Globaltrans

RUSSIA'S LEADING
FREIGHT RAIL GROUP

2008
2018

10 YEAR IPO
ANNIVERSARY
2008-2018

A DECADE OF SUCCESS

THE JOURNEY CONTINUES

Globaltrans Investment PLC
Annual Report 2018

2008 2018

10 YEAR ANNIVERSARY LONDON LISTING

Globaltrans 2008 - 2018, celebrating the 10 year anniversary of listing on the London Stock Exchange.

Summary of presentation of financial and other information

All financial information presented in this Annual Report is derived from the Consolidated Management Report and Consolidated Financial Statements of Globaltrans Investment PLC (the "Company" and, together with its subsidiaries, "Globaltrans" or the "Group") and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 (EU IFRS). The Group's Consolidated Management Report and Consolidated Financial Statements and the Parent Company Financial Statements for the year ended 31 December 2018 are included in the Financial Statements section of this Annual Report. Financial statements for prior years can be found on Globaltrans' corporate website (www.globaltrans.com/download-centre).

The presentational currency of the Group's financial results is the Russian Rouble (RUB), which is the functional currency of the Company as well as of its Cypriot and Russian subsidiaries.

Certain financial information derived from management accounts is marked in this Annual Report with an asterisk (*). In this Annual Report, the Group has used certain "non-GAAP financial information" (i.e. measures not recognised by EU IFRS or IFRS) as supplementary explanations of the Group's operating performance. Information (non-GAAP financial and operating measures) requiring additional explanation or defining is marked with initial capital letters and the explanations or definitions are provided at the end of this Annual Report. Reconciliations of the non-GAAP measures to the closest EU IFRS measures are included in the body of this Annual Report. Rounding adjustments have been made in calculating some of the financial and operational information included in this Annual Report. As a result, numerical figures shown as totals in some tables may not be exact arithmetical aggregations of the figures that precede them.

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

Globaltrans is a leading freight rail transportation group with operations in Russia, the CIS and the Baltic countries, and celebrates 10 years since its IPO on the main market of the London Stock Exchange.

Focused exclusively on the freight logistics sector in Russia, Globaltrans brings sophisticated rail transportation solutions to its clients in the metals and mining, oil and gas and other industrial sectors.

Globaltrans owns one of the largest fleets in Russia, with a Total Fleet of 69,023 units.

"This has been an outstanding year for Globaltrans, building on a decade of progress since we listed on the London Stock Exchange in 2008. These record results demonstrate that we can control costs, generate cash and deliver an industry-leading operational performance. It is this combination that allows us to invest in business development and provide shareholders with attractive returns while keeping our leverage low."

Valery Shpakov, Chief Executive Officer

Read the full review on pages 20 to 23.

This has been an outstanding year for Globaltrans, building on a decade of progress since we listed on the London Stock Exchange in 2008. These record results demonstrate that we can control costs, generate cash and deliver a robust operational performance.

HIGHLIGHTS OF 2018

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

+20%
Year-on-year increase in Average Price per Trip

+7%
Increase in Owned Fleet compared to the end of 2017

+17%
Year-on-year increase in Adjusted Revenue

+28%
Year-on-year rise in Adjusted EBITDA

54%
Adjusted EBITDA Margin
(2017: 50%)

Robust operational performance

- New five-year agreements with TMK and ChelPipe Group successfully under way and delivering benefits(1).
- Operational excellence maintained with Empty Run Ratio for gondola cars at 38%.
- Better pricing reflected in 20% year-on-year rise in Average Price per Trip primarily due to strong gondola market.
- Owned Fleet increased 7% underpinning new long-term contract wins and setting a strong platform for 2019(2).
- Total Fleet at record 69,023 units with share of Owned Fleet now at 95%.

Strong financial results and margin expansion

- Total revenue increased 11% year-on-year to RUB 86.8 billion.
- Adjusted Revenue rose 17% year-on-year to RUB 60.9 billion supported by strong market conditions.
- Operating profit was up 33% year-on-year to RUB 26.9 billion.
- Cost discipline maintained despite inflationary pressures with the rise in Total Operating Cash Costs at 6% year-on-year.
- 28% year-on-year increase in Adjusted EBITDA to RUB 33.1 billion with the Adjusted EBITDA Margin expanding to 54% (2017: 50%).
- Profit for the year rose 42% year-on-year to RUB 19.6 billion.

(1) TMK is a leading global manufacturer and supplier of steel pipes for the oil and gas industry, operating 27 production sites in the United States, Russia, Canada, Romania, Oman and Kazakhstan. ChelPipe Group is a leading Russian manufacturer of pipe products and provider of integrated solutions for fuel and energy companies.

(2) Owned fleet as of the end of 2018 compared to the end of 2017. In 2018, the Group acquired 4,747 units (including 3,862 gondola cars, 481 flat cars and 404 containers) and disposed of 592 units, of which 334 were written off.

The summary below covers the Group's key financial and operating performance indicators. These include Non-GAAP measures that the Group believes are helpful to investors in analysing the Group's performance and are well understood in the freight rail transportation industry.

The key Non-GAAP financial metrics are not a substitute for the IFRS financial information included and discussed in the Financial Review section of this Annual Report.

+19%
Year-on-year increase in Cash generated from operations[(3)]

RUB 12.3bn
Robust Free Cash Flow
(2017: RUB 17.0 billion)

0.56x
Net Debt to Adjusted EBITDA
(end of 2017: 0.44x)

RUB 92.4
Total dividend per share/GDR in respect of 2018 (+3% year-on-year)[(4)]

Strong cash generation and low leverage

- Cash generated from operations[(3)] increased 19% year-on-year to RUB 32.6 billion.
- Free Cash Flow remained robust at RUB 12.3 billion despite the substantial increase in Total CAPEX (RUB 12.9 billion, up 165% year-on-year).
- Leverage held at low level with Net Debt to Adjusted EBITDA at 0.56x (2017 end: 0.44x).
- Nearly 100% of debt is denominated in Rouble, the Company's functional currency.

Attractive dividends delivered above target

- The above target total shareholder payment in respect of 2018 was RUB 16.5 billion or RUB 92.4 per share/GDR[(4)], a 3% increase compared to the total payment in respect of 2017.
- Payouts reflect the dividend policy and the intention to maintain an efficient capital structure and return excess capital to shareholders.
- Ongoing ambition to return excess capital to shareholders with total first half 2019 interim dividend of RUB 8.3 billion targeted[(5)].

(3) After changes in working capital.

(4) Including interim and special interim dividends in respect of the first half of 2018 and final and special final dividends in respect of the second half of 2018. Global Depositary Receipt (GDR).

(5) A total interim dividend (regular and special) of RUB 8.3 billion is targeted in respect of the first half of 2019 provided the current outlook for the sector remains broadly unchanged.

GLOBALTRANS AT A GLANCE

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

The Group provides sophisticated freight rail transportation and logistics services to over 500 customers in key industrial segments such as metallurgical cargoes, oil products and oil, coal and construction materials.

Globaltrans was listed on the London Stock Exchange in 2008, becoming the first freight rail group focused on Russia to join an international stock exchange. The Group's Global Depositary Receipts trade on the Main Market of the London Stock Exchange (ticker symbol: GLTR).

Globaltrans' operating subsidiaries

НОВАЯ ПЕРЕВОЗОЧНАЯ

BaltTransServis

GTI MANAGEMENT

SYNTEZ RAIL

SPACECOM TRANS AS

SPACECOM

НОВА ПЕРЕВІЗНА

(1) All information is for 2018 or at the end of 2018, unless otherwise stated.
(2) Metallurgical cargoes including ferrous metals, scrap metal and ores.

Our business pillars[1]

Large modern fleet

- 69,023 units of Total Fleet with 95% in ownership
- 11 years average age of Owned Fleet
- The core of the fleet consists of universal gondola cars (65%) and rail tank cars (30%)
- Rail tank car business enhanced by unique locomotive capabilities

Powerful operating platform

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

Established blue-chip client base

- Trusted partner to major industrial groups in Russia and the CIS
- Services over 500 corporate clients across the region
- Long-term contracts underpin 60% of Net Revenue from Operation of Rolling Stock
- Strong representation in the key industrial segments:
  – 22% Market Share in metallurgical cargoes[2]
  – 9% Market Share in oil products and oil

Proven strategy delivering sustainable shareholder returns

- Returns-oriented model delivers growth through mix of opportunistic fleet expansion and selective acquisitions
- Focus on shareholder returns with a dividend policy linked to Attributable Free Cash Flow and Leverage aimed at distributing cash not used for business expansion
- Commitment to financial discipline and a strong balance sheet

Over a decade of adherence to best-in-class international governance standards

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

Globaltrans operates at scale and over the last decade has invested significantly in its core business. The Group manages one of the largest, most modern railcar fleets in the industry.

LARGE MODERN FLEET

At the end of 2018, the Group's Total Fleet stood at 69,023 units, split between universal gondola cars (65% of total) and rail tank cars (30% of total). In order to retain maximum operational flexibility and ensure business resilience, Globaltrans seeks to maintain an appropriate balance between the size of its Owned Fleet (95% of total) and the Leased-in Fleet (5% of total). The average age of the Group's Owned Fleet is currently 11 years.

A vigorous, established fleet maintenance and repair programme ensures high levels of fleet reliability, thereby improving operating efficiency and service quality for customers, which in turn drives strong client retention.

Locomotives

Globaltrans operates its own fleet of 69 mainline locomotives which haul block trains and are principally engaged in the transportation of oil products and oil.

69 units

<1% of Total Fleet

Gondola cars

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

44,982 units

65% of Total Fleet

69,023 units
Total Fleet

95%
In ownership

11 years
Average age of Owned Fleet

Rail tank cars

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

20,426 units

30% of Total Fleet

Tank containers

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

2,040 units (1)

3% of Total Fleet

Other rail cars

Globaltrans' other railcars include flat, hopper cars, etc.

1,506 units

2% of Total Fleet

(1) Includes petrochemical and other containers

EFFICIENT OPERATIONAL PLATFORM

The Group's powerful operating platform, built on its industry-leading logistics and route management systems and a deep understanding of clients' requirements, enables it to deliver a best-in-class service to clients.

A single dedicated dispatching centre manages fleet movements, cargo shipments and route-planning 24 hours a day, seven days a week. This sophisticated operation enables precision management of the fleet and inbound and outbound cargo transfers. As a result, Globaltrans benefits from improved operational efficiencies as it can maintain high rolling stock utilisation across the fleet and minimise Empty Runs.

Empty Run Ratio

Globaltrans' Total Empty Run Ratio (for all types of rolling stock), 2014-18

2018	**46%**
2017	45%
2016	48%
2015	51%
2014	51%

Source: Globaltrans

Globaltrans' Empty Run Ratio (for gondola cars), 2014-18

2018	**38%**
2017	37%
2016	38%
2015	39%
2014	38%

Source: Globaltrans

24/7
Dispatching centre

44,982
Total Fleet of gondola cars

Gondola logistics key illustrative routes

ESTABLISHED BLUE-CHIP CLIENT BASE AND STRONG MARKET POSITIONS

Globaltrans is a trusted partner to key industrial blue-chip companies across Russia and the CIS

60%
Net Revenue from Operation of Rolling Stock covered by long-term contracts

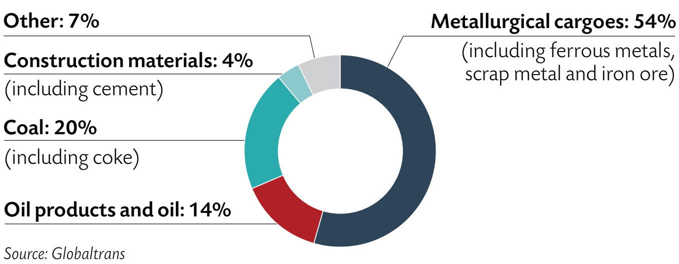
22%
Globaltrans' Market Share of overall Russia's rail transportation volumes of metallurgical cargoes in 2018[(2)]

The Group's reputation is built on providing high-quality, reliable rail logistics for its clients that improve efficiency and reduce costs. It has over 500 industrial clients, largely in the metals and mining, oil products and oil, and construction sectors.

Globaltrans pioneered the concept of long-term outsourcing partnerships for leading industrial groups in Russia and the CIS, whereby it handles a majority of the client's freight rail logistics. This model has proved very successful and in 2018 long-term service contracts represented 60% of Net Revenue from Operation of Rolling Stock.

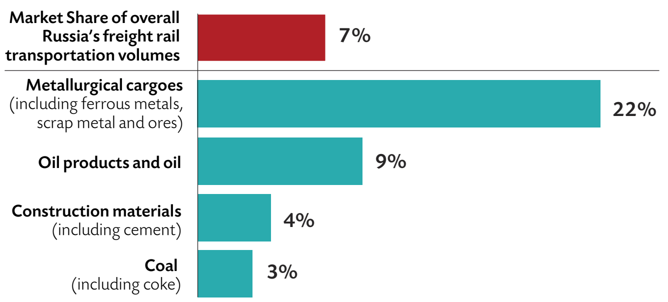
The Group has a strong presence in a number of key industrial cargo segments including metallurgical cargoes (22% Market share) and oil products and oil (9% Market Share).

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2018 (excluding Engaged Fleet)



Source: Globaltrans

Globaltrans' Market Share of overall Russia's freight rail transportation volumes by cargo, 2018[(2)]



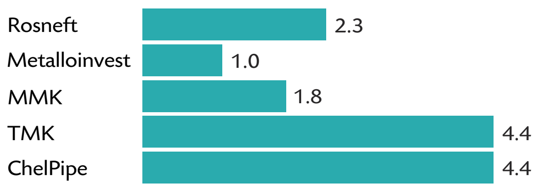
Source: Company estimations, Rosstat

Breakdown of Net Revenue from Operation of Rolling Stock by key clients[(1)], 2018

Rosneft	23%
Metalloinvest	17%
MMK	16%
Gazprom Neft	5%
Evraz	4%
TMK	2%
UGMK-Trans	2%
SDS-Ugol	2%
Severstal	1%
ChelPipe	1%
Other (including small and medium enterprises)	26%

Source: Globaltrans

Remaining period of long-term contracts (years, at end of 2018)



Source: Globaltrans

(1) Including their affiliates and suppliers.

(2) Market Share is calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of Russia as the denominator.
It is defined as a percentage of the overall Russian freight rail transportation volume or freight rail turnover and includes volumes transported by Engaged Fleet, unless otherwise stated.

500+

Globaltrans has over 500 industrial clients, in the metals and mining, oil products and oil, and construction sectors

Reliable partners

Metalloinvest

Andrey Varichev,
General Director of HC Metalloinvest

"Over the last six years, Globaltrans has fulfilled 100% of Metalloinvest's freight transportation needs. This longstanding partnership is a testament to Globaltrans' professional management team, who have significant experience and a deep knowledge of the rail freight sector.

Globaltrans helps Metalloinvest to efficiently transport its products, including iron ore concentrate, pellets, HBI, pig iron and steel, both domestically and for international export.

Globaltrans' excellent reputation and clear focus enables Metalloinvest to overcome any challenges we encounter, while always ensuring we receive the highest quality of service. Our partnership with Globaltrans is something that we truly value."

MAGNITOGORSK IRON & STEEL WORKS

Sergey Nenashev,
Chief Commercial Officer of PAO MMK

"Railway transportation is a very important service to Magnitogorsk Iron and Steel Works ("MMK") as it is key to the success of our business. It provides a secure link between MMK and its vendors and customers and is instrumental in connecting our affiliated companies across the MMK Group.

Globaltrans delivers our steel products to MMK's domestic customers, as well as carrying a variety of our exports. Being a reliable and efficient partner, Globaltrans always promptly responds to our needs and guarantees the level of services we require. Globaltrans' decision to expand its gondola fleet is driving greater efficiency in MMK's logistics, while ensuring our transportation requirements are duly met."

GAZPROM NEFT

Alexander Nevsky,
Head of Logistics and Transport, Gazprom Neft

"Gazprom Neft has worked with Globaltrans since 2004 and throughout that time the Group has proven a reliable business partner, which is essential to a company of our size with our requirements.

The Globaltrans team is exceptionally professional, responsible and able to quickly react to and manage any issues that arise. This long-standing cooperation has enabled us to implement a number of measures and projects in order to improve the efficiency of the transportation process and reduce the delivery time of oil products and oil. We value the high-quality service we receive from Globaltrans and hope to continue our mutually beneficial relationship into the future."

TMK

Mikhail Anenkov,
Deputy General Director, Logistics, PAO TMK

"As a leading global manufacturer and supplier of steel pipes for oil and gas industry, TMK has a broad production and marketing geography, so efficient cargo flow management and a guaranteed supply of rolling stock are among our top priorities.

The five-year service contract we entered with Globaltrans' subsidiary in 2018 has generated tangible benefits for us, making rail transportation of our products much more reliable. Globaltrans' dependability provides TMK with the stability we need both in pricing terms and in effective transportation of our raw materials and finished products."

CHELPIPE GROUP

Boris Kovalenkov,
General Director of ChelPipe Group

"For ChelPipe Group, one of the major domestic producers of piping products, transportation plays a significant role in the development of our manufacturing capabilities.

Thanks to the contract we signed with Globaltrans in 2018, we expect to improve our efficiency in servicing key production sites and ultimately reduce our transportation costs. Globaltrans' unconditional guarantees and ability to meet our needs, however complex, makes long-term planning of shipments easier and enables us to better predict our transportation costs. It also means we can achieve a high degree of adaptability around our internal processes and external transportation needs enabling us to respond to an ever-changing market and economic environment."

STRATEGIC REPORT

ON THE RIGHT TRACK

Directors' Responsibility

Each of the Directors confirms that, to the best of his or her knowledge, the Strategic Report presented on pages 12 to 67 of this Annual Report includes a fair review of the development and performance of the business and the position of Globaltrans Investment PLC and its subsidiary undertakings, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board,

Sergey Tolmachev Director

CHAIRMAN'S STATEMENT

Dear Shareholders,

It was my great privilege to be appointed Chairman in the year that marks the 10th anniversary of Globaltrans' listing on the London Stock Exchange. As one of the founders of the Group, I think it is fitting that I start my report by looking back at the success we have achieved over the past decade.

More than 15 years ago, we had a vision to create a new type of freight rail transportation group that would set new standards for the industry and be the partner of choice for Russian businesses. Moving freight cargo is a complex operation requiring substantial resources and a high level of expertise to meet customers' requirements for round-the-clock flexibility, speed and punctuality. From the very start, we knew that the delivery of superior returns depended on having a top-flight entrepreneurial management team, best-in-class logistics, modern assets, and a clear service proposition. Our success has made Globaltrans the market leader in providing innovative freight solutions in Russia and the CIS. The entrepreneurial spirit and single-minded focus on our stakeholders that defined Globaltrans in its early days remains very much at the heart of the business today.

A decade of delivery

Over the last decade, we have delivered consistent value to our shareholders, proving our ability to outperform through the ups and downs of the economic cycle. Fundamental to our success has been our concentration on profitable growth combined with rigorous cost control and effective capital allocation. Since the IPO, we have made sizeable investments in our fleet. Our Total Fleet is now not only more than two and a half times larger than it was 10 years ago, but it also has a far wider geographical footprint, with higher quality assets and greater capabilities. The impact this has had on the business can be seen in the five-fold increase in the Group's Adjusted EBITDA since 2008 [(1)].

Frankly, our performance since our IPO has been outstanding, and so it is also pleasing to report that the Group excelled in 2018 delivering a record set of results. Revenue, operating profits and earnings per share all increased and our solid cash flow meant that shareholders again benefitted from strong cash dividends. We secured our operational objectives too, diversifying our customer base, signing new long-term partnerships and expanding the fleet to meet the growing demand for our services.

Dividend

Our enhanced dividend policy, first introduced in 2017, continues to deliver for shareholders. The Group's robust free cash flow and low leverage means we can provide shareholders with strong returns while also meeting the demands of our growing business. The Group has returned over RUB 39.5 billion or RUB 221.3 per share/GDR in dividends to shareholders in respect of the last three years [(2)].

Attractive shareholder returns remain a priority for the Group with the intention to return any excess capital not required for business development to shareholders. In respect of 2018, shareholders received generous dividends with a 3% year-on-year increase in aggregate distributions (including interim, final and special dividend payments) of RUB 16.5 billion or RUB 92.4 per share/GDR. This equates to 159% of Attributable Free Cash Flow for the year and aligns with our capital allocation strategy

"More than 15 years ago, we had a vision to create a new type of freight rail transportation group that would set new standards for the industry and be the partner of choice for Russian businesses. Moving freight cargo is a complex operation requiring substantial resources and a high level of expertise to meet customers' requirements for round-the-clock flexibility, speed and punctuality."

5x

Increase in Adjusted EBITDA since IPO in 2008 [(1)]

RUB 221.3

Total dividends per share/GDR paid in respect of the last three years [(2)]

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(1) In RUB terms.

(2) Includes total dividend payments (interim, final and special where applicable) in respect of 2016, 2017 and 2018 financial years.

A DECADE OF DELIVERY

"Over the last decade, we have delivered consistent value to our shareholders, proving our ability to outperform through the ups and downs of the economic cycle."

Sergey Maltsev Chairman, Chief Strategy Officer, co-founder and shareholder

CHAIRMAN'S STATEMENT
continued

which envisages regular dividends in line with our dividend policy as well as special dividends paid in order to ensure Globaltrans' capital structure remains efficient.

This year has begun well and, provided the current outlook for the sector remains broadly unchanged, the Board is targeting a total interim dividend (regular and special) of RUB 8.3 billion for the first half of 2019 as we continue to focus on delivering strong shareholder returns alongside a robust overall performance.

Board and governance

It has been a year of transition for the Board. In April, I took over as Chairman from Michael Zampelas who now serves as Senior Independent Non-executive Director and Chairman of the Nomination Committee. I would like to express the Board's gratitude to Michael for his tireless leadership over the last five years and we look forward to his continuing contribution to the Board.

Our focus on effective governance has, over the last decade, been instrumental in supporting consistent value creation for shareholders. As a Board, we are fully committed to maintaining the Group's high standards of corporate governance. We actively monitor all aspects of the business and work closely with the executive team. We aim to promote a culture of openness and transparency in all our stakeholder dealings. The Board's activities are covered in more detail in the Governance section on pages 68 to 81 which sets out our governance framework and the work of the Board and its Committees.

Summary

Over the past decade, Globaltrans has grown rapidly to become the partner of choice for Russian industry. We have set new standards of reliability, flexibility and customer service and been a strong voice in the development of a competitive rail freight sector in Russia. Our approach continues to set us apart and should deliver further growth opportunities for the Group.

Rail remains the principal means of transporting industrial cargoes in Russia. Given its economic importance, modernisation and expansion of the network will continue to be a priority for the government. This will benefit the freight sector as better and larger rail infrastructure will facilitate more cargo flows. In addition, improved overall rail competitiveness and long-term plans to increase production of key industrial commodities such as coal and metals will drive greater freight volumes and boost demand for freight transportation.

These factors mean that the long-term fundamentals of our industry continue to remain very solid.

Our 2018 performance was the strongest in our history and the Board is confident that the Group remains well-positioned to continue its successful development in 2019 and beyond.

In closing, on behalf of the Board, I want to thank all our employees for their hard work and dedication in making 2018 so successful for Globaltrans. We look forward to working together to deliver another successful decade for all our stakeholders.

Sergey Maltsev
Chairman,
Chief Strategy Officer,
Co-founder and shareholder

"Our 2018 performance was the strongest in our history and the Board is confident that the Group remains well-positioned to continue its successful development in 2019 and beyond."

RUB16.5bn

Total dividend in respect of 2018[1] (+3% year-on-year)

RUB8.3bn

Total dividend targeted in respect of H1 2019[2]

Dividends

Enhanced dividend policy

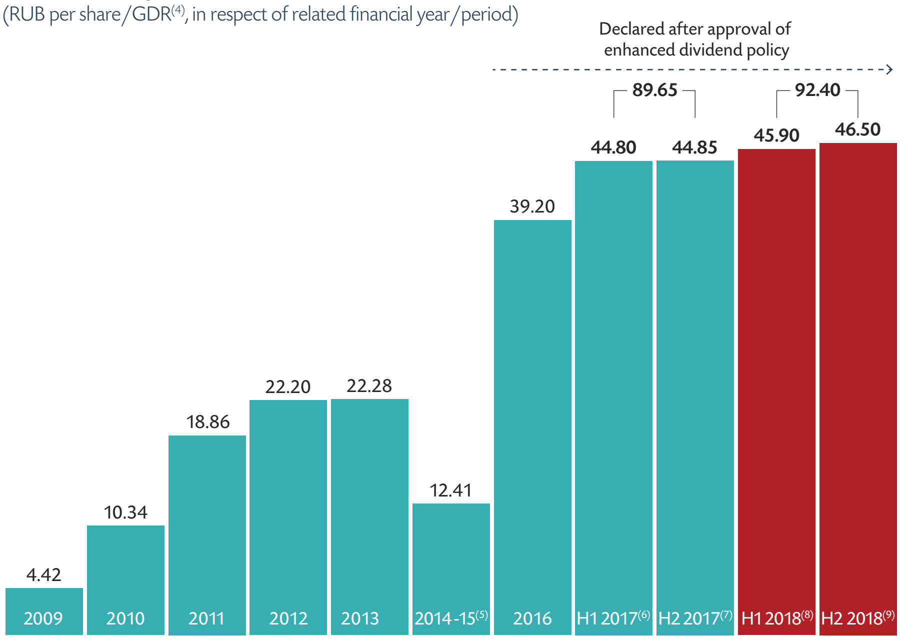
Depending on the actual Leverage Ratio of the Group at the end of each financial year and subject to applicable laws and regulations, and the Articles of Association of Globaltrans, the Board[3] will recommend paying dividends in the amounts of not less than the following proportions of Attributable Free Cash Flow of the Group for such financial year:

Leverage Ratio	Dividends, % of Attributable Free Cash Flow
Less than 1.0x	Not less than 50%
From 1.0x to 2.0x	Not less than 30%
2.0x or higher	0% or more

The full version of the dividend policy *(as adopted by the Board on 31 March 2017 and amended on 24 August 2018)* can be found in the Additional Information section of this Annual Report or on the corporate website: www.globaltrans.com

Dividend history

(RUB per share/GDR[4], in respect of related financial year/period)



Source: Rosstat

(1) Including interim and special interim dividends in respect of the first half of 2018 and final and special final dividends in respect of the second half of 2018.

(2) A total interim dividend (regular and special) of RUB 8.3 billion is targeted in respect of the first half of 2019 provided the current outlook for the sector remains broadly unchanged.

(3) The Board reserves the right to recommend to the general meeting the dividend calculated on a reasonable basis other than described in this Annual Report in its sole discretion. The factors that the Board should consider include, but are not limited to: (i) the Group's needs for business development and strategy implementation purposes; (ii) financial resources for business expansion; (iii) any adverse changes in the regulatory, economic and market environment; (iv) the ability of the Group and its subsidiaries to meet their obligations as they fall due; (v) the availability of distributable reserves at the Group and subsidiary level and (vi) other factors considered important by the Board in light of the current circumstances, including maintenance of the Group's credit ratings.

(4) Prior to 2016, dividends on Globaltrans shares/GDRs were declared and paid in US Dollars, thus the amounts in Russian Roubles are presented for informational purposes only and calculated at the Central Bank of Russia's official exchange rate for the Russian Rouble as of the date of the Annual General Meeting that approved the respective dividend. From 2016, dividends on Globaltrans shares/GDRs are declared in Russian Roubles and paid in US Dollars.

(5) The dividend declared in 2016 related to both the 2014 and 2015 financial years.

(6) Including interim and special interim dividends.

(7) Including final and special final dividends.

(8) Including interim and special interim dividends.

(9) Including final and special final dividends.

Formed in 2004, the following 15 years of successful business development has delivered a consistent and robust performance. We now celebrate a decade on the London Stock Exchange. Globaltrans was the first freight rail transportation group with operations in Russia to have an international listing.

A DECADE OF DELIVERY

>26,000 units
Total Fleet

2008

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

Ukrainian subsidiary is created and leasing businesses in Estonia are acquired.

>37,000 units
Total Fleet

2009

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

50%(1) of BaltTransServis is acquired.

>50,000 units
Total Fleet

2010

Business growth continues with purchases of new rolling stock and the expansion of Leased-in Fleet.

2012

Captive rail operator of Metalloinvest is acquired. First three-year long-term service contract signed with Metalloinvest.

SPO is conducted to finance ongoing growth.

>65,000 units
Total Fleet

2013

Captive rail operator of MMK is acquired. Globaltrans signs five-year long-term contract with MMK.

A single gondola dispatching centre is created.

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

2014

SyntezRail subsidiary is created to develop rail transportation of petrochemicals.

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

2015

2016

Five-year long-term contract signed with Rosneft.

2017

>66,000 units
Total Fleet

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

2018

>69,000 units
Total Fleet

Globaltrans celebrates 10th anniversary of its Main Market listing on the London Stock Exchange.

Five-year contracts signed with TMK and ChelPipe bringing to five the number of key clients serviced under long-term agreements which together contributed 60% of the Net Revenue from Operation of Rolling Stock.

