Globaltrans Investment PLC

Consolidated Management report and consolidated financial statements for the year ended 31 December 2017

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Consolidated Management report and consolidated financial statements for the year ended 31 December 2017

Board of Directors and other officers

Board of Directors

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

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

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

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

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

Mr. Alexander Eliseev
Executive Director
Alternate Director: Ms Ekaterina Golubeva

Mr. Marios Tofaros
Non-executive Director

Mr. Sergey Tolmachev
Executive Director

Mr. Alexander Storozhev
Executive Director
Alternate Director: Ms. Elia Nicolaou

Mr. Konstantin Shirokov
Executive Director

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

Mr. Michalakis Thomaides
Non-Executive Director

Ms. Melina Pyrgou
Non-executive Director

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

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

Board support

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

Company Secretary

Ms. Elia Nicolaou
Dimitriou Karatasou, 15
Anastasio Building, 6th floor, Office 601
Strovolos, 2024, Nicosia, Cyprus

Assistant secretary: Mr. Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol, Cyprus

Consolidated Management Report

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2017. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

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

IFRS financial information

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

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

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

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

Non-IFRS financial information

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

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

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

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

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

Operational information

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

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

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

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

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

Definitions to Non-IFRS financial measures

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

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

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

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

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

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

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

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

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

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

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

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

Changes in group structure

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

Non-Financial Information and Diversity Statement

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

Environmental matters

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

Human resources

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

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

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

Principal risks and uncertainties

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

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

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

Strategic risks

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

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

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

Operational risks

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

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

Compliance risks

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

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

Financial risks

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

Foreign exchange risk

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

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

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

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

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

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

Interest-rate risks

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

The Group concludes long-term borrowing and finance lease contracts to finance purchases of rolling stock and acquisitions of subsidiaries. The Group borrows at current market interest rates and does not use any hedging instruments to manage interest-rate risk. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring that the Group has financial liabilities with both floating and fixed interest rates. As of 31 December 2017, the proportion of total debt with a fixed interest rate amounted to almost 100%.

Credit risk

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

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

Liquidity risk

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

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

Contingencies

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

Future developments

The Board of Directors does not expect any significant changes in the activities of the Group for the foreseeable future.

The Group's strategic objective is to strengthen its position as a leading private freight rail group in Russia.

Results

The Group's results for the year are set out on pages 23 and 24. The Board of Directors recommends the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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

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

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

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

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

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

Share capital

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

Events after the balance sheet date

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

Branches

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

Treasury shares

In 2017 the Company did not own or acquire either directly or through a person in his own name, but on Company's behalf any of its own shares.

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2018, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

Corporate governance

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

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

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

The role of the Board of Directors

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

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

Members of the Board of Directors

As at 31 December 2017 and at the date of this report, the Board comprises 14 members (2016: 14 members), 10 (2016: 11 members) of whom are non-executive directors (including the Chairman). Four (2016: four) of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business 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 2017 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.

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

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

Board performance

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

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

The Board Committees

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

Audit Committee

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

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

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

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

Nomination Committee

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

Remuneration Committee

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

Board and Management Remuneration

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

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

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 24 April 2017.

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

Diversity policy

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

As of the date of publication of these financial statements the Board has 2 females representing approximately 14% from the total number of directors. The age of the members of the Board of Directors ranges from over 30 to over 70 years, with the average age of directors being 51 years. The Board members have the following educational backgrounds: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management.

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

Regulations with regards to the amendment of the article of association

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.

(2) Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are co-founders of Globaltrans and are beneficiaries with regard to 11.2%, 11.5% and 11.5% respectively of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments).

(3) Beneficially owned by Alexander Eliseev, Executive Director and co-founder of Globaltrans.

Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors of the Company as at 31 December 2017 and 31 December 2016 are shown below:

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

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

The Company does not have any titles with special rights.

Any restrictions in exercising of voting rights of shares

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

By order of the Board

....
Sergey Tolmachev
Director

Limassol, 23 March 2018

Directors' responsibility

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

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

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 23 to 80) give a true and fair view of the financial position of Globaltrans Investment PLC (the Company") and its subsidiaries (together with the Company, the "Group") as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

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

By order of the Board

....
Sergey Tolmachev
Director

Independent Auditor's Report

To the Members of Globaltrans Investment PLC

Report on the Audit of the Consolidated Financial Statements

Our opinion

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

What we have audited

We have audited the consolidated financial statements which are presented in pages 23 to 80 and comprise:

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

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

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

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

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

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

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

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

Materiality

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

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

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

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

How we tailored our group audit scope

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

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

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

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

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

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Disclosure of the impact of adoption of IFRS 15 “Revenue from contracts with customers”	
IFRS 15 “Revenue from contracts with customers” and its subsequent amendment are effective for the Group from 1 January 2018. As a result, the Group expects to change its revenue accounting policy in future reporting periods. In accordance with the transition provisions in IFRS 15, the Group has elected the simplified transition method for the purpose of adopting IFRS 15. Accordingly, the effect of transition to IFRS 15 will be recognised as at 1 January 2018 in the consolidated financial statements of the Group for the year ending 31 December 2018; which will be the first year the Group will apply IFRS 15.	We evaluated and challenged the Board of Directors’ judgments around the impact of adoption of the new accounting standard from 1 January 2018 and the adequacy and appropriateness of the disclosures in this respect. We involved PwC accounting technical experts to assist us in this process. In particular: • We obtained the Board of Directors’ assessment of the impact of adoption of the new accounting standard on the Group’s revenue streams; • We assessed the completeness of the analysis by reference to the Group’s revenue streams for the year ended 31 December 2017;

In accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the Group is required to disclose known or reasonably estimable information relevant to assessing the possible impact that application of the new accounting standard will have on the consolidated financial statements in the year of adoption.

Accordingly, the Group disclosed information relevant to the possible impact of IFRS 15 from 1 January 2018 within Notes 2 and 4 to the consolidated financial statements.

We focused our audit effort on the Board of Directors’ assessment of the impact of adoption of IFRS 15 on the Group’s operator’s services contracts due to the fact that:

- the Board of Directors exercised complex and subjective judgments in the process of applying the principles of IFRS 15 to the Group’s operator’s services contracts and, accordingly, in the process of assessing the possible impact of adoption of the new accounting standard on the said revenue stream and preparing the relevant disclosures; and
- the Group’s revenue from operator’s services contracts is material in the context of the consolidated financial statements.

Note 2 “Basis of preparation and summary of significant accounting policies” and Note 4 “Critical accounting estimates and judgements” to the consolidated financial statements provide detailed information regarding the Board of Directors’ assessment and basis thereon.

- We challenged the Board of Directors’ analysis and judgements for a sample of revenue contracts by reference to the five-step model in IFRS 15;
- We focused on the critical judgments that had the most significant effect on the Board of Directors’ conclusion.
- In particular, we challenged the Board of Directors’ assessment as to why the services promised in operator’s services contracts are not distinct in the context of the contracts and accordingly, why these are considered to constitute a single performance obligation.
- We, further, challenged the Board of Directors’ assessment as to the basis for concluding that the Group is acting as a principal for operator’s services contracts for which the OAO “Russian Railways” tariffs and services provided by other services organisations are borne by the Group.

We lastly evaluated the adequacy of the disclosures made in Notes 2 and 4 of the consolidated financial statements and compared the disclosures against the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and IAS 1 “Presentation of financial statements”.

As a result of the above procedures, we determined that the Board of Directors’ judgments are appropriate and reasonable and the disclosures included in the consolidated financial statements are adequate.

Reporting on other information

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

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

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

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

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

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

Consistency of the Additional Report to the Audit Committee

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

Provision of Non-audit Services

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

Other Legal Requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

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

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

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

23 March 2018

Consolidated income statement

for the year ended 31 December 2017

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

The notes on pages 29 to 80 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

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

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

The notes on pages 29 to 80 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated balance sheet

at 31 December 2017

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

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

By order of the Board

....
Sergey Tolmachev, Director

....
Konstantin Shirokov, Director

The notes on pages 29 to 80 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2017

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

Consolidated statement of changes in equity

for the year ended 31 December 2017

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

The notes on pages 29 to 80 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2017

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

Principal non-cash investing and financing transactions

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

The notes on pages 29 to 80 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 23 March 2018.

Global Depositary Receipts

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

Principal activities

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

2. Basis of preparation and summary of significant accounting policies

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

Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and IFRS 14 "Regulatory Deferral Accounts".

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

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

New standards, interpretations and amendments to published standards

(a) *The Group has adopted the following new standards, amendments and interpretations as of 1 January 2017:*

- **Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).** As a result of this amendment, the Group has disclosed a reconciliation of movements in liabilities arising from financing activities. Refer to Note 24.

- **Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. As a result of this amendment, the Group recognises deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group was not materially impacted by the application of this amendment.

- **Annual Improvements to IFRSs 2014-2016 cycle - amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for IFRS 12).** The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. The Group was not materially impacted by the application of these amendments.

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

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

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

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

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

- **IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).** Key features of the new standard are:

  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI.

Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)*. The EU endorsement is postponed as IASB effective date is deferred indefinitely.** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)**. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- **Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)***. The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known.

- **Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28)**. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)*.** The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply 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 and as of the date of issue of these financial statements the impact of the amendments is not known.

