3	1.7	6%
Oil products and oil	**21.1**	**22.5**	**(1.5)**	**-7%**
Coal (including coke)	**11.0**	**11.3**	**(0.3)**	**-3%**
Construction materials	**12.3**	**11.7**	**0.5**	**5%**
Crushed stone	**11.1**	10.5	0.6	6%
Cement	**0.5**	0.3	0.1	33%
Other construction materials	**0.7**	0.9	(0.2)	-18%
Other	**7.2**	**7.1**	**0.2**	**2%**
Total	**103.3**	**101.3**	**2.0**	**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.

Selected Operational Information continued

Operation of rolling stock (excluding Engaged Fleet)[1]

	2016	2015	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**91.4**	**79.1**	**12.3**	**16%**
Ferrous metals	**36.5**	32.1	4.4	14%
Scrap metal	**4.5**	3.1	1.4	46%
Iron ore	**50.4**	44.0	6.4	15%
Oil products and oil	**22.6**	**25.3**	**(2.7)**	**-11%**
Coal (including coke)	**27.5**	**24.4**	**3.1**	**13%**
Construction materials	**10.4**	**10.2**	**0.2**	**2%**
Crushed stone	**9.1**	9.2	(0.1)	-1%
Cement	**0.5**	0.4	0.2	46%
Other construction materials	**0.8**	0.7	0.2	28%
Other	**8.8**	**7.5**	**1.3**	**18%**
Total	**160.7**	**146.5**	**14.2**	**10%**

Transportation Volume, million tonnes				
Metallurgical cargoes	**42.8**	**39.2**	**3.6**	**9%**
Ferrous metals	**16.2**	15.6	0.6	4%
Scrap metal	**3.8**	3.0	0.8	28%
Iron ore	**22.8**	20.6	2.2	10%
Oil products and oil	**20.8**	**22.1**	**(1.3)**	**-6%**
Coal (including coke)	**10.0**	**10.4**	**(0.4)**	**-4%**
Construction materials	**12.0**	**11.5**	**0.5**	**4%**
Crushed stone	**10.9**	10.3	0.5	5%
Cement	**0.5**	0.3	0.1	32%
Other construction materials	**0.7**	0.9	(0.2)	-18%
Other	**6.9**	**6.9**	**0.1**	**1%**
Total	**92.6**	**90.1**	**2.5**	**3%**

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.

	2016	2015	Change	Change, %
Average Rolling Stock Operated, units				
Gondola cars	**41,824**	40,286	1,538	4%
Rail tank cars	**12,593**	12,938	(345)	-3%
Locomotives	**46**	46	0	0%
Other railcars	**715**	982	(266)	-27%
Total	**55,178**	**54,251**	**927**	**2%**
Average Number of Loaded Trips per Railcar				
Gondola cars	**25.2**	24.7	0.5	2%
Rail tank cars	**27.5**	28.0	(0.4)	-2%
Other railcars	**55.1**	48.5	6.6	14%
Total	**26.1**	**25.9**	**0.2**	**1%**
Average Distance of Loaded Trip, km				
Gondola cars	**1,970**	1,828	142	8%
Rail tank cars	**1,069**	1,132	(63)	-6%
Other railcars	**914**	998	(85)	-8%
Total	**1,723**	**1,620**	**104**	**6%**
Average Price per Trip, RUB	**28,975**	**27,294**	**1,681**	**6%**
Net Revenue from Operation of Rolling Stock by cargo type, RUB million				
Metallurgical cargoes	**13,787***	**10,511***	**3,275**	**31%**
Ferrous metals	**7,451***	5,776*	1,675	29%
Scrap metal	**1,068***	483*	585	121%
Iron ore	**5,268***	4,252*	1,015	24%
Oil products and oil	**18,684***	**21,263***	**(2,578)**	**-12%**
Coal (including coke)	**4,061***	**3,006***	**1,055**	**35%**
Construction materials (including cement)	**2,951***	**1,844***	**1,107**	**60%**
Other	**2,274***	**1,708***	**566***	**33%**
Total	**41,757***	**38,332***	**3,425**	**9%**

Selected Operational Information continued

	2016	2015	Change	Change, %
Net Revenue from Operation of Rolling Stock by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	**33%**	27%	–	–
Oil products and oil	**45%**	55%	–	–
Coal (including coke)	**10%**	8%	–	–
Construction materials (including cement)	**7%**	5%	–	–
Other	**5%**	4%	–	–
Total	**100%**	**100%**	**–**	**–**