2008 2018

10 YEAR IPO ANNIVERSARY 2008-2018

MEETING STRATEGIC OBJECTIVES

"It has been a busy year for us, involving some big corporate initiatives, so it is testament to our employees that we never lost our focus on successful day-to-day delivery for our customers."

Valery Shpakov Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S REVIEW

Dear Shareholders,

This has been an outstanding year for Globaltrans, building on a decade of progress since we listed on the London Stock Exchange in 2008. These record results demonstrate that we can control costs, generate cash and deliver an industry-leading operational performance. It is this combination that allows us to invest in business development and provide shareholders with attractive returns while keeping our leverage low.

Results highlights

Our results amply demonstrate the success we have enjoyed as a Group during 2018. The Group's Adjusted Revenue was RUB 60.9 billion, which represents a year-on-year increase of 17%. This result reflected a very strong performance from our gondola operations and a rebound in revenues from our oil products and oil business.

We maintained strict control over our costs with Total Operating Cash Costs rising just 6% despite continued solid inflationary pressures. Underlying profitability improved with Adjusted EBITDA increasing 28% year-on-year to RUB 33.1 billion. The Adjusted EBITDA Margin was 54% compared to the 50% achieved in the prior year.

At the same time, cash generated from operations increased 19% to RUB 32.6 billion, reflecting the strong underlying business performance. Free Cash Flow remained robust at RUB 12.3 billion but was lower than the prior year with the good underlying performance partly offset by considerably higher Total CAPEX of RUB 12.9 billion (up 165% year-on-year). This reflected our investment in fleet expansion during 2018 in response to stronger customer demand and new contract wins.

The Group closed the year in a strong financial position. The Net Debt to Adjusted EBITDA ratio increased slightly but remained low at 0.56 times compared to 0.44 times as of the end of 2017, mostly due to the significantly increased capital expenditures.

Market overview

In Russia as a whole, industrial production grew 2.9% year-on-year in 2018. As rail dominates the movement of freight in Russia, the economic performance of the country was matched by the rail industry's performance. Overall Russia freight rail turnover grew 4% year-on-year with transportation volumes rising 2% year-on - year, the fifth year in a row that turnover has increased.

As in 2017, it was the bulk cargo segment that drove the market growth in volumes, principally the coal and metallurgical cargo categories. Coal volumes (including coke) grew 4% year-on-year, while metallurgical volumes (including ferrous metals, scrap metal and ores) posted another good year rising 5% year-on-year. The oil products and oil sector consolidated its recovery with freight volumes increasing slightly (+0.4%) compared to the previous year.

The general pricing environment for freight rail services remained firm, characterised by the strong dynamics in the gondola segment. Despite the commissioning of additional gondola cars, solid growth in bulk cargo transportation volumes supported pricing in the gondola market. In the rail tank car segment, steady volumes and a reduction in rail tank fleet capacity contributed to a slightly improved pricing environment.

"Our results amply demonstrate the success we have enjoyed as a Group during 2018. The Group's Adjusted Revenue was RUB 60.9 billion, which represents a year-on-year increase of 17%. This result reflected a very strong performance from our gondola operations and a rebound in revenues from our oil products and oil business."

RUB 33.1bn

Adjusted EBITDA in 2018, an increase of 28% year-on-year

54%

Adjusted EBITDA Margin in 2018 (2017: 50%)

CHIEF EXECUTIVE OFFICER'S REVIEW
continued

Our performance

It has been a busy year for us, involving some big corporate initiatives, so it is testament to our employees that we never lost our focus on successful day-to-day delivery for our customers.

We achieved a number of important milestones in line with our business priorities. We secured several significant new outsourcing deals. We signed a five-year contract with TMK, a leading global manufacturer and supplier of steel pipes to the oil and gas industry, and we also signed a five-year contract with ChelPipe Group, a leading Russian manufacturer of pipe products. For these two companies we now cover at least 70% of their transportation needs, a significant increase in volumes supported by the sizeable increase in our fleet capacity. These new agreements were successfully set in motion with the combined volumes from both contracts increasing 40% in the second half compared to the first half of 2018.

Globaltrans was the first company to identify how important outsourcing would become. These agreements are the backbone of our business demonstrating the strong partnership-based ethos we have with our customers. Long-term partnerships now account for 60% of the Group's Net Revenue from Operation of Rolling Stock.

Alongside building partnerships with large international companies, another priority has been to grow our links with small and medium-sized enterprises ("SMEs").

Our customer-focused model means we can offer SMEs freight solutions that uniquely target their needs. The SME sector is the seedbed for entrepreneurial growth companies and we see a good opportunity to build lasting relationships with these companies. Our approach has gained solid traction over the past several years and in 2018 our share of the SME freight rail transport segment was 26% compared to 22% in 2013.

In the reporting year, we managed to achieve further solid growth in average pricing. The Group's Average Price per Trip was up 20% year-on-year on the back of a favourable pricing environment in the bulk cargo segment and steadier trading conditions in oil products and oil segment, underpinned by our solid operational capabilities and high-quality service offering.

Operationally, we saw our business volumes in the bulk cargo segment temporarily under pressure. This was the result of the deliberate substitution of expensive leased-in capacity with newly acquired gondola cars, as well as changes to client logistics patterns and a reduction in average speeds on the RZD rail network caused by ongoing major rail infrastructure modernisation projects. The fleet rebalancing was completed in 2018 with significant investments made in additional gondola capacity to support business performance in 2019.

Our business volumes in the oil products and oil sector began to grow over the course of 2018, supported by stabilised demand and a larger fleet in operation as we transferred some of our leased-out capacity into operation in response to stronger customer demand.

In 2018, we again worked very hard to maintain our reputation for efficiency and continuous improvement. In the reporting year, we maintained our Empty Run Ratio for gondola cars at the industry-leading level of 38%, in line with the average for the last five years.

Capital expenditures

We aim to deliver sustainable long-term growth through the economic cycle. To achieve this we continuously optimise our assets in order to grow the business, deliver for clients and maintain our operational flexibility. In 2018 we expanded our Owned Fleet to meet growing market demand and to service our new contracts. We intentionally substituted the use of expensive leased-in gondola units with owned rolling stock. In total, we added 4,747 units, up from our initial target of 3,900. Of these additional units, 3,862 units were gondola cars and the balance was made up of flat cars and related specialised containers. The net effect of our rebalancing is that we closed out the year with our Owned Fleet up 7% to 65,405 units and our Total Fleet reached a record level of more than 69,000 units. As a result, our Total CAPEX in 2018, including maintenance CAPEX, was RUB 12.9 billion, 165% above the previous year's level.

"In summary, we have excellent assets, a strong and growing customer base, a robust balance sheet and a highly experienced management team. Over the decade since its IPO, Globaltrans has grown to become the leading independent freight rail operator in Russia."

38%
Empty Run Ratio for gondola cars in 2018 (2017: 37%)

0.56x
Net Debt to Adjusted EBITDA at the end of 2018 (end of 2017: 0.44x)

Sustainability

As a Group, we continue to pursue our goal of operating sustainably and ensuring we play a positive role in the communities where we operate. This includes providing a work environment that our employees value so that they develop and grow with us. We have again provided a report on our Corporate Social Responsibility ("CSR") activities and accomplishments during the year available on pages 60 to 67, where you will see the significant progress we are making in this area. You can rest assured of our commitment to move forward to provide even greater focus on this in future.

Outlook

This year has begun well. By expanding our fleet during 2018 to support our new contract wins, we have set a strong platform as we head into 2019.

Scale in the gondola market is critical as it enables freight rail operators to achieve crucial efficiencies for clients and the business. We have selectively increased our fleet in order to meet growing demand and our near-term priority is to ensure that we manage our assets effectively to meet the ongoing needs of our customers while retaining a cost-effective operation. In 2019, we will adapt fleet management to meet changed client logistics patterns and demand on the more profitable routes. This is likely to result in an increased Empty Run Ratio for gondola cars to over 40% which is reflected in the commercial terms with clients.

Given our strict returns-based criteria for asset purchases, we will remain very prudent in how we allocate our capital, balancing between investing in value-accretive assets and returning excess capital to shareholders in the form of dividends. Our plan for 2019 is to focus on further development of niche projects with a combined acquisition of about 1,500 flat cars and specialised containers anticipated. Gondola car investments are expected to be limited, demand-led and subject to prices for new rolling stock. For the purpose of locomotive fleet modernisation, we are also planning to purchase up to 10 new diesel locomotives over the course of this year.

In summary, we have excellent assets, a strong and growing customer base, a robust balance sheet and a highly experienced management team. Over the decade since its IPO, Globaltrans has grown to become the leading independent freight rail operator in Russia. The industry fundamentals remain strong, and as we enter our second decade, I am confident we can make further progress in 2019 and beyond.

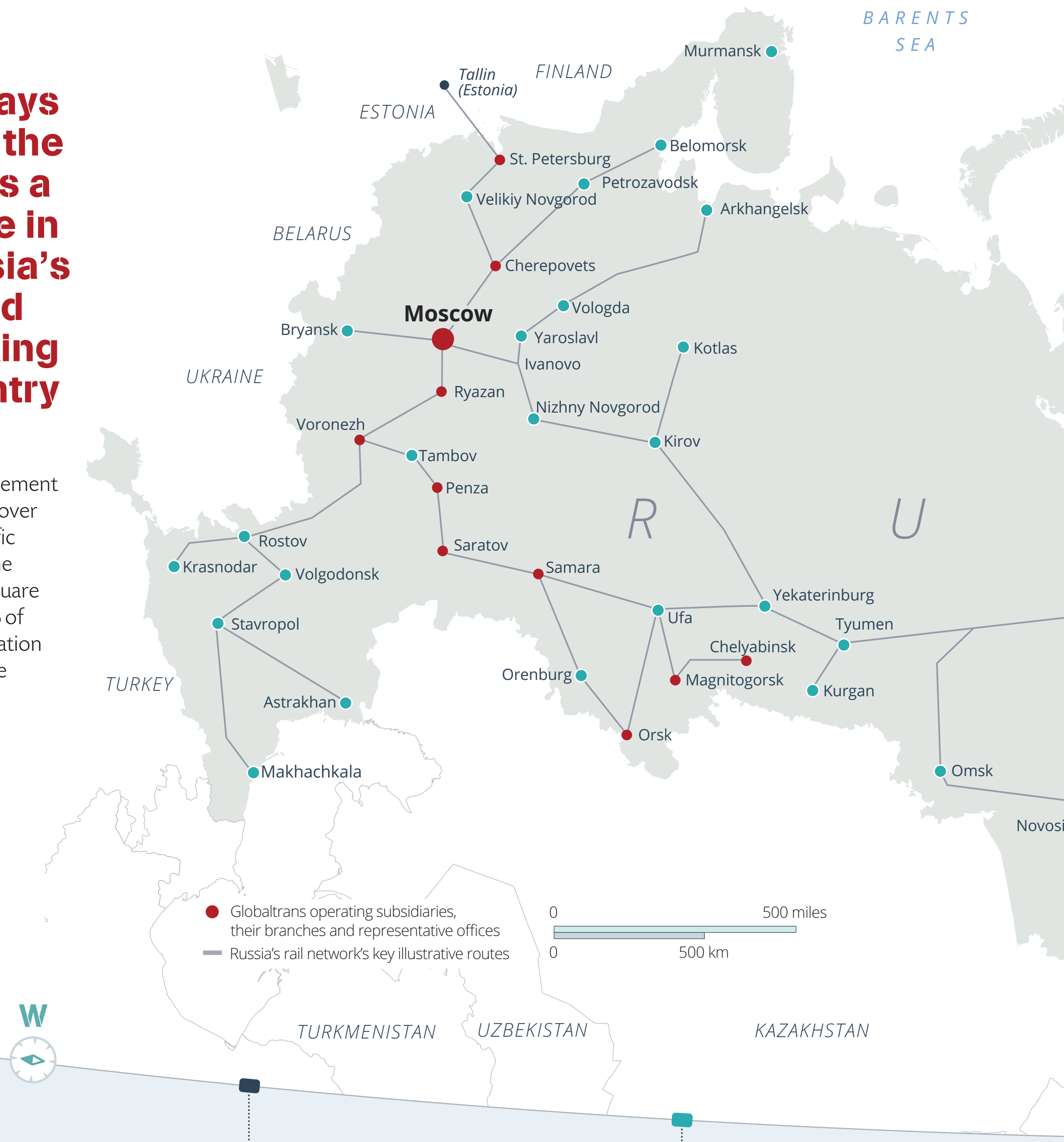
Valery Shpakov
Chief Executive Officer

MARKET REVIEW

Russia's rail network at a glance

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

Rail plays an integral part in the movement of freight in Russia. Russia stretches over a vast territory from the North Pacific to the Baltic Sea and extending to the Arctic Ocean. It covers 17 million square kilometres, which is more than 10% of the Earth's land mass. Rail transportation is therefore a vital component of the Russian economy.



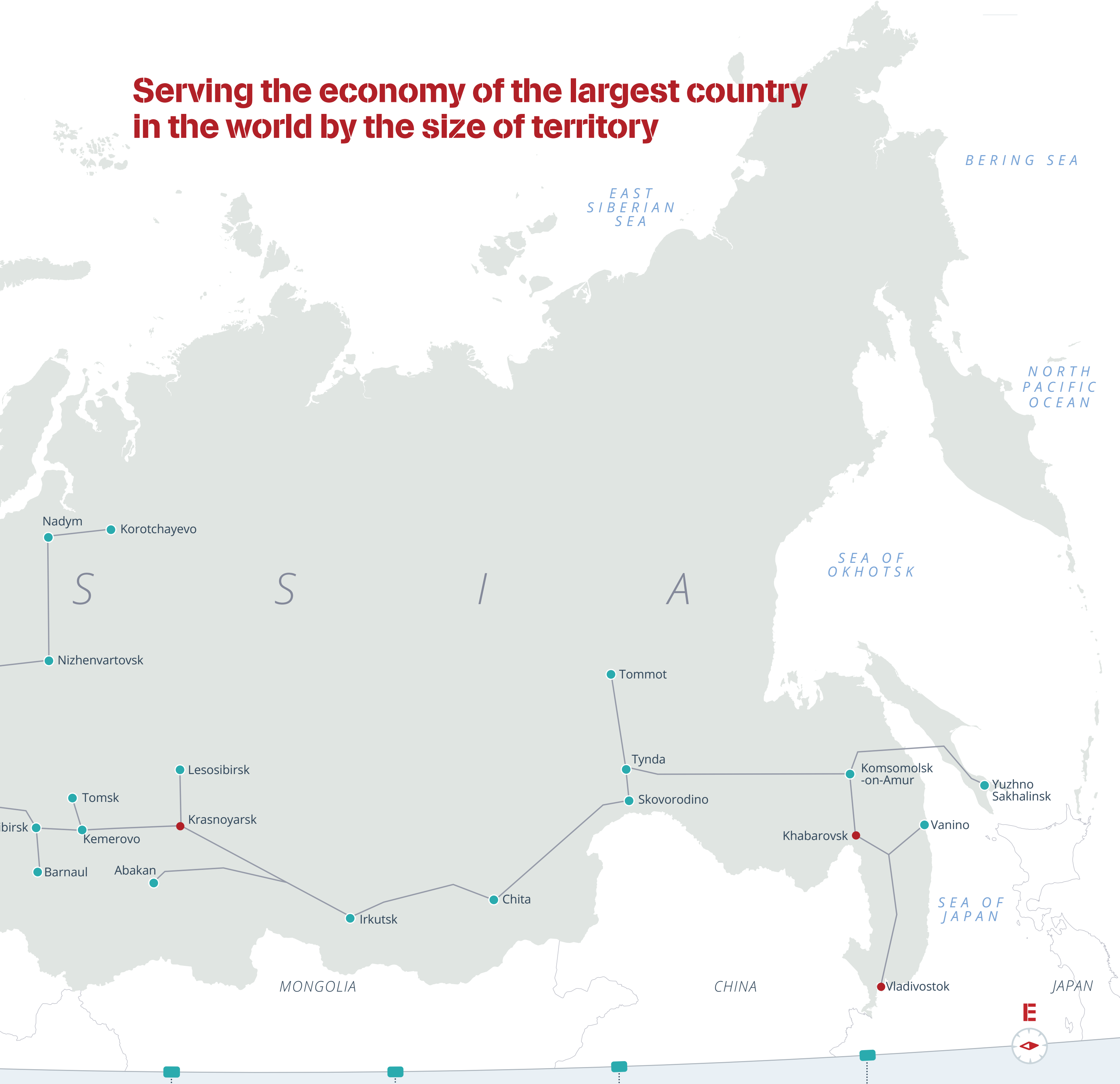
17mln
Russia covers 17mln square kilometres, which is more than 10% of the Earth's land mass

10,000km
Served from east to west

4,000km
Served from north to south

85,000km
Second-longest rail track in the world

Serving the economy of the largest country in the world by the size of territory



87%
About 87% of the country's overall freight turnover, excluding pipeline traffic, travels by rail

2.6tn
Overall freight rail turnover in 2018 (tonnes-km)

1.3bn
Freight transported in 2018 (tonnes)

1.1mln
Number of freight railcars operating at the end of 2018

MARKET REVIEW
continued

Market backdrop remains positive with further rise in demand

- Total freight rail turnover in Russia rose 4% year-on-year in 2018 with transportation volumes up 2% year-on-year.
- Bulk cargoes again drove growth in 2018 largely on the back of increased transportation volumes of coal (up 4% year-on-year) and metallurgical cargoes (up 5% year-on-year)[(1)]. Strong customer demand and tight gondola availability supported continued favourable pricing conditions in the gondola segment.
- The segment for rail transportation of oil products and oil stabilised with volumes slightly higher than the previous year. The market continues to benefit from the scrappage of old capacity combined with a very low level of new additions. The pricing environment in this segment improved slightly.

Russia is a vast country with a large economy and it is heavily reliant on the rail transportation network to keep the economy operating efficiently.

Its 85,000km rail network stretches from the Baltic to the Pacific, making it one of the largest in the world. Rail transports nearly 87% of all Russia's freight turnover, excluding pipelines, and is the world's third largest market in terms of freight rail turnover. Its strategic importance for Russia's economy continues to grow which further cements its status as one of the world's foremost freight rail markets. Within this market, Globaltrans is one of the leading freight rail operators enjoying a strong market position and a comprehensive operating presence across Russia and the CIS.

In 2018, the Russian economy continued its recent steady expansion. After recording gross domestic product ("GDP") growth of 1.6% in 2017, Russia's economy grew again in 2018, expanding by 2.3% year-on-year. This improvement was matched by a solid industrial performance, which saw industrial production accelerate by 2.9% year-on-year (2.1% year-on-year increase in 2017). As a result, Russia's rail freight sector enjoyed another excellent 12 months, with freight turnover and volumes both growing strongly. Total Russian freight rail turnover jumped 4% year-on-year, reaching a ten-year high of 2,597 billion tonnes-km in 2018. Overall, the network carried 25 million tonnes of additional cargo in 2018, driving 2% growth in freight transport volumes to 1,292 million tonnes for the year.

At the year-end, Russia's fleet of rolling stock comprised about 1.1 million units, of which gondola cars accounted for 47% of the total or around 525,000 units and rail tank cars for 22% or around 245,000 units[(2)]. The share of other railcars (including flat, hopper cars, etc.) was about 31%.

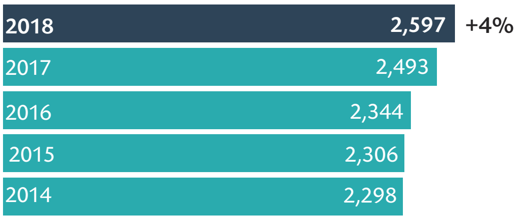
> **"Rail transports nearly 87% of all Russia's freight turnover, excluding pipelines, and is the world's third largest market in terms of freight rail turnover."**

(1) Coal including coke; metallurgical cargoes including ferrous metals, scrap metal and ores.
(2) RZD, Company estimations.

+4%
Year-on-year increase in overall Russia's freight rail turnover in 2018

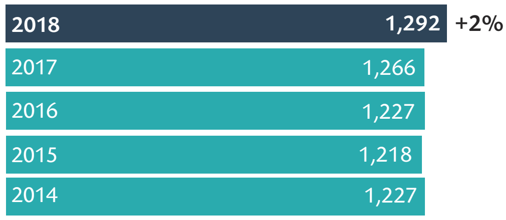
+2%
Year-on-year increase in overall Russia's rail transportation volumes in 2018

Russia's freight rail turnover, 2014-18 (billion tonnes-km)



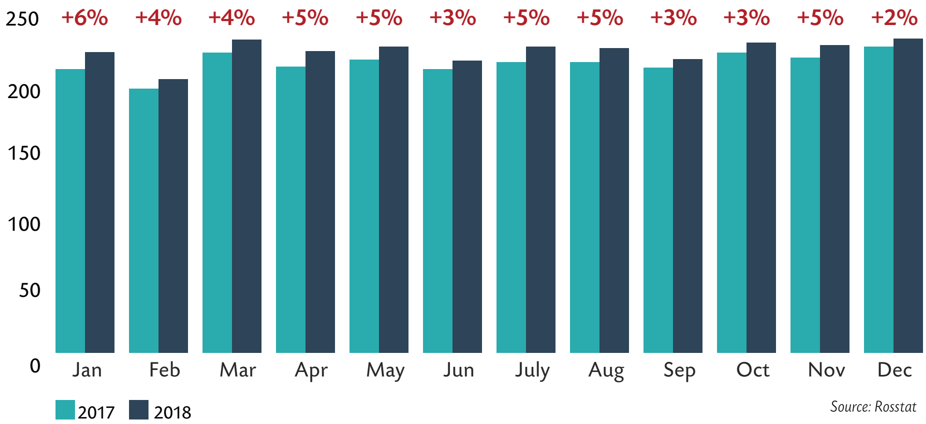
Source: Rosstat

Russia's freight rail transportation volumes, 2014-18 (million tonnes)



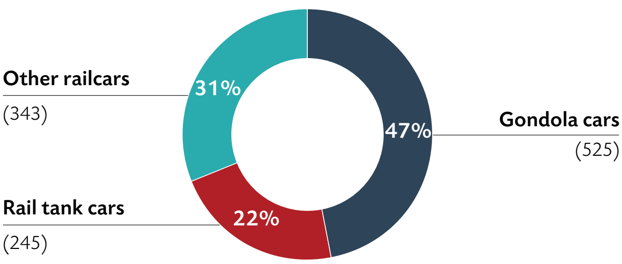
Source: Rosstat

Russia's monthly freight rail turnover, 2017-18 (billion tonnes-km)



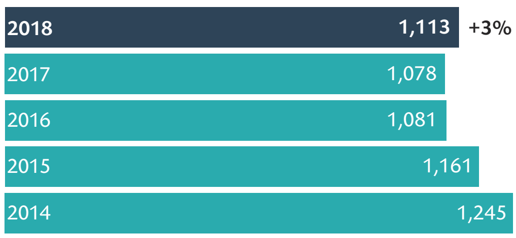
Source: Rosstat

Total Russia's railcar fleet by car type, at end of 2018 (thousand units)



Source: RZD, Company estimations

Total Russia's railcar fleet at year-end, 2014-18 (thousand units)



Source: RZD, Company estimations

MARKET REVIEW
continued

Bulk cargoes drive growth

In cargo terms, the bulk cargo segment was the best performer, benefitting from greater export levels as global demand for Russian commodities remained firm.

This in turn underpinned demand for gondola cars, which are the mainstay of Globaltrans' operations. In bulk cargoes, as in 2017, coal and metallurgical cargoes retained the largest positions in terms of volumes and were also among the biggest contributors to market growth during 2018.

Metallurgical cargoes, which is Globaltrans' largest cargo segment, benefitted from a continuance of robust global and domestic market conditions. Aggregate metallurgical transport volumes, including the transportation of ferrous metals, scrap metal and ores grew 5% year-on-year to 231 million tonnes. Iron ore (including manganese ore) and ferrous metals both registered significant year-on-year volumes with increases of 6% and 7% respectively, while scrap metal was up 1%. Metallurgical cargoes accounted for 18% of overall Russian freight rail transportation volumes during 2018, making it the second most important bulk cargo segment behind coal.

Coal (including coking coal) remains the biggest cargo by volume, accounting for 30% of overall Russia's freight rail transportation volumes in 2018. Rising global demand pushed up thermal coal prices, stimulating Russian exporters to increase production. This marked a continuation of coal's strong recent demand dynamics. Total coal rail shipments increased 4% year-on-year to 386 million tonnes.

Construction materials (including cement) contributed 12% of Russia's overall freight rail transportation volumes in 2018. Rail shipments of construction materials actually declined 7% year-on-year to 149 million tonnes, largely reflecting a shortage of available gondola cars.

In response to robust bulk cargo dynamics, the industry expanded total gondola capacity in 2018 by about 7%, or about 33,000 units to 525,000 gondola cars(1). These additional units and their added capacity were fully absorbed into operations on the back of continued solid demand.

Oil products and oil sector stabilised

The oil products and oil segment maintained its stable profile in 2018 with volumes broadly flat for the period at 237 million tonnes, an increase of 0.4% year-on-year.

Rail shipments of oil products and oil accounted for 18% of overall freight rail transportation volumes in 2018. Globaltrans has been historically active in this sector and, with a number of oil majors as clients, it continues to be an important freight segment for the Group.

In 2018, the market saw continued scrappage of old rail tanks combined with a very low level of new additions. The net capacity decline was about 6,000 units or 2% year-on-year, bringing the total rail tank car fleet to 245,000 units as of the end of reporting year(1). Furthermore, in 2018 the rail tank market saw a slight recovery in pricing and continued to show signs of stability.

"Metallurgical cargoes, which is Globaltrans' largest cargo segment, benefitted from a continuance of robust global and domestic market conditions."

(1) *RZD, Company estimations, net capacity change.*

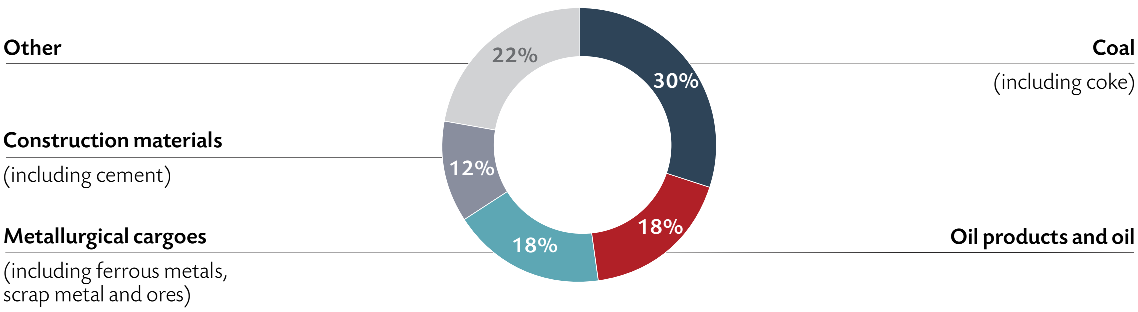
+5%

Year-on-year increase in overall Russia's rail transportation volumes of metallurgical cargoes in 2018

+4%

Year-on-year increase in overall Russia's rail transportation volumes of coal in 2018

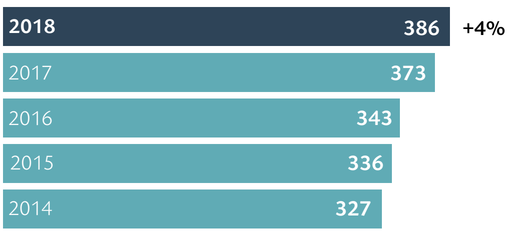
Breakdown of Russia's freight rail transportation volumes by cargo, 2018



Source: Rosstat

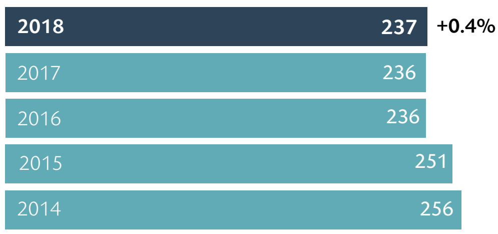
Russia's freight rail transportation volumes by cargo, 2014-18 (million tonnes)

Coal (including coke)



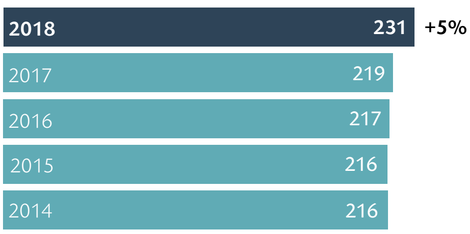
Source: Rosstat

Oil products and oil



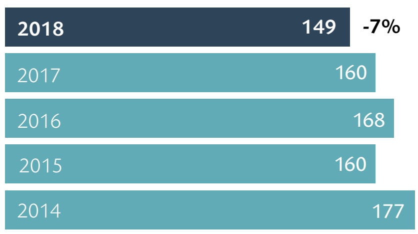
Source: Rosstat

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



Source: Rosstat

Construction materials (including cement)



Source: Rosstat

BUSINESS MODEL AND STRATEGY

Solid fundamentals, clear objectives

Our vision is to maintain our position as a leading independent freight rail group with operations in Russia and the CIS and the partner of choice for blue-chip industrial customers.