- **Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.** The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)*.** IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)*.**The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

- **Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)***.The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

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

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiaries

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

(d) Associates

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

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

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

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

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

Segment reporting

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

Revenue recognition

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

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

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

(a) Revenue from railway transportation services - using own, leased or engaged rolling stock

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

There are three types of operator's services:

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

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

- The Group has a contractual relationship with the customer and sets the terms of the transaction, excluding the OAO "Russian Railways" tariff, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The tariff is paid directly by the customer to OAO "Russian Railways". Under these arrangements the Group recognizes 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)	
Gondola cars	22
Rail tank cars	32
Rail tank cars (specialised types)	30-40
Hoppers	15-26
Flat cars	20-32
Tank containers	20
Locomotives	9-25
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10

Change of useful lives of rolling stock

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

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

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

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

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

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

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

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

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

Rolling stock repair and maintenance costs

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

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

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

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

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

Intangible assets

(a) Customer relationships

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

(b) Computer software

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

Impairment of non-financial assets

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

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

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

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

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

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

Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor/borrower, probability that the debtor/borrower will enter bankruptcy or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'selling and marketing expenses'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'selling, marketing and administrative expenses' in the income statement.

Inventories

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

Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand and deposits held at call with banks with original maturity of three months or less, less bank overdrafts, if any. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

Cash flow statement

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

When the Group enters into a sale and lease back arrangement which constitutes collateralised borrowing, the proceeds received are included within cash flows from financing activities. Receipts from finance lease receivables are included within cash flows from investing activities.

Trade receivables

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

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

Share capital, share premium and treasury shares

Ordinary shares are classified as equity.

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

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

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

Capital contribution

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

Trade payables

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

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

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

Borrowing costs

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

Financial guarantees

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

Current and deferred income tax

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

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

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

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

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

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

Russian Value Added Tax (VAT)

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

Employee benefits

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

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

Termination benefits

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

Share based payment transactions

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

Dividend distribution

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

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

3. Financial risk management

Financial risks factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management 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.

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

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

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

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

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

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

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

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

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

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

(b) Cash flow and fair value interest rate risk

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

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

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

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

(c) Credit risk

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

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The majority of bank balances are held with independently rated parties with a minimum rating of 'Ba2'. These policies enable the Group to reduce its credit risk significantly.

However, the Group's business is heavily dependent on a few large key customers, with the top ten customers accounting for 76.25% of the Group's trade and other receivables (excluding VAT receivable and prepayments) as at 31 December 2017 (2016: 70.25%).

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2017 and 31 December 2016:

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

Liquidity risk

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

The Group has predictable cash flows which allow the Group to repay its liabilities when they fall due. The Group also has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to RUB 19,140,000 thousand as of 31 December 2017 (2016: RUB 20,820,000 thousand), together with long-term borrowings (Note 24) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2017 and 31 December 2016. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month	Between one month and three months	Between three and six months	Between 6 months and less than one year	Between 1 and 2 years	Between 2 and 5 years	Total
	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000	RUB'000
31 December 2017							
Borrowings	492,546	2,426,820	1,326,157	4,210,040	6,321,331	3,623,067	18,399,961
Trade and other payables	777,375	1,389	-	-	-	-	778,764
	1,269,921	2,428,209	1,326,157	4,210,040	6,321,331	3,623,067	19,178,725

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

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

(d) Capital risk management

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

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

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

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

The rate of borrowings to total capitalisation as at 31 December 2017 and 31 December 2016 are as follows:

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

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to the Company and certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2017 and 2016. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(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.

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

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

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

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

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

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

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

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

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. In those cases when the Group's customers do not interact with OAO "Russian Railways", a full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group without further recharge to its customers. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts for receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by RUB 22,507,762 thousand for the year ended 31 December 2017 (RUB 22,251,051 thousand for the year ended 31 December 2016).

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

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

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

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

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

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

- Identification of performance obligations

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

- Assessment as to whether the Group is acting as an agent or principal for certain operator's services contracts

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

ii) Intention for the distribution of dividends by subsidiaries

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

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

5. Segmental information

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

The Board considers the business from two perspectives: by type of activity and by type of rolling stock used. From a type of activity perspective, the Board reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective, the Board assesses the performance of each type of rolling stock at the level of adjusted revenue. In particular, the Board reviews discrete financial information for gondola cars and rail tank cars, whereas all other types of rolling stock (such as hopper cars and platforms) are reviewed together.

Adjusted revenue is the measure of profit looked at by the chief operating decision-maker and this includes the revenues derived from the relating type of rolling stock used less infrastructure and locomotive tariffs paid for the loaded trips of relating rolling stock less services provided by other transportation organisations. Further, the Board receives information in respect of relating depreciation and amortisation charges for rolling stock and customer relationships, respectively, impairment charges/reversal of impairment in respect of rolling stock and customer relationships and loss on derecognition arising on capital repairs. All information provided to the Board in relation to profit or loss items is measured in a manner consistent with that in the financial statements.

The Board also reviews additions to segment assets. Liabilities are not segmented since they are not reviewed from that perspective by the chief operating decision maker. Capital expenditure comprises additions of rolling stock to property, plant and equipment.

The Group does not have transactions between different business segments.

	Gondola cars RUB'000	Rail tank cars RUB'000	Other railcars RUB'000	Total RUB'000
Year ended 31 December 2017				
Total revenue – operator's services	52,210,098	22,472,812	1,185,233	75,868,143
Total revenue – operating lease	104,838	1,020,852	86,498	1,212,188
Revenue (from external customers)	52,314,936	23,493,664	1,271,731	77,080,331
less Infrastructure and locomotive tariffs - loaded trips	(16,832,160)	(5,162,124)	(513,478)	(22,507,762)
less Services provided by other transportation organisations	(3,228,663)	(195,297)	(54,521)	(3,478,481)
Adjusted revenue for reportable segments	32,254,113	18,136,243	703,732	51,094,088
Depreciation and amortisation	(4,398,130)	(1,018,965)	(100,092)	(5,517,187)
Impairment of property, plant and equipment	-	-	(111,172)	(111,172)
Loss on derecognition arising on capital repairs	(261,336)	(265,670)	(1,033)	(528,039)
Reversal of impairment of intangible assets	630,223	-	-	630,223
Additions to non-current assets (included in reportable segment assets)	3,227,815	754,615	151,807	4,134,300
Reportable segment assets	44,100,083[1]	19,445,539	533,320	64,078,942

[1] Includes RUB 1,447,559 thousand of intangible assets representing customer relationships.

	Gondola cars RUB'000	Rail tank cars RUB'000	Other railcars RUB'000	Total RUB'000
Year ended 31 December 2016				
Total revenue – operator's services	40,611,447	25,341,788	1,242,253	67,195,488
Total revenue – operating lease	70,221	1,169,296	233,105	1,472,622
Revenue (from external customers)	40,681,668	26,511,084	1,475,358	68,668,110
less Infrastructure and locomotive tariffs - loaded trips	(15,133,741)	(6,608,457)	(508,853)	(22,251,051)
less Services provided by other transportation organisations	(2,807,347)	(122,919)	(58,106)	(2,988,372)
Adjusted revenue for reportable segments	22,740,580	19,779,708	908,399	43,428,687
Depreciation and amortisation	(4,119,446)	(1,340,635)	(192,905)	(5,652,986)
Impairment of property, plant and equipment	-	-	(228,408)	(228,408)
Loss on derecognition arising on capital repairs	(622,664)	(233,213)	(31,577)	(887,454)
Additions to non-current assets (included in reportable segment assets)	3,223,360	800,542	65,265	4,089,167
Reportable segment assets	45,098,408[1]	19,176,300	1,178,107	65,452,815

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

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

	2017 RUB'000	2016 RUB'000
Adjusted revenue for reportable segments	51,094,088	43,428,687
Other revenues	1,000,201	819,881
Total adjusted revenue	52,094,289	44,248,568
Cost of sales (excl. Infrastructure and locomotive tariffs - loaded trips, services provided by other transportation organisations, impairment of property, plant and equipment, depreciation of property, plant and equipment and amortisation of intangible assets, loss on derecognition	(22,352,208)	(22,809,838)
Selling, marketing and administrative expenses (excl. depreciation, amortisation and impairments)	(3,979,117)	(3,738,874)
Depreciation and amortisation	(5,680,445)	(5,793,850)
Reversal of impairment of customer relationships	630,223	-
Impairment charge for receivables	(60,755)	(82,194)
Impairment charge for property, plant and equipment	(111,172)	(228,408)
Loss on derecognition arising on capital repairs	(528,039)	(887,454)
Other income	57,967	-
Other gains – net	85,392	116,328
Operating profit	20,156,135	10,824,278
Finance income	480,585	258,803
Finance costs	(2,046,403)	(2,280,202)
Net foreign exchange transaction losses on financing activities	(236,540)	(291,068)
Share of loss of associate	-	(60,831)
Profit before income tax	18,353,777	8,450,980

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

	2017		2016	
	Assets RUB'000	Liabilities RUB'000	Assets RUB'000	Liabilities RUB'000
Segment assets/ liabilities	64,078,915		65,452,815	
Unallocated:				
Deferred tax	-	5,908,319	-	5,245,331
Income tax assets/liabilities	18,273	150,595	103,852	147,080
Inventories	776,341	-	565,200	-
Intangible assets	6,242	-	8,129	-
Current borrowings	-	7,280,588	-	6,598,226
Non-current borrowings	-	9,050,768	-	9,694,243
Property, plant and equipment	2,139,551	-	1,734,201	-
Receivables	5,436,063	-	5,792,878	-
Payables	-	4,413,656	-	3,537,351
Cash and cash equivalents	4,966,171	-	4,773,414	-
Total	77,421,556	26,803,926	78,430,489	25,222,231