	2016	2015	Change	Change, %
Net Revenue from Operation of Rolling Stock by largest clients (including their affiliates and suppliers), %				
Rosneft	**34%**	40%	–	–
MMK	**14%**	12%	–	–
Metalloinvest	**13%**	11%	–	–
Gazprom Neft	**8%**	8%	–	–
Evraz	**5%**	4%	–	–
Sovfracht	**1%**	3%	–	–
UGMK-Trans	**2%**	2%	–	–
TMK	**1%**	1%	–	–
Severstal	**1%**	1%	–	–
NNK	**1%**	1%	–	–
Other (including small and medium enterprises)	**20%**	17%	–	–

	2016	2015	Change	Change, %
Empty Run Ratio, %				
Gondola cars	**38%**	39%	–	–
Rail tank cars and other railcars	**99%**	104%	–	–
Total Empty Run Ratio, %	**48%**	**51%**	**–**	**–**
Empty Run Costs, RUB million	**12,428***	**11,804***	**624**	**5%**
Share of Empty Run Kilometres Paid by Globaltrans, %	**88%**	**88%**	**–**	**–**

Engaged Fleet

	2016	2015	Change	Change, %
Net Revenue from Engaged Fleet, RUB million	**199***	**821***	**(622)**	**-76%**

Operating leasing of rolling stock[1]

	31/12/16	31/12/15	Change	Change, %
Leased-out Fleet				
Gondola cars	**298**	296	2	1%
Rail tank cars	**9,447**	9,161	286	3%
Locomotives	**4**	4	0	0%
Other railcars (including flat, hopper cars, etc)	**473**	497	(24)	-5%
Total	**10,222**	**9,958**	**264**	**3%**
Leased-out Fleet as % of Total Fleet	**15%**	**15%**	**–**	**–**

Employees

	31/12/16	31/12/15	Change	Change, %
Employees by departments (simplified)				
Operations	**1,110**	1,077	33	3%
Administrative	**442**	460	(18)	-4%
Total	**1,552**	**1,537**	**15**	**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.

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 59%[1] of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of Globaltrans.