Our strategy and business model

Our strategy is to deliver long-term sustainable value creation to our shareholders, which we believe also benefits our customers, employees and other stakeholders. We are achieving this by continuing to be entrepreneurial, prudent and disciplined, and focused on innovation and efficiency while adhering to our proven business model.

Our business model is flexible yet disciplined. Our structured operating framework enables management to reconcile short-term tactical decision-making with the long-term strategic requirements of the Group.

We operate one of the largest modern fleets in Russia, enjoying strong positions in key industrial segments. Our scale and reach means we can service our customers' transport needs across the entire territories of Russia and the CIS countries. Our commercial focus is to maintain and further develop long-term relationships with our customers that provide them with cost-effective outsourcing solutions and enable us to extract maximum value from our fleet.

We work hard to maintain our reputation for efficiency and continuous improvement. Our consistent focus on operational efficiency enables us to operate with industry-leading Empty Run Ratio and provide a reliable service. These features together with a deep understanding of our customers' businesses are our competitive advantage, helping us retain and expand our best-in-class customer base.

Our approach to investments remains opportunistic and disciplined and we respond to the opportunities in our industry through a combination of careful organic growth, investments in new value-added niches within the freight rail market and selective M&A. We allocate our capital prudently, balancing between investments into attractive opportunities and capital returns to shareholders in the form of regular and special dividends.

Having a strong balance sheet is fundamental to ensuring we can maintain our success through the economic cycle and remain flexible in managing changes to the business and market environment.

This vision is underpinned by a core set of common values across our business

Deliver excellence
We want to deliver excellence in everything that we do

Value customers
They are at the heart of our business and we work hard to exceed their expectations

Prioritise safety
Safety is our number one priority and we act safely and responsibly at all times

Respect people
We respect the rights of all employees and invest in their training and development

Uphold good governance
We take decisions that benefit all shareholders

Strategic priorities

Retain a solid business profile

- Maintain a large modern fleet
- Focus on long-term contracts
- Retain core blue-chip clients
- Broaden customer base

Operational excellence

- Increase efficiency where possible
- Invest in people
- Continue to prioritise client service
- Focus on innovation and technology

Maintain a strong financial position

- Maintain a prudent approach to capital allocation
- Retain an efficient balance sheet

Generate sustainable returns

- Maintain a disciplined opportunistic approach to investment
- Expand into new value-added niches in the freight rail market
- Retain a Dividend Policy linked to Attributable Free Cash Flow and Leverage
- Return excess capital not required by the business to shareholders in the form of special dividends while maintaining a strong balance sheet

Promote strong governance culture

- Observe international governance standards
- Prioritise well-balanced Board with strong independent representation
- Ensure the business continues to act responsibly

Key financial results (2016-18)

Adjusted Revenue (RUB mln)

2018	60,859	+17%
2017	52,094	
2016	44,249	

Adjusted EBITDA (RUB mln)

2018	33,070	+28%
2017	25,789	
2016	17,677	

Adjusted EBITDA Margin (%)

2018	54
2017	50
2016	40

Net Debt to Adjusted EBITDA (at year-end)

2018	0.56
2017	0.44
2016	0.65

Total dividend (RUB per share/GDR)(1)

2018	92.40	+3%
2017	89.65	
2016	39.20	

Source: Globaltrans

(1) Total dividends (including interim, final and special where applicable) in respect of declared financial year.

OPERATIONAL PERFORMANCE

Globaltrans continued its solid performance in 2018 on the back of supportive industry fundamentals. Against this backdrop, management's principal operational objective was to carefully expand the operating platform to meet the growth in client demand. At the same time, we focused on strengthening our client relationships by executing as effectively as possible and delivering a superior service, which helped drive incremental growth. We added to our long-term contract base, and actively invested in fleet expansion.

Robust operational performance with extended portfolio of long-term contracts, increased average pricing and sizeable rise in Owned Fleet

New long-term contracts are already delivering benefits

- New five-year contracts signed with TMK(1) and ChelPipe Group(2), which are both leading manufacturers of pipe products.
- Both contracts envisage significant increases in serviced volumes to 70% of each client's freight rail transportation needs and perfectly complement Globaltrans' logistics patterns.
- Operations with both clients sizeably expanded since start of contracts with combined volumes for both clients up 40% in the second half of 2018 compared to the first half of the same year.
- 60% of Net Revenue from Operation of Rolling Stock was contributed by long-term contracts in 2018 (Rosneft, Metalloinvest, MMK, TMK and ChelPipe Group).

Continued strong pricing

- Better pricing reflected in 20% year-on-year rise in Average Price per Trip to RUB 41,859 primarily due to the strong gondola market and slightly improved pricing in the rail tank car segment.

Increased fleet underpins new contracts, setting strong platform for 2019

- Owned Fleet increased 7% compared to the end of 2017 to 65,405 units with Total Fleet at a record 69,023 units.
- 4,747 units (mostly gondola cars)(3) were acquired in 2018 compared to 1,332 units in the previous year with all additional units put into operation during 2018.
- Fleet rebalancing successfully completed with purchases of gondola cars over 2018, more than offsetting a reduction in expensive leased-in gondola fleet. Share of Owned Fleet rose to 95% compared to 92% at the end of 2017.

Operational excellence maintained

- Empty Run Ratio for gondola cars stood at 38% (2017: 37%) with Total Empty Run Ratio at 46% (2017: 45%).
- Share of Empty Run Kilometres paid by Globaltrans rose to 89% (2017: 86%) due to changes in logistics patterns of some clients.

Transportation Volumes and Freight Rail Turnover came under pressure (down 4% and 9% year-on-year respectively)(4) impacted by the gondola fleet rebalancing, changed client logistics and a reduction in average speeds on the Russian Railways ("RZD") rail network

- Bulk cargo volumes affected by a temporary 2% year-on-year reduction in the average gondola fleet operated (due to intentional substitution of expensive leased-in gondola cars with newly acquired units commissioned in 2018).
- Changed client logistics contributed to a 4% year-on-year reduction in Average Distance of Loaded Trip.
- Average Number of Loaded Trips per Railcar decreased 4% year-on-year largely due to a reduction in average speeds on the RZD rail network over the course of 2018, caused by ongoing major rail infrastructure modernisation projects.

Improved performance of oil products and oil segment

- The rail tank fleet in operation was increased by transferring some leased-out units into operation and increasing the number of leased-in rail tank cars.
- Freight Rail Turnover(4) and Net Revenue from operation of rail tank cars increased 3% and 12% year-on-year respectively.

(1) TMK is a leading global manufacturer and supplier of steel pipes for the oil and gas industry, operating 27 production sites in the United States, Russia, Canada, Romania, Oman and Kazakhstan.

(2) ChelPipe Group is a leading Russian manufacturer of pipe products and provides integrated solutions for fuel and energy companies.

(3) In 2018, the Group acquired 4,747 units (including 3,862 gondola cars, 481 flat cars and 404 containers) and disposed of 592 units, of which 334 were written off.

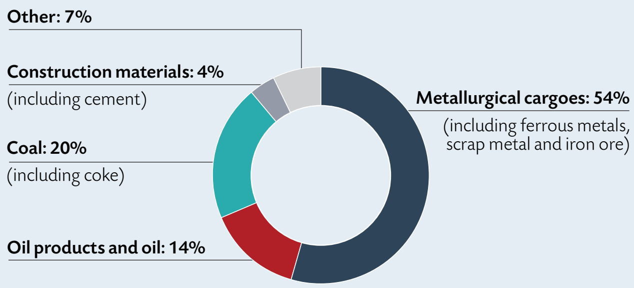
(4) Excluding Engaged Fleet.

Key operational information, 2017-18

	2017	2018	Change, %
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	160.1	**146.2**	-9%
Transportation Volume, million tonnes (excluding Engaged Fleet)	91.9	**88.5**	-4%
Freight Rail Turnover, billion tonnes-km (including Engaged Fleet)	178.2	**158.9**	-11%
Transportation Volume, million tonnes (including Engaged Fleet)	101.1	**96.0**	-5%
Average Price per Trip, RUB	34,790	**41,859**	20%
Average Rolling Stock Operated, units	53,584	**53,562**	0%
Average Distance of Loaded Trip, km	1,720	**1,644**	-4%
Average Number of Loaded Trips per Railcar	26.7	**25.6**	-4%
Total Empty Run Ratio, %	45%	**46%**	–
Empty Run Ratio for gondola cars, %	37%	**38%**	–
Share of Empty Run kms paid by Globaltrans, %	86%	**89%**	–
Total Fleet, units (at year-end), including:	66,692	**69,023**	3%
– Owned Fleet, units (at year-end)	61,250	**65,405**	7%
– Leased-in Fleet, units (at year-end)	5,442	**3,618**	-34%
Leased-out Fleet (at year-end)	9,080	**7,627**	-16%
Average age of Owned Fleet, years (at year-end)	11.1	**11.0**	–
Total number of employees (at year-end)	1,594	**1,549**	-3%

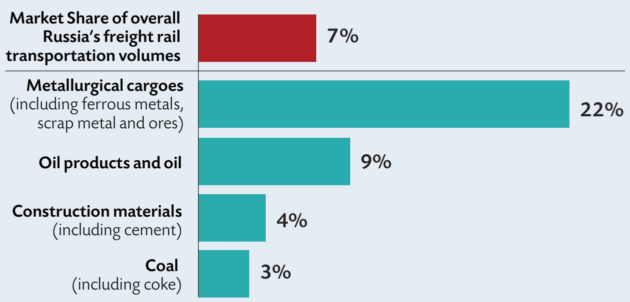
Source: Globaltrans

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2018 (excluding Engaged Fleet)



Source: Globaltrans

Globaltrans' Market Share of overall Russia's freight rail transportation volumes by cargo, 2018 [1]



Source: Company estimations, Rosstat

(1) Market Share is calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of Russia as the denominator. It is defined as a percentage of the overall Russian freight rail transportation volume or freight rail turnover and includes volumes transported by Engaged Fleet, unless otherwise stated.

OPERATIONAL PERFORMANCE
continued

New long-term contract wins

Central to the Group's success in recent years was the recognition that with the further development of the industry, major customers would require a greater degree of strategic cooperation. We pioneered the introduction of long-term outsourcing contracts harnessing our wide geographical presence, modern asset base and reputation for operational excellence to secure our first important contract with Metalloinvest, a leading global producer and supplier of HBI and iron ore products, and a regional producer of high quality steel, in 2012.

Since then we have expanded our long-term contracting base, as other clients have recognised that our integrated partnership model creates a win-win for both parties. Consolidating transportation spend means the client gains through greater operational and cost efficiencies while Globaltrans secures for itself predictable recurring transport volumes and logistics patterns.

In 2018, we added to our reputation announcing two important long-term contracts in the metallurgical industry.

We signed separate five-year contracts with TMK, a leading global manufacturer and supplier of steel pipes for the oil and gas industry, and with ChelPipe Group, a major Russian producer and supplier of steel tubes and pipes to the energy sector. Contractually, it means that Globaltrans is set to manage at least 70% of each client's total freight transport volumes compared to about 30-40% in the past. Operations with both clients sizeably expanded since the start of the contracts with combined volumes for both clients up 40% in the second half of 2018 compared to the first half of the same year.

Today our long-term partnership portfolio consists of five leading businesses: Metalloinvest, MMK, TMK and ChelPipe Group in the metallurgical segment and Rosneft in the oil products and oil sector. Together, these contracts, of which the older ones have been rolled over at least once, contributed about 60% of the Group's Net Revenue from Operation of Rolling Stock in 2018. Globaltrans has earned a reputation for providing a consistently high-quality and reliable service, which is another important plank of our operating model.

Overall, our 10 largest clients (including their affiliates and suppliers) accounted for 74% of the Group's Net Revenue from Operation of Rolling Stock in 2018. As well as those previously mentioned, major clients include well-respected companies like Gazprom Neft, Evraz, UGMK-Trans, SDS-Ugol, and Severstal, among others.

We constantly look to expand and improve our service offering as well as increase the level of predictability and visibility for our customers. Currently we service a customer base of over 500 businesses across Russia and the CIS. Over the last several years we successfully increased our exposure to the important small and medium-sized business sector. This initiative forms part of our drive to diversify our client base, and strengthen the overall resilience of the business. Small and medium-sized companies accounted for about 26% of the Group's Net Revenue from Operation of Rolling Stock in 2018, up from 22% in 2013.

Breakdown of Globaltrans' Net Revenue from Operation of Rolling Stock by largest clients, 2017-18 (including their affiliates and suppliers)

	2017	**2018**
Rosneft	25%	**23%**
Metalloinvest	15%	**17%**
MMK	15%	**16%**
Gazprom Neft	7%	**5%**
Evraz	5%	**4%**
TMK	2%	**2%**
UGMK-Trans	2%	**2%**
SDS-Ugol	2%	**2%**
Severstal	1%	**1%**
ChelPipe	1%	**1%**
Other (including small and medium enterprises)	26%	**26%**

Source: Globaltrans

Increased fleet underpins new contracts, setting strong platform for 2019

A key operational objective was to cost-effectively grow the fleet to meet increased market demand and to service the new contract wins. We achieved this by simultaneously increasing the number of owned railcars and reducing the amount of expensive Leased-in Fleet.

Over the course of 2018, we successfully added to our fleet, giving us the capacity needed to support our development heading into 2019. In total, our Owned Fleet recorded a net increase of 7% (or 4,155 units) to 65,405 units at the year-end compared to the end of 2017. We purchased 3,862 gondola cars over 2018, bringing the total gondola fleet to almost 45,000 units. The Group also continued to build up its niche petrochemical business unit, buying a total of 885 containers and flat cars in the period. Freight rail transportation of petrochemicals in tank containers is an attractive and growing niche for Globaltrans. We identified this opportunity in 2014 and are continually building our tank container fleet, growing market share and expanding our client base.

Railcar leasing remains an important part of how we manage and adapt our fleet to meet customer needs. However, in 2018 high leasing rates led us to intentionally rebalance our fleet, purchasing new units and substituting them for expensive leased-in gondolas. Consequently, the Group's total Leased-in Fleet declined by 34% or 1,824 units over the course of 2018 to 3,618 units. This reduction was more than offset by our active new gondola acquisition programme during the year. At the year-end, the share of Owned Fleet rose to 95% compared to 92% at the end of 2017.

Scale gives Globaltrans a clear competitive advantage. It allows us to service large clients with complex and sophisticated logistics across the territories of Russia and the CIS. At the end of 2018, the Group's Total Fleet exceeded a record 69,000 units. Gondola and rail tank cars make up the bulk of the fleet, and accounted for 65% and 30% of the Total Fleet respectively. Globaltrans' Owned Fleet is among the most modern large fleets in Russia with an average unit age of 11 years (10 years for gondola cars and 14 years for rail tank cars).

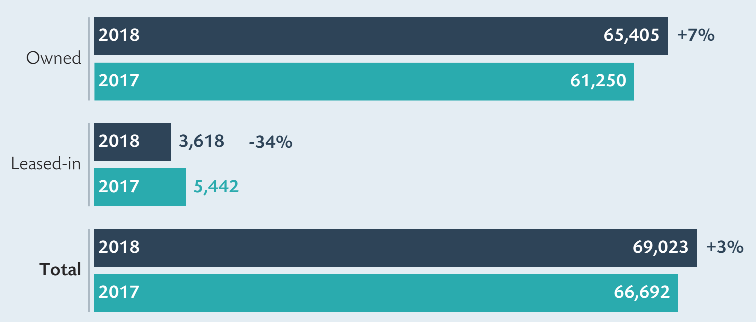
Around 90% of the Group's Total Fleet was operated in its core freight rail transportation business. The balance was mostly represented by rail tank cars leased-out to clients in Russia and the CIS countries.

Globaltrans' Total Fleet by type, end-2018 (units)

	Owned	Leased-in	**Total**	% of total
Gondola cars	44,878	104	**44,982**	65%
Rail tank cars	17,938	2,488	**20,426**	30%
Locomotives	69	0	**69**	0.1%
Other railcars (including flat, hopper cars, etc.)	860	646	**1,506**	2%
Containers (including petrochemical and other)	1,660	380	**2,040**	3%
Total	65,405	3,618	**69,023**	100%

Source: Globaltrans

Globaltrans' Total Fleet by type, end-2018 (units)



Source: Globaltrans

+4,155 units

Owned Fleet recorded a net increase of 7% (or 4,155 units) to 65,405 units at the year-end compared to the end of 2017.

OPERATIONAL PERFORMANCE
continued

Ongoing operational excellence

Creating and sustaining a culture of operational excellence and continuous improvement is a must-have in a logistics business because it improves fleet efficiency and delivery cost recovery.

The single most important input to cost recovery remains our ability to maintain high fleet utilisation levels while minimising the cost of running unloaded railcars. Empty Runs are the biggest cash cost in our business, comprising 46% of our Total Operation Cash Costs in 2018. Therefore, managing Empty Runs is absolutely crucial for the Group's productivity and cost containment strategies.

Globaltrans has consistently delivered industry-leading operational efficiency, registering one of the lowest Empty Run Ratios for gondola cars across the sector. This has averaged around 38% per annum over the last five years. In 2018, Globaltrans again maintained its Empty Run Ratio for gondola cars at a low level of 38% (2017: 37%). We achieved this through a relentless focus on costs and by leveraging our logistics expertise and knowledge of customers, supply chains and logistics. Our key long-term service contracts cover interconnected cargo bases, which enables us to fine-tune route scheduling and match inbound and outbound freight traffic to minimise Empty Runs. The Group's Total Empty Run Ratio, which covers all rolling stock types, was kept at 46% in 2018 compared to 45% in the previous year. Changes in the logistics patterns of some clients resulted in an increase in the Share of Empty Run Kilometres paid by Globaltrans to 89% (2017: 86%).

Solid pricing boosts revenues

Average Price per Trip in 2018 increased 20% year-on-year to RUB 41,859 on the back of a favourable pricing environment, underpinned by a strong market, a solid operational base and our high-quality gondola offering. In the rail tank car business, pricing conditions recovered slightly supported by relatively stable demand and the continued net decline in rail tank car capacity.

The Group's Net Revenue from Operation of Rolling Stock increased 16% year-on-year with growth achieved across all major segments. In the priority bulk cargo (non-oil) segment, Net Revenue from Operation of Rolling Stock was up 17% year-on-year. In the oil products and oil segment, it was up 12% year-on-year.

Globaltrans' Total Empty Run Ratio (for all types of rolling stock, 2014-18)

Source: Globaltrans

46%

The Group's Total Empty Run Ratio, which covers all rolling stock types, was kept at 46% in 2018.

Globaltrans' Empty Run Ratio (for gondola cars, 2014-18)

Source: Globaltrans

38%

Globaltrans has consistently delivered industry-leading operational efficiency, registering one of the lowest Empty Run Ratios for gondola cars across the sector.

Bulk cargo volumes came under pressure, oil products and oil slightly improving

The Group's Average Rolling Stock Operated stayed relatively stable at 53,562 units in 2018. There was a 2% decline in the average number of gondola cars in operation which was offset by an 8% increase in the average number of rail tanks in operation. With regard to gondola cars, the decline was merely temporary, reflecting the Group's intention to reduce the number of expensive leased-in gondola cars it operates by replacing them over the course of the year with newly acquired gondola units. By the year-end, the total gondola fleet increase fully offset the decline in leased-in capacity. In the rail tank car segment, the Group transferred some leased-out units and increased leased-in fleet of rail tank cars to support the expansion of its rail transportation operations mostly for its small and medium client portfolio.

Altered client logistics patterns and the fall in average speed on the RZD rail network resulted in a 4% year-on-year decline in the Average Number of Loaded Trips per Railcar. The Average Distance of Loaded Trip also decreased 4% year-on-year. The decline in the rail network speed was caused largely by a number of ongoing major infrastructure modernisation projects.

The combination of factors described above negatively affected bulk cargo business volumes in 2018, with the Group's total Transportation Volumes declining 4% year-on-year and Freight Rail Turnover decreasing 9% year-on-year.

The bulk cargo segment remains the Group's mainstay of operations and contributed about 86% of the Group's Freight Rail Turnover in the reporting year.

- Metallurgical cargoes (including ferrous metals, scrap metal and iron ore) remain the largest single operating segment for Globaltrans with a Market Share of 22%. In 2018, this segment contributed 54% of the Group's Freight Rail Turnover. The Company has developed a number of long-term relationships with its clients in this sector and manages the majority of freight rail transportation needs of many of them.
- Coal has been the standout bulk commodity cargo in recent periods as strong demand has spurred increased volumes. Globaltrans has a solid presence in this sector with an overall Market Share of 3%. In 2018, this segment represented 20% of the Group's Freight Rail Turnover.
- Construction materials (including cement) made up 4% of Group's Freight Rail Turnover in 2018. Globaltrans mostly transports construction materials on backward journeys in order to minimise Empty Runs. The Group had a 4% Market Share in this sector in 2018.

The business volumes in the oil products and oil sector where the Group has a strong profile began to grow over the course of 2018, supported by stabilised demand and an increased fleet in operation. In 2018, this segment accounted for 14% of the Group's Freight Rail Turnover. The Group's client base includes oil majors along with a number of small and medium companies. On some routes, the Company provides clients with a unique service, transporting oil products and oil in block trains consisting of both owned rail tanks and locomotives. This enables improved reliability and speed of transportation. Globaltrans had a Market Share of around 9% in this segment in 2018.

Globaltrans' Transportation Volume, 2017-18
(excluding Engaged Fleet, million tonnes)

	2017	2018	Change, %
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	45.5	**45.0**	-1%
Oil products and oil	20.2	**20.7**	2%
Coal (including coke)	10.4	**9.6**	-8%
Construction materials (including cement)	9.1	**6.4**	-30%
Other	6.6	**6.8**	2%
Total	91.9	**88.5**	-4%

Source: Globaltrans

Globaltrans' Freight Rail Turnover, 2017-18
(excluding Engaged Fleet, billion tonnes-km)

	2017	2018	Change, %
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	87.8	**79.0**	-10%
Oil products and oil	20.5	**21.2**	3%
Coal (including coke)	34.3	**29.5**	-14%
Construction materials (including cement)	8.0	**5.8**	-28%
Other	9.4	**10.7**	14%
Total	160.1	**146.2**	-9%

Source: Globaltrans

FINANCIAL REVIEW

"The Group delivered a record financial performance in 2018 as strong revenue growth and strict cost control drove further margin expansion. We again produced substantial cash flows and our free cash generation was excellent despite a significant uplift in capital expenditure over the year. We retained a solid financial profile, operating with low leverage, which in turn helped us to distribute substantial dividends. In 2018, we built on the success of previous years and delivered a strong outcome for all our stakeholders."

Alexander Shenets
Chief Financial Officer

Strong financial performance, margin expansion achieved and low leverage maintained

- Total revenue increased 11% year-on-year to RUB 86.8 billion.
- Adjusted Revenue rose 17% year-on-year to RUB 60.9 billion supported by strong market conditions.
- Cost discipline maintained despite inflationary pressures with the rise in Total Operating Cash Costs at 6% year-on-year.
- Operating profit was up 33% year-on-year to RUB 26.9 billion.
- Strict cost control alongside strong revenue growth drove a 28% year-on-year increase in Adjusted EBITDA to RUB 33.1 billion with the Adjusted EBITDA Margin expanding to 54% (2017: 50%).
- Profit for the year rose 42% year-on-year to RUB 19.6 billion.
- Cash generated from operations increased 19% year-on-year to RUB 32.6 billion. Free Cash Flow remained robust at RUB 12.3 billion despite the substantial increase in Total CAPEX (RUB 12.9 billion, up 165% year-on-year).
- Leverage held at a low level with Net Debt to Adjusted EBITDA at 0.56x (2017 end: 0.44x). Net Debt rose 64% year-on-year to RUB 18.6 billion mostly reflecting significantly increased CAPEX. Nearly 100% of debt is denominated in RUB, the Company's functional currency.

+17%
Year-on-year increase in Adjusted Revenue in 2018

+28%
Year-on-year increase in Adjusted EBITDA in 2018

54%
Adjusted EBITDA Margin in 2018 (2017: 50%)

0.56x
Net Debt to Adjusted EBITDA at the end of 2018 (end of 2017: 0.44x)

Results in detail

The following tables provide the Group's key financial and operational information for the years ended 31 December 2018 and 2017.

EU IFRS financial information

	2017 RUB mln	**2018 RUB mln**	Change %
Revenue	78,081	**86,773**	11%
Total cost of sales, selling and marketing costs and administrative expenses	(58,698)	**(60,004)**	2%
Operating profit	20,156	**26,901**	33%
Finance costs – net	(1,802)	**(1,441)**	-20%
Profit before income tax	18,354	**25,460**	39%
Income tax expense	(4,534)	**(5,876)**	30%
Profit for the year	13,820	**19,583**	42%
Profit attributable to:			
– Owners of the Company	12,289	**17,672**	44%
– Non-controlling interests	1,531	**1,911**	25%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	68.75	**98.87**	44%

	2017 RUB mln	**2018 RUB mln**	Change %
Cash generated from operations	27,496	**32,602**	19%
Tax paid	(3,632)	**(5,766)**	59%
Net cash from operating activities	23,864	**26,837**	12%
Net cash used in investing activities	(4,028)	**(10,645)**	164%
Net cash used in financing activities	(19,171)	**(14,003)**	-27%

Non-GAAP financial information

	2017 RUB mln	**2018 RUB mln**	Change %
Adjusted Revenue	52,094	**60,859**	17%
Including:			
– Net Revenue from Operation of Rolling Stock	49,709*	**57,474***	16%
– Operating leasing of rolling stock	1,212	**1,394**	15%
– Net Revenue from Engaged Fleet	173*	**432***	149%
– Other revenue	1,000	**1,559**	56%
Total Operating Cash Costs	26,303	**27,894**	6%
Including:			
– Empty Run Cost	12,154*	**12,956***	7%
– Employee benefit expense	3,426	**4,367**	27%
– Repairs and maintenance	3,769	**3,821**	1%
– Fuel and spare parts – locomotives	1,519	**1,935**	27%
– Operating lease rentals – rolling stock	1,634	**827**	-49%
Adjusted EBITDA	25,789	**33,070**	28%
Adjusted EBITDA Margin, %	50%	**54%**	–
Total CAPEX	4,872	**12,889**	165%
Free Cash Flow	17,048	**12,314**	-28%
Attributable Free Cash Flow	15,517	**10,403**	-33%

FINANCIAL REVIEW
continued

Debt profile

	As of 31 December 2017 RUB mln	As of 31 December 2018 RUB mln	Change %
Total debt	16,331	**25,729**	58%
Cash and cash equivalents	4,966	**7,130**	44%
Net Debt	11,365	**18,599**	64%
Net Debt to Adjusted EBITDA (x)	0.44	**0.56**	–

Operational information

	2017	2018	Change, %
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	160.1	**146.2**	-9%
Transportation Volume, million tonnes (excluding Engaged Fleet)	91.9	**88.5**	-4%
Freight Rail Turnover, billion tonnes-km (including Engaged Fleet)	178.2	**158.9**	-11%
Transportation Volume, million tonnes (including Engaged Fleet)	101.1	**96.0**	-5%
Average Price per Trip, RUB	34,790	**41,859**	20%
Average Rolling Stock Operated, units	53,584	**53,562**	0%
Average Distance of Loaded Trip, km	1,720	**1,644**	-4%
Average Number of Loaded Trips per Railcar	26.7	**25.6**	-4%
Total Empty Run Ratio (for all types of rolling stock), %	45%	**46%**	–
Empty Run Ratio for gondola cars, %	37%	**38%**	–
Share of Empty Run Kilometres paid by Globaltrans, %	86%	**89%**	–
Total Fleet, units (at year-end), including:	66,692	**69,023**	3%
– Owned Fleet, units (at year-end)	61,250	**65,405**	7%
– Leased-in Fleet, units (at year-end)	5,442	**3,618**	-34%
Leased-out Fleet, units (at year-end)	9,080	**7,627**	-16%
Average age of Owned Fleet, years (at year-end)	11.1	**11.0**	–
Total number of employees (at year-end)	1,594	**1,549**	-3%

Revenue

The Group's Total revenue rose 11% year-on-year to RUB 86,773 million in 2018, largely due to a 17% year-on-year increase in Adjusted Revenue. Net Revenue from Operation of Rolling Stock (a key component of Adjusted Revenue) rose 16% year-on-year reflecting the continued strong market environment.

The following table provides details of Total revenue, broken down by revenue-generating activity, for the years ended 31 December 2018 and 2017.

	2017 RUB mln	2018 RUB mln	Change %
Railway transportation – operators services (tariff borne by the Group)[(1)]	44,371	**48,130**	8%
Railway transportation – operators services (tariff borne by the client)	31,497	**35,690**	13%
Operating leasing of rolling stock	1,212	**1,394**	15%
Other	1,000	**1,559**	56%
Total revenue	78,081	**86,773**	11%

(1) Includes "Infrastructure and locomotive tariffs: loaded trips" for 2018 of RUB 22,682 million (2017: RUB 22,508 million) and "Services provided by other transportation organisations" of RUB 3,231 million (2017: RUB 3,478 million).