Geographic information
Revenues from external customers

	2017 RUB'000	2016 RUB'000
Revenue		
Russia	77,171,269	68,277,721
Estonia	749,218	269,045
Finland	6,404	870,373
Ukraine	153,641	70,852
	78,080,532	69,487,991

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

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

	2017		2016	
	RUB'000	% revenue	RUB'000	% revenue
Revenue				
Customer A – rail tank cars segment	14,248,432	18	16,754,160	24
Customer B – gondola cars segment	24,146,713	31	18,132,075	26
Customer C – gondola cars segment	12,106,875	16	11,339,547	16

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

	2017 RUB'000	2016 RUB'000
Non-current assets		
Russia	54,766,788	56,052,479
Estonia	10,947,603	10,586,947
Ukraine	527,835	636,686
Cyprus	4,468	6,769
	66,246,694	67,282,881

Analysis of revenue by category:

	2017 RUB'000	2016 RUB'000
Railway transportation – operator's services (tariff borne by the Group)	44,371,174	42,657,682
Railway transportation – operator's services (tariff borne by the client)	31,496,969	24,537,806
Operating lease of rolling stock	1,212,188	1,472,622
Other	1,000,201	819,881
Total revenue	78,080,532	69,487,991

Note: Revenue from railway transportation – operators services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2017 amounting to RUB 22,507,762 thousand (for the year ended 31 December 2016: RUB 22,251,051 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to RUB 3,478,481 thousand (2016: RUB 2,988,372 thousand).

6. Non-GAAP financial information

In addition to financial information under IFRS, the Group also use certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures") as supplemental measures of the Group's operating and financial performance. The management believes that these non-GAAP measures provide valuable information to readers, because they enable them to focus more directly on the underlying day-to-day performance of the Group's business.

Adjusted Revenue

Adjusted Revenue is defined as "Total revenue" adjusted for "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations". "Infrastructure and locomotive tariffs: loaded trips" comprises revenue resulting from tariffs that customers pay to the Group and the Group pays on to OAO "Russian Railways", which are reflected in equal amounts in both the Group's Total revenue and Cost of sales. "Services provided by other transportation organisations" is revenue resulting from the tariffs that customers pay to the Group and the Group pays on to third-party rail operators for subcontracting their rolling stock, which are reflected in equal amounts in both the Group's Total revenue and Cost of sales.

The following table provides details of Adjusted revenue for 2017 and 2016 and its reconciliation to Total revenue.

	2017 RUB'000	2016 RUB'000
Total revenue	78,080,532	69,487,991
Minus "pass through" items		
Infrastructure and locomotive tariffs: loaded trips	(22,507,762)	(22,251,051)
Services provided by other transportation organisations	(3,478,481)	(2,988,372)
Adjusted Revenue	52,094,289	44,248,568

Total Operating Cash Costs and Non-cash Costs

In order to show the dynamics and nature of the Group's cost base, individual items of Total cost of sales, selling and marketing costs and administrative expenses have been regrouped into Operating cash costs and Operating non-cash costs.

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

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

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

	2017 RUB'000	2016 RUB'000
"Pass through" cost items	**(25,986,243)**	**(25,239,423)**
Infrastructure and locomotive tariffs: loaded trips	(22,507,762)	(22,251,051)
Services provided by other transportation organisations	(3,478,481)	(2,988,372)
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**(32,711,736)**	**(33,540,618)**
Total Operating Cash Costs	**(26,302,818)**	**(26,489,774)**
Infrastructure and locomotive tariffs - empty runs and other tariffs	(13,103,048)	(13,865,726)
Repairs and maintenance	(3,769,086)	(3,604,648)
Employee benefit expense	(3,425,986)	(2,945,979)
Operating lease rentals - rolling stock	(1,634,370)	(1,556,979)
Fuel and spare parts – locomotives	(1,519,083)	(1,493,863)
Engagement of locomotive crews	(662,100)	(575,689)
Other Operating Cash Costs	(2,189,145)	(2,446,890)
Advertising and promotion	(31,240)	*(27,716)*
Auditors' remuneration	(55,903)	*(63,652)*
Communication costs	(37,446)	*(35,282)*
Information services	(19,025)	*(26,623)*
Legal, consulting and other professional fees	(69,415)	*(71,316)*
Rental of tank-containers	(63,622)	*(65,168)*
Operating lease rentals - office	(179,887)	*(208,065)*
Taxes (other than on income and value added taxes)	(746,058)	*(838,505)*
Other expenses	(986,549)	*(1,110,563)*
Total Operating Non-Cash Costs	**(6,408,918)**	**(7,050,844)**
Depreciation of property, plant and equipment	(4,962,459)	(4,958,173)
Amortisation of intangible assets	(717,986)	(835,677)
Loss on derecognition arising on capital repairs	(528,039)	(887,454)
Impairment charge for receivables	(60,755)	(82,194)
Impairment of property, plant and equipment	(111,172)	(228,408)
Net loss on sale of property, plant and equipment	(28,507)	(58,938)
Total cost of sales, selling and marketing costs and administrative expenses	**(58,697,979)**	**(58,780,041)**

Adjusted EBITDA

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

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

The following table provides details on Adjusted EBITDA for 2017 and 2016 and its reconciliation to EBITDA and Profit for the year:

	2017 RUB'000	2016 RUB'000
Profit for the year	**13,819,874**	**6,114,912**
Plus (Minus)		
Income tax expense	4,533,903	2,336,068
Finance costs – net	1,802,358	2,312,467
Net foreign exchange transaction losses on financing activities	(236,540)	(291,068)
Amortisation of intangible assets	717,986	835,677
Depreciation of property, plant and equipment	4,962,459	4,958,173
EBITDA	**25,600,040**	**16,266,229**
Plus (Minus)		
Loss on derecognition arising on capital repairs	528,039	887,454
Net foreign exchange transaction losses on financing activities	236,540	291,068
Other gains – net	(85,392)	(116,328)
Share of loss of associate	-	60,831
Net loss on sale of property, plant and equipment	28,507	58,938
Impairment of property, plant and equipment	111,172	228,408
Reversal of impairment of intangible assets	(630,223)	-
Adjusted EBITDA	**25,788,683**	**17,676,600**

Free Cash Flow

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

The **Attributable Free Cash Flow** means Free Cash Flow less Adjusted profit attributable to non-controlling interests.

Adjusted Profit Attributable to Non-controlling Interests is calculated as "Profit attributable to non-controlling interests" less share of "Impairment of property, plant and equipment" and "Impairment of intangible assets" attributable to non-controlling interests.

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

	2017 RUB'000	2016 RUB'000
Cash generated from operations	27,495,573	17,663,320
Tax paid	(3,631,769)	(1,587,792)
Interest paid	(1,943,746)	(2,251,804)
Purchases of property, plant and equipment	(4,872,076)	(4,932,019)
Purchases of intangible assets	-	(9,500)
Free Cash Flow	**17,047,982**	**8,882,205**
Attributable Free Cash Flow	**15,516,885**	**7,240,110**

Net Debt and Net Debt to Adjusted EBITDA

Net Debt is defined as the sum of total borrowings (including interest accrued) less "Cash and cash equivalents".

Total Debt is defined as total borrowings (including interest accrued)

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

	31 December 2017 RUB'000	31 December 2016 RUB'000
Total debt	16,331,356	16,292,469
Minus		
Cash and cash equivalents	4,966,171	4,773,414
Net Debt	**11,365,185**	**11,519,055**
Net Debt to Adjusted EBITDA	**0.44x**	**0.65x**

7. Expenses by nature

	2017 RUB’000	2016 RUB’000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	22,507,762	22,251,051
Empty run trips and other tariffs	13,103,048	13,865,726
Services provided by other transportation organisations	3,478,481	2,988,372
Operating lease rentals – rolling stock	1,634,370	1,556,979
Rental of tank-containers	63,622	65,168
Employee benefit expense	1,163,527	1,025,623
Repairs and maintenance	3,769,086	3,604,648
Depreciation of property, plant and equipment	4,913,217	4,905,158
Amortisation of intangible assets	717,968	835,659
Fuel and spare parts – locomotives	1,519,083	1,493,863
Engagement of locomotive crews	662,100	575,689
Loss on sale of property, plant and equipment	32,695	60,654
Impairment of property, plant and equipment	111,172	228,408
Loss on derecognition arising on capital repairs	528,039	887,454
Other expenses	404,677	561,488
	54,608,847	54,905,940

	2017 RUB’000	2016 RUB’000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	49,242	53,015
Amortisation of intangible assets	18	18
Profit on sale of property, plant and equipment	(4,188)	(1,716)
Employee benefit expense	2,262,459	1,920,356
Impairment charge of receivables	60,755	82,194
Operating lease rental – office	179,887	208,065
Auditors’ remuneration	55,903	63,652
Legal, consulting and other professional fees	69,415	71,316
Advertising and promotion	31,240	27,716
Communication costs	37,446	35,282
Information services	19,025	26,623
Taxes (other than income tax and value added taxes)	746,058	838,505
Other expenses	581,872	549,075
	4,089,132	3,874,101