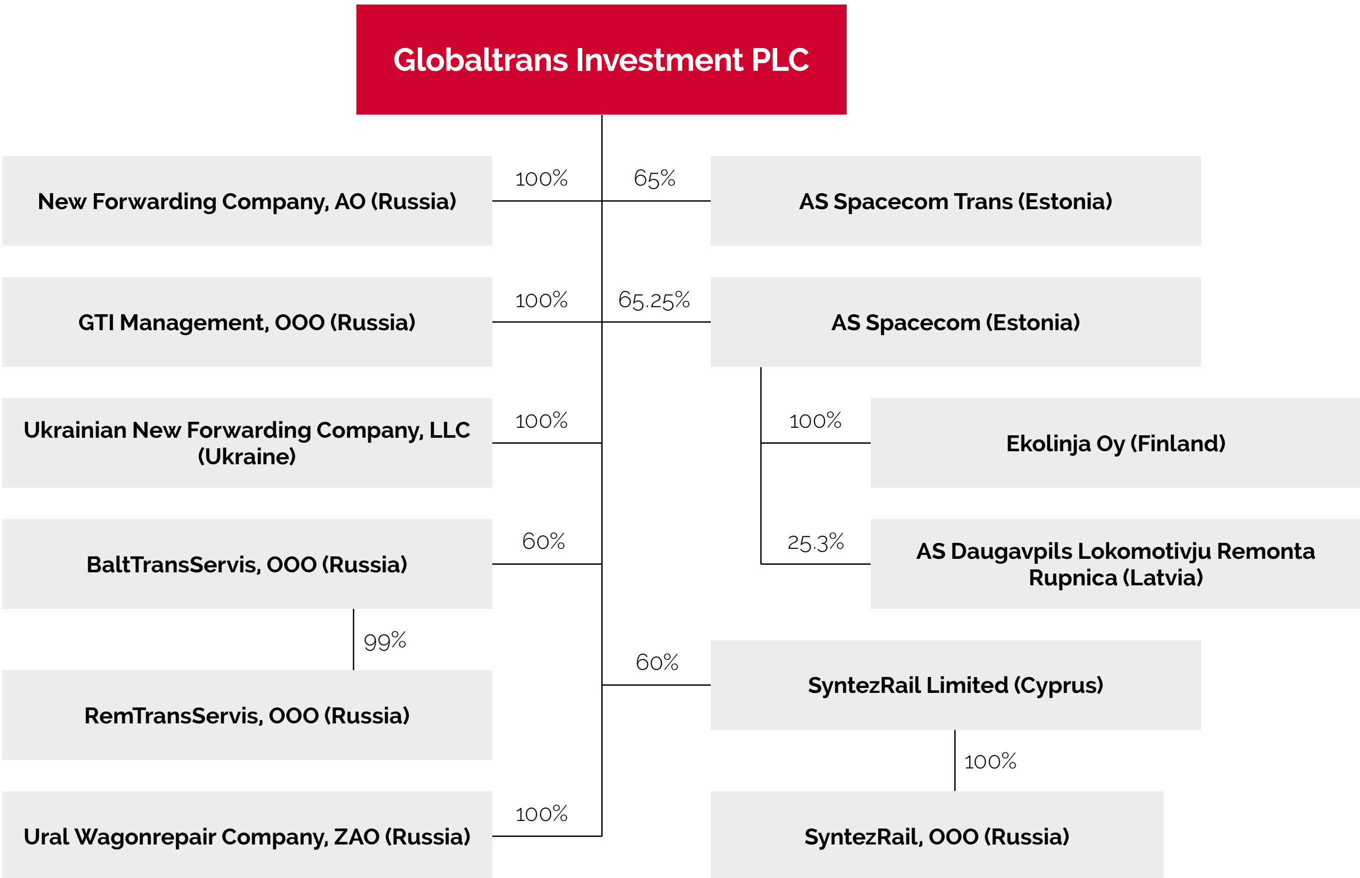
Shareholder structure

Maple Valley Investments[2]	11.5%
Onyx Investments[2]	11.5%
Marigold Investments[2]	11.5%
Litten Investments[3]	6.3%
Controlled by Directors and management of Globaltrans	0.2%
Free float[1]	59%

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 beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, a leading container port operator, servicing Russian cargo flows, which is also listed on the London Stock Exchange.
3 Beneficially owned by Alexander Eliseev, non-executive Director and co-founder of Globaltrans.

Corporate Structure

Globaltrans' corporate structure 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.



Note: The Group's corporate structure as of the end of 2016.

Definitions

Terms that require definitions appear with initial capital letters in this Annual Report and their definitions are provided here in alphabetical order.

Adjusted EBITDA (a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction gains/(losses) on borrowings and other liabilities", "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets", "Share of profit/(loss) of associate", "Other gains – net", "Net profit/(loss) on sale of property, plant and equipment", "Impairment of property, plant and equipment", "Impairment of intangible assets" and "Loss on derecognition arising on capital repairs".

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, or 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 gains/(losses) on borrowings and other liabilities" and "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets"), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".

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

Empty Run Costs (a non-GAAP financial measure meaning costs payable to 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, or 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, or 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 (a non-GAAP financial measure) is calculated as "Cash generated from operating activities" (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 includes volumes transported by Engaged Fleet and excludes performance of the petrochemical tank container segment, unless otherwise stated.

Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure) 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.

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 year to Adjusted EBITDA in respect of that financial year.

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 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) 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 for sale of railcars", "Accrued expenses", "Other payables to third parties", "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 of receivables", "Impairment of property, plant and equipment", "Net profit/(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 of receivables", "Impairment of property, plant and equipment" and "Net profit/(loss) on sale of property, plant and equipment".

Other Operating Cash Costs (a non-GAAP financial measure) include cost items such as "Rental of tank containers", "Legal, consulting and other professional fees", "Operating lease rentals – office", "Auditors' remuneration", "Advertising and promotion", "Communication costs", "Information services", "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 leases 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, rolling stock leased out, Engaged Fleet, or 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, rolling stock leased out, Engaged Fleet, or 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 the 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 tonnes. It includes volumes transported by the Engaged Fleet and excludes the performance of the 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 2016 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 include Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Profit Attributable to Non-controlling interests, Adjusted Revenue, Attributable Free Cash Flow, EBITDA, Empty Run Costs, Free Cash Flow, Infrastructure and Locomotive Tariffs – Other Tariffs, Leverage Ratio, Net Debt, Net Debt to Adjusted EBITDA ratio, Net Revenue from Engaged Fleet, Net Revenue from Operation of Rolling Stock, Net Working Capital, Total Operating Cash Costs, Total Operating Non-cash Costs, and Other Operating Cash Costs. 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.

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 2016 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. Market Share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of Russia (Rosstat) as the denominator. The Group's Market Share is calculated as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume transported by Engaged Fleet, unless otherwise stated. The Group has obtained certain statistical, market and pricing information that is presented in this Annual Report on such topics as the Russian freight rail transportation market, the Russian economy in general and related subjects from the following third-party sources: Rosstat, OAO Russian Railways (RZD), the Ministry of Economic Development of Russia 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. All non-GAAP financial and operational 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.

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.

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