Adjusted Revenue

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

In 2018, the Group's Adjusted Revenue grew 17% year-on-year to RUB 60,859 million, primarily due to a 16% year-on-year rise in Net Revenue from Operation of Rolling Stock along with an increase in revenues from the rail transportation of petrochemicals and from auxiliary leasing and Engaged Fleet operations.

The following table provides details of Adjusted Revenue for the years ended 31 December 2018 and 2017 and its reconciliation to Total revenue.

	2017 RUB mln	**2018 RUB mln**	Change %
Total revenue	78,081	**86,773**	11%
Minus "pass through" items			
Infrastructure and locomotive tariffs: loaded trips	22,508	**22,682**	1%
Services provided by other transportation organisations	3,478	**3,231**	-7%
Adjusted Revenue	52,094	**60,859**	17%

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

The following table provides a breakdown of the components of Adjusted Revenue for the years ended 31 December 2018 and 2017.

	2017 RUB mln	**2018 RUB mln**	Change %
Net Revenue from Operation of Rolling Stock	49,709*	**57,474***	16%
Operating leasing of rolling stock	1,212	**1,394**	15%
Net Revenue from Engaged Fleet	173*	**432***	149%
Other	1,000	**1,559**	56%
Adjusted Revenue	52,094	**60,859**	17%

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure, derived from management accounts, describing the net revenue generated from freight rail transportation and is defined as "Total revenue – operator's services"[(1)] less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisations" and Net Revenue from Engaged Fleet.

Net Revenue from Operation of Rolling Stock contributed 94% of the Group's Adjusted Revenue in 2018.

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

FINANCIAL REVIEW
continued

The following table provides Net Revenue from Operation of Rolling Stock for the years ended 31 December 2018 and 2017, and its reconciliation to Total revenue – operator's services.

	2017 RUB mln	2018 RUB mln	Change %
Total revenue – operator's services[(1)]	75,868	**83,820**	10%
Minus			
Infrastructure and locomotive tariffs: loaded trips	22,508	**22,682**	1%
Services provided by other transportation organisations	3,478	**3,231**	-7%
Net Revenue from Engaged Fleet	173*	**432***	149%
Net Revenue from Operation of Rolling Stock	49,709*	**57,474***	16%

The Group's Net Revenue from Operation of Rolling Stock increased 16% year-on-year to RUB 57,474 million* in 2018. This was a solid performance across key business segments, with a 17% year-on-year rise in Net Revenue from Operation of Rolling Stock in the non-oil segment complemented by a 12% year-on-year increase in the segment for rail transportation of oil products and oil.

- The continued strong gondola market combined with slightly increased pricing in rail transportation for the oil products and oil segment drove a 20% year-on-year increase in Average Price per Trip to RUB 41,859.
- Average Rolling Stock Operated remained stable year-on-year at 53,562 units reflecting an average gondola fleet operated which was temporarily lower, down 2% year-on-year, due to the intentional substitution of expensive leased-in gondola cars with newly acquired units commissioned in 2018, while the average rail tank fleet operated increased 8% year-on-year benefitting from the transition of some leased-out units into operation as well as an increased number of leased-in rail tank cars.
- Average Number of Loaded Trips per Railcar decreased 4% year-on-year largely due to changed client logistics and a reduction in average speeds on the RZD rail network over the course of 2018, caused by ongoing major rail infrastructure modernisation projects.

Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock, which contributed 2% of the Group's Adjusted Revenue in 2018, increased 15% year-on-year to RUB 1,394 million, primarily reflecting the improved pricing environment in the rail tank car segment.

Net Revenue from Engaged Fleet

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

In 2018, Net Revenue from the Engaged Fleet, comprising about 1% of the Group's Adjusted Revenue, was up 149% year-on-year to RUB 432 million*. This was primarily driven by the improved pricing conditions and increased volumes of the Engaged Fleet operations in the oil products and oil segment.

Other revenue

Other revenue (3% of the Group's Adjusted Revenue), which includes revenues from auxiliary services, rose 56% year-on-year to RUB 1,559 million. This primarily reflected a rise in revenue from the transportation of petrochemicals in tank containers on the back of the gradual commissioning into operation of tank containers purchased in 2018 and the increase in revenue from maintenance services provided to third parties.

Cost of sales, selling and marketing costs and administrative expenses

The following table provides a breakdown of Cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2018 and 2017.

	2017 RUB mln	2018 RUB mln	Change %
Cost of sales	54,609	**55,154**	1%
Selling and marketing costs	238	**221**	-7%
Administrative expenses	3,851	**4,629**	20%
Total cost of sales, selling and marketing costs and administrative expenses	58,698	**60,004**	2%

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

In 2018, the Group's Total cost of sales, selling and marketing costs and administrative expenses were RUB 60,004 million, an increase of 2% year-on-year, largely reflecting the factors described below.

- "Pass through" cost items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations") remained stable year-on-year at RUB 25,913 million.
- The Group's Cost of sales, selling and marketing costs and administrative expenses adjusted for "pass-through" cost items rose 4% year-on-year to RUB 34,091 million in 2018, which reflected:
  - Strict cost control enabling the Company to curb the impact of inflationary pressures with Total Operating Cash Costs up 6% year-on-year to RUB 27,894 million.
  - Total Operating Non-Cash Costs reduced 3% year-on-year to RUB 6,197 million in 2018 with an asset-expansion-driven increase in the Depreciation of property, plant and equipment more than offset by a decline in the Loss on derecognition arising on capital repairs and a reduction in the Amortisation of intangible assets.

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

	2017 RUB mln	**2018 RUB mln**	Change %
"Pass through" cost items	25,986	**25,913**	0%
Infrastructure and locomotive tariffs: loaded trips	22,508	**22,682**	1%
Services provided by other transportation organisations	3,478	**3,231**	-7%
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	32,712	**34,091**	4%
Total Operating Cash Costs	26,303	**27,894**	6%
Empty Run Costs	12,154*	**12,956***	7%
Employee benefit expense	3,426	**4,367**	27%
Repairs and maintenance	3,769	**3,821**	1%
Fuel and spare parts – locomotives	1,519	**1,935**	27%
Operating lease rentals – rolling stock	1,634	**827**	-49%
Infrastructure and Locomotive Tariffs – Other Tariffs	949*	**892***	-6%
Engagement of locomotive crews	662	**795**	20%
Other Operating Cash Costs	2,189	**2,300**	5%
Total Operating Non-Cash Costs	6,409	**6,197**	-3%
Depreciation of property, plant and equipment	4,962	**5,111**	3%
Amortisation of intangible assets	718	**697**	-3%
Loss on derecognition arising on capital repairs	528	**377**	-29%
Impairment of property, plant and equipment	111	**10**	-91%
Net impairment losses on trade receivables and prepayments	61	**30**	-51%
Net loss/(gain) on sale of property, plant and equipment	29	**(27)**	NM
Total cost of sales, selling and marketing costs and administrative expenses	58,698	**60,004**	2%

"Pass through" cost items

Infrastructure and locomotive tariffs: loaded trips

Infrastructure and locomotive tariffs: loaded trips is in principle a "pass through" cost item for the Group[1] and is reflected in equal amounts in both the Group's Total revenue and Cost of sales. This cost item was up 1% year-on-year to RUB 22,682 million in 2018 primarily due to an increase in the regulated RZD tariffs which was partially offset by the year-on-year reduction of the Group's Freight Rail Turnover in the reporting year.

Services provided by other transportation organisations

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

Services provided by other transportation organisations were down 7% year-on-year to RUB 3,231 million in 2018 largely reflecting the decreased volumes of the Engaged Fleet operations in the bulk cargo segment.

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

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Total Operating Cash Costs

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

The Group's Total Operating Cash Costs increased 6% year-on-year to RUB 27,894 million in 2018 due to a combination of factors described below.

The following table provides a breakdown of the Total Operating Cash Costs for the years ended 31 December 2018 and 2017.

	2018 % of total	2017 RUB mln	**2018 RUB mln**	Change %
Empty Run Costs	**46%**	12,154*	**12,956***	7%
Employee benefit expense	**16%**	3,426	**4,367**	27%
Repairs and maintenance	**14%**	3,769	**3,821**	1%
Fuel and spare parts – locomotives	**7%**	1,519	**1,935**	27%
Operating lease rentals – rolling stock	**3%**	1,634	**827**	-49%
Infrastructure and Locomotive Tariffs – Other Tariffs	**3%**	949*	**892***	-6%
Engagement of locomotive crews	**3%**	662	**795**	20%
Other Operating Cash Costs	**8%**	2,189	**2,300**	5%
Total Operating Cash Costs	**100%**	26,303	**27,894**	6%

Empty Run Costs

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

Empty Run Costs accounted for 46% of the Group's Total Operating Cash Costs in 2018. This cost item rose 7% year-on-year to RUB 12,956 million* in 2018. This resulted from a combination of the following factors:

- A 5.3% year-on-year increase in the regulated RZD tariff for the traction of empty railcars and an increase in Freight Rail Turnover in the rail tank car segment which has a higher Empty Run Ratio.
- A logistically driven rise in Share of Empty Run Kilometres paid by Globaltrans to 89% (2017: 86%).
- An Empty Run Ratio for gondola cars of 38% (2017: 37%) with a Total Empty Run Ratio (for all types of rolling stock) of 46% (2017: 45%).

Employee benefit expense

Employee benefit expense, which accounted for 16% of the Group's Total Operating Cash Costs, increased 27% year-on-year to RUB 4,367 million in 2018, reflecting a combination of the following factors:

- Higher than inflation growth in wages and salaries.
- Strong results and the appreciation in Globaltrans' GDR price drove the rise in bonuses (including share-based payment expense).
- An increase in related social insurance costs.

Repairs and maintenance

Repairs and maintenance costs, which comprised 14% of the Group's Total Operating Cash Costs in 2018, increased 1% year-on-year to RUB 3,821 million mainly reflecting the following factors:

- Inflation growth in the cost of repair works, partially offset by a decline in the number of adhoc and depot repairs.
- Significant growth in the cost of certain spare parts.
- A decline in the number of higher cost locomotive repairs.

Fuel and spare parts – locomotives

Fuel and spare parts – locomotives expenses, comprising 7% of the Group's Total Operating Cash Costs, were RUB 1,935 million in 2018, 27% higher than in the previous year. The increase in this cost item primarily reflected the rise in Freight Rail Turnover in the rail tank car segment and the corresponding increased usage of locomotives which drove fuel consumption along with growth in fuel prices and inflation in the cost of spare parts.

Operating lease rentals – rolling stock
Operating lease rentals – rolling stock, which comprised 3% of the Group's Total Operating Cash Costs in 2018, was down 49% year-on-year to RUB 827 million, primarily reflecting an intentional reduction in the number of gondola cars leased-in over the reporting period (down 96% compared to the end of 2017).

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

Infrastructure and Locomotive Tariffs – Other Tariffs (3% of the Group's Total Operating Cash Costs) were RUB 892 million* in 2018, a decrease of 6% year-on-year, mainly reflecting a decline in the cost of relocating rolling stock into and from repair and maintenance.

Engagement of locomotive crews
Costs related to the engagement of locomotive crews from RZD (3% of the Group's Total Operating Cash Costs) increased 20% year-on-year to RUB 795 million in 2018, largely due to a rise in the amount of engagement hours reflecting higher Freight Rail Turnover in the rail tank car segment and the corresponding increased usage of locomotives.

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

The following table provides a breakdown of the Other Operating Cash Costs for the years ended 31 December 2018 and 2017.

	2017 RUB mln	**2018 RUB mln**	Change %
Advertising and promotion	31	**38**	21%
Auditors' remuneration	56	**59**	5%
Communication costs	37	**33**	-11%
Information services	19	**27**	40%
Legal, consulting and other professional fees	69	**70**	1%
Rental of tank-containers	64	**44**	-31%
Operating lease rentals – office	180	**183**	2%
Taxes (other than income tax and value added taxes)	746	**681**	-9%
Other expenses	987	**1,165**	18%
Other Operating Cash Costs	2,189	**2,300**	5%

Other Operating Cash Costs, which comprised 8% of the Group's Total Operating Cash Costs, were up 5% to RUB 2,300 million in 2018 compared to the previous year. The rise in this cost primarily reflected a decrease in Taxes (other than income tax and value added taxes), predominantly property tax, which was more than offset by an increase in Other expenses.

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

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The following table provides a breakdown of the Total Operating Non-Cash Costs for the years ended 31 December 2018 and 2017.

	2017 RUB mln	2018 RUB mln	Change %
Depreciation of property, plant and equipment	4,962	**5,111**	3%
Amortisation of intangible assets	718	**697**	-3%
Loss on derecognition arising on capital repairs	528	**377**	-29%
Impairment of property, plant and equipment	111	**10**	-91%
Net impairment losses on trade receivables and prepayments	61	**30**	-51%
Net loss/(gain) on sale of property, plant and equipment	29	**(27)**	NM
Total Operating Non-Cash Costs	6,409	**6,197**	-3%

Total Operating Non-Cash Costs were down 3% year-on-year to RUB 6,197 million in 2018. A 3% year-on-year rise in the Depreciation of property, plant and equipment on the back of an increase in the Group's Owned Fleet was more than offset by a 29% year-on-year decline in the Loss on the derecognition arising on capital repairs[(1)] which reflected the lower number of capital repairs undertaken in the reporting year and the 3% year-on-year reduction in the Amortisation of intangible assets.

Adjusted EBITDA (non-GAAP financial measure)

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

The Group's Adjusted EBITDA in 2018 reached RUB 33,070 million, up 28% over the previous year.

The Adjusted EBITDA Margin expanded to 54% in 2018 from 50% in the previous year on the back of a 17% year-on-year increase in Adjusted Revenue and a 6% year-on-year rise in Total Operating Cash Costs.

The following table provides details on Adjusted EBITDA for the years ended 31 December 2018 and 2017, and its reconciliation to EBITDA and Profit for the year.

	2017 RUB mln	2018 RUB mln	Change %
Profit for the year	13,820	**19,583**	42%
Plus (Minus)			
Income tax expense	4,534	**5,876**	30%
Finance costs – net	1,802	**1,441**	-20%
Net foreign exchange transaction losses on financing activities	(237)	**(40)**	-83%
Amortisation of intangible assets	718	**697**	-3%
Depreciation of property, plant and equipment	4,962	**5,111**	3%
EBITDA	25,600	**32,668**	28%
Plus (Minus)			
Loss on derecognition arising on capital repairs	(528)	**(377)**	-29%
Net foreign exchange transaction losses on financing activities	(237)	**(40)**	-83%
Other gains/(losses) – net	85	**(1)**	NM
Net (loss)/gain on sale of property, plant and equipment	(29)	**27**	NM
Impairment of property, plant and equipment	(111)	**(10)**	-91%
Reversal of impairment of intangible assets	630	**–**	-100%
Adjusted EBITDA	25,789	**33,070**	28%

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

Finance income and costs

The following table provides a breakdown of finance income and costs for the years ended 31 December 2018 and 2017.

	2017 RUB mln	**2018 RUB mln**	Change %
Interest expense:			
– Bank borrowings	(1,992)	**(1,344)**	-33%
– Non-convertible bond	–	**(315)**	NM
Total interest expense calculated using the effective interest rate method	(1,992)	**(1,659)**	-17%
Finance leases	–	**(108)**	NM
Total interest expense	(1,992)	**(1,767)**	-11%
Other finance costs	(55)	**(11)**	-80%
Total finance costs	(2,046)	**(1,778)**	-13%
Interest income:			
– Bank balances	86	**141**	65%
– Short-term deposits	346	**193**	-44%
– Loans to third parties	3	**1**	-50%
Total interest income calculated using the effective interest rate method	435	**335**	-23%
Finance leases – third parties	46	**42**	-8%
Total finance income	481	**377**	-21%
Net foreign exchange transaction gains on borrowings and other liabilities	272	**36**	-87%
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	(508)	**(76)**	-85%
Net foreign exchange transaction losses on financing activities	(237)	**(40)**	-83%
Net finance costs	(1,802)	**(1,441)**	-20%

Finance costs

Total finance costs decreased 13% year-on-year to RUB 1,778 million in 2018 largely reflecting the decline in the Group's weighted average effective interest rate over the reporting year.

Finance income

In 2018, the Group's Total finance income was down 21% year-on-year to RUB 377 million, primarily due to a decrease in the interest rate on short-term bank deposits, which was partially offset by an increase in the amount of bank balances.

Net foreign exchange transaction losses on financing activities

In 2018 the Group had Net foreign exchange transaction losses on financing activities in the amount of RUB 40 million compared to RUB 237 million in the previous year which reflects the foreign exchange volatility on the available cash and cash equivalents denominated in foreign currency.

Profit before income tax

The Group reported Profit before income tax of RUB 25,460 million in 2018, an increase of 39% compared to the previous year. This was driven by the following factors:

- A 33% year-on-year rise in the Group's Operating profit to RUB 26,901 million, largely due to the factors described above.
- A 20% year-on-year reduction in Net finance costs to RUB 1,441 million.

Income tax expense

Income tax expense increased 30% year-on-year to RUB 5,876 million in 2018, reflecting the 39% year-on-year rise in the Group's Profit before income tax, which was partially offset by a decline in the weighted average annual income tax rate for 2018 to 23.1% compared to 24.7% in 2017. The decrease in the weighted average annual income tax rate was because dividends from the subsidiaries represented a smaller proportion of their net profit in 2018 compared to the previous year.

Profit for the year

The Group's Profit for the year grew 42% year-on-year to RUB 19,583 million reflecting the factors described above.

Profit for the year attributable to the owners of the Company increased 44% year-on-year to RUB 17,672 million primarily benefitting from the positive contribution from the wholly-owned gondola business which delivered a strong performance as described above.

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Liquidity and capital resources

In 2018, the Group's capital expenditure consisted primarily of maintenance CAPEX (including capital repairs), and the selective acquisition of gondola cars, petrochemical tank containers and related flat cars. The Group was able to meet its liquidity and capital expenditure needs comfortably through operating cash flow, cash and cash equivalents available at 31 December 2017, and proceeds from borrowings, issue of bonds and finance leases.

The Group manages its liquidity based on expected cash flows. As at 31 December 2018, the Group had Net Working Capital of RUB 2,011 million*. Given its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to operate successfully.

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for the years ended 31 December 2018 and 2017.

	2017 RUB mln	**2018 RUB mln**
Cash flows from operating activities	25,877	**33,087**
Changes in working capital:		
– Inventories	106	**170**
– Trade receivables	(79)	**(317)**
– Other assets	859	**(1,042)**
– Other receivables	(17)	**(66)**
– Trade and other payables	748	**263**
– Contract liabilities	–	**508**
Cash generated from operations	27,496	**32,602**
Tax paid	(3,632)	**(5,766)**
Net cash from operating activities	23,864	**26,837**
Cash flows from investing activities		
Loan repayments received from third parties	11	**6**
Purchases of property, plant and equipment	(4,872)	**(11,568)**
Purchases of intangible assets	–	**(0.1)**
Proceeds from sale of property plant and equipment	268	**410**
Proceeds from sale of associates	61	**–**
Interest received	481	**377**
Receipts from finance lease receivable	24	**129**
Net cash used in investing activities	(4,028)	**(10,645)**
Cash flows from financing activities		
Net cash (outflows)/inflows from borrowings and financial leases:	(13)	**5,748**
– Proceeds from bank borrowings	15,710	**15,197**
– Proceeds from issue of non-convertible unsecured bonds	–	**5,000**
– Repayments of borrowings	(15,723)	**(13,128)**
– Finance lease principal payments	–	**(1,321)**
Interest paid	(1,944)	**(1,633)**
Dividends paid to owners of the Company	(15,014)	**(16,221)**
Dividends paid to non-controlling interests in subsidiaries	(2,200)	**(1,723)**
Acquisition of non-controlling interests	–	**(6)**
Payments to non-controlling interests	–	**(169)**
Net cash used in financing activities	(19,171)	**(14,003)**
Net increase in cash and cash equivalents	665	**2,188**
Exchange losses on cash and cash equivalents	(473)	**(24)**
Cash and cash equivalents at beginning of the year	4,773	**4,966**
Cash and cash equivalents at end of the year	4,966	**7,130**

Net cash from operating activities

Net cash from operating activities rose 12% year-on-year to RUB 26,837 million, reflecting a 19% year-on-year increase in Cash generated from operations (after "Changes in working capital"), primarily resulting from the factors described above, offset in part by a 59% year-on-year increase in Tax paid on the back of increased taxable profits.

Net cash used in investing activities

Net cash used in investing activities was RUB 10,645 million, 164% higher than the previous year primarily due to an increase in expansion CAPEX.

Purchases of property, plant and equipment (on a cash basis) rose 137% to RUB 11,568 million due to greater expansion CAPEX[(1)]. As a part of the Total CAPEX (RUB 12,889 million) in the reporting year was financed with a finance lease, the related Finance lease principal payments are reflected in Net cash used in financing activity and described below.

Net cash used in financing activities

Net cash used in financing activities was RUB 14,003 million in 2018, a decrease of 27% compared to the previous year. This was due to a combination of the following factors:

- Net cash inflows from borrowings and finance leases[(2)] were RUB 5,748 million (compared to net cash outflows of RUB 13 million in the previous year) to finance the increased capital expenditures in the reporting year. As a part of capital expenditure was financed with a finance lease, the Finance lease principal payments of RUB 1,321 million were booked in 2018. The additional related Finance lease liabilities of RUB 2,213 million will be amortised over the next five years.
- 16% year-on-year decrease in Interest paid to RUB 1,633 million in 2018 due to the improvement in the Group's weighted average effective interest rate over the reporting year.
- The increase in Dividends paid to owners of the Company to RUB 16,221 million compared to RUB 15,014 million in the previous year reflecting the strong business performance.
- Dividends paid to non-controlling interests in subsidiaries declined to RUB 1,723 million in 2018 compared to RUB 2,200 million in the previous year.

Free Cash Flow

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

The business generated robust Free Cash Flow despite a significant increase in capital expenditure. The Group's Free Cash Flow amounted to RUB 12,314 million, down 28% compared to the previous year. This was mostly related to the following factors:

- Cash generated from operations (after "Changes in working capital") increased 19% or RUB 5,107 million to RUB 32,602 million primarily due to the factors described above; and was more than offset by the combination of:
  - a 165% or RUB 8,017 million year-on-year increase in Total CAPEX (including Purchase of property, plant and equipment, Purchases of intangible assets and Finance lease principal payments) to RUB 12,889 million reflecting primarily greater expansion CAPEX; and
  - a 59% or RUB 2,134 million year-on-year increase in Tax paid to RUB 5,766 million.
- Interest paid reduced 16% or RUB 310 million year-on-year to RUB 1,633 million largely due to a decrease in the average weighted interest rate.

(1) The Group acquired 4,747 units in 2018 compared to 1,332 units in the previous year.

(2) Net cash inflows (outflows) from borrowings and financial leases (a non-GAAP financial measure) defined as the balance between the following line items: "Proceeds from bank borrowings", "Proceeds from issue of non-convertible unsecured bonds", "Repayments of borrowings" and "Finance lease principal payments".

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The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for the years ended 31 December 2018 and 2017, and its reconciliation to Cash generated from operations.

	2017 RUB mln	**2018 RUB mln**	Change %
Cash generated from operations (after "Changes in working capital")	27,496	**32,602**	19%
Purchases of property, plant and equipment	(4,872)	**(11,568)**	137%
Purchases of intangible assets	–	**(0.1)**	NM
Finance lease principal payments	–	**(1,321)**	NM
Tax paid	(3,632)	**(5,766)**	59%
Interest paid	(1,944)	**(1,633)**	-16%
Free Cash Flow	17,048	**12,314**	-28%
Minus			
Adjusted Profit Attributable to Non-controlling Interests	1,531	**1,911**	25%
Attributable Free Cash Flow	15,517	**10,403**	-33%

Capital expenditure

Total CAPEX (a non-GAAP financial measure) calculated on a cash basis as the sum of "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets", "Acquisition of subsidiary undertakings – net of cash acquired" and "Finance lease principal payments" (as part of the capital expenditures was financed with a finance lease).

The Group's Total CAPEX was RUB 12,889 million[(1)] in 2018 compared to RUB 4,872 million the previous year.

This higher capital expenditure primarily reflects larger expansion CAPEX in response to strong demand and in order to support the new long-term contracts and further development of niche projects. In 2018, the Group acquired 4,747 units (including 3,862 gondola cars, 481 flat cars and 404 containers) compared to 1,332 units (including 706 gondola cars, 70 flat cars and 556 containers) in the previous year.

The following table sets out the principal components of the Group's Total CAPEX for the years ended 31 December 2018 and 2017.

	2017 RUB mln	**2018 RUB mln**	Change %
Purchase of property, plant and equipment	4,872	**11,568**	137%
Finance lease principal payments	–	**1,321**	NM
Purchases of intangible assets	–	**0.1**	NM
Total CAPEX	4,872	**12,889**	165%

Capital resources

As of 31 December 2018, the Group's financial indebtedness consisted of bank borrowings, non-convertible unsecured bonds and finance lease liabilities for an aggregate principal amount of RUB 25,729 million (including accrued interest of RUB 225 million*).

The Group's leverage remained low with Net Debt to Adjusted EBITDA at 0.56x as of 31 December 2018 (31 December 2017: 0.44x).

The Group's Net Debt was RUB 18,599 million as of 31 December 2018, a 64% increase from the level of Net Debt at the end of 2017 primarily reflecting increased expansion CAPEX.

(1) The Group's capital expenditure (including maintenance CAPEX) on an accrual basis was RUB 14,527 million in 2018 compared to RUB 4,848 million in the previous year. The difference between capital expenditure given on a cash basis versus on an accrual basis is principally because part of the capital expenditure was financed with a finance lease.

The following table sets out the details on the Group's total debt, Net Debt and Net Debt to Adjusted EBITDA at 31 December 2018 and 2017, and reconciliation of Net Debt to Total debt.

	As of 31 December 2017 RUB mln	**As of 31 December 2018 RUB mln**	Change %
Total debt	16,331	**25,729**	58%
Minus			
Cash and cash equivalents	4,966	**7,130**	44%
Net Debt	11,365	**18,599**	64%
Net Debt to Adjusted EBITDA	0.44x	**0.56x**	–

Rouble-denominated borrowings accounted for nearly 100% of the Group's debt portfolio as of the end of 2018. The Russian Rouble is the functional currency of the Company.

The weighted average effective interest rate reduced to 7.9% as of 31 December 2018 compared to 9.4% as of the end of 2017. The vast majority of the Group's debt had fixed interest rates as of the end of 2018.

The Group has a balanced maturity profile, supported by the Group's strong cash flow generation, available cash and cash equivalents, as well as undrawn borrowing facilities in the amount of RUB 4,515 million as of the end of 2018.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of RUB 225 million*) as of 31 December 2018.

	As of 31 December 2018 RUB mln
Q1 2019	**2,088***
Q2 2019	**1,690***
Q3 2019	**2,710***
Q4 2019	**1,971***
2020	**5,676***
2021	**6,193***
2022-2023	**5,400***
Total	**25,729**

Related party transactions

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

Marigold Investments Ltd, Onyx Investments Ltd and Maple Valley Investments Ltd[(1)] are the Company's shareholders with a direct shareholding as at 31 December 2018 of 11.5%, 11.5% and 10.8%, accordingly (31 December 2017: 11.5%. 11.5% and 11.2%, accordingly).

Litten Investments Ltd[(2)] and Goldriver Resources Ltd[(3)], controlled by a members of key management of the Company, had a shareholding in the Company of 5.8% (at 31 December 2017: 6.3%) and 4.7% (at 31 December 2017: N/A) respectively.

(1) Andrey Filatov, Nikita Mishin and Konstantin Nikolaev, are co-founders of Globaltrans and are beneficiaries with regard to 11.5%, 11.5% and 10.8% respectively of Globaltrans' ordinary share through their respective SPVs (Marigold Investments Ltd, Onyx Investments Ltd and Maple Valley Investments Ltd).

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

(3) Beneficially owned by Sergey Maltsev, Chairman of the Board of Directors, Chief Strategy Officer and co-founder of Globaltrans.

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As at 31 December 2018, 55.5% (31 December 2017: 59.4%) of the shares represented the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company. The remaining 0.2% (31 December 2017: 0.1%) of the shares of the Company were controlled by the Directors and key management of the Company.

The following table gives a summary of transactions, which were carried out with related parties for the years ended 31 December 2018 and 2017.

	2017 RUB mln	**2018 RUB mln**
Sales of services: associate	484	**–**
Purchases of services: associate	116	**–**
Key management compensation [(1)]	1,058	**1,912**

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

	2017 RUB mln	**2018 RUB mln**
Other receivables from related parties	–	**200**
Accrued key management remuneration – current	524	**648**
Accrued key management remuneration – non-current	–	**115**

More information is available in Note 33 to the Group's Consolidated Management Report and Consolidated Financial Statements included in the Financial Statements section of this Annual Report.

(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 409 million (2017: RUB 130 million).