	2017 RUB'000	2016 RUB'000
Total expenses		
Depreciation of property, plant and equipment (Note 13)	4,962,459	4,958,173
Amortisation of intangible assets (Note 14)	717,986	835,677
Impairment of property, plant and equipment (Note 13)	111,172	228,408
Net loss on sale of property, plant and equipment (Note 13)	28,507	58,938
Loss on derecognition arising on capital repairs (Note 13)	528,039	887,454
Employee benefit expense (Note 9)	3,425,986	2,945,979
Impairment charge for receivables (Note 20)	60,755	82,194
Operating lease rentals – rolling stock	1,634,370	1,556,979
Operating lease rentals – office	179,887	208,065
Repairs and maintenance	3,769,086	3,604,648
Fuel and spare parts – locomotives	1,519,083	1,493,863
Engagement of locomotive crews	662,100	575,689
Infrastructure and locomotive tariffs:		
Loaded trips	22,507,762	22,251,051
Empty run trips and other tariffs	13,103,048	13,865,726
Services provided by other transportation organisations	3,478,481	2,988,372
Rental of tank-containers	63,622	65,168
Auditors' remuneration	55,903	63,652
Legal, consulting and other professional fees	69,415	71,316
Advertising and promotion	31,240	27,716
Communication costs	37,446	35,282
Information services	19,025	26,623
Taxes (other than income tax and value added taxes)	746,058	838,505
Other expenses	986,549	1,110,563
Total cost of sales, selling and marketing costs and administrative expenses	58,697,979	58,780,041

Note: The auditors' remuneration stated above includes fees of RUB 17,059 thousand (2016: RUB 17,646 thousand) for statutory audit services and RUB 4,714 thousand (2016: RUB 6,960 thousand) for other assurance services charged by the Group's statutory audit firm. The rest of the auditors' remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company.

Legal, consulting and other professional fees include RUB 2,085 thousand for the year 2017 (RUB 904 thousand for the year 2016) in relation to fees paid to the Company's statutory auditor for tax consultancy services.

8. Other gains – net

	2017 RUB'000	2016 RUB'000
Other gains	47,591	28,936
Other losses	(88,136)	(52,103)
Net foreign exchange gains (Note 12)	65,049	139,495
Profit from sale of associates (Note 15)	60,888	-
Total other gains – net	85,392	116,328

9. Employee benefit expense

	2017 RUB'000	2016 RUB'000
Salaries	1,776,586	1,719,794
Termination benefits	7,426	1,332
Bonuses	956,088	623,377
Share based payment expense (Note 16)	97,229	77,985
Social insurance costs	588,657	523,491
Total employee benefit expense	3,425,986	2,945,979
Average number of employees during the year	1,534	1,489

10. Finance income and costs

	2017 RUB'000	2016 RUB'000
Included in finance costs:		
Borrowings from third parties	-	(2,098)
Bank borrowings	(1,991,826)	(2,271,466)
Total interest expense	(1,991,826)	(2,273,564)
Other finance costs	(54,577)	(6,638)
Total finance costs	(2,046,403)	(2,280,202)
Included in finance income:		
Loans receivables from third parties	2,854	163
Bank balances	85,636	59,698
Short term deposits	346,322	182,930
Finance leases	45,773	16,012
Total interest income	480,585	258,803
Total finance income	480,585	258,803
Net foreign exchange transaction gains/(losses) on borrowings, dividend payable and other liabilities	271,933	(1,103)
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	(508,473)	(289,965)
Net foreign exchange transactions losses from financing activities (Note 12)	(236,540)	(291,068)
Net finance costs	(1,802,358)	(2,312,467)

11. Income tax expense

	2017 RUB'000	2016 RUB'000
Current tax:		
Corporation tax	3,335,915	1,585,905
Withholding tax on dividends	535,000	147,540
Total current tax	3,870,915	1,733,445
Deferred tax (Note 25):		
Origination and reversal of temporary differences	662,988	602,623
Total deferred tax	662,988	602,623
Income tax expense	4,533,903	2,336,068

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

	2017 RUB'000	2016 RUB'000
Profit before tax	18,353,777	8,450,980
Tax calculated at domestic tax rates applicable to profits in the respective countries	4,490,473	2,056,520
Tax effects of:		
Expenses not deductible for tax purposes	115,745	107,060
Allowances and income not subject to tax	(8,558)	(13,426)
Tax effect of tax losses for which no deferred tax asset was recognised	(10,819)	5,428
Estonian income tax arising on distribution[(1)]	-	29,597
Withholding taxes:		
Dividend withholding tax provision as a result of change in intention on dividend distribution of subsidiaries	52,938	150,889
Tax charge	4,533,903	2,336,068

[(1)] Estonian tax law calls for profits to be taxed at the time of distribution and not during the year in which they arise. During the year 2016, the Group incurred taxes on a non-recurring distribution from an Estonian subsidiary.

The Company is subject to income tax on taxable profits at the rate 12.5%. As from tax year 2012 brought forward losses of the Company of only five years may be utilised.

Up to 31 December 2008, under certain conditions interest of the Company may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2013. In certain cases dividends received by the Company from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence. Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc.) are exempt from Cyprus income tax.

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

For subsidiaries in Estonia, the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 20% of net dividend paid. During the year ended 31 December 2016, the Group incurred a charge of RUB 29,597 thousand as a result of dividends distributed by an Estonian subsidiary. This constituted a non-recurring distribution for which no deferred tax liability had been recognised in the past. There was no such distribution within the year 2017. No provision has been made for any future distributions from Estonian subsidiaries as it is not considered probable that any future dividend distributions will be made out of their retained earnings as of 31 December 2017.

For the subsidiary in Ukraine the annual profit was taxed at a tax rate 25% until 31 March 2011; decreased to 23% until 31 December 2011 and further decreased to 21% thereafter. As of 1 January 2013 the tax rate reduced to 19% and is reduced to 18% from 1 January 2014.

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

12. Net foreign exchange losses

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

	2017 RUB'000	2016 RUB'000
Finance income and costs (Note 10)	(236,540)	(291,068)
Other gains – net (Note 8)	65,049	139,495
	(171,491)	(151,573)

13. Property, plant and equipment

	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2016					
Cost	96,234,638	349,932	210,898	1,054,691	97,850,159
Accumulated depreciation	(27,122,259)	(69,848)	(103,346)	(330,930)	(27,626,383)
Net book amount	69,112,379	280,084	107,552	723,761	70,223,776
Year ended 31 December 2016					
Opening net book amount	69,112,379	280,084	107,552	723,761	70,223,776
Additions	4,089,167	11,308	16,565	804,781	4,921,821
Disposals	(452,373)	-	(2,706)	(1,825)	(456,904)
Depreciation charge (Note 6)	(4,818,726)	(11,424)	(30,924)	(97,099)	(4,958,173)
Transfers	26,044	-	-	(26,044)	-
Impairment charge (1)	(228,408)	-	-	-	(228,408)
Transfer to inventories	(70,972)	-	-	(8)	(70,980)
Derecognition arising on capital repairs	(887,454)	-	-	-	(887,454)
Currency translation differences	(2,850,277)	(2,681)	(3,551)	(33,588)	(2,890,097)
Closing net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581
At 31 December 2016					
Cost	92,819,465	354,051	202,842	1,786,732	95,163,090
Accumulated depreciation	(28,900,085)	(76,764)	(115,906)	(416,754)	(29,509,509)
Net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581

	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2017					
Cost	92,819,465	354,051	202,842	1,786,732	95,163,090
Accumulated depreciation	(28,900,085)	(76,764)	(115,906)	(416,754)	(29,509,509)
Net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581
Year ended 31 December 2017					
Opening net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581
Additions	4,137,300	512	35,723	674,373	4,847,908
Disposals	(566,515)	-	(5,359)	(1,838)	(573,712)
Depreciation charge (Note 6)	(4,801,088)	(12,338)	(29,654)	(119,379)	(4,962,459)
Transfers	64,155	1,403	-	(65,558)	-
Impairment charge (2) (Note 6)	(111,172)	-	-	-	(111,172)
Transfer to inventories	(240,123)	-	-	(79,435)	(319,558)
Derecognition arising on capital repairs	(528,039)	-	-	-	(528,039)
Currency translation differences	757,485	838	921	(5,114)	764,358
Closing net book amount	62,631,383	267,702	88,567	1,783,255	64,770,907
At 31 December 2017	-	-	-		-
Cost	94,103,663	358,239	210,070	2,319,710	96,991,682
Accumulated depreciation	(31,472,280)	(90,537)	(121,503)	(536,455)	(32,220,775)
Net book amount	62,631,383	267,702	88,567	1,783,255	64,770,907

Useful lives of rolling stock

The estimation of the useful lives of items of rolling stock is a matter of 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 1 January 2017 and has concluded to revise the useful economic life of all items of the Group's rolling stock, other than locomotives. For locomotives, management has concluded that their remaining useful economic lives remain reasonable. Refer to Note 2.

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

(1) Impairment assessment of rolling stock as of 31 December 2016

Management assessed whether there were any indications of impairment of the Group's rolling stock as of 31 December 2016. The analysis did not reveal indicators for impairment for any of the CGUs of the Group, with the exception of the Estonian rail tank cars/operating leasing CGU, the Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs and the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs for which management performed an impairment assessment to determine their recoverable amount, estimated at the higher of value-in-use and fair value less cost to sell.

Estonian rail tank cars/operating leasing CGU and Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs

The recoverable amount of the Estonian rail tank cars/operating leasing CGU, with rolling stock of RUB 10,419,689 thousand as at 31 December 2016, and of the Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs, with a total carrying amount of RUB 612,368 thousand as at 31 December 2016, was compared with the carrying amount of the assets in those CGUs, which included rolling stock. As a result of the impairment assessment, no impairment charges were noted with respect to these CGUs.

The recoverable amount of the CGUs was determined based on a level 3 fair value less cost to sell and was not sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of the CGUs.

The fair value less cost to sell was determined based on the prices quoted by major manufacturers of the specific rolling stock held by the Group, adjusted to take into account the age of each specific asset in the possession of the Group and expenses necessary to bring the assets to the location and condition that enables their current use, assessed by management as being their highest and best use. The recoverable amount was not sensitive to changes in key assumptions in the impairment model.

Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs

The recoverable amount of the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs was compared with the carrying amount of the assets in that CGU, which included rolling stock of RUB 444,510 thousand, before impairment. As a result of the impairment assessment, an impairment loss amounting to RUB 228,408 thousands was recognised for the rolling stock within the CGUs.

The recoverable amount of the CGUs was determined based on a level 3 fair value less cost to sell and was sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of these CGUs.

The fair value less cost to sell was determined based on average selling prices of similar rolling stock in the secondary market.

If the selling price had been 10% lower/higher than management's estimate at 31 December 2016, the recoverable amount would decrease resulting into an impairment loss of RUB 22,841 thousand to be recognised in respect of the rolling stock of this CGU.

(2) Impairment assessment of rolling stock as of 31 December 2017

The management's assessment as of 31 December 2017 did not reveal indicators for impairment for any of the CGUs of the Group, with the exception of the Estonian rail tank cars/operating leasing CGU and certain locomotives within the locomotives/operating leasing segment which were not in use at that time and required substantial repair costs and thus were separately impaired. These locomotives were impaired to their scrap value, determined based on fair value less costs to sell measurement, resulting in an impairment loss of RUB 111,172 thousand. This measurement did not involve significant estimates.

Estonian rail tank cars/operating leasing CGU

The recoverable amount of the Estonian rail tank cars/operating leasing CGU, with rolling stock of RUB 10,919,427 thousand as at 31 December 2017 was compared with the carrying amount of the assets in this CGU, which included rolling stock. As a result of the impairment assessment, no impairment charges were noted with respect to this CGU.

The recoverable amount of the CGU was determined based on a level 3 fair value less cost to sell and was not sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of the CGUs.

The fair value less cost to sell was determined based on the prices quoted by major manufacturers of the specific rolling stock held by the Group, adjusted to take into account the age of each specific asset in the possession of the Group and expenses necessary to bring the assets to the location and condition that enables their current use, assessed by management as being their highest and best use. The recoverable amount was not sensitive to changes in key assumptions in the impairment model.

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

	2017 RUB'000	2016 RUB'000
Net book amount	573,712	456,904
Loss on sale of property, plant and equipment (Note 6)	(28,507)	(58,938)
Consideration from sale of property, plant and equipment	545,205	397,966

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

	2017 RUB'000	2016 RUB'000
Cash consideration received within year	267,526	177,384
Property, plant and equipment disposed through finance lease transactions	256,664	217,545
Movement in advances received for sales of property, plant and equipment	21,015	3,037
	545,205	397,966

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

	2017 RUB'000	2016 RUB'000
Cost – capitalised finance leases	1,838,378	1,546,114
Accumulated depreciation	(429,242)	(278,481)
	1,409,136	1,267,633

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

	2017 RUB'000	2016 RUB'000
Rolling stock[1]	1,409,136	1,267,633
	1,409,136	1,267,633

[1] Property, plant and equipment that are leased under finance leases as at 31 December 2017 include rolling stock, with a net carrying amount of RUB 1,409,136 thousand (2016: RUB 1,267,633 thousand), pledged under finance leases that have been repaid by the Group as at 31 December 2017 and 31 December 2016. The relevant pledges on the rolling stock under these finance leases were not released as of 31 December 2017 and 31 December 2016, however the Group has the unilateral right to request for release of the pledged rolling stock with immediate effect.

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

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

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

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

	2017 RUB'000	2016 RUB'000
Rolling stock	16,567,626	29,488,385
Other (tank-containers)	1,395,772	614,053
	17,963,398	30,102,438

In accordance with the terms of its bank borrowings, the Group had a commitment to pledge rolling stock with a market value of not less than RUB 6,000,000 thousand within 6 months from the date of bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018.

Depreciation expense of RUB 4,913,217 thousand in 2017 (2016: RUB 4,905,158 thousand) has been charged to "cost of sales" and RUB 49,242 thousand in 2017 (2016: RUB 53,015 thousand) has been charged to "selling, marketing and administrative expenses". Impairment charge of RUB 111,172 thousand in 2017 (2016: RUB 228,408 thousand) has been charged to "cost of sales".

14. Intangible assets

	Computer software RUB'000	Customer relationships RUB'000	Total RUB'000
At 1 January 2016			
Cost	1,272	6,780,787	6,782,059
Accumulated amortisation and impairment	(1,226)	(4,413,092)	(4,414,318)
Net book amount	46	2,367,695	2,367,741
Year ended 31 December 2016			
Opening net book amount	46	2,367,695	2,367,741
Amortisation charge (Note 6)	(1,417)	(834,260)	(835,677)
Additions	9,500	-	9,500
Closing net book amount	8,129	1,533,435	1,541,564
At 31 December 2016			
Cost	10,772	6,780,787	6,791,559
Accumulated amortisation and impairment	(2,643)	(5,247,352)	(5,249,995)
Net book amount	8,129	1,533,435	1,541,564
Year ended 31 December 2017			
Opening net book amount	8,129	1,533,435	1,541,564
Amortisation charge (Note 6)	(1,887)	(716,099)	(717,986)
Reversal of impairment charge	-	630,223	630,223
Closing net book amount	6,242	1,447,559	1,453,801
At 31 December 2017			
Cost	10,772	6,780,787	6,791,559
Accumulated amortisation and impairment	(4,530)	(5,333,228)	(5,337,758)
Net book amount	6,242	1,447,559	1,453,801

As of 31 December 2017, the Group's intangible assets include a customer relationship with MMK Group with a carrying amount of RUB 1,447,559 thousand (2016: with Metalloinvest and MMK Groups with carrying amounts of RUB 143,260 thousand and RUB 1,390,175 thousand, respectively). The customer relationships were allocated to the Russian gondola cars/operator's services CGU. During the year 2017, the customer relationships with Metalloinvest reached the end of its useful economic life.

Amortisation of RUB 717,968 thousand (2016: RUB 835,659 thousand) has been charged to cost of sales' in the income statement and RUB 18 thousand (2016: RUB 18 thousand) to 'administrative expenses'.

Useful lives of customer relationships

The estimation of the useful lives of the customer relationships is a matter of 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 2016. In assessing the useful life of these customer relationships on initial recognition, management took the view that the cooperation with Metalloinvest and MMK Groups would not terminate after the expiry of the underlying contracts as the relationships are based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the customers. In view of these considerations, management estimated the useful economic lives of the customer relationships with Metalloinvest and MMK Group to be 5 and 7 years respectively on the initial acquisition of these customer relationships.

During 2014 the terms of the contracts with MMK and Metalloinvest Groups were prolonged for a further 1 year and 1.5 year to February 2019 and December 2016 respectively

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

Based on management's assessment as of 31 December 2017, the useful economic life of the customer relationship with MMK Group remains appropriate.

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

Based on impairment assessment performed by the Group as of 31 December 2015, an impairment charge of RUB 996,160 thousand was recognised during the year ended 31 December 2015 against the carrying amount of the customer relationship with MMK Group.

The Group assessed whether there were any indications of additional impairment/ reversal of impairment of the customer relationship with MMK Group as of 31 December 2016. The Group's assessment did not reveal any indicators of additional impairment/reversal of the previously recognised impairment and, as a result, management did not estimate the recoverable amount of this customer relationship.

(2) Assessment of reversal of previously recognised impairment of customer relationship as of 31 December 2017

The carrying amount of the Group's intangible assets as of 31 December 2017, includes a customer relationship with MMK Group with a carrying amount of RUB 1,447,559 thousand, as of that date. This customer relationship has been allocated to the Russian gondola cars/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 assesses as of each reporting date whether there are any indications for impairment or reversal of previously recognised impairment for its customer relationships, in accordance with its accounting policy for impairment of non-current assets (Note 2).

The analysis of indicators for reversal of the previously recognised impairment for the customer relationship with MMK Group showed that there were indicators of reversal in place as of 30 June 2017, reflecting the general recovery in the market and industry conditions. Therefore, management performed an impairment assessment to determine the customer relationship's recoverable amount as of that date.

The recoverable amount of this customer relationship as of 30 June 2017 was estimated based on value-in-use calculations and was determined to be higher than its carrying amount if no impairment charge was recognised in the past in respect of it. As a result, a reversal of impairment of RUB 630,223 thousand was recognised during the six-month period ended 30 June 2017 increasing the carrying amount of the customer relationship to the one that would have been if no impairment charge was recognised in the past.

The value-in-use calculations required the use of estimates and were not sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this customer relationship.

The projections prepared were based on 3.5-year post-tax cash flow projections, being the period over which cash flows are expected from this customer relationship. A post-tax discount rate of 14.9% was applied for the projected period.

The key assumptions were transportation volumes and tariffs per trip, which are the main components of revenue, as well as cost drivers, which were projected on the actual results for the six months to 30 June 2017, and the estimated growth in the EBITDA margin during the projected period and the discount rate. The projected volumes reflected past experience and management's estimates. The transportation prices were estimated in accordance with the past performance of the Group and management's expectations of market development.