RISK MANAGEMENT

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

The Board, as part of its role in providing strategic oversight and stewardship of the Company, is responsible for maintaining a sound risk management and internal control system. As part of that system, the Board determines principal risks and sets respective risk tolerance levels. Globaltrans has adopted a Risk Management Policy that provides a consistent framework for the identification, assessment and management and, where possible, mitigation of risks.

The oversight of risk management is delegated to the Audit Committee. In addition, the Board has delegated to the CEO the responsibility for the effective and efficient implementation and maintenance of the risk management system. The Directors, through the Audit Committee, review the systems that have been established for this purpose and regularly review their effectiveness. Appropriate actions are then taken to manage the risk to an acceptable level as defined by the Board.

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

STRATEGIC: Risks that influence the Group's ability to achieve its strategy

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

RISK MANAGEMENT
continued

STRATEGIC: Risks that influence the Group's ability to achieve its strategy continued

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

STRATEGIC: Risks that influence the Group's ability to achieve its strategy continued

Risk	Description	Controls and mitigating factors
Competition and customer concentration	The Russian freight rail transportation market is highly competitive with unregulated operators' services tariffs. The ongoing market consolidation is leading to greater price competition. The risk of an irrational supply of railcars on the market by railcar producers and/or irrational behaviour of competitors/new market entrants may place additional pressure on the profitability of railway transportation and thus negatively impact the Group. Competition between railway transportation and other means of transportation, including, but not limited to, oil product and oil transportation by pipeline, river and road, may negatively impact the Group's business volumes and profitability. The Group's customer base is characterised by significant concentration: the business is heavily dependent on a few large industrial groups and their suppliers, with its top 10 customers and their suppliers accounting for around 74% of the Group's Net Revenue from Operation of Rolling Stock in 2018. While the Group has long-term contracts with several key customers, failure to extend and/or maintain the current service contracts or for such customers to no longer have the volume requirements they have had in the past may have a negative impact on the Group's operational results and financial performance.	Globaltrans has significant competitive advantages that mitigate some of the risks of competition. These advantages include its strong reputation for high-quality service and reliability; its independent status; its long-term partnership with customers; its sophisticated operating capabilities; and its modern fleet. The Group has long-term, established relationships with its key customers and their affiliates and suppliers. In most cases, Globaltrans has become an integrated part of their operations. Around 60% of the Group's Net Revenue from Operation of Rolling Stock in 2018 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. Globaltrans continues its focus on expanding business with small and medium companies to further diversify its customer base. In 2018, the share of small and medium companies amounted to 26% of Net Revenue from Operation of Rolling Stock (2017: 26%). In addition, the Group's marketing function regularly monitors competitors' business strategies, their use of technology, their price strategies and industry trends.
Locomotive traction	The Group is dependent on RZD to issue permits allowing it to operate locomotives and to approve its use of locomotives for particular routes. If those routes are not in demand by the Group's clients, their utilisation could be lower. Furthermore, there is uncertainty about the prospects for, and the timing of, further deregulation of locomotive traction.	The Group has a competitive advantage in providing freight rail transportation services to some clients, as it operates its own locomotives for the traction of block trains dedicated to particular routes. By assembling full trains composed only of its own railcars, the Group increases the speed and reliability of transportation for its clients. The Group has established controls to obtain the timely renewal of locomotive operation licences and the respective permits from RZD. The Group regularly monitors the progress of the reform relating to continuing deregulation in locomotive traction. In addition, the Group's management actively participates in the development of the required regulation through various dedicated industrial organisations and partnerships.

RISK MANAGEMENT
continued

OPERATIONAL: Risks that influence the Group's operational efficiency

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

OPERATIONAL: Risks that influence the Group's operational efficiency continued

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

RISK MANAGEMENT
continued

COMPLIANCE: Risks that influence the Group's adherence to relevant laws and regulations

Risk	Description	Controls and mitigating factors
Pending and potential legal actions	The Group is involved in material legal actions from time to time. Such actions may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and could result in claims from government authorities not expected by the Group.	The Group runs its operations in compliance with tax, currency, labour, customs, antimonopoly and other applicable legislation and constantly monitors any changes in the regulatory environment. The Group monitors its compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to rigorous review by all of the Group functions concerned and to a formal approval process prior to execution.
Compliance with sanctions	The Group functions in a number of jurisdictions, including Cyprus, Russia, Estonia, Finland and Ukraine. In addition, the Group has GDRs listed on the London Stock Exchange. Thus, the Group is obliged to comply with sanction legislation applicable in each jurisdiction as well as US, UK and EU regulations, which may change from time to time.	The legal and compliance teams of the Group together with the external lawyers monitor the applicable requirements in each of jurisdictions, including US personal and sectoral sanctions (SDN OFAC, SSI OFAC and CAATSA), and the appropriate controls are established to ensure that all subsidiaries of the Group comply with applicable regulations.
Fiscal risk	Local tax, currency and customs legislation, especially in Russia, other emerging markets and Cyprus, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation.	The Group has controls in place, including highly qualified and experienced personnel, to monitor changes in legislation and determine the appropriate action needed to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group engages and cooperates with external consultants and law firms.

FINANCIAL: Risks that influence the Group's financial performance

Risk	Description	Controls and mitigating factors
Currency risks	Currently, the Group has a negligible share of borrowings and lease liabilities denominated in US Dollars and does not have formal arrangements for hedging this foreign exchange risk. The Group therefore has limited exposure to the effects of currency fluctuations between the US Dollar and the Russian Rouble. The Group is also exposed to the effects of currency fluctuations between the Russian Rouble (the presentational currency of the Group's financial results and the functional currency of the Company as well as of its Cypriot and Russian subsidiaries) and the Euro (the functional currency of the Group's Estonian subsidiaries), and between the Russian Rouble and the Ukrainian Hryvnia (the functional currency of the Group's Ukrainian subsidiary).	A large proportion of the Group's revenues and expenses are denominated and settled in Russian Roubles. At present, the risks related to liabilities denominated in foreign currency are not material and are partly compensated for by assets and income denominated in foreign currency. The Group has refinanced nearly all of its liabilities denominated in US Dollars with long-term debt denominated in Russian Roubles. Since 2008, the Group has taken action to mitigate currency risks and adjusted the profile of the borrowings in its credit portfolio. As of 31 December 2018, nearly all the Group's debt was denominated in Russian Roubles.
Interest-rate risks	The Group's income and operating cash flows are exposed to changes in market interest rates. These arise mainly from floating rate lease liabilities and borrowings. An increase in market interest rates in Russia may negatively influence the Group's profits.	The Group concludes long-term borrowing and finance lease contracts to finance purchases of rolling stock and acquisitions of subsidiaries. The Group borrows at current market interest rates and does not use any hedging instruments to manage interest-rate risk. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring that the Group has financial liabilities with both floating and fixed interest rates as appropriate. As of 31 December 2018, nearly all of the Group's debt was at fixed interest rates. Management also considers alternative means of financing.
Credit risk	Financial assets that potentially subject the Group to credit risk consist principally of trade receivables, cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including their affiliates and suppliers. Its top 10 clients accounted for 59% of the Group's trade and other receivables as of 31 December 2018 and around 74% of the Group's Net Revenue from Operation of Rolling Stock in 2018.	The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Substantially all of the bank balances are held with reliable banks.
Liquidity risk	The Group's business is capital-intensive. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia have had a negative impact on the Russian financial markets and have limited the Group's access to international sources of funding. Any lack of available funding and potential increases in market interest rates could have a negative impact on the Group's ability to obtain financing for the settlement of its liabilities or cash to meet its financial obligations.	The Group has a budgeting policy in place that allows the management to control current liquidity based on expected cash flows. These include, among others, operating cash flows, capital expenditure needs, funds borrowed from financial institutions and funds raised from listed debt instruments.

CORPORATE SOCIAL RESPONSIBILITY

Our approach to sustainability

This section is prepared in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative (the "GRI") in the Core disclosure version and the requirements of the EU's 2014/95/EU Directive regarding disclosure of non-financial and diversity information.

Within this section are the key results, activities and performance of the parent company Globaltrans Investment PLC and its subsidiaries in the field of sustainable development for the year ended 31 December 2018. All information disclosed in this Section reflects activities of the Group companies included in the list for financial reporting purposes in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS") unless otherwise specified in the text.

Globaltrans reports economic, social and environmental activities deemed to be material and, in order to provide comparable data, most indicators in the Section are presented for two years, i.e. 2017 and 2018.

This section covers all material topics, including results for the reporting period and performance assessment findings. Topics, which are not considered relevant, are not subject to disclosure in sustainability reports according to the GRI Standards. The overall aim is to achieve high standards in the areas of balance, comparability, accuracy, timeliness, clarity and reliability, as defined by the GRI Standards.

Stakeholder engagement

Communicating effectively is a vital aspect of being a successful business. Regular engagement with its stakeholders is integral to Globaltrans' ability to undertake business responsibly. The Group sees stakeholder engagement as an opportunity to initiate further dialogue about relevant topics and thereby shape the future development of its business and the advancement of its sustainability agenda. The Group's stakeholders include employees, shareholders and investors, customers, government and regulators, media and local communities.

The Group uses the most appropriate communication channels to listen to its stakeholders and ensure they can access the information they need about its policies, practices and strategic direction. These include direct engagement with stakeholders through meetings, presentations, roadshows and attendance of conferences. More generally, the Group ensures that information is readily available and released in a timely fashion so that communications with stakeholders are as transparent as possible through media and news announcements, conference calls, corporate website and e-mail feedback forms.

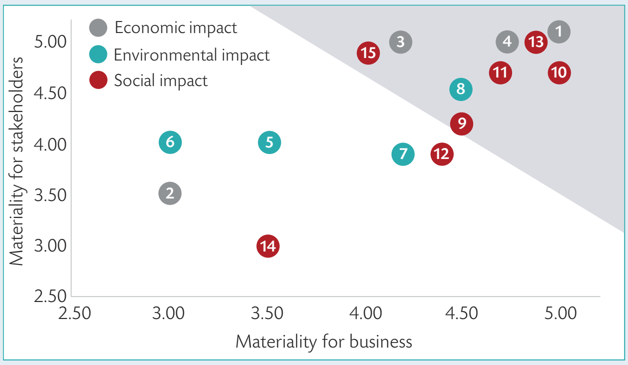
Procedure of identifying material sustainability topics

Step 1
Identification of material topics
Material topics were identified through the analysis of internal regulations and media coverage, and review of non-financial reports issued by peer companies.

Step 2
Prioritisation of material topics
In order to develop a broader and more fulfilled stakeholder engagement process, the Group gathered both external and internal feedback (employees, shareholders, investors, clients) on the materiality of sustainability issues for the Group.

Step 3
Preparation of materiality matrix
A materiality matrix was developed to highlight the most significant topics for the Group's system of sustainability reporting. A validity check was also conducted on identified material topics to ensure that all of them are disclosed in this Annual Report.

Materiality matrix



Economic impact
1 Economic performance
2 Socioeconomic development of regions
3 Business ethics, risk management and anti-corruption
4 Customer satisfaction

Environmental impact
5 Risks and opportunities posed by climate change
6 Responsible water use and reduction of water consumption
7 Reduction of energy consumption
8 Non-compliance with environmental laws and regulations

Social impact
9 Employment, staff and management relationship
10 Employee education and development
11 Employee motivation
12 Diversity and equal opportunity
13 Occupational health and safety
14 Corporate volunteering
15 Charity

Source: Globaltrans

Stakeholder engagement mechanisms

Stakeholder group	Mechanisms of stakeholder engagement	Key results in 2018
Employees	• Labour-management consultations • Engagement surveys • Corporate booklets and information boards • Networking events • Regular direct communication between managers, teams and individuals • Career development, annual training and performance processes	• Social benefits and guarantees, including medical insurance • Favourable working conditions • Salary benchmarking against peers • Zero fatalities, zero accidents and zero cases of occupational illness
Shareholders and investors	• Open, effective and transparent communication • IR website • General Meetings of Shareholders • Corporate reporting and webcasts • Broker-hosted investor events, non-deal roadshows and conference calls	• Information disclosure on a semi-annual basis • Analyst and investor conference calls and webcasts • Non-deal roadshows in the UK, Europe, Russia and the US. Over 300 meetings with investors in total • Regular dividend payments(1) • Publication of the Annual Report and corporate social responsibility information
Customers and business partners	• Face-to-face formal and informal meetings, as well as formal consultations • Customer analytics and customer evaluation system • Conferences and forums • Customer satisfaction surveys • Transparent supply chain	• Two new five-year contracts signed with blue-chip industrial companies (TMK, ChelPipe Group) • Maintaining long-term partnerships with clients – about 60% of the Group's 2018 Net Revenue from Operation of Rolling Stock was covered by long-term contracts • Customer satisfaction surveys • Customer privacy and data security
Government, regulators and professional authorities	• Communication with regulators/policy makers about issues affecting the freight rail transportation industry • Permits and licences • Regulatory change management • Various industry and regulatory forums	• Tax obligations fulfilment • Participation at professional associations including the Council of Railway Operators and the Russian Union of Transport Workers
Local communities	• Corporate philanthropy and charitable contributions • Community investment	• Contribution to the socioeconomic development • Regular contributions to various charitable projects
Media	• Communication with media representatives • Transparent disclosure through various channels • Press conferences and exhibitions	• Circulation of media and news announcements • Responding to media queries • Participation in various events and exhibitions (for example, Annual TransRussia exhibition for Transport and Logistics Services and Technologies)

(1) Total shareholder payments in respect of 2018 were RUB 16.5 billion (including interim and special interim dividends in respect of the first half of 2018 and final and special final dividends in respect of the second half of 2018).

CORPORATE SOCIAL RESPONSIBILITY
continued

Ethics and behaviour

Globaltrans manages and organises human resources in full compliance with the rights guaranteed by legislation as well as its Code of Ethics and Conduct adopted in 2008. The Code states that the Group's responsibility is to promote responsible corporate behaviour within its workforce. The Code touches upon important aspects of interactions between the Group and its employees and contains a list of core values that apply to all actions of the Group and its employees.

Tolerance

Understanding and respecting diverse cultures and people with different views

Impartiality

Acting objectively and professionally

Respect

Compliance with all requirements of applicable labour laws

Equality for all

Creating opportunities and a working environment that excludes any form of discrimination

Safety

Compliance with required rules to create a safe and healthy workplace

All employees of the Group are required to sign an acknowledgement that they have received, read and understood the Code of Ethics and Conduct. Globaltrans does not tolerate any behaviour that is contrary to these values.

The Group has also adopted an Anti-Fraud Policy that is designed to identify and prevent fraud. The Group has established the necessary procedures and rules for dealing with any issues and has appointed a team responsible for the development of internal controls and investigations. Fraud prevention measures apply to all Group personnel. Each employee is required to understand the types of violations that may occur within the area of his/her responsibility and closely monitor any indications of potential non-compliance.

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

The Group's executive management meets at least weekly to discuss, among other things, anti-fraud and anti-corruption measures. In 2018, as in previous years, there were no reported cases within the Group of any corrupt or fraudulent activity.

We respect and protect the privacy of personal information of our stakeholders and comply with EU general data protection regulation, adopted by the EU Parliament in April 2016. The Group has adopted a Privacy policy, which is available on the corporate website (www.globaltrans.com).

Key CSR activities

Globaltrans understands that alongside financial results, non-financial results are also of great importance both to the Company and its stakeholders. Globaltrans takes seriously its social and environmental responsibilities and is committed to preventing potential damage to the community and environment as a result of the Group's operations.

Key CSR activities of Globaltrans are:

Corporate Governance

Transparent corporate governance is accomplished by engaging Globaltrans' senior management with its shareholders, maintaining clearly defined corporate policies, undertaking training as well as the continuous professional development of senior management. For details, please see the Corporate Governance section of this Annual Report.

Responsible employment

Responsible employment is achieved through compliance with labour legislation, efforts to decrease employee turnover, ensuring a safe place of work and ensuring a rich corporate culture.

Environmental responsibility

Environmental responsibility is achieved through minimising the adverse impact of Globaltrans' activities on the environment, i.e. through more energy-efficient practices, carbon emission reduction and recycling.

Investment in the community

Investment in the community consists of support provided to charitable organisations.

Economic performance

Economic performance, including the generation and distribution of the economic value created to various stakeholder categories. For details, please see the Financial Review section of this Annual Report.

In order to meet regulatory and stakeholders' expectations, Globaltrans is constantly improving the existing framework for non-financial risk management. Non-financial risks may have a negative impact on the Group's internal processes, business reputation and performance along with its ability to pursue strategic goals. The Group's non-financial risks are comprised of strategic, operational and compliance risks. For details of the main risks facing the Group, please refer to the Risk Management section of this Annual Report and the Principal Risks and Uncertainties subsection, included in the Financial Statements section of this Annual Report.

The internal regulations of the Group reflect its approach to managing non-financial risks. Measures taken by Globaltrans to control and mitigate such risks provide for the Group's growth both in terms of its business value and its market positions.

Responsible employment

Our approach to HR management

Globaltrans realises that its people are one of its biggest competitive advantages in the market. The hard work and outstanding performance of its employees adds immense value and is instrumental to the Group's success.

Globaltrans manages employment and labour through comprehensive human resources strategies and policies such as:

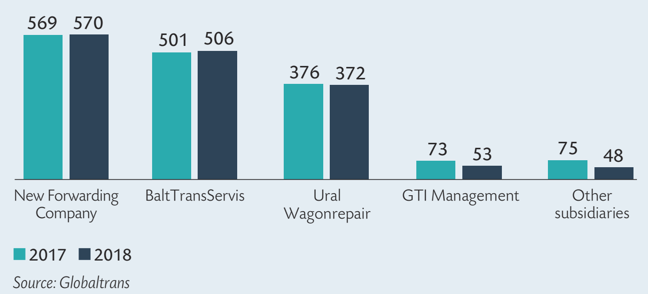
- Internal code of labor conduct
- Workplace safety guidelines and fire instructions
- Job description
- Code of Ethics and Conduct
- Compensation and Benefits Policy
- Regulations on the Protection of Personal Data of Employees
- Regulations on Business Trips
- Anti-Fraud Policy
- Regulations on Contractual Work

The labour practices of Globaltrans are compliant with applicable legislation.

The average employee headcount during the year remained at the level of the previous year with 1,540 employees. However, headcount at the end of the year decreased compared to 2017 to 1,549 people[1]. The companies within the Group that employ the most people are New Forwarding Company (36%), BaltTransServis (32%) and Ural Wagonrepair Company (24%).

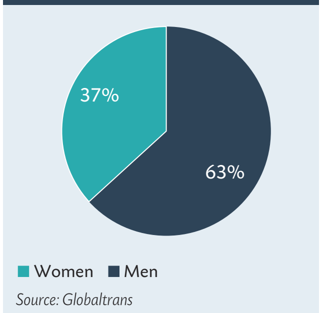
Globaltrans is committed to fostering a workplace that is safe and professional and that promotes teamwork and trust. Hostility, harassment and other unprofessional behaviours are not tolerated.

Headcount by companies in 2018 (at year-end)



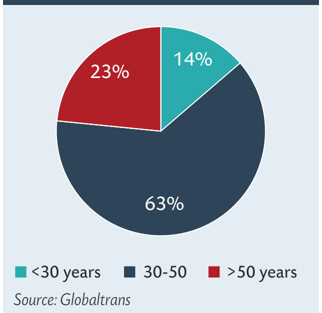
Source: Globaltrans

Headcount by gender in 2018 (at year-end)



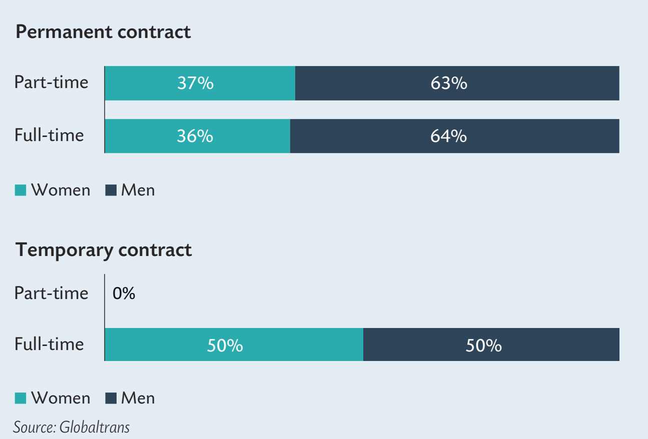
Source: Globaltrans

Headcount by age in 2018 (at year-end)



Source: Globaltrans

Headcount by contract type in 2018 (at year-end)



Source: Globaltrans

(1) *The difference between the headcount and the average headcount is due to different calculation techniques. The headcount is presented as at the end of 2018, while the average headcount is calculated by totalling the number of employees on the list in each month of the reporting period and dividing this sum by the number of months.*

CORPORATE SOCIAL RESPONSIBILITY
continued

Diversity
As a business, it is imperative that Globaltrans has access to the widest pool of talent available, selecting the best candidates based on their ability to do the job. While the Group does not have a formal Diversity Policy, it follows the best practice behaviours espoused in the Group's Core Values of Equality, Impartiality and Respect. In that regard, the Group believes that a commitment to diversity is critical to achieving its strategic goals. The Group values difference and promotes respect and dignity for all regardless of an individual's race, colour, religion, nationality, gender, sexual orientation, disabilities or age.

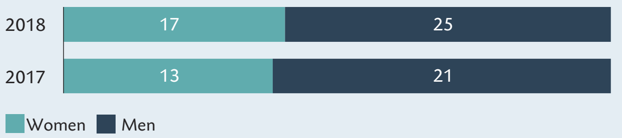
Globaltrans recognises that historically the freight rail transportation industry has been a sector with relatively low female representation. The Group is working to address this as part of its wider commitment to diversity. As of the end of 2018, 37% of the total workforce was female, with one female senior executive and two female members of the Board of Directors, representing respectively 11% of the senior executive management team and 13% of the total number of Directors.

The age demographics of the Group's employees ranged from less than 30 to over 50 years.

Training and education
Globaltrans values knowledge, skills and abilities and is committed to helping its employees to develop and grow professionally. Globaltrans introduced various training programmes for its employees so that they keep up to date with and are able to successfully manage developments in the industry as well as changes in its business and the environment in which it operates. Globaltrans carefully selects training and development to match the training needs of employees at different stages of their careers and to support them through the challenges they face. Every employee undertakes appropriate training for his or her field of work.

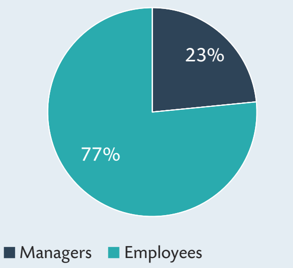
Training and career development opportunities are offered across the Group annually. In 2018, there were 350 employees who undertook training and a total of 33,238 hours was spent on training and career development. The amount of training hours per employee rose by almost 22% compared with the previous year, which Globaltrans believes is a positive trend.

Number of training hours per employee by gender



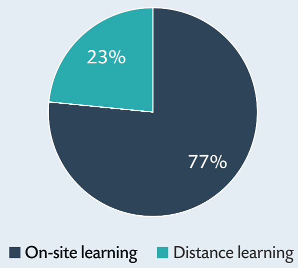
Source: Globaltrans

Distribution of training among employees by employee categories



Source: Globaltrans

Main types of training formats in 2018



Source: Globaltrans

As an example of the different kinds of training undertaken across the Group, GTI Management provided training for its employees in information security, accounting, financial management, health and safety, BaltTransServis trained its employees in the development of corporate culture and various skills applicable to their operations and Ural Wagon Repair Company taught fire-safety for welders.

Motivation
Globaltrans is focused on maintaining competitive remuneration practices and creating a favourable work environment for its employees. Group companies understand the importance of motivating their employees to perform at the highest level and offer various benefits to support this. There are a range of benefits offered to employees including medical insurance, paid child-care leave, allowances for family emergencies, additional vacation days and a competitive salary, all of which are continually benchmarked against peer companies to ensure the high motivation and morale of employees.

The Group and its subsidiaries also operate various Employee Incentivisation Programmes for different levels of employees. In addition to fixed salary, these programmes may include discretionary elements based, among others things, on key performance indicators ("KPIs"), the weighted average market quotations of the fixed number of Global Depository Receipts ("GDR") and the number of years of employment at the Group. These efforts not only help increase employees' productivity but also help the Group to attract and retain the best talent, which is evidenced by staff turnover of only 18% (20% among men and 12% among women).

Corporate culture and internal communications
Globaltrans aims to create a culture that makes the Group a great place to work. It strives to attract and retain talented people to deliver outstanding performance and enhance the success of the Group. One way in which Globaltrans supports its people is through providing appropriate rewards and ensuring a rich corporate culture. This includes developing a comfortable and engaging working environment to increase employee motivation and ensure their needs are being met as well as by creating a healthy environment for any concerns to be voiced and heard.

The fundamental principles of the Group's corporate culture, including its core values and employee rules, are captured in its Code of Ethics and Conduct. In order to ensure that these values and rules are implemented correctly, some of the Group's subsidiaries have established an Employee Hotline to deal quickly and effectively with any questions or concerns employees may have. The Hotline operates on the basis that no communication may be left without appropriate attention.

The Group also regularly holds sports, cultural and leisure events for employees and their families. This helps to create a pleasant working environment, increase employee engagement and promote better cohesion.

Health and safety

Occupational safety is a fundamental part of Globaltrans' business and it constantly strives to reduce work-related injuries and maintain a safe working environment. The goal is to ensure that everyone in the Group companies, from the top managers to the individual employees, is engaged with safety and health matters.

The Group companies ensure that all safety procedures are carried out and that they are compliant with all policies and legislation. To guarantee that safety compliance is met, the Group companies have implemented the following policies:

- Occupational safety regulation
- Fire-safety instruction
- Instruction for carrying out health and safety briefings
- Instruction on pre-medical first aid
- Workplace safety guidance for PC users

Globaltrans actively trains and educates personnel in occupational safety to develop a culture of awareness and responsibility in the workplace. For example, Ural Wagonrepair Company trained and certified 10 additional employees in the field of occupational safety in 2018.

The Group also regularly checks conditions in the workplace to ensure that they continue to meet high standards. In 2018, around 373 workplaces were assessed across the Group:

- 166 workplaces in New Forwarding Company
- 139 workplaces in BaltTransServis
- 68 workplaces in Ural Wagonrepair Company

In 2018, due to the continued implementation of these important practices, Globaltrans had zero fatalities, zero accidents and zero cases of occupational illness.

Environmental responsibility

Globaltrans remains committed to the principles of sustainable development and does its utmost to follow them. The Group is therefore aiming to develop its business and deliver a strong economic performance in a way that is environmentally friendly.

The Group complies with all requirements of applicable legislation, including legally enforceable local enactments and internal regulations. No incidents of non-compliance with environmental laws and regulations occurred in the reporting period.

Globaltrans seeks to be an eco-friendly company with a focus on the rational use of water, improvement of energy efficiency and reducing paper and fuel consumption. Statistics as well as descriptions of the activities that the Group is implementing to reduce its impact on the environment are provided for each area in the below paragraphs[(1)].

Energy usage

Globaltrans fully recognises that increasing energy efficiency and successfully adopting modern energy-saving technologies are central to achieving a more sustainable future. Given the particular nature of the industry, the Group's operations consume energy from various sources, namely fuel (petrol, diesel, and gas) and electricity. In order to reduce energy consumption Globaltrans is developing effective energy management.

Total consumption of energy resources by type, 2017-18

Energy carrier	2017	2018	Change, %
Electricity (kWh)	7,628,109	**7,347,827**	-4%
Diesel (litres)	50,453,999	**54,752,185**	9%
Petroleum (litres)	280,310	**250,051**	-11%

Globaltrans successfully reduced its energy consumption in two key areas in 2018 compared with the previous reporting period. Total electricity consumption declined by 4% year-on-year, due to a continued focus on energy efficiency and ongoing cost optimisation efforts across the Group. Globaltrans plans to optimise energy consumption in the future by implementing the best green practices.

(1) As Globaltrans has begun disclosing data on resource consumption only this year, the mechanism for collecting, processing and presenting information in the areas of rational use of water, energy and paper has not yet been fully developed. Therefore, the Company does not yet have enough data to fully demonstrate the trends occurring in all of its business units.

CORPORATE SOCIAL RESPONSIBILITY
continued

Use of water

The Group has carried out extensive work aimed at improving its water management systems in recent years. While the system for capturing and processing statistical data regarding water usage across the Group is still under development, considerable progress continues to be made in this area. For example, both BaltTransServis and Ural Wagonrepair Company reported significant improvements in their use of water in 2018:

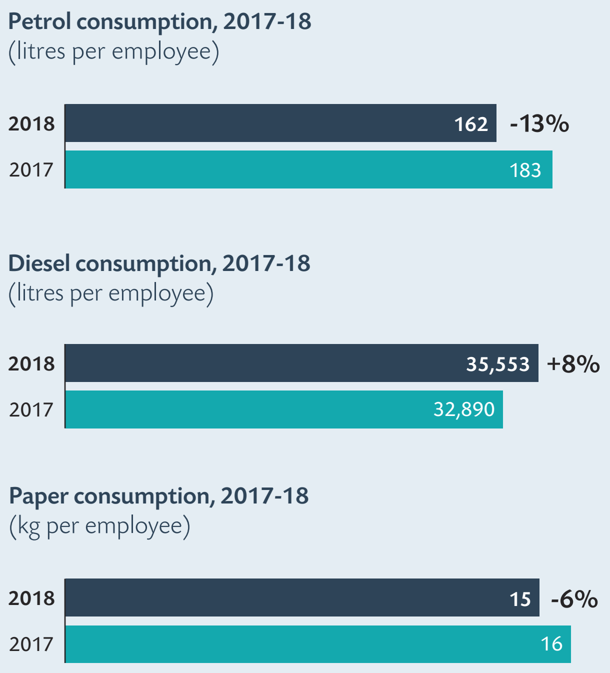
- Total consumption of cold water by BaltTransServis decreased 19% year-on-year.
- Total consumption of cold and hot water by Ural Wagonrepair Company decreased 16% year-on-year.