Any reasonable change in the assumptions used in the calculation for the recoverable amount of this customer relationship would not decrease the amount of the reversal of impairment recognised.

Taking into account the above as well as the continuing strong performance of the Russian gondola cars/operator's services CGU in the six-month period to 31 December 2017, the management concluded that there were no indicators for impairment with respect to the customer relationship as of 31 December 2017.

15. Investments

15.1 Investment in associate

Set out below is the associate of the Group as at 31 December 2016. The associate had share capital consisting solely of ordinary shares, which were held directly by the Group; the country of incorporation or registration is also the associate's principal place of business. During the year 2017, the Group disposed the investment in associate for a consideration of RUB 60,888 thousand, realising profit on disposal of RUB 60,888 thousand (Note 8).

	2017 RUB'000	2016 RUB'000
At beginning of year	-	65,497
Share of loss after tax	-	(60,831)
Currency translation difference	-	(4,666)
At end of year	-	-

Nature of investment in associate during 2016:

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Nature of the relationship**	**Measurement method**
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	25.27	Associate	Equity

The fair value of the Group's share in the investment in associate based on the closing price quoted on Riga Stock Exchange as at 31 December 2016 was RUB 20,195 thousand. However the market for these shares is not considered as active.

15.2 Principal subsidiaries

The Group had the following subsidiaries at 31 December 2017 and 31 December 2016:

Name	Place of business/ country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non- controlling interest (%)	
			2017	2016	2017	2016	2017	2016
New Forwarding Company, AO	Russia	Railway transportation	100	100	100	100	-	-
GTI Management, OOO	Russia	Railway transportation	100	100	100	100	-	-
Ural Wagonrepair Company, AO	Russia	Repair and maintenance of rolling stock	100	100	100	100	-	-
Ukrainian New Forwarding Company OOO	Ukraine	Railway transportation	100	100	100	100	-	-
BaltTransServis, OOO	Russia	Railway transportation	60	60	60	60	40	40
RemTransServis, OOO[1]	Russia	Repair and maintenance of rolling stock	-	-	59,4	59,4	40,6	40,6
SyntezRail LLC	Russia	Railway transportation	-	-	60	60	40	40
SyntezRail Ltd[3]	Cyprus	Intermediary holding company	60	60	60	60	40	40
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	65,25	65,25	65,25	65,25	34,75	34,75
Ekolinja Oy[2]	Finland	Operating sub-lease of rolling stock	-	-	65,25	65,25	34,75	34,75
Spacecom Trans AS	Estonia	Operating lease of rolling stock	65	65	65	65	35	35

1. RemTransServis, OOO is a 99% subsidiary of BaltTransServis, OOO.
2. Ekolinja Oy is a 100% subsidiary of Spacecom AS.
3. SyntezRail LLC is a 100% subsidiary of SyntezRail Ltd.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

The accumulated non-controlling interest as of 31 December 2017 and 31 December 2016 comprised the following:

	2017 RUB'000	2016 RUB'000
BaltTransServis, OOO (including RemTransservis, OOO)	1,668,540	2,303,744
Spacecom AS (including Ekolinja Oy)	3,105,411	2,879,538
Spacecom Trans AS	1,008,312	916,065
SyntezRail, OOO; SyntezRail Limited	(57,364)	(4,640)
Total	5,724,899	6,094,707

Significant restrictions

There are no significant restrictions, statutory, contractual, regulatory, or arising from protective rights of non-controlling interests, on the ability of the Group to access or use the assets and settle the liabilities of the Group.

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The financial information of Spacecom AS (including Ekolinja Oy) and Spacecom Trans AS have been aggregated since both entities operate in the Estonian rail tank cars segment, have significant transactions between them, and management reviews their performance as a single operation. The financial information of BaltTransServis, OOO includes RemTransservis, OOO.

No summarised financial information is presented for SyntezRail, OOO and SyntezRail Limited as their operations and financial position are not material to the Group.

Summarised balance sheet	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Current				
Assets	2,625,172	4,218,254	716,544	222,067
Liabilities	1,395,496	2,198,882	49,972	109,638
Total current net assets	1,229,676	2,019,372	666,572	112,429
Non-current				
Assets	5,300,163	5,505,516	11,081,530	10,843,434
Liabilities	2,358,489	1,765,529	-	125,584
Total non-current net assets	2,941,674	3,739,987	11,081,530	10,717,850
Net assets	4,171,350	5,759,359	11,748,102	10,830,279

Summarised income statement	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Revenue	21,458,824	24,200,298	755,622	1,145,652
Profit before income tax	4,926,219	5,649,439	58,589	(378,524)
Income tax expense	(1,014,228)	(1,154,587)	-	(29,597)
Post-tax profit from continuing operations	3,911,991	4,494,852	58,589	(408,121)
Post-tax profit from discontinued operations	-	-	-	-
Other comprehensive income	-	-	716,756	(2,783,614)
Total comprehensive income	3,911,991	4,494,852	775,345	(3,191,735)
Total comprehensive income allocated to non-controlling interests	1,564,796	1,797,941	270,120	(1,110,645)
Dividends paid to non-controlling interest	(2,200,000)	(1,967,200)	-	(41,375)

Summarised cash flow statements				
	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2017 RUB'000	2016 RUB'000	2017 RUB'000	2016 RUB'000
Cash flows from operating activities				
Cash generated from operations	5,980,883	6,942,918	493,096	295,941
Income tax paid	(1,027,999)	(971,860)	(1,203)	(69,887)
Net cash generated from operating activities	4,952,884	5,971,058	491,893	226,054
Net cash generated (used in)/from investing activities	(347,927)	529,453	167,713	188,395
Net cash generated used in financing activities	(5,901,728)	(5,598,232)	(136,287)	(466,997)
Net increase/decrease in cash and cash equivalents	(1,296,771)	902,279	523,319	(52,548)
Cash and cash equivalents at beginning of year	2,429,582	1,601,141	42,618	97,233
Exchange differences on cash and cash equivalents	134	(73,838)	16,072	(2,067)
Cash and cash equivalents at end of year	1,132,945	2,429,582	582,009	42,618

The information above includes the amounts before inter-company eliminations.

16. Share-based payments

Starting 1 January 2015, the Group introduced a new remuneration program for some of the members of management, including members of key management of the Group. The new remuneration program introduced, amongst other things, a three year compensation scheme in accordance to which, members of management receive a yearly cash compensation calculated based on the weighted average market quotations of the GDRs of the Company. This compensation was set for a three year period and divided on three instalments to be paid after the end of each assessment period which equals to one year. The award was conditional on the performance of the participants and on meeting certain key performance indicators ("KPIs") each year during the three years vesting period.

The scheme falls within the scope of IFRS 2 "Share-based payment" and has therefore been classified as a cash-settled share based payment arrangement.

In accordance with the terms of the remuneration program, the compensation was calculated based on the weighted average fair value of the Company's GDRs, quoted in US Dollar multiplied by the weighted average RUB/USD exchange rate for each period.

The Group recognised an employee benefit expense of RUB 97,229 thousand in this respect for the year ended 31 December 2017 (2016: RUB 77,985 thousand) and the Group's liability in respect of this amounted to RUB 226,560 as of 31 December 2017 (2016: RUB 145,745 thousand).

The share based payment liability as of 31 December 2016 was determined based on the assumption that all participants will remain with the Group and all KPIs will be met and that there will be no significant fluctuation in the value of the Company's GDRs during the vesting period. The significant inputs into the valuation were the weighted average fair value of the Company's GDRs of USD 4.36 and the weighted average USD/RUB exchange of USD 66.833. There were no changes in the number of instruments over the years ended 31 December 2017 and 31 December 2016.

17. Financial instruments by category

	2017		2016	
	Loans and receivables	Total	Loans and receivables	Total
	RUB'000	RUB'000	RUB'000	RUB'000
Financial assets as per balance sheet				
Trade and other receivables	2,875,613	2,875,613	2,608,410	2,608,410
Cash and cash equivalents	4,966,171	4,966,171	4,773,414	4,773,414
Total	7,841,784	7,841,784	7,381,824	7,381,824

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

	2017		2016	
	Financial liabilities measured at amortised cost	Total	Financial liabilities measured at amortised cost	Total
	RUB'000	RUB'000	RUB'000	RUB'000
Financial liabilities as per balance sheet				
Borrowings	16,331,356	16,331,356	16,292,469	16,292,469
Trade and other payables	778,764	778,764	663,633	663,633
Total	17,110,120	17,110,120	16,956,102	16,956,102

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

18. Credit quality of financial assets

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

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

	2017	2016
	RUB'000	RUB'000
Trade and other receivables		
Counterparties with external credit rating		
Moody's(2)(B1 – Ba1)	3,170	29,081
Standard & Poor's(3) (BB- - BB)	7,875	-
Fitch(4) (B- - BB+)	369,679	259,367
	380,724	288,448

	2017	2016
	RUB'000	RUB'000
Counterparties without external credit rating		
Group 1	1,527,462	1,134,605
Group 2	94,133	248,238
	1,621,595	1,382,843
Total trade and other receivables	2,002,319	1,671,291

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

Cash at bank and short-term bank deposits

	Rating	2017 RUB'000	2016 RUB'000
Moody's (2)	A3 – Aaa	1,002,389	102,214
Moody's (2)	Ba2 – Baa1	3,101,414	3,582,232
Moody's (2)	B1	174	34,399
Moody's (2)	Caa1 - Caa3	1,844	1,682
Standard & Poor's (3)	BB+	658,258	454,931
Fitch (4)	BBB- BBB+	151,920	591,127
Other non-rated banks – satisfactory credit quality		49,715	5,612
Total cash at bank and bank deposits(1)		4,965,714	4,772,197

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

19. Trade and other receivables

	2017 RUB'000	2016 RUB'000
Trade receivables – third parties	2,504,806	2,579,788
Trade receivables – related parties (Note 30)	-	1,449
Less: Provision for impairment of trade receivables	(141,336)	(263,972)
Trade receivables – net	2,363,470	2,317,265
Other receivables	89,153	77,690
Less: Provision for impairment of other receivables	(39,786)	(29,163)
Other receivables – net	49,367	48,527
Loans receivables – third parties	16,857	29,533
Prepayments – third parties	1,949,999	2,464,705
Finance leases to third parties	445,919	213,085
VAT recoverable	610,451	719,763
	5,436,063	5,792,878

	2017 RUB'000	2016 RUB'000
Less non-current portion:		
Trade receivables – third parties	203,153	214,210
Less: Provision for impairment of trade receivables	(19,637)	(39,351)
Trade receivables – net	183,516	174,859
Loans receivables – third parties	16,857	29,533
Finance leases to third parties	414,869	202,131
Prepayments for property, plant and equipment	21,986	65,837
Total non-current portion	637,228	472,360
Current portion	4,798,835	5,320,518

The finance lease receivables are scheduled as follows:

	Less than one year	Between 1 to 5 years	Over 5 years	Total
	RUB'000	RUB'000	RUB'000	RUB'000
At 31 December 2017				
Minimum lease receivable	79,801	319,499	270,154	669,454
Less: Unearned finance income	(48,751)	(153,535)	(21,249)	(223,535)
Present value of minimum lease receivables	31,050	165,964	248,905	445,919
At 31 December 2016				
Minimum lease receivable	-	181,082	166,239	347,321
Less: Unearned finance income	-	(110,257)	(23,979)	(134,236)
Present value of minimum lease receivables	-	70,825	142,260	213,085

According to the management's estimates, the fair values of trade and other receivables do not materially differ from their carrying amounts as the impact of discounting is not significant.

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

	2017	2016
	%	%
Loans receivables – third parties	12	12
Finance leases to third parties	11.28	12.12

Receivables amounting to RUB 2,002,319 thousand as of 31 December 2017 were fully performing (2016: RUB 1,671,291 thousand).

Receivables of RUB 689,778 thousand as of 31 December 2017 were past due but not impaired (2016: RUB 762,260 thousand). These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

	2017	2016
	RUB'000	RUB'000
Less than 1 month	433,790	461,599
From 1 to 3 months	72,246	75,963
From 3 to 6 month	6,773	15,130
From 6 months to 1 year	9,055	16,681
Over one year	167,914	192,887
	689,778	762,260

Trade receivables amounting to RUB 121,699 thousand as of 31 December 2017, were impaired and fully provided for (2016: RUB 224,621 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Trade receivables amounting to RUB 203,153 thousand as of 31 December 2017 (RUB 214,210 thousand as of 31 December 2016) relate to receivable from Georgian Railways for services rendered by the Group prior to 1 April 2015. The amount receivable is under dispute and the Group initiated a claim to the Georgian Court demanding the repayment of the entire balance due. Based on assessment performed as at 31 December 2017, the Group recognised a provision for impairment of RUB 19,637 thousand (RUB 39,351 thousand as at 31 December 2016) in order to account for the expected time until receipt of the amount due (Note 28).

Other receivables amounting to RUB 39,786 thousand as of 31 December 2017, were impaired and provided for in full (2016: RUB 29,163 thousand). It was assessed that no portion of these receivables is expected to be recovered.

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

	2017 RUB'000	2016 RUB'000
Currency:		
US Dollar	240,445	307,471
Russian Roubles	5,032,254	5,423,503
Ukrainian Hryvnia	62,423	24,256
Euro	84,085	8,115
Other	16,856	29,533
	5,436,063	5,792,878

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

	2017			2016		
	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000
At 1 January	263,972	29,163	293,135	367,909	29,500	397,409
Provision for receivables impairment (Note 7)	42,267	18,488	60,755	81,610	1,988	83,598
Bad debt written off	(167,639)	(7,834)	(175,473)	(130,085)	(2,813)	(132,898)
Unused amounts reversed (Note 7)	-	-	-	(1,397)	(7)	(1,404)
Currency translation	2,736	-	2,736	(52,765)	(80)	(52,845)
Other	-	(31)	(31)	(1,300)	575	(725)
At 31 December	141,336	39,786	181,122	263,972	29,163	293,135

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

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security for any receivables other than finance lease receivables which are effectively secured as the rights to the leased asset revert to the Group in the event of default.

20. Inventories

	2017 RUB'000	2016 RUB'000
Raw materials, spare parts and consumables	776,341	565,200
	776,341	565,200

All inventories are stated at cost.

21. Cash and cash equivalents

	2017 RUB'000	2016 RUB'000
Cash at bank and in hand	3,313,155	1,416,760
Short term bank deposits	1,653,016	3,356,654
Total cash and cash equivalents	4,966,171	4,773,414

The weighted average effective interest rate on short-term deposits was 7.61% in 2017 (2016: 7.28%) and these deposits have a maturity of 1 to 30 days (2016: 10 to 35 days).

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

	2017 RUB'000	2016 RUB'000
Cash and cash equivalents	4,966,171	4,773,414
Total cash and cash equivalents	4,966,171	4,773,414

Cash and cash equivalents are denominated in the following currencies:

	2017 RUB'000	2016 RUB'000
Russian Rouble	4,016,241	3,533,283
US Dollar	441,311	1,166,995
Euro	482,936	42,022
Ukrainian Hryvnia	25,683	31,114
Total cash and cash equivalents	4,966,171	4,773,414

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

22. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2016 /31 December 2016 / 1 January 2017 / 31 December 2017	178,740,916	17,875	949,471	967,346

	Number of shares	Share capital RUB'000	Share premium RUB'000	Total RUB'000
At 1 January 2016 /31 December 2016 / 1 January 2017 / 31 December 2017	178,740,916	516,957	27,929,478	28,446,435

The total authorised number of ordinary shares at 31 December 2017 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2016: 233,918,128 shares with a par value of US$0.10 per share. All issued shares are fully paid.

23. Dividends

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

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

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

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

During the years ended 31 December 2017 and 2016, the Group declared and paid dividends in favour of the equity holders of the Company and the non-controlling interests as detailed in the table below.

	2017 RUB'000	2016 RUB'000
Dividends declared to equity holders of the Company	15,014,237	2,218,175
Dividends paid to equity holders of the Company	15,014,237	2,218,175
Dividends declared to non-controlling interest	2,200,000	2,008,575
Dividends paid to non-controlling interest	2,200,000	2,065,107

24. Borrowings

	2017 RUB'000	2016 RUB'000
Current		
Bank borrowings	7,280,588	6,598,226
Total current borrowings	7,280,588	6,598,226
Non-current		
Bank borrowings	9,050,768	9,694,243
Total non-current borrowings	9,050,768	9,694,243
Total borrowings	16,331,356	16,292,469
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	5,727,105	5,499,808
Between 2 and 5 years	3,323,663	4,194,435
	9,050,768	9,694,243

Bank borrowings

Bank borrowings mature by 2022 (2016: by 2021) and bear average interest of 9.38% per annum (2016: 11.02% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2017 and 31 December 2016.

The current and non-current bank borrowings amounting to RUB 4,746,499 thousand and RUB 6,559,101 thousand respectively (2016: RUB 6,598,226 thousand and RUB 9,694,243 thousand respectively) are secured by pledge of rolling stock and tank-containers with a total carrying net book value of RUB 17,963,398 thousand (2016: RUB 30,102,438 thousand) (Note 13). In accordance with the terms of its bank borrowings, the Group had a commitment to pledge rolling stock with a market value of not less than RUB 6,000,000 thousand within 6 months from the date of bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018.