Globaltrans plans to improve the monitoring system to control water quality and consumption in the future.

Paper consumption and recycling

Document production happens as a matter of course in the Group's activities. Globaltrans enters into a large number of contracts and must maintain many different documents and, as a result, consumes significant amounts of paper. In addition to this, Globaltrans' business volumes are growing and therefore document flow and production are increasing. However, the Group does its utmost to reduce paper consumption and is trying to gradually make the transition to electronic document flow ("EDF").

Consumption per employee, 2017-18



Source: Globaltrans

Recycling is among the key initiatives at Globaltrans. The amount of paper sent for recycling by New Forwarding Company and Ural Wagonrepair Company has increased by 60% compared with the previous reporting period. This is an area the Company continues to focus on improving across its other business units.

Greenhouse gas management

Rail is one of the most environmentally friendly and fuel efficient methods of moving freight over land as large amounts of cargo can be moved by a single locomotive. However, locomotives do produce a carbon footprint which is why effective greenhouse gas management is key to reducing the industry's environmental impact.

It is important to highlight that the vast majority of locomotive traction used by the Group is provided by OAO Russian Railways, the only railway carrier engaged in owning and building railway infrastructure in Russia. For context, there are nearly 11,000 mainline locomotives operated by Russian Railways.

However, Globaltrans does operate one of the largest privately owned mainline locomotive fleets in Russia's freight rail industry, with 69 units in ownership (as at the end of 2018) which haul block trains and are principally engaged in the transportation of oil products and oil.

Globaltrans has been focused on operational efficiency from the outset, recognising that it has a beneficial impact on the environment. The Group continues to improve logistics by reducing the number of empty rail cars that are moved across the country. This is evident in the Group's operational performance with Empty Run Ratio for gondola cars maintained at the industry leading level of 38% in 2018, in line with the Company's average for the last five years. In addition, the Group's unique ability to transport oil products and oil in block trains using its own locomotives contributes to operational efficiency enabling high fleet utilisation.

At the same time, the acquisition of new/relatively new rolling stock and the effective management of regular repairs using companies with resource-saving and environmentally friendly technologies, enable the Group to operate a modern, well-maintained fleet. This further contributes to operational efficiency and enables Globaltrans to provide a higher standard of service for the clients. In 2019, the Group plans to acquire up to 10 new modern diesel locomotives for modernisation purposes, which will help the Company to drive improved operational and environmental performance.

The Group's greenhouse gas emissions from operations with locomotives owned by the Group were 166,129 tonnes of CO_2 equivalent in 2018[1]. To help manage its carbon footprint Globaltrans will actively measure this on an annual basis going forward. As 2018 was the first year the Group was in a position to report its indirect greenhouse gases emissions, data is only available for this year.

(1) The Group's greenhouse gas emissions were calculated in accordance with IPCC Guidelines for National Greenhouse Gas Inventories (2006).

It is important to emphasise that Globaltrans' environmental management system is currently under development and the Group is committed to establishing an effective system for recording, collecting and processing information in all of its subsidiaries by next year. This will allow the Company to provide further information, building on what has been reported here, and to more accurately demonstrate the processes occurring across Globaltrans in the area of ecological management.

Investment in the community

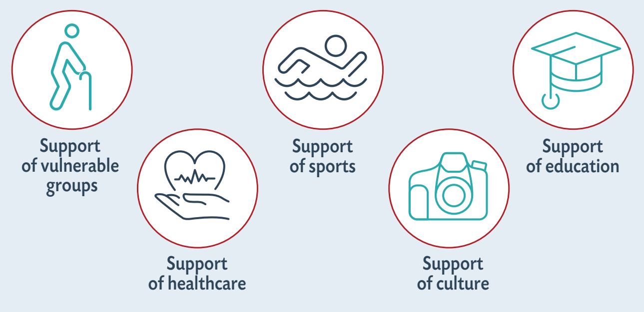
Creating long-term value for a wide range of stakeholders is a vital part of our business. Achieving a high level of economic performance allows the Company to invest in social and economic development as well as to improve the quality of life for local communities. Globaltrans seeks to support the development of the regions where it is present by paying taxes, creating jobs and supporting charitable organisations. How the Company creates wealth for its stakeholders is reflected in the following table.

Direct economic value generated, distributed and retained[1]

	2018 RUB mln
Direct economic value generated[2]	**86,773**
Economic value distributed	**85,347**
– Total cost of sales (excluding Employee benefit expense)	53,704
– Total selling, marketing and administrative expenses (including community investments and excluding Employee benefit expense and Taxes (other than income tax and value added tax)	1,252
– Employee benefit expense	4,367
– Payments to the providers of capital[3]	19,577
– Payments to the government[4]	6,447
Economic value retained	**1,426**

The Group believes that it is vital to create value for society not only through financial operations but also from direct cooperation with charitable organisations. Globaltrans is committed to investing in the social sphere to improve the living conditions of local communities and actively helps ill children and the elderly, supports cultural, spiritual and educational activities and sponsors sports programmes, among other initiatives. Adhering to the principles of sustainable development is an integral part of the Group's business philosophy and is key to achieving its broader goals.

The key areas of Globaltrans' charitable activities



This year Globaltrans contributed to various charitable projects.

Drawing public attention to the issue of child healthcare is an important part of the Group's charitable focus. As part of this, in 2018, GTI Management and New Forwarding Company continued their support of the Life Line Fund, which assists children with life-threatening illnesses.

Globaltrans also regularly supports organisations that work with vulnerable social groups such as orphans, people with disabilities, veterans and pensioners. The following initiatives were undertaken in this area during 2018:

- GTI Management financed the building and facility improvement of the veterans' organisation in St. Petersburg.
- As part of its cooperation with Moscow's public organisation to support war veterans, New Forwarding Company contributed to the museum exhibition honouring the 150th anniversary of the Military communications service.

The preservation and promotion of cultural heritage is another key area of activity for Group companies. In line with this, over the course of 2018, New Forwarding Company provided support to the Ekaterinburg Artistic Fund while BaltTransServis gave funding to the International Charitable Fund "Constantine". Both of these funds use donations to restore monuments and promote Russian culture.

Additionally, Globaltrans plays an active role in improving the quality of education. In 2018, its subsidiary BaltTransServis supported various educational initiatives, for instance "The Gaidar Foundation" that supports projects in the fields of science, culture and education and provides support for the implementation of projects and events for both communities and organisations.

Finally, as part of its commitment to support the development of sports, New Forwarding Company made charitable donations to the Fencing Federation of Russia in 2018.

(1) Information in the table is derived from the Consolidated Management Report and Consolidated Financial Statements for the year ended 31 December 2018.

(2) Direct economic value generated includes "Revenue".

(3) Payments to providers of capital include "Interest paid", "Dividends paid to owners of the Company" and "Dividends paid to non-controlling interests in subsidiaries".

(4) Payments to government include "Tax paid" and "Taxes (other than income tax and value added taxes)". The Company also pays Russian Value Added Tax ("VAT"). VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Purchases of property, plant and equipment are shown net of VAT. Related input VAT is included in movement in changes of working capital, within trade and other receivables.

GOVERNANCE

4
Independent Directors

15
Board members

Globaltrans has continued to work diligently over the last 10 years to ensure that its corporate governance framework meets the highest standards of international best practice.

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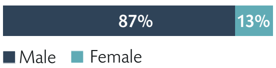
BOARD OF DIRECTORS

Globaltrans has in place a highly experienced Board of Directors, with the right blend of skills and experience necessary to lead the Group effectively. In addition to the significant operational and financial experience of the Board members, the independent Non-executive Directors bring their own external experience and objectivity to the Board's deliberations and decision-making process, helping to support and constructively challenge the Executive.

Executive/Non-executive Board Directors

Board Gender



Sergey Maltsev
Chairman of the Board,
Executive Director,
Chief Strategy Officer,
Co-founder of Globaltrans

Appointment: Sergey Maltsev was elected as Chairman of the Board of Directors of Globaltrans in April 2018. He also serves as Chief Strategy Officer having been appointed to the role in August 2017.

Skills and Experience: Mr. Maltsev was instrumental in the development of the freight rail market in Russia and has worked in the industry for over 30 years. He co-founded Globaltrans and served as Chief Executive Officer from 2008 until 2015 when he left the Group. After leaving Globaltrans, he served as Senior Vice President for strategy and corporate governance at OAO Russian Railways, until his return to Globaltrans as Chief Strategy Officer in 2017.

Mr. Maltsev was a founder member and Chairman of the non-profit partnership "Council of Railway Operators". In recognition of his services to the rail industry, Mr. Maltsev received the award of "Honoured Railwayman of Russia". He graduated with a degree in railway engineering.

External Appointments: N/A

Michael Zampelas
Senior Independent Non-executive Director, Chairman of the Nomination Committee

Appointment: Mr. Zampelas joined the Board in March 2008. He is the Senior Independent Non-executive Director, Chairman of the Nomination Committee and a member of the Remuneration Committee.

Skills and Experience: From 2013 to 2018, Mr. Zampelas served as Chairman of the Board of Globaltrans. He was Chairman and Managing Partner of accountancy firm Coopers & Lybrand in Cyprus from 1970 until 2001 (latterly as PricewaterhouseCoopers). He served as vice chairman of Eurobank Cyprus Limited from 2007 until 2018 and chaired its Audit Committee for a period of five years. From 2002 to 2006, Mr. Zampelas was Mayor of Nicosia.

Mr. Zampelas is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales.

External Appointments:
Mr. Zampelas is an independent non-executive director of Arricano Real Estate Plc, a Ukrainian real estate company, listed on the London Stock Exchange, and chairs its Audit and Remuneration Committees.
Mr. Zampelas is the Honorary Consul General of Estonia in Cyprus, a role he has undertaken since 1997.
He is also President of the Association of Friends of the Christou Steliou Ioannou Foundation, a charitable foundation for children with learning difficulties.

Dr. Johann Franz Durrer
Independent Non-executive Director, Chairman of the Remuneration Committee

Appointment: Dr. Durrer was appointed to the Board as an Independent Non-executive Director in March 2008. He is Chairman of the Remuneration Committee and a member of the Nomination Committee.

Skills and Experience: Dr. Durrer began his career at Union Bank of Switzerland and in 1970 founded Fidura Treuhand AG which provides book-keeping, auditing and financial services.

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

External Appointments: Dr. Durrer currently serves on the Board of IMT-Dienst AG, a transport company. He is also an executive board member of several privately held companies.

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

Appointment: Mr. Colley was appointed to the Board as an Independent Non-executive Director in April 2013. He is also Chairman of the Audit Committee.

Skills and Experience: Mr. Colley has extensive experience in international trade and risk management both in the public and private sectors. From 2007 to 2010, Mr. Colley served as country manager for Russia at Noble Resources SA. Prior to that, he held a variety of positions in the public sector, including at the office of the US Trade Representative and the US Department of Commerce in Washington, DC. He also worked for Linkful Ltd and Noble Resources SA in Moscow from 1992 to 1999.

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

External Appointments: Mr. Colley is currently the principal of Highgate Consulting LLC, a global advisory consulting company.

George Papaioannou
Independent Non-executive Director

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

Skills and Experience: Mr. Papaioannou has more than 20 years' experience in financial reporting, risk management, auditing, financial performance analysis and taxation. In 2004, he founded G. Papaioannou Auditors Ltd, which provides accounting, audit, tax and consulting services. From 2002 to 2004, he worked at Grant Thornton in Cyprus and before that for PricewaterhouseCoopers. Mr. Papaioannou holds a degree in Accounting and Financial Management from the University of Essex. He is a qualified chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales.

External Appointments: N/A

Alexander Eliseev
Executive Director, co-founder of Globaltrans

Appointment: Alexander Eliseev joined the Board as an Executive Director in March 2008.

Skills and Experience: Mr. Eliseev co-founded Globaltrans in 2004 and has played a leading role in introducing market-based reforms to the Russian rail transportation market. He has spent more than 17 years in senior management positions, mostly within the rail sector. He also sits on the boards of two Globaltrans subsidiaries, New Forwarding Company and BaltTransServis. Mr. Eliseev is a graduate of the Russian State Medical University, where he studied biophysics.

External Appointments: Mr. Eliseev is a member of the Board and General Director of Globaltruck, a leading freight trucking operator in Russia, listed on the Moscow Exchange.

Andrey Gomon
Non-executive Director

Appointment: Mr. Gomon served as a member of the Board of the Company from 2013 to 2016 and rejoined the Board in April 2017.

Skills and Experience: Mr. Gomon has more than 13 years of management experience in the railway industry. From 2006 to 2012 he was CEO of Transoil, one of the largest oil transportation companies in Russia, having previously served as CFO between 2003 and 2006. He is a member of the boards of two Globaltrans subsidiaries, New Forwarding Company and BaltTransServis. Mr. Gomon studied economics at St Petersburg State University and holds an MBA from INSEAD.

External Appointments: N/A

BOARD OF DIRECTORS
continued

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

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

Skills and Experience: Ms. Nicolaou has extensive experience in commercial, corporate and funds law. She is currently the Managing Director of Amicorp (Cyprus) Ltd. Previously, she was head of the Corporate Legal department at Polakis Sarris LLC and also worked at C. Patsalides LLC. Ms. Nicolaou participates in various associations of the Cyprus Chamber of Commerce and also sits on the boards of other listed and private companies. Ms. Nicolaou graduated with an LLB in Law from the University of Nottingham, and holds an LLM in Commercial and Corporate Law from University College London. She also has an advanced diploma in Business Administration from the Cyprus International Institute of Management.

External Appointments: N/A

Melina Pyrgou
Non-executive Director

Appointment: Ms. Pyrgou was appointed to the Board as a Non-executive Director in April 2013.

Skills and Experience: Ms. Pyrgou is a barrister and registered insolvency practitioner and has practised corporate law for over 25 years. She is currently Managing Director of Pyrgou Vakis Law Firm, a Cyprus-based corporate and commercial law practice. Previously she was Director of Legal Services at PricewaterhouseCoopers in Cyprus.

Ms. Pyrgou served as the Chairman of EuropeFides Association, a European network of accounting, audit, tax and legal firms, from 2015 to 2016. She is also a member of various local business associations. Ms. Pyrgou graduated from the University of Keele with a degree in Law and Sociology, and also holds a diploma in Environmental Law from the University of Geneva. She was called to the bar in Cyprus in 1992 and in London (Grays Inn) in 1995.

External Appointments: Ms. Pyrgou currently serves as a member of the Cyprus Investments Promotion Agency ("CIPA"). She also currently sits on the Disciplinary Committee of the Institute of Certified Public Accountants of Cyprus ("ICPAC").

Konstantin Shirokov
Executive Director, Head of Internal Audit

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

Skills and Experience: Mr. Shirokov has over 12 years' senior international management experience. Prior to joining Globaltrans, he worked in senior finance roles at Mechel and as an economist at Glencore International. He also served as a non-executive member on the board of Global Ports Investments PLC between 2008 and April 2018 where he also sat on the Audit and Risk Committees. Mr. Shirokov graduated from the Finance Academy under the Russian government. He also studied business management at Oxford Brookes University.

External Appointments: N/A

Alexander Storozhev
Executive Director, Chief Procurement Officer

Appointment: Mr. Storozhev joined the Board as an Executive Director in April 2013.

Skills and Experience: Mr. Storozhev has held a series of senior management roles over a 20-year career in the rail industry and has been with Globaltrans since the company was established. He is Chairman of a number of Globaltrans subsidiary boards, including AS Spacecom, AS Spacecom Trans, GTI Management and BaltTransServis. He also serves on the boards of New Forwarding Company and Ural Wagonrepair Company, both Globaltrans subsidiaries. Since February 2015, he has been director of Investments and Business Development at New Forwarding Company. Mr. Storozhev is a recipient of the "Honoured Transport Worker of CIS" Award.

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

External Appointments: N/A

Alexander Tarasov
Non-executive Director

Appointment: Alexander Tarasov joined the Board in April 2013.

Skills and Experience: Mr. Tarasov served as a deputy director general in Sevtekhnotrans, a Globaltrans subsidiary that subsequently merged with Ferrotrans. He has held management positions at a number of leading Russian companies across different sectors, with a focus on financial management and analysis. Mr. Tarasov graduated from the Bauman Moscow State Technical University with a degree in Engineering. He also holds a degree in Economics from the Moscow State University of Commerce.

External Appointments: N/A

Michael Thomaides
Non-executive Director

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

Skills and Experience: Mr. Thomaides previously served as a director at Globaltrans Investment PLC from 2004 to 2008 and sat on the Board of Directors of Global Ports Investments PLC, Russia's leading container port operator. He has been a director at Leverret Holding Ltd (Cyprus) since 2007. Mr. Thomaides graduated from London Southbank University with a BSc in Consumer Product Management.

External Appointments: N/A

Marios Tofaros
Non-executive Director

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

Skills and Experience: Mr. Tofaros is a director of the Client Accounting department at Amicorp (Cyprus) Ltd. He was a financial accountant at Depfa Investment Bank Ltd from 2004 to 2008 and a financial officer at Louis Catering Ltd from 2003 to 2004. He also held various positions in the Audit department at KPMG Cyprus. Mr. Tofaros has a degree in Accounting, Finance and Economics and a master's degree in Business Studies, both from the University of Kent. He also holds a chartered certified accountant (FCCA) diploma and is a member of the Institute of Certified Public Accountants of Cyprus.

External Appointments: N/A

Sergey Tolmachev
Executive Director, Managing Director

Appointment: Mr. Tolmachev was appointed to the Board as a Non-executive Director in April 2013 and as an Executive Director in October 2013.

Skills and Experience: Mr. Tolmachev became the Group's Managing Director in October 2013. He joined N-Trans Group in 2001 and has held various management positions focused on corporate finance and treasury. He also serves on Globaltrans subsidiary boards, including AS Spacecom and AS Spacecom Trans. He has extensive experience in financial analysis and modelling. Mr. Tolmachev graduated from Lomonosov Moscow State University with a degree in Mechanics and Applied Mathematics.

External Appointments: N/A

EXECUTIVE MANAGEMENT

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

1. Sergey Maltsev
Chief Strategy Officer,
Chairman of the Board,
Executive Director,
co-founder of Globaltrans

Sergey Maltsev was elected as Chairman of the Board of Directors of Globaltrans in April 2018. He has been serving as Chief Strategy Officer of the Group since August 2017.

Mr. Maltsev has worked in the rail sector for more than 30 years and was instrumental in the development of the private freight rail market in Russia. Mr. Maltsev was one of the founding members of the non-profit partnership "Council of Railway Operators" and held the position of Chairman.

Having co-founded Globaltrans, he served as the Company's CEO and member of the Board for over a decade before stepping down in 2015. Subsequently, he worked as the Senior Vice President for strategy and corporate governance at OAO Russian Railways. He is a recipient of the "Honoured Railwayman of Russia" award.

2. Valery Shpakov
Chief Executive Officer

Valery Shpakov became CEO in March 2016, having served as interim CEO since November 2015. He joined New Forwarding Company, a Globaltrans subsidiary, in 2003 and has been its CEO since 2007.

He is an experienced manager with a track record of over 30 years in the rail industry. He began his career in the private sector in 1999 and has held managerial positions at various companies in the transport sector. He is a recipient of the "Honoured Railwayman of Russia" award.

3. Alexander Shenets
Chief Financial Officer

Alexander Shenets has been the CFO of Globaltrans since the Group's establishment and has more than 15 years of experience in senior finance positions, mostly in the rail sector. He is a member of the boards of GTI Management, New Forwarding Company, BaltTransServis, AS Spacecom, AS Spacecom Trans and Ural Wagonrepair Company, all Globaltrans subsidiaries.

He holds an MBA from Lomonosov Moscow State University.

4. Vyacheslav Stanislavsky
Deputy Chief Executive Officer,
Head of Operations

Vyacheslav Stanislavsky joined New Forwarding Company, a Globaltrans subsidiary, as Deputy General Director for Operations and Commerce in March 2010 and became First Deputy General Director in April 2011.

He has more than 30 years of experience in the rail industry. Mr. Stanislavsky is a recipient of the "Honoured Railwayman of Russia" award.

5. Alexander Storozhev
Chief Procurement Officer, member of the Board, Executive Director

Alexander Storozhev joined the Board as an Executive Director in April 2013. He has held a series of senior management roles over a 20-year career in the rail industry. He has been with Globaltrans since the company was established and is Chairman of a number of Globaltrans subsidiary boards, including AS Spacecom, AS Spacecom Trans, GTI Management and BaltTransServis. He also serves on the boards of New Forwarding Company and Ural Wagonrepair Company, both Globaltrans subsidiaries. Mr. Storozhev is a recipient of the "Honoured Transport Worker of CIS" award.

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

6. Kirill Prokofiev
CEO of BaltTransServis

Kirill Prokofiev was appointed CEO of BaltTransServis, a Globaltrans subsidiary, in February 2017. Prior to his appointment, he spent more than seven years working in senior executive roles in the rail sector.

He graduated from St Petersburg State University of Economics, where he majored in economics. He also holds an MBA in Strategic Management from Moscow's Higher School of Economics.

7. Roman Goncharov
Head of Treasury

Roman Goncharov has served as CFO of New Forwarding Company, a Globaltrans subsidiary, since 2005 and has over 13 years of management experience.

He has an MBA from the Moscow International School of Business.

8. Sergey Avseykov
Business Development Officer

Sergey Avseykov is in charge of business development for the Group. Mr. Avseykov originally joined New Forwarding Company, Globaltrans subsidiary, in 2011 as Head of the Marketing and Development Division. Between 2017 and 2018, Mr. Avseykov served as acting Head of Business Project Management at OAO Russian Railways. In 2018, he rejoined Globaltrans as Business Development Officer.

Mr. Avseykov graduated from Tomsk State University and holds a PhD in political science from the Russian Presidential Academy of National Economics. Mr. Avseykov is a board member of several RZD subsidiaries.

9. Svetlana Brokar
Government Relations Officer

Svetlana Brokar joined Globaltrans as government relations officer in December 2018. She is an attorney and has significant expertise in civil, tax, commercial, corporate, finance and railway transport matters. She has also worked with government departments including the Russian Transport, Finance and Railway Ministries. From 2009 to 2013, Svetlana was a member of the Board of Globaltrans subsidiary New Forwarding Company and since 2014 has acted as in-house legal counsel or provided it with legal services. She also previously worked with the non-profit partnership "Council of Railway Operators".

Ms. Brokar graduated with a law degree from Kaliningrad State University in 1985.

CORPORATE GOVERNANCE REPORT
Maintaining high governance standards

"Good governance has been a central pillar of our business model ever since we listed in 2008 and adopted governance principles based on the UK Code of Corporate Governance.

Our culture and values have always been fundamental to our success, helping to underpin our business model and guide how we engage with our employees, our customers, other stakeholders and the wider community."

Dear Shareholders,

As Chairman, I am committed to ensuring that high standards of corporate governance are in place and consistently applied in the boardroom and across the Group. Good governance has been a key pillar of our business model ever since we listed in 2008 and adopted governance principles based on the UK Code of Corporate Governance. 10 years on, the governance template put in place in 2008 continues to support the delivery of our strategic priorities, and we remain absolutely committed to pursuing best practice corporate governance.

As a Board, our primary responsibility is to ensure that the Group provides long-term, sustainable growth for its shareholders. Robust governance structures are critical as they help ensure the trust of our shareholders, customers and other stakeholders. Over the last decade we have continually fine-tuned our governance approach to keep it aligned with international best practice. Alongside this, we have built an effective and able Board of Directors with the right blend of experience, objectivity and independence needed to take the business forward, protect the interests of stakeholders and drive long-term value.

Aligned to the principles of good governance, as Board Directors we also have to set the right culture and tone from the top. Consequently, the Board places great emphasis on leading by example and ensuring that the high standards and values of the Company are consistently applied throughout the business. Our culture and values have always been fundamental to our success, helping to underpin our business model and guide how we engage with our employees, our customers, other stakeholders and the wider community.

Under the leadership of the Board, the Group will continue to work towards delivering the agreed strategy and targets for growth. In the following pages, we set out the Group's approach to corporate governance and how it supports our business strategy.

Sergey Maltsev
Chairman of the Board,
Chief Strategy Officer,
Co-founder and shareholder

CORPORATE GOVERNANCE REPORT
Corporate governance framework

Corporate governance policies

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

Globatrans' policies include, inter alia:

- Anti-Fraud Policy;
- Appointment Policy for the Board of Directors and Committees;
- Business Continuity Policy;
- Code of Ethics and Conduct;
- Continuing Obligations Policy;
- Disclosure Policy;
- Dividend Policy (new edition adopted on 31 March 2017 and amended on 24 August 2018);
- Policy on assessment of External Auditor Objectivity Policy;
- Policy on the treatment of the rights of minority shareholders;
- Privacy Policy;
- Risk Management Policy;
- Securities Dealing Code and PDMR Securities Dealing Code (new edition adopted on 15 December 2017);
- Terms of Reference of Board Committees (Audit, Nomination, Remuneration);
- Terms of Reference of the Board of Directors; and
- Whistleblowing policy.

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

Board of Directors

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

- providing leadership, setting the overall strategy and ensuring that the necessary components are in place for the Group to meet its objectives;
- setting Group values and standards, and ensuring that obligations to all stakeholders are understood and met;
- monitoring and reviewing the performance of the Group and its management;
- maintaining an effective system of internal control and risk management to safeguard shareholders' rights and interests and the Group's assets;
- ensuring an effective governance framework and compliance with relevant regulations; and
- assessing from time to time whether the Independent Non-executive Directors continue to demonstrate independence.

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

Membership of the Board of Directors

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

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

Globaltrans separates the positions of Chairman and CEO to ensure an appropriate segregation of roles and a clear division of responsibilities.

Mr. Sergey Maltsev, as Chairman, is responsible for the overall leadership, governance and effectiveness of the Board, agreeing Board agendas and ensuring that all Board members play their part to enable the Board to take sound decisions and promote the success of the Group.

Mr. Valery Shpakov, as CEO, is responsible for the development and implementation of the strategy set out by the Board, the leadership of the Group and the day-to-day performance of the business.

Alongside Mr. Maltsev, the other members of the Board are:

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

The Directors' biographies are on pages 70 to 73 of this Annual Report. In 2018, members of the Board of Directors held 18,859,256 shares and Global Depositary Receipts ("GDRs") in Globaltrans. Although Mr. Zampelas and Dr. Durrer have served on the Board for 10 years the Board of Directors still considers them to be independent.

CORPORATE GOVERNANCE REPORT
continued

Committees of the Board of Directors

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

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

Audit Committee

The role of the Audit Committee is to ensure the integrity of the Group's published financial information and the effectiveness of the internal audit function and systems of internal control and risk management, and external audit process.

	Number of members	Members	Minimum meetings a year	Number of meetings in 2018
Members and meetings	Three; two independent	• John Carroll Colley *(Chairman)* • Elia Nicolaou • George Papaioannou	Four	Seven

Responsibilities

- Integrity of the Group's financial statements.
- Effectiveness of the Group's internal control and risk management systems.
- Relationship with the Group's external auditors, including the audit process and reports.
- Terms of the auditor's appointment and remuneration.
- Implementation of codes of conduct.
- Assessment of the Chairman of the Board's performance.

Issues considered in 2018

- Review of the Group's Consolidated Financial Statements for 2017 and interim financial results for the six months ended 30 June 2018.
- Review of the external auditor's report to the Audit Committee following its full-year audit for 2017 and review for the six months ended 30 June 2018.
- Consideration of the independence of the external auditor.
- Review of the Group's external auditor and terms of reappointment for 2018. The Committee recommended reappointment of the external auditors to the Board which, in turn, proposed their reappointment at the Annual General Meeting of the Group.
- Setting terms and conditions of a tender for the appointment of external auditors for 2019, review of the materials of the audit tender and evaluation of candidates. Selection and recommendations to the Board of Directors of preferred and alternative options of the audit firms for appointment for 2019.
- Review of the report of the external auditor on the audit strategy for 2018.
- Review of regulatory announcements by the Group.
- Review of internal controls and risk management processes.
- Approval of non-audit services to be provided to the Group by the external auditor.
- Review of the internal audit function and reports on its activities, and on the internal audit model and plan.

Nomination Committee

The role of the Nomination Committee is to monitor and review the composition and balance of the Board and its committees to ensure Globaltrans has the right structure, skills and diversity for the effective management of the Group.