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

	2017 RUB'000	2016 RUB'000
6 months or less	3,635,970	3,593,364
6 to 12 months	3,644,631	3,004,863
1 to 5 years	9,050,755	9,694,242
	16,331,356	16,292,469

Note: The amounts above are based on the earliest of their contractual re-pricing dates and maturity dates

Movements in borrowings are analysed as follows:

	Bank borrowings and loans (excl. overdrafts)	Finance lease	Total
	RUB’000	RUB’000	RUB’000
Year ended 31 December 2016			
Opening amount as at 1 January 2016	20,358,931	129	20,359,060
Cash flows:			
Amounts advanced	9,855,265	-	9,855,265
Repayments of borrowings	(13,943,497)	(87)	(13,943,584)
Interest paid	(2,251,802)	(2)	(2,251,804)
Interest charged	2,273,564	-	2,273,564
Non-cash changes:			
Net foreign exchange	8	(40)	(32)
Closing amount as at 31 December 2016	**16,292,469**	**-**	**16,292,469**
Year ended 31 December 2017			
Opening amount as at 1 January 2017	16,292,469	-	16,292,469
Cash flows:			
Amounts advanced	15,710,000	-	15,710,000
Repayments of borrowings	(15,722,698)	-	(15,722,698)
Interest paid	(1,943,746)	-	(1,943,746)
Interest charged	1,991,826	-	1,991,826
Non-cash changes:			
Other	3,505	-	3,505
Closing amount as at 31 December 2017	**16,331,356**	**-**	**16,331,356**

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

	Carrying amount		Fair value	
	2017	2016	2017	2016
	RUB’000	RUB’000	RUB’000	RUB’000
Bank borrowings	16,331,356	16,292,469	16,646,324	16,569,521
	16,331,356	16,292,469	16,646,324	16,569,521

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

The fair value measurement of the bank borrowings and loans from third parties are within level 2 of the fair value hierarchy (2016: level 2)

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

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

	2017	2016
	RUB’000	RUB’000
US Dollar	-	22
Russian Rouble	16,331,356	16,292,447
	16,331,356	16,292,469

The Group has the following undrawn borrowing facilities:

	2017 RUB'000	2016 RUB'000
Fixed rate:		
Expiring within one year	2,640,000	4,320,000
Expiring beyond one year	16,500,000	16,500,000
	19,140,000	20,820,000

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

	2017 %	2016 %
Bank borrowings	9.4	11.0

25. Deferred income tax

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

	2017 RUB'000	2016 RUB'000
Beginning of year	5,245,331	4,642,708
Income statement charge (Note 11)	662,988	602,623
End of year	5,908,319	5,245,331

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

Deferred tax liabilities	Property, plant and equipment RUB'000	Withholding tax provision RUB'000	Intangible assets RUB'000	Total RUB'000
At 1 January 2016	4,449,624	228,572	473,532	5,151,728
Charged/(credited) to:				
Income statement (Note 11)	725,554	269,558	(166,851)	828,261
Currency translation differences	(4,209)	-	-	(4,209)
At 31 December 2016 / 1 January 2017	5,170,969	498,130	306,681	5,975,780
Charged/(credited) to:				
Income statement (Note 11)	309,021	211,103	(17,174)	502,950
At 31 December 2017	5,479,990	709,233	289,507	6,478,730

Deferred tax assets	Tax losses RUB'000	Trade and other payables RUB'000	Lease liabilities and Borrowings RUB'000	Other assets/ liabilities RUB'000	Total RUB'000
At 1 January 2016	(134,373)	(113,580)	(118,485)	(142,582)	(509,020)
Charged/(credited) to:					
Income statement (Note 11)	115,064	(14,920)	(369,307)	43,525	(225,638)
Currency translation differences	-	-	-	4,209	4,209
At 31 December 2016 / 1 January 2017	(19,309)	(128,500)	(487,792)	(94,848)	(730,449)
Charged/(credited) to: Income statement (Note 11)	(40,599)	45,636	210,865	(55,864)	160,038
At 31 December 2017	(59,908)	(82,864)	(276,927)	(150,712)	(570,411)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred tax assets in the amount of RUR 428,551 thousand (2016: RUR 475,220 thousand) for tax losses amounting to RUR 2,701,554 thousand (2016: RUR 2,994,373 thousand) available to be carried forward as it is not probable that future taxable profits will be available against which these tax losses can be utilised.

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

26. Trade and other payables

	2017 RUB'000	2016 RUB'000
Current		
Trade payables to third parties	707,143	609,153
Other payables to third parties	867,985	715,863
Accrued expenses	85,336	97,163
Accrued key management compensation, including share based payment (Note 30)	523,886	267,354
Advances from customers for transportation services	2,229,306	1,729,928
	4,413,656	3,419,461

	2017 RUB'000	2016 RUB'000
Non-current		
Accrued key management compensation, including share based payment (Note 30)	-	117,890
	-	117,890

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

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

27. Earnings per share

Basic and diluted

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

	2017	2016
Profit attributable to equity holders of the company (RUB thousand)	12,288,777	4,472,817
Weighted average number of ordinary shares in issue (thousand)	178,741	178,741
Basic and diluted earnings per share (expressed in RUB per share) attributable to the equity holders of the Company during the year	68.75	25.02

28. Contingencies

Operating environment

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

Russian Federation.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation. Management believes that its pricing policy used in 2016 and 2017 and preceding years is arm's length and it has implemented internal controls to be in compliance with this transfer pricing legislation.

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

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate.

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

Estonia and Finland

Estonia and Finland represent well-developed markets and economies with stable political systems and developed legislation based on EU requirements and regulations.

Ukraine

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and depreciation of the national currency against major foreign currencies has continued in both 2016 and 2017, though to a much lesser extent as compared to 2014 and 2015.

The year over year inflation rate in Ukraine has slightly decreased to 12.2% during the first half of 2017 (as compared to 12.4% in 2016) while GDP continued to grow at 2% (after 9% decline in 2015).

As at 31 December 2017, the official exchange rate of the Ukrainian Hryvnia against the US dollar was UAH 28.10 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016. In 2017, there has been a further easing of currency control restrictions that were introduced in 2014–2015. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 50% starting from 4 April 2017 and the settlement period for export-import transactions in foreign currency was increased from 90 to 180 days starting from 26 May 2017. In addition, starting from 13 June 2016 Ukrainian companies are permitted to pay dividends to non-residents with a limit of USD 5 million per month.

The IMF has continued to support the Ukrainian government under the four-year Extended Fund Facility ("EFF") Programme approved in March 2015, providing the fourth tranche of approximately USD 1 billion in April 2017. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other factors.

Despite certain improvements in 2016 and 2017, the final resolution and the ongoing effects of the political and economic situation are difficult to predict, but they may have further severe effects on the Ukrainian economy and the Group's business.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2017 and 31 December 2016 (Note 24).

Insurance policies

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

Environmental matters

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

Legal proceedings

During the years ended 31 December 2017 and 31 December 2016, the Company's subsidiaries were involved as a claimants and defendants in a number of court proceedings.

Georgian Railways case

As at 31 December 2017 the Group has outstanding receivable amounting to EUR 2,950 thousand/RUB 203,153 thousand (2016: EUR 3,357 thousand/RUB 214,210 thousand) from Georgian Railways relating to invoices issued for services rendered prior to 1 April 2015. The Georgian Railways dispute the tariffs applied in computing the outstanding balance and thus have not proceeded with the repayment of the amount which remains outstanding. The Group has initiated a claim to the Georgian Court demanding the repayment of the entire balance due as well as additional penalties and interest.

Whereas the Group has not recognised any penalties or interest income on this receivable balance, management considers that the Group will receive the amount outstanding. Based on assessment performed as at 31 December 2017, management recognised a provision for impairment of EUR 285 thousand (2016: EUR 617 thousand) in order to account for the expected time until receipt of the amount due.

The Group issued additional invoices of EUR 1,555 thousand (RUB 102,663 thousand) to Georgian Railways in the intervening period during 2015 that the rail cars remained in Georgia. The revenue arising from these invoices has not been recognised as it was not assessed as probable at that time that future economic benefits would flow to the Group.

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

In March 2016, Georgian Railways have initiated a claim of approximately GEL 16,122 thousand (approximately RUB 370,000 thousand) claiming compensation for storage costs incurred during the period the wagons remain in Georgia plus interest.

In March 2018, the Georgian Court ruled in favor of the Group an amount of US$ 10 million. The Group has not recognised a receivable for the amount awarded as this might not constitute a final decision on the matter.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2017 and 2016 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

29. Commitments

(a) Capital commitments

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

	2017 RUB'000	2016 RUB'000
Property, plant and equipment	-	120,671

(b) Operating lease commitments – Group as lessee

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

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease expenditure charged to the income statement during the years is disclosed in Note 7.

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	280,530	268,231
Later than 1 year not later than 5 years	107,891	139,625
	388,421	407,856

(c) Operating lease commitments – Group as lessor

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	200,975	172,454
	200,975	172,454

Contingent-based rents recognised in the income statement were RUB Nil for the year ended 31 December 2017 (2016: RUB Nil).

30. Related party transactions

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

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

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

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

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2017 RUB'000	2016 RUB'000
Sales of services:		
Associate	484,208	339
	484,208	339

(b) Purchases of goods and services

	2017 RUB'000	2016 RUB'000
Purchases of services:		
Associate	115,820	-
	115,820	-

(c) Key management compensation

	2017 RUB'000	2016 RUB'000
Key management salaries and other short term employee benefits(1)	961,204	681,393
Share based compensation (Note 16)	97,229	77,985
	1,058,433	759,378

(1) 'key management salaries and other short term employee benefits' include directors' remuneration paid to the directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to RUB 130,387 thousand (2016: RUB 131,382 thousand).

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

	2017 RUB'000	2016 RUB'000
Trade receivable from related parties (Note 19):		
Associate	-	1,449
	-	1,449

	2017 RUB'000	2016 RUB'000
Accrued key management remuneration (Note 26):		
Accrued salaries and other short term employee benefits	297,326	239,499
Share based payment liability (Note 16)	226,560	145,745
	523,886	385,244

(e) Operating lease commitments – Group as lessee

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	-	31,136
	-	31,136

Operating lease commitments – Group as lessor

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

	2017 RUB'000	2016 RUB'000
Not later than 1 year	-	99,196
	-	99,196

31. Events after the balance sheet date

In February 2018, New Forwarding Company AO successfully placed a five-year Russian Rouble denominated exchange-traded bond for a total amount of RUB 5 billion, out of RUB 100 billion registered program, priced at a coupon rate of 7.25% p.a..

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

There were no other material post balance sheet events which have a bearing in the understanding of these consolidated financial statements.

Independent Auditor's Report on pages 14 to 22.