	Number of members	Members	Minimum meetings a year	Number of meetings in 2018
Members and meetings	Two; two independent	• Michael Zampelas *(Chairman)* • Johann Franz Durrer	One	Two

Responsibilities

- Preparation of selection criteria and appointment procedures for Board members.
- Regular review of the Board's structure, size and composition.
- Future Board appointments.
- Recommendations regarding the membership of the Audit and Remuneration Committees.

Issues considered in 2018

- Advice to the Annual General Meeting on the appointment of Board members.
- Recommendation on appointment of Director to the Board of the Company.

Remuneration Committee

The role of the Remuneration Committee is to ensure that executive remuneration aligns appropriately with the business strategy and that the remuneration policy remains appropriate.

	Number of members	Members	Minimum meetings a year	Number of meetings in 2018
Members and meetings	Two; two independent	• Johann Franz Durrer *(Chairman)* • Michael Zampelas	One	Two

Responsibilities

- Remuneration of Executive Directors (Chairman and Executive Directors decide the remuneration for independent members).
- Review of the Group's remuneration policies.

Issues considered in 2018

- Remuneration of key management.

CORPORATE GOVERNANCE REPORT
continued

Board and Board Committees meetings in 2018 and the attendance of Directors

	Board of Directors		Nomination Committee		Remuneration Committee		Audit Committee	
	E	A	E	A	E	A	E	A
Sergey Maltsev *(Chairman)*[(1)]	12	10						
Michael Zampelas[(2)]	16	16	2	2	3	3		
John Carroll Colley	16	16					7	7
Dr. Johann Franz Durrer	16	16	2	2	3	3		
George Papaioannou	16	16					7	7
Alexander Eliseev	16	14						
Andrey Gomon	16	15						
Elia Nicolaou	16	16					7	7
Melina Pyrgou	16	15						
Konstantin Shirokov	16	15						
Alexander Storozhev	16	16						
Alexander Tarasov	16	16						
Michael Thomaides	16	16						
Marios Tofaros	16	16						
Sergey Tolmachev	16	16						
Total	**236**	**229**	**4**	**4**	**6**	**6**	**21**	**21**

External auditor

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

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

The Audit Committee recommended the reappointment of PricewaterhouseCoopers as the Group's external auditor for 2018. This appointment was approved by the Group's shareholders at the Annual General Meeting on 23 April 2018. The appointment of the external auditor in April 2019 for 2019 will be based on the results of a tender, which the Group has conducted during 2018. On the basis of the tender, the Board has chosen PricewaterhouseCoopers and will therefore propose PricewaterhouseCoopers for reappointment at the next AGM of the shareholders of the Company.

Board activities

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

Board diversity

The Board does not operate a formal diversity policy with regard to age, gender or educational and professional backgrounds. However, in line with best practice, the Board does consider these aspects when making new Board appointments or considering the composition of the Board of Directors.

As at the date of publication of these financial statements, there are two female members on the Board, meaning that females make up about 13% of the Board. The Board of Directors range in age from 30 to over 70 years old, with the average age being 52 years. The Board members have the following educational backgrounds: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management.

The Board met 16 times during 2018 and considered 71 items.

Regular meetings

- Review of the Group's financial and operational performance.
- Approval of the annual budget.

(1) Appointed as a member of the Board on 23 April 2018 and as Chairman of the Board on 27 April 2018.
(2) Resigned as Chairman of the Board on 27 April 2018. Served in this role since March 2013.

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

Ad hoc meetings

- Approval of material borrowings and pledges by subsidiaries.
- Approval of remuneration of key management and executive Directors.
- Appointment of the key management of the Group.
- Approval of dividend distribution by subsidiaries.
- Review and consideration of various business development opportunities and major transactions.
- Approval of results of an audit tender.
- Changes in responsibilities of Board members and other matters.

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

Internal control and audit

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

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

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

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

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

Every 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 immediately communicated to the Audit Committee and consequently to the Board.

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

Remuneration of the Board of Directors and management

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

Non-executive Directors are not eligible for bonuses, retirement benefits or participation in any incentive plans operated by the Group. The Group's shareholders approved the remuneration of Board members for 2018 at the Annual General Meeting held on 23 April 2018. For details of the remuneration paid to the Board and key executives in 2018, please refer to Note 33c of the Consolidated Management Report and Consolidated Financial Statements included in the Financial Statements section of this Annual Report.

The total gross remuneration of the members of the Board of Directors incurred by the Group in 2018 amounted to RUB 409 million.

Relations with shareholders

The Board is committed to maintaining an open and constructive dialogue with the Company's institutional shareholders and debt investors and recognises the importance of those relationships in the governance process. Regular engagement with investors allows the Board to better understand their views and ensure they are provided with timely and appropriate information on the Group's strategy and business performance.

The executive management undertakes a regular programme of meetings, presentations, conference calls and webcasts with institutional investors and sell-side analysts. The Group announces financial results semi-annually. On a day-to-day basis, our investor relations team also engages with investors on a wide range of issues. In 2018, the Company held more than 300 meetings with investors and shareholders, attended 10 investor conferences and arranged two non-deal roadshows following the publication of the results.

A selection of the Group's historical results together with other useful information for investors and shareholders can be found on the investor section of the Group's corporate website (www.globaltrans.com).

FINANCIAL STATEMENTS

CONSOLIDATED MANAGEMENT REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

Contents

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Mr. Michael Zampelas
Senior Independent Non-executive Director
Chairman of the Nomination Committee
Member of the Remuneration Committee

Dr. Johann Franz Durrer
Independent Non-executive Director
Chairman of the Remuneration Committee
Member of the Nomination Committee

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. Michalakis Thomaides
Non-executive Director

Ms. Melina Pyrgou
Non-executive Director

Mr. Marios Tofaros
Non-executive Director

Mr. Sergey Maltsev
Chairman of the Board of Directors
Executive Director
Appointed on 23 April 2018
Alternate Director: Mr. Yuri Isaev

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

Mr. Sergey Tolmachev
Executive Director

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

Mr. Konstantin Shirokov
Executive Director

Mr. Andrey Gomon
Executive Director
Alternate Director: Ms. Melina Pyrgou

Mr. Alexander Tarasov
Non-executive Director

Board support

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

Company Secretary

Ms. Elia Nicolaou
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 2018. 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 activities of the Group, which are unchanged from last year, are the provision of railway transportation services using own and leased rolling stock as well as fleet engaged from third party rail operators and the operating lease of rolling stock.

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

Globaltrans produced a solid overall financial performance in 2018. The strong gondola market combined with slightly increased pricing in rail transportation for the oil products and oil segment translated into a strong set of results.

IFRS financial information

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

The Group's Total revenue rose 11% year-on-year to RUB 86,772,742 thousand in 2018 (2017: RUB 78,080,532 thousand). Operating profit increased 33% year-on-year to RUB 26,901,055 thousand in 2018 (2017: RUB 20,156,135 thousand). Profit for the year ended 31 December 2018 grew 42% year-on-year to RUB 19,583,435 thousand (2017: RUB 13,819,874 thousand).

On 31 December 2018 the total assets of the Group were RUB 91,217,322 thousand (2017: RUB 77,421,556 thousand) and net assets were RUB 53,525,434 thousand (2017: RUB 50,617,630 thousand).

On 31 December 2018 the total debt of the Group was RUB 25,728,911 thousand and increased by 58% as compared to end of 2017 which amounted to RUB 16,331,356 thousand. Total cash and cash equivalents on 31 December 2018 grew by 44% and amounted to RUB 7,129,918 thousand (31 December 2017: 4,966,171 thousand).

Non-IFRS financial information

Among others, management analyses the following key non-IFRS measures. 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 17% year-on-year to RUB 60,859,424 thousand (2017: RUB 52,094,289 thousand) supported by the strong performance of the gondola business and slightly improving pricing in rail transportation for the oil products and oil. Total Operating Cash Costs were up 6% year-on-year to RUB 27,893,504 thousand (2017: RUB 26,302,818 thousand).

Adjusted EBITDA rose 28% year-on-year to RUB 33,069,961 thousand (2017: RUB 25,788,683 thousand) with the Adjusted EBITDA Margin expanding to 54% (2017: 50%). The Group's Free Cash Flow was RUB 12,314,346 thousand, a 28% decline compared to RUB 17,047,982 thousand in 2017, largely due to increase in Total CAPEX.

The Group had a strong balance sheet with Net Debt to Adjusted EBITDA increasing to 0.56x (2017 end: 0.44x). Net Debt rose by 64% to RUB 18,598,993 thousand (2017 end: RUB 11,365,185 thousand). As at 31 December 2018 and 31 December 2017 almost 100% of the Group's debt was denominated in Russian roubles.

In 2018, management continued to make disciplined decisions on capital allocation whilst pursuing cost improvement and productivity measures. The Total Capex rose 165% year-on-year to RUB 12,888,898 thousand (2017: RUB 4,872,076 thousand). This higher capital expenditure reflected primarily larger expansion CAPEX in response to strong demand and in order to support the new long-term contracts and further development of niche projects. In 2018, the Group acquired 4,747 units (including 3,862 gondola cars, 481 flat cars and 404 containers) compared to 1,332 units (including 706 gondola cars, 70 flat cars and 556 containers) in the previous year.

Operational information

In 2018, the Group's Transportation Volume and Freight Rail Turnover (both excluding Engaged Fleet) decreased 4% and 9% year-on-year respectively, impacted by gondola car fleet rebalancing, changed client logistics and a reduction in average speeds on the RZD rail network over the course of 2018, caused by ongoing major rail infrastructure modernisation projects. The Group's Transportation Volume was 88.5 million tones in 2018 (2017: 91.9 million tones) with Freight Rail Turnover amounting to 146.2 billion tonnes-km (2017: 160.1 billion tonnes-km).

The Average Number of Loaded Trips per Railcar decreased by 4% year-on-year, while the Average Distance of Loaded Trips reduced by 4% year-on-year.

Average Price per Trip increased 20% year-on-year to RUB 41,859.

The high operational efficiency was maintained with the Empty Run Ratio for gondola cars increasing to 38% (2017: 37%) and the Total Empty Run Ratio amounting to 46% (2017: 45%).

Total Fleet increased 3% to 69,023 units (2017 end: 66,692 units) primarily reflecting sizeable increase in Owned Fleet, which was partially offset by the intended reduction in number of Leased-in Fleet.

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 losses/(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".

Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Adjusted Revenue.

Adjusted Revenue is calculated as "Total revenue" less the following "pass through" items "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations".

Average Distance of Loaded Trip is calculated as the sum of the distances of all loaded trips for a period divided by the number of loaded trips for the same period.

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

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

Average Rolling Stock Operated is calculated as the average weighted (by days) number of rolling stock available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased out, Engaged Fleet, flat cars and tank containers used in petrochemical business).

EBITDA 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", "Finance lease principal payments" 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 is defined as the sum of total borrowings (including interest accrued) less "Cash and cash equivalents".

Net revenue from engaged fleet 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 CAPEX calculated on a cash basis as the sum of "Purchases of property, plant and equipment", "Purchases of intangible assets", "Acquisition of subsidiary undertakings – net of cash acquired" and "Finance lease principal payments".

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", "Net impairment losses on financial assets", "Impairment of property, plant and equipment", "Net (gain)/loss on sale of property, plant and equipment" and "Loss on derecognition arising on capital repairs".

Transportation Volume is a measure of freight carriage activity over a particular period, measuring weight of cargo carried in million tonnes. It excludes volumes transported by Engaged Fleet and the performance of petrochemical tank container segment, unless otherwise stated.

CONSOLIDATED MANAGEMENT REPORT
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Changes in Group structure

During 2018 Spacecom AS acquired 100% of the shares of Spacecom Trans AS from the Company and the non-controlling shareholders. As a result, the proportion of ordinary shares held by the Company in Spacecom Trans AS increased from a direct holding of 65% to an indirect holding of 65.25%. The transaction aimed to optimise the management of both Estonian subsidiaries. There were no other changes in the group structure of the Group during the year ended 31 December 2018. For the principal subsidiaries of the Company, refer to Note 19 to the Consolidated Financial Statements.

Non-Financial Information and Diversity Statement

The Group will be publishing its 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 significant concentration of the Group's customer base with the top 10 customers (including their affiliates and suppliers) accounting for around 74% of the Group's Net Revenue from the operation of rolling stock in 2018; 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 60% of the Group's Net Revenue from the Operation of Rolling Stock in 2018 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.

Operational risks

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

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

Compliance risks

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

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

Financial risks

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

Foreign exchange risk

As of 31 December 2018, almost 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.

The Group is exposed to the effects of currency fluctuations between (i) the Russian Rouble and the US Dollar 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.

CONSOLIDATED MANAGEMENT REPORT
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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 2018 almost 100% of the Group's debt was denominated in Russian Roubles.

Had US Dollar exchange rate strengthened/weakened by 20% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2018 would have decreased/increased by RUB 93,454 thousand (2017: 5% change, effect RUB 11,888 thousand) and equity would have increased/decreased by RUB 528,448 thousand (2017: RUB 125,368 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 2018 would have increased/decreased by RUB 37,260 thousand (2017: 10% change, effect RUB 28,517 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 (2017: 10% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2018 would have decreased/increased by RUB 132,112 thousand (2017: RUB 125,368 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 2018, 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 2018, the proportion of total debt with a fixed interest rate amounted to almost 100%.

Credit risk

Assets that subject the Group to credit risk consist principally of trade receivables, finance lease receivables, loans 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 58.65% of the Group's trade receivables on 31 December 2018 (2017: 76.25%).

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 31 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 102 and 103. 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 2017, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2016 in the amount of 39.20 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 7,006,644 thousand (US Dollar equivalent of USD 124,605 thousand).

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

In April 2018, the shareholders of the Company approved the payment of a dividend for the financial year ended 31 December 2017 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 (US Dollar equivalent of USD 130,728 thousand).

In August 2018, the Board of Directors of the Company approved payment of total dividend in the amount of 45.9 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,204,208 thousand (US Dollar equivalent of USD 119,724 thousand), including interim dividend in the amount of RUB 3,771,433 thousand (US Dollar equivalent of USD 55,037 thousand) or RUB 21.10 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,432,775 thousand (US Dollar equivalent of USD 64,687 thousand) or RUB 24.80 per ordinary share/GDR.

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 2018 total dividend in the amount of 46.50 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,311,453 thousand, including final dividend for 2018 in the amount of RUB 1,429,927 thousand or RUB 8.00 per ordinary share/GDR and a special final dividend in the amount of RUB 6,881,526 thousand or RUB 38.50 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at 19 April 2019, subject to the approval of the shareholders at the Annual General Meeting on 22 April 2019.

Share capital

As at 31 December 2018 the issued share capital of the Company which remains unchanged from the prior year, comprised 178,740,916 ordinary shares with a par value of USD 0.10 per share.

Research and development activities

The Group has not undertaken any research and development activities during the year ended 31 December 2018.

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 34 to the Consolidated Financial Statements.

Branches

The Group operates through branches and representative offices, maintaining eight branches and eight representative offices during 2018 (11 branches and eight representative offices during 2017).

Treasury shares

In 2018 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

The 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 2019, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

CONSOLIDATED MANAGEMENT REPORT
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Auditors

The Board of Directors in accordance with the requirements of the EU introduced into Cypriot legislation undertook a mandatory audit tender in respect of the 2019 audit. Following this the Independent Auditor, PricewaterhouseCoopers Limited, has 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 2018 and at the date of this report, the Board comprises 15 members (2017: 14 members), nine (2017: 10 members) of whom are Non-executive Directors. Four (2017: four) of the Non-executive Directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company, and they are able to exercise objective judgement on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2018 and at the date of this report are shown on page 85. All of them were members of the Board throughout the year 2018, except Mr. Sergey Maltsev, who was appointed as Director 23 April 2018.

There were no significant changes in the assignment of responsibilities of the Board of Directors, with the exception of the change in the Chairman of the Board on 23 April 2018 from Mr. Michael Zampelas to Mr. Sergey Maltsev.

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 2018 amounted to RUB 408,987 thousand (2017: RUB 130,387 thousand).

Board performance

The Board held 16 meetings in 2018. The Directors' attendance is presented in the table below.

	Eligible	Attended
Michael Zampelas	16	16
Johann Franz Durrer	16	16
Carroll Colley	16	16
George Papaioannou	16	16
Alexander Eliseev	16	14
Melina Pyrgou	16	15
Konstantin Shirokov	16	15
Alexander Storozhev	16	16
Marios Tofaros	16	16
Elia Nicolaou	16	16
Sergey Tolmachev	16	16
Sergey Maltsev (Chairman)[(1)]	12	10
Andrey Gomon	16	15
Alexander Tarasov	16	16
Michael Thomaides	16	16

(1) Sergey Maltsev was appointed as a member of the Board of Directors on 23 April 2018.

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 Mr. Zampelas and Dr. Durrer 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 23 April 2018.

Refer to Note 33 of the Consolidated Financial Statements for details of remuneration of Directors and other key management personnel.

Diversity policy

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

As of the date of publication of these financial statements the Board has two females representing approximately 13.3% from the total number of Directors. The age of the members of the Board of Directors ranges from over 35 to over 70 years, with the average age of Directors being 52 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 regard to the amendment of the Articles 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.

CONSOLIDATED MANAGEMENT REPORT
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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 through 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 55.5%(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 2018 was as follows:

Onyx Investments Ltd(2)	11.5%
Marigold Investments Ltd(2)	11.5%
Maple Valley Investments Ltd(2)	10.8%
Litten Investments Ltd(3)	5.8%
Goldriver Resources Ltd(4)	4.7%
Controlled by Directors and management of Globaltrans	0.2%
Free float(1)	55.5%

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

(2) Nikita Mishin, Andrey Filatov and Konstantin Nikolaev are co-founders of the Company and beneficiaries with regard to 11.5%, 11.5% and 10.8% respectively of Globaltrans' ordinary share capital each through their respective SPVs (Onyx Investments Ltd, Marigold Investments Ltd and Maple Valley Investments Ltd).

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

(4) Beneficially owned by Sergey Maltsev, Executive Director and co-founder of the Company.

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 2018 and 31 December 2017 are shown below:

Name	Type of holding	**2018**	2017
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**10,315,790**	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	**8,382,860**	n/a
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, 29 March 2019

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 102 to 173) 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 2018 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

Limassol, 29 March 2019

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 2018, 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 102 to 173 and comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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.

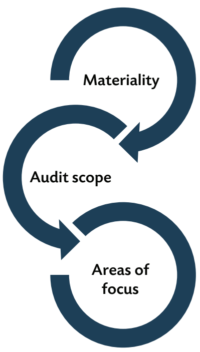
Independence

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 1,272,000 thousand, which represents approximately 5% of profit before tax.

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

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

We have identified revenue recognition under IFRS 15 "Revenue from contracts with customers", including impact of adoption on 1 January 2018 as the key audit matter.

pwc

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INDEPENDENT AUDITOR'S REPORT
continued

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 1,272,000 thousand
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose the profit before tax as the benchmark, because in our view, it is the benchmark against which the performance of the Group is most commonly measured by 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 63,600 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 3 reporting units, in 2 countries, which were assessed as significant components due to their individual financial significance to the Group. For the non-significant components we performed full scope audit, 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 the audit of the Group's revenue recognition policy under IFRS 15 "Revenue from contracts with customers", including the impact of adoption on 1 January 2018. 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
Revenue recognition under IFRS 15 "Revenue from contracts with customers", including impact of adoption on 1 January 2018	
IFRS 15 "Revenue from contracts with customers" and its subsequent amendment were effective for the Group from 1 January 2018. In accordance with the transition provisions of IFRS 15, the Group has elected the simplified transition method for the purpose of adopting the new standard which allows the cumulative effect of transition to IFRS 15 to be recognised as at 1 January 2018 as an adjustment to the opening retained earnings directly in equity. As a result, the Group changed its accounting policy for revenue recognition as at 1 January 2018. We focused our audit effort on the Board of Directors' assessment of the impact of adoption and ongoing impact of IFRS 15 on the Group's accounting policy for operator's services contracts due to the fact that: • the Board of Directors exercised complex and subjective judgements in the process of applying the principles of IFRS 15 to the Group's operator's services contracts and, accordingly, in the process of assessing the impact of adoption and the ongoing impact of the new accounting standard on the Group's accounting policies for the said revenue stream and in 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 3 "Adoption of new or revised standards and interpretations", Note 4 "Summary of significant accounting policies", Note 7 "Critical accounting estimates and judgements" and Note 10 "Revenue" to the consolidated financial statements provide detailed information regarding the Board of Directors' assessment, and basis thereon and the Group's new accounting policies for revenue recognition as from 1 January 2018.	We evaluated and challenged the Board of Directors' judgements around the impact of adoption and ongoing impact of the new accounting standard from 1 January 2018 and the adequacy and appropriateness of the disclosures in this respect. We involved PwC accounting technical experts to assist us in this process. In particular: • We obtained the Board of Directors' assessment of the impact of adoption of the new accounting standard on the Group's revenue streams. • We assessed the completeness of the analysis by reference to the Group's revenue streams for the year ended 31 December 2017. • We challenged the Board of Directors' analysis and judgements for a sample of revenue contracts by reference to the five-step model in IFRS 15. We focused on the critical judgements that had the most significant effect on the Board of Directors' conclusion. In particular: (i) 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; and (ii) we 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 are borne by the Group. • We assessed whether the Group entered into new types of contracts with customers or amended the terms of existing contracts with customers within the year ended 31 December 2018 requiring assessment under the new accounting standard. • We lastly evaluated the adequacy of the disclosures made in Notes 3, 4, 7 and 10 of the consolidated financial statements and compared the disclosures against the requirements of IFRS 15 "Revenue from contracts with customers" and IAS 1 "Presentation of financial statements". As a result of the above procedures, we determined that the Board of Directors' judgements are appropriate and reasonable and the disclosures included in the consolidated financial statements are adequate.

INDEPENDENT AUDITOR'S REPORT
continued

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 a European Union Public Interest Entity was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 10 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 28 March 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

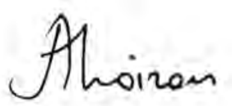
Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

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

Other Matter

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

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



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

29 March 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Note	2018 RUB'000	2017 RUB'000
Revenue	10	**86,772,742**	78,080,532
Cost of sales	11	**(55,154,376)**	(54,608,847)
Gross profit		**31,618,366**	23,471,685
Selling and marketing costs	11	**(220,542)**	(237,640)
Administrative expenses	11	**(4,629,044)**	(3,851,492)
Reversal of impairment charge of intangible assets	18	**–**	630,223
Other income		**133,754**	57,967
Other (losses)/gains – net	12	**(1,479)**	85,392
Operating profit		**26,901,055**	20,156,135
Finance income	14	**377,445**	480,585
Finance costs	14	**(1,778,460)**	(2,046,403)
Net foreign exchange transaction losses on financing activities	14	**(40,219)**	(236,540)
Finance costs – net	14	**(1,441,234)**	(1,802,358)
Profit before income tax		**25,459,821**	18,353,777
Income tax expense	15	**(5,876,386)**	(4,533,903)
Profit for the year		**19,583,435**	13,819,874
Profit attributable to:			
– owners of the Company		**17,671,968**	12,288,777
– non-controlling interest		**1,911,467**	1,531,097
		19,583,435	13,819,874
Weighted average number of ordinary shares in issue (thousand)		**178,741**	178,741
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share) (1)	30	**98.87**	68.75

(1) 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.

The notes on pages 107 to 173 of these Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 RUB'000	2017 RUB'000
Profit for the year	**19,583,435**	13,819,874
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**1,282,549**	504,640
Items that will not be reclassified to profit or loss		
Currency translation differences attributable to non-controlling interest	**622,618**	299,095
Other comprehensive income for the year, net of tax	**1,905,167**	803,735
Total comprehensive income for the year	**21,488,602**	14,623,609
Total comprehensive income for the year attributable to:		
– owners of the Company	**18,954,517**	12,793,417
– non-controlling interest	**2,540,065**	1,830,192
	21,494,582	14,623,609

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 107 to 173 of these Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
at 31 December 2018

	Note	31 December 2018 RUB'000	31 December 2017 RUB'000
Assets			
Non-current assets			
Property, plant and equipment	17	**74,764,903**	64,770,907
Intangible assets	18	**757,209**	1,453,801
Other assets	22	**1,019,572**	436,855
Trade receivables	21	**221,805**	183,516
Loans and other receivables	21	**11,904**	16,857
Total non-current assets		**76,775,393**	66,861,936
Current assets			
Inventories	23	**904,375**	776,341
Other assets	22	**3,587,790**	2,569,514
Loans and other receivables	21	**262,846**	49,367
Trade receivables	21	**2,365,723**	2,179,954
Current income tax assets		**191,277**	18,273
Cash and cash equivalents	24	**7,129,918**	4,966,171
Total current assets		**14,441,929**	10,559,620
Total assets		**91,217,322**	77,421,556
Equity and liabilities			
Equity attributable to the owners of the Company			
Share capital	25	**516,957**	516,957
Share premium	25	**27,929,478**	27,929,478
Common control transaction reserve		**(10,429,876)**	(10,429,876)
Translation reserve		**4,317,675**	3,035,126
Capital contribution		**2,694,851**	2,694,851
Retained earnings		**22,598,941**	21,146,195
Total equity attributable to the owners of the Company		**47,628,026**	44,892,731
Non-controlling interest		**5,897,408**	5,724,899
Total equity		**53,525,434**	50,617,630
Non-current liabilities			
Borrowings	27	**17,269,321**	9,050,768
Trade and other payables	29	**404,357**	–
Deferred tax liabilities	28	**6,284,868**	5,908,319
Total non-current liabilities		**23,958,546**	14,959,087
Current liabilities			
Borrowings	27	**8,459,590**	7,280,588
Trade and other payables	29	**2,549,337**	4,413,656
Contract liabilities	10	**2,673,467**	–
Current tax liabilities		**50,948**	150,595
Total current liabilities		**13,733,342**	11,844,839
Total liabilities		**37,691,888**	26,803,926
Total equity and liabilities		**91,217,322**	77,421,556

On 29 March 2019, 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 107 to 173 of these Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

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 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										
Dividends to owners of the Company	26	–	–	–	–	–	(15,014,237)	(15,014,237)	–	(15,014,237)
Dividends to non-controlling interest	26	–	–	–	–	–	–	–	(2,200,000)	(2,200,000)
Total transactions with owners		–	–	–	–	–	(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

Year ended 31 December 2018	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 2018		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
Comprehensive income										
Profit for the year		–	–	–	–	–	17,671,968	17,671,968	1,911,467	19,583,435
Other comprehensive income										
Currency translation differences		–	–	–	1,282,549	–	–	1,282,549	622,618	1,905,167
Total comprehensive income for 2018		–	–	–	1,282,549	–	17,671,968	18,954,517	2,534,085	21,488,602
Transactions with owners										
Dividends to owners of the Company	26	–	–	–	–	–	(16,220,738)	(16,220,738)	–	(16,220,738)
Dividends to non-controlling interest	26	–	–	–	–	–	–	–	(1,723,005)	(1,723,005)
Increase in share capital of subsidiary		–	–	–	–	–	–	–	200,061	200,061
Payments to non-controlling interest	19	–	–	–	–	–	–	–	(831,136)	(831,136)
Acquisition of non-controlling interest	19	–	–	–	–	–	1,516	1,516	(7,496)	(5,980)
Total transactions with owners		–	–	–	–	–	(16,219,222)	(16,219,222)	(2,361,576)	(18,580,798)
Balance at 31 December 2018		516,957	27,929,478	(10,429,876)	4,317,675	2,694,851	22,598,941	47,628,026	5,897,408	53,525,434

The notes on pages 107 to 173 of these Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018

	Note	2018 RUB'000	2017 RUB'000
Cash flows from operating activities			
Profit before tax		**25,459,821**	18,353,777
Adjustments for:			
– Depreciation of property, plant and equipment	17	**5,110,715**	4,962,459
– Amortisation of intangible assets	18	**696,702**	717,986
– Net (gain)/loss on sale of property, plant and equipment	17	**(27,347)**	28,507
– Loss on derecognition arising on capital repairs	17	**377,284**	528,039
– Reversal of impairment charge on intangible assets	18	**–**	(630,223)
– Impairment of property, plant and equipment	17	**10,073**	111,172
– Profit on sale of associates	12	**–**	(60,888)
– Net impairment losses on financial assets	11	**29,713**	60,755
– Interest income	14	**(377,445)**	(480,585)
– Interest expense and other finance costs	14	**1,778,460**	2,046,403
– Net foreign exchange transaction losses on financing activities	14	**40,219**	236,540
– Other income/(losses)		**(10,940)**	3,505
		33,087,255	25,877,447
Changes in working capital			
– Inventories		**169,562**	106,437
– Trade receivables		**(316,527)**	(78,548)
– Other assets		**(1,042,367)**	859,188
– Other receivables		**(66,210)**	(17,160)
– Trade and other payables		**262,742**	748,209
– Contract liabilities		**507,939**	–
Cash generated from operations		**32,602,394**	27,495,573
Tax paid		**(5,765,818)**	(3,631,769)
Net cash from operating activities		**26,836,576**	23,863,804
Cash flows from investing activities			
– Loans repayments received from third parties		**5,984**	11,485
– Purchases of property, plant and equipment		**(11,567,554)**	(4,872,076)
– Purchases of intangible assets		**(110)**	–
– Proceeds from sale of property, plant and equipment	17	**409,794**	267,526
– Proceeds from sale of associates	12	**–**	60,888
– Interest received		**377,445**	480,585
– Receipts from finance lease receivable		**129,251**	23,830
Net cash used in investing activities		**(10,645,190)**	(4,027,762)
Cash flows from financing activities			
– Proceeds from bank borrowings	27	**15,197,467**	15,710,000
– Proceeds from issue of non-convertible unsecured bonds	27	**5,000,000**	–
– Repayments of borrowings	27	**(13,127,743)**	(15,722,698)
– Finance lease principal payments	27	**(1,321,234)**	–
– Interest paid	27	**(1,633,332)**	(1,943,746)
– Dividends paid to owners of the Company	26	**(16,220,738)**	(15,014,237)
– Dividends paid to non-controlling interests in subsidiaries	26	**(1,723,005)**	(2,200,000)
– Acquisition of non-controlling interest	19	**(5,980)**	–
– Payments to non-controlling interest	19	**(168,604)**	–
Net cash used in financing activities		**(14,003,169)**	(19,170,681)
Net increase in cash and cash equivalents		**2,188,217**	665,361
– Exchange losses on cash and cash equivalents		**(24,470)**	(472,604)
– Cash and cash equivalents at beginning of year	24	**4,966,171**	4,773,414
Cash and cash equivalents at end of year	24	**7,129,918**	4,966,171

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 22) and finance leases with the Group acting as the lessee (Note 27).

The notes on pages 107 to 173 of 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

Globaltrans Investment Plc ("the Company") is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Cyprus 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 Consolidated Financial Statements were authorised for issue by the Board of Directors on 29 March 2019.

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 activities of the Group, which are unchanged from last year, are the provision of railway transportation services using own and leased rolling stock as well as the fleet engaged from third party operators and the operating lease of rolling stock.

2. 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 requirements of the Cyprus Companies Law Cap. 113.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by International Accounting Standards Board ("IASB") that are relevant to the Group's operations and are effective as at 1 January 2018 have been adopted by the EU through the endorsement procedure established by the European Commission.

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 7.

3. Adoption of new or revised standards and interpretations

During the current year the Group adopted all the new and amended standards that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. None of these has affected these Consolidated Financial Statements with the exception of the following standards the adoption of which resulted in changes in the Group's accounting policies:

- IFRS 15 "Revenue from contracts with customers"; and
- IFRS 9 "Financial Instruments".

As explained below, in accordance with the transition provisions of IFRS 15 and IFRS 9, the Group has elected the simplified approach for adoption of the standards. Accordingly, IFRS 15 and IFRS 9 were adopted without restating the comparative information, which is prepared in accordance with IAS 18 and IAS 39, and the impact of adoption has been recognised in the opening retained earnings.

3. Adoption of new or revised standards and interpretations continued

The following table summarises the impact of adoption of the new standards on each financial statement line item of the consolidated balance sheet. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adoption of the new standards did not have any impact on the consolidated income statement, the consolidated statement of comprehensive income and the basic and diluted earnings per share.

	31 December 2017 – as previously presented RUB'000	Reclassifications[1] RUB'000	31 December 2017 – under IAS 18 and IAS 39 RUB'000	Effect of adoption of IFRS 15 RUB'000	**1 January 2018 – under IFRS 15 and IFRS 9 RUB'000**
Non-current assets					
Trade and other receivables	637,228	(637,228)	–	–	**–**
Trade receivables	–	183,516	183,516	–	**183,516**
Loans and other receivables	–	16,857	16,857	–	**16,857**
Other assets	–	436,855	436,855	–	**436,855**
Total non-current assets	66,861,936	–	66,861,936	–	**66,861,936**
Current assets					
Trade and other receivables	4,798,835	(4,798,835)	–	–	**–**
Trade receivables	–	2,179,954	2,179,954	–	**2,179,954**
Loans and other receivables	–	49,367	49,367	–	**49,367**
Other assets	–	2,569,514	2,569,514	–	**2,569,514**
Total current assets	10,559,620	–	10,559,620	–	**10,559,620**
Total assets	77,421,556	–	77,421,556	–	**77,421,556**
Current liabilities					
Trade and other payables	4,413,656	–	4,413,656	(2,229,306)	**2,184,350**
Contract liabilities	–	–	–	2,229,306	**2,229,306**
Total current liabilities	11,844,839	–	11,844,839	–	**11,844,839**
Total liabilities	26,803,926	–	26,803,926	–	**26,803,926**

(1) Changes in presentation following adoption of IFRS 9 and IFRS 15: The Group has voluntarily changed the presentation of certain amounts in the consolidated balance sheet to reflect their different nature. Comparative figures have been adjusted to conform to the changes in the presentation for the current year. In particular:

- *Loans receivables and other receivables, which were previously presented within 'trade and other receivables', are now presented as 'loans and other receivables' on the face of the consolidated balance sheet; and*
- *Finance lease receivables, prepayments and other non-financial assets, which were previously presented within 'trade and other receivables', are now presented as 'other assets' on the face of the consolidated balance sheet.*

Comparative figures have been adjusted to conform with the changes in the presentation for the current period.

The impact of adoption of each standard is analysed in more detail in the following sections.

(i) IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from contracts with customers" and related amendments superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The new standard replaces the separate models for recognition of revenue for the sale of goods, services and construction contracts under previous IFRS and establishes uniform requirements regarding the nature, amount and timing of revenue recognition. IFRS 15 introduces the core principle that revenue must be recognised in such a way to depict the transfer of goods or services to customers and reflect the consideration that the entity expects to be entitled to in exchange for transferring those goods or services to the customer; the transaction price.

The new standard provides a principle-based five-step model that must be applied to all categories of contracts with customers. Any bundled goods or services must be assessed as to whether they contain one or more performance obligations (that is, distinct promises to provide a good or service). Individual performance obligations must be recognised and accounted for separately and any discounts or rebates in the contract price must generally be allocated to each of them.

3. Adoption of new or revised standards and interpretations continued

IFRS 15 provides further guidance on the measurement of revenue arising from contracts that have variable consideration due to discounts, rebates, consignment inventories etc. In accordance with the new standard, when the consideration varies, an entity includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Further, incremental costs incurred to secure contracts with customers and certain costs incurred to fulfil such contracts have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The amendments to IFRS 15 clarify how to identify a performance obligation in a contract, how to determine whether a company is a principal (that is, 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.

Impact of adoption
In accordance with the transition provisions of IFRS 15, the Group has elected the simplified transition method for adopting the new standard which allows the cumulative effect of transition to IFRS 15 to be recognised as at 1 January 2018 as an adjustment to the opening retained earnings directly in equity. In accordance with the transition method elected by the Group for implementation of IFRS 15, the comparatives have not been restated but are prepared based on the Group's previous policies, which comply with IAS 18 and related interpretations.

Based on detailed analysis of the Group's revenue streams and individual contracts' terms and on the basis of the facts and circumstances relating to the Group's revenue transactions, the management of the Group concluded that the adoption of the new standard on 1 January 2018 did not have an impact on the nature, amount or timing of revenue recognised by the Group. Accordingly, the adoption of IFRS 15 did not have an impact on the Group's retained earnings as of 1 January 2018.

The adoption of the new standard resulted in changes in the presentation of amounts in the consolidated balance sheet, as per below. In particular, advances from customers for railway transportation services with a carrying amount of RUB 2,229,306 thousand as at 1 January 2018, that were previously included within trade and other payables, are now presented separately on the face of the consolidated balance sheet as contract liabilities.

	31 December 2017 under IAS 18 RUB'000	Effect of IFRS 15 – reclassification RUB'000	**1 January 2018 under IFRS 15 RUB'000**
Current liabilities			
Trade and other payables	4,413,656	(2,229,306)	**2,184,350**
Contract liabilities	–	2,229,306	**2,229,306**

The table below summarises the impact of application of IFRS 15 on the current reporting period:

	31 December 2018 under IFRS 15 RUB'000	**31 December 2018 under IAS 18 RUB'000**	**Change RUB'000**
Current liabilities			
Trade and other payables	**2,549,337**	**5,222,804**	**2,673,467**
Contract liabilities	**2,673,467**	**–**	**(2,673,467)**

The assessment of the impact of adoption of IFRS 15 on the Group's accounting policies required management to make certain critical judgements in the process of applying the principles of the new standard. The judgements that had the most significant effect on management's conclusion are disclosed in Note 7.

The adoption of the new standard resulted in changes in the Group's accounting policies in regards to revenue recognition. The Group's new accounting policies following adoption of IFRS 15 at 1 January 2018 are set out in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

3. Adoption of new or revised standards and interpretations continued

(ii) IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and those to be measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For assets measured at fair value, gains and losses are either recorded in profit or loss or in other comprehensive income.

In particular, debt financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Debt financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, debt financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

IFRS 9 also introduces a single impairment model applicable for debt financial assets at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model requires the recognition of allowances for doubtful debt based on Expected Credit Losses ("ECL"), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified approach for calculating impairment on trade receivables as well as for calculating impairment on contract assets and lease receivables; which also fall within the scope of the impairment requirements of IFRS 9.

For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

With the introduction of IFRS 9 "Financial Instruments", the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognised in profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedge ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

Impact of adoption

In accordance with the transition provisions in IFRS 9, the Group has elected the simplified transition method for adopting the new standard which allows for the effect of transition to IFRS 9 to be recognised as at 1 January 2018 as an adjustment to the opening retained earnings directly in equity. In accordance with the transition method elected by the Group for implementation of IFRS 9, the comparatives have not been restated but are prepared based on the Group's previous policies, which comply with IAS 39. Consequently, the revised requirements of IFRS 7 "Financial Instruments: Disclosures" have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior period.

On 1 January 2018, the Group's management assessed which business models apply to the debt financial assets held by the Group that were classified as loans and receivables under IAS 39. Management concluded to classify all the financial assets held by the Group at the amortised cost measurement category under IFRS 9 as these are held with the objective to collect the contractual cash flows and their cash flows represent solely payments of principal and interest. As a result, the measurement basis for the Group's financial assets remained unchanged by the adoption of IFRS 9. The adoption of IFRS 9 did not have an impact on the classification and measurement basis of the Group's financial liabilities.

3. Adoption of new or revised standards and interpretations continued

As a result of the adoption of IFRS 9 the Group revised its impairment methodology for each class of assets subject to the new impairment requirements. The Group has four types of assets that are subject to IFRS 9's new expected credit loss model: trade receivables, loans and other receivables, finance lease receivables and cash and cash equivalents. Based on the assessment performed by management, the incremental impairment loss as at 1 January 2018 was immaterial. Accordingly, the impact of adoption of IFRS 9 on the Group's retained earnings as at 1 January 2018 was immaterial.

The adoption of the new standard resulted in changes in the Group's accounting policies in regard to financial instruments and lease receivables. The Group's new accounting policies following adoption of IFRS 9 at 1 January 2018 are set out in Note 4.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 15 and IFRS 9, effective from 1 January 2018, these policies have been consistently applied to all the years presented.

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 IFRS 9 in profit or loss (2017: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

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 attributable to owners of the Company. 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 change 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
(i) Accounting policies applicable from 1 January 2018
Recognition and measurement. Revenue represents the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, value-added taxes); the transaction price. Revenue is recognised net off discounts and estimates for rebates that are in accordance with the contracts entered into with the customers. The Group includes in the transaction price an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Estimations for rebates and discounts are based on the Group's experience with similar contracts and forecasted sales to the customer.

4. Summary of significant accounting policies continued

The Group recognises revenue when the parties have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations, the Group can identify each party's rights and the payment terms for the goods or services to be transferred, the contract has commercial substance (i.e. the risk, timing or amount of the Group's future cash flows is expected to change as a result of the contract), it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer and when specific criteria have been met for each of the Group's contracts with customers, 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. In evaluating whether collectability of an amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimates are reflected in the income statement in the period in which the circumstances that give rise to the revision become known by management.

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

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 four types of operator's services contracts:

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

Revenue for all of the above types of contracts is recognised over time while the Group satisfies its performance obligation by transferring control over the promised services to the customer in the accounting period in which the services are rendered. In particular, revenue is recognised in accordance with the stage of completion of the transaction, determined based on the actual trip days lapsed against the total estimated number of trip days for the entire trip, since the customer receives and consumes the benefits from the services simultaneously.

Customers are invoiced on a regular basis and in accordance with pre-agreed payment terms with credit periods not exceeding one year. If the services rendered by the Group exceed the payment and the Group does not have the unconditional right to consideration for the services rendered, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Identification of performance obligations. The Group assesses whether contracts that involve the provision of a range of goods and/or services contain one or more performance obligations (that is, distinct promises to provide a good or service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service, either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct) and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

In assessing whether two or more promises to transfer goods and/or services to a customer are separate performance obligations, the Group considers, amongst others, whether it provides a significant service of integrating the good or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted (that is, the Group is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer), whether one or more of the goods and/or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract or whether the good or services are highly interdependent or highly interrelated. The Group considers that all of the above operator's services contracts contain a single performance obligation.

Financing component. In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing. In these circumstances, the contract contains a significant financing element.

The Group does not have any material contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group elected to use the practical expedient provided by IFRS 15 and does not adjust any of the transaction prices for the effect of the financing component for the time value of money.

Contract assets and contract liabilities. In case the goods transferred or services rendered by the Group as of the reporting date exceed the payments made by the customer as of that date and the Group does not have the unconditional right to charge the client for the goods transferred or services rendered, a contract asset is recognised. If the payments made by a customer exceed the goods transferred or services rendered under the relevant contract, a contract liability is recognised. The Group recognises any unconditional rights to consideration separately from contract assets as a trade receivable because only the passage of time is required before the payment is due.

The Group assesses a contract asset for impairment in accordance with IFRS 9 using the simplified approach permitted by IFRS 9 which requires lifetime expected credit losses to be recognised from initial recognition of the contract asset. Impairment of contract assets are measured, presented and disclosed on the same basis as for trade receivables. Contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period of greater than 180 days past due.

Costs to obtain or fulfil contracts with customers. To the extent that these are recoverable, incremental costs incurred by the Group to obtain a contract and incremental costs incurred to fulfil a contract are capitalised and amortised on a straight-line basis over the term of the specific contract – consistent with the pattern of the transfer of the goods and/or services to which they relate to – and assessed for impairment. Incremental costs of obtaining contracts are those costs that the Group incurs to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

The Group does not have any contracts where the period of transfer of the goods and/or provision of the services (that is, the period between the start and completion of a trip) exceeds one year. Accordingly, the Group recognises the incremental costs of obtaining a contract as an expense when incurred since the amortization period of the asset that it would otherwise have recognised is less than one year.

(ii) Accounting policies applied until 31 December 2017
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:

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 four 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.

4. Summary of significant accounting policies continued

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

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

Foreign currency translation

(a) Functional and presentation currency

Items included in the 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).
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

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 – 10

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.

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.

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.

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'.

4. Summary of significant accounting policies continued

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

(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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

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

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

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

The Group is the lessor

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

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

(b) Operating leases
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) Impairment of lease receivables
Until 31 December 2017, the Group assessed whether there was objective evidence that a lease receivable was impaired in accordance with IAS 39. The impairment provision was determined in the same way as for trade receivables.

From 1 January 2018, the Group recognises credit loss allowance on lease receivables in accordance with IFRS 9 using the simplified approach permitted by the standard, which requires expected credit losses to be recognised from initial recognition of the lease receivable at an amount equal to lifetime ECL. The ECL is determined in the same way as for trade receivables and is recognised through an allowance account to write down the lease receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

(d) Revenues from leasing
Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Financial instruments
(i) Accounting policies applicable from 1 January 2018
(a) Financial assets
Recognition and derecognition. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade-date; being the date on which the Group commits to purchase or sell the asset. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Any gain or loss arising upon their derecognition is recognised directly in the income statement.

4. Summary of significant accounting policies continued

Classification. The classification depends on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the assets. Management determines the classification of financial assets at initial recognition.

The Group classifies its financial assets at amortised cost. Financial assets at amortised cost are held for collection of contractual cash flows and their cash flows represent solely payments of principal and interest. 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 financial assets at amortised cost comprise of trade receivables, loans and other receivables and cash and cash equivalents on the balance sheet.

Reclassification. Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

Measurement. At initial recognition, the Group measures financial assets classified at amortised cost at their fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Subsequently, these are measured at amortised cost.

Interest income. Interest income on financial assets at amortised cost is recognised using the effective interest rate method and is included within 'finance income' in the income statement. In particular, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset; that is after deduction of the loss allowance. The Group's definition of credit-impaired assets is explained in Note 6, Credit risk section.

Impairment. The Group assesses on each reporting date and on a forward looking basis the Expected Credit Losses ("ECL") associated with its debt financial assets carried at amortised cost. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money, and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. Subsequent recoveries of amounts for which loss allowance was previously recognised are credited against the same line item.

The impairment methodology applied by the Group for calculating expected credit losses depends on the type of financial asset assessed for impairment. Specifically:

- For trade receivables the Group applies the simplified approach permitted by IFRS 9 for calculating expected credit losses, which requires lifetime expected losses to be recognised from initial recognition of the financial assets. The assessment is done on an individual basis.
- For all its other debt financial assets carried at amortised cost, the Group applies the general approach. In particular, the Group applies the three stage model for calculating impairment, which is based on changes in the credit quality of the financial asset since initial recognition. A financial instrument that is not credit -impaired on initial recognition is classified in Stage 1. The ECL of financial assets in Stage 1 is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter. If the Group identifies a Significant Increase in Credit Risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until its contractual maturity but considering expected prepayments, if any.

Refer to Note 6, Credit risk section for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 6, Credit risk section.

Write-off. Financial assets are written-off, in whole or in part, when the Group has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period of greater than 180 days past due. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

4. Summary of significant accounting policies continued

Classification as trade receivables. Trade receivables are amounts due from customers for services performed 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 the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The Group holds its trade receivables with the objective to collect the contractual cash flows and their contractual cash flows represent solely payments of principal and interest and therefore measures them subsequently at amortised cost using the effective interest method, less provision for impairment.

Classification as loans and other receivables. These amounts generally arise from transactions outside the usual operating activities of the Group. These are held with the objective to collect their contractual cash flows and their contractual cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost using the effective interest method, less provision for impairment. Loans and other receivables are classified as current assets if they are 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 assets.

Classification as cash and cash equivalents. In the 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, less provision for impairment. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

(b) Financial liabilities
Classification. The Group's financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost.

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.

Borrowings are removed from the balance sheet when the obligation specified in the contract is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement as other income or finance costs.

Modifications. An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

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.

4. Summary of significant accounting policies continued

Trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Accounting policies applied until 31 December 2017

(a) Financial assets

Recognition and derecognition. 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.

Classification. 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 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, loans and other receivables and cash and cash equivalents in the balance sheet.

Measurement. 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.

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.

Impairment. 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 based on the incurred loss model.

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 costs'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Classification as 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.

Classification as 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

(b) Financial 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.

Trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 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.

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.

4. Summary of significant accounting policies continued

Capital contribution

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

Provisions and contingent liabilities

Provisions are recognised when the 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

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, 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 over the vesting period.

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.

Comparatives
Comparative figures have been adjusted to conform with changes in the presentation for the current year. Details of the reclassifications are disclosed in Note 3.

5. New accounting pronouncements

Certain new standards, amendments to existing standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2019, 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 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

In accordance with the transition provisions of IFRS 16, the Group has elected the modified retrospective transition method for adopting the new standard with the effect of transition to be recognised in the opening retained earnings as at 1 January 2019 in the Consolidated Financial Statements for the year ending 31 December 2019; which will be the first year when the Group will apply IFRS 16. The Group opted the practical expedient provided by IFRS 16 to measure the right-of-use assets on transition at an amount equal to that of the lease liability (adjusted for any prepaid or accrued expenses), with the exception of assets under finance leases as per IAS 17 that were in place at the date of transition to IFRS 16 that will continue to be measured at their carrying amount immediately before the date of application.

A reconciliation of the operating lease commitments as at 31 December 2018 disclosed in Note 32 to the recognised liability on 1 January 2019 is as follows:

	1 January 2019 RUB'000
Total future minimum lease payments for non-cancellable operating leases (Note 32)	**1,378,832**
Impact of discounting	**(133,400)**
(Less): short-term leases recognised on a straight-line basis as expense	**(270,671)**
(Less): payments for lease not yet commenced	**(1,056,590)**
Add: adjustments as a result of a different treatment of extension and termination options	**791,689**
Other	**(1,365)**
Total lease liabilities (excluding financial lease liabilities recognised as at 31 December 2018)	**708,495**

As shown in Note 32, as of the reporting date the Group has non-cancellable operating lease commitments of RUB 1,378,832 thousand out of which approximately RUB 270,671 thousand relate to short-term leases which will be recognised on a straight line basis as an expense in the income statement. The Group opted to apply the optional exception of short-term leases under IFRS 16 whose lease term, at their commencement date, is 12 months or less.

Further, the Group's non-cancellable operating lease commitments as of 31 December 2018 include an amount of RUB 1,056,590 thousand relating to a lease contract entered into in the year 2018 for the lease of offices. In accordance with the terms of the agreement, the Group will obtain right to use the offices within the first quarter of year 2019 and thus no lease liability was recognised in respect of this lease on 1 January 2019.

The Group had finance lease liabilities recognised as at 31 December 2018 with a carrying amount of RUB 2,212,668 thousand (Note 27) and lease assets with a carrying amount of RUB 3,414,376 thousand (Note 17). Upon adoption of IFRS 16, the Group will recognise lease liabilities and right-of-use assets in respect of these leases at amounts equal to their carrying amounts as at 31 December 2018 under IAS17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

5. New accounting pronouncements continued

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements and as of the date of issue of these financial statements the impact of the interpretation is not known.

Annual improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)

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

Definition of materiality – amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. 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.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. 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.

6. Financial risk management

Financial risks factors

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

Market risk

(a) Foreign exchange risk

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

As of 31 December 2018, almost 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 2018 there was increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies, especially in the second half of the year. As of the end of December 2018 the Russian Rouble has depreciated against the US Dollar from 57.6002 as of 31 December 2017 to 69.4706 Russian Roubles (21% devaluation).

The Group is exposed to the effects of currency fluctuations between (i) the Russian Rouble and the US Dollar 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 2018 and 31 December 2017 are as follows:

	2018 RUB'000	2017 RUB'000
Assets	**1,013,937**	680,794
Liabilities	**101,055**	712,908

Had US Dollar exchange rate strengthened/weakened by 20% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2018, would have decreased/increased by RUB 93,454 thousand (2017: 5% change, effect RUB 11,888 thousand) and equity would have increased/decreased by RUB 528,447 thousand (2017: 5% change, effect RUB 125,368 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 2018, would have increased /decreased by RUB 37,260 thousand (2017: 10% change, effect RUB 28,517 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 (2017: 5% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2018, would have decreased/increased by RUB 528,447 thousand (2017: 5% change, effect RUB 125,368 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

6. Financial risk management continued

(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, issues of bonds and various scenarios are developed taking into account terms of refinancing and alternative financing sources. Based on these scenarios the Group measures the impact of a definite change in interest rate on profit or loss and selects the financing model that allows maximising the estimated future profit.

As at 31 December 2018 and 31 December 2017, the Group did not have any Russian Rouble or 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.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Credit risk arises from cash and cash equivalents, trade receivables, loans and other receivables as well as lease receivables.

(i) Risk management
The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Management assesses the credit quality of the Group's customers, taking into account their financial position, past experience and other factors. These policies allow the Group to reduce its credit risk. However, the Group's business is heavily dependent on a few large key customers, with the top 10 customers accounting for 58.65% of the Group's trade receivables as at 31 December 2018 (2017: 76.25%).

For banks and financial institutions, the Group has established policies whereby 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.

(ii) Impairment of financial assets
The Group has four types of assets that are subject to the expected credit loss model:

- trade receivables;
- finance lease receivables;
- loans and other receivables; and
- cash and cash equivalents.

The impairment methodology applied by the Group for calculating expected credit losses depends on the type of assets assessed for impairment. All assets are assessed for impairment on an individual basis. Specifically:

- For trade receivables and finance lease receivables the Group applies the simplified approach permitted by IFRS 9 for calculating expected credit losses, which requires lifetime expected credit losses to be recognised from initial recognition of the financial assets.
- For loans and other receivables and cash and cash equivalents, the Group applies the general approach. In particular, the Group applies the three stage model for calculating impairment, which is based on changes in the credit quality of the financial asset since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. The ECL of financial assets in Stage 1 is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter. If the Group identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until its contractual maturity but considering expected prepayments, if any. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

6. Financial risk management continued

Significant increase in credit risk. The Group considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. In making this assessment, the Group considers available reasonable and supportive forwarding-looking information.

Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's/counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower/counterparty;
- significant increases in credit risk on other financial instruments of the same borrower/counterparty;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivable balances. Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

Default and credit-impaired. A default on a financial asset is when the financial asset meets one or more of the following criteria: (i) the borrower is more than 90 days past due on its contractual payments, (ii) the borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due, (iii) the Company, for economic or contractual reasons relating to the borrower's financial difficulty, granted to the borrower a concession(s) that it would not otherwise consider. The Company considers defaulted assets to be credit-impaired so that Stage 3 represents all debt financial assets which are considered defaulted.

Write-off. Assets are written-off, in whole or in part, when the Group has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period of greater than 180 days past due. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

The Group does not have any material debt financial assets that are subject to the impairment requirements of IFRS 9 and their contractual cash flows have been modified.

The Group's exposure to credit risk for each class of asset subject to the expected credit loss model is set out below:

Trade receivables and finance lease receivables

The Group assesses, on an individual basis, its exposure to credit risk arising from trade receivables and finance lease receivables. This assessment is based on the credit history of the customers with the Group as well as the period the trade receivable or finance lease receivable is past due (in days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

6. Financial risk management continued

The following table contains an analysis of the gross carrying amount of the Group's trade receivables and finance lease receivables by reference to the days past due. This basis is aligned with the Group's internal credit risk grades for these assets.

	Trade receivables RUB'000	Finance lease receivables RUB'000
Current (not past due)	1,583,886	316,668
1 – 30 days past due	762,210	–
31 – 90 days past due	18,294	–
More than 90 days past due	369,180	–
Total	2,733,570	316,668

The gross carrying amounts, as per above, represent the Group's maximum exposure to credit risk on these assets as at 31 December 2018, without taking into account any collateral held. The Group does not hold any collateral as security for any trade receivable balances. Finance lease receivables are effectively secured as the rights to the leased asset revert to the Group in the event of default.

The movement in the credit loss allowance for trade receivables during the year 2018 is presented in the table below:

	Trade receivables RUB'000
Opening balance as at 1 January 2018	(141,336)
New assets originated or purchased	(12,044)
Assets written off during the year as uncollectible	13,071
Recoveries	4,534
Other	(10,267)
Closing balance as at 31 December 2018	(146,042)

There were no significant trade receivable balances written off during the period that are subject to enforcement activity.

The estimated expected credit loss allowance on finance lease receivables as at 31 December 2018 was immaterial. This assessment takes into consideration the presence of the leased asset, which acts as a collateral for the finance lease receivable.

Loans and other receivables

The Group assesses, on an individual basis, its exposure to credit risk arising from loans and other receivables. This assessment takes into account, amongst others, the period the loan receivable or other receivable balance is past due (in days) and history of defaults in the past, adjusted for forward looking information.

The following table contains an analysis of the credit risk exposure for loans and other receivables on the basis of the Group's internal credit risk rating grades. The gross carrying amounts below represent the Group's maximum exposure to credit risk on these assets as at 31 December 2018.

Internal credit risk rating grade	Company definition of category	Gross carrying amount RUB'000
Performing	**Stage 1 –** Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	263,653
Under-performing	**Stage 2 –** Customers for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	18,017
Non-performing or credit-impaired	**Stage 3 –** Interest and/or principal repayments are more than 90 days past due	42,732

The gross carrying amounts, as per above, represent the Group's maximum exposure to credit risk on these assets as at 31 December 2018, without taking into account any collateral held. The Group does not hold any collateral as security for any loans receivable and other receivable balances.

6. Financial risk management continued

The movement in the credit loss allowance for other receivables during the year 2018 is presented in the table below:

	Other receivables Non-performing RUB'000
Opening balance as at 1 January 2018	**(39,786)**
New assets originated or purchased	**(14,882)**
Assets written off during the year as uncollectible	**18,403**
Other	**(13,387)**
Closing balance as at 31 December 2018	**(49,652)**

The estimated expected credit loss allowance on loans receivable as at 31 December 2018 was immaterial.

There were no significant loans and other receivable balances written off during the period that are subject to enforcement activity.

Cash and cash equivalents

The Group assesses, on an individual basis, its exposure to credit risk arising from cash at bank based on ratings from external credit rating institutions and internal ratings if external are not available.

The following table contains an analysis of the gross carrying amount of the Group's cash at bank by reference to the credit risk ratings assigned by external credit rating agencies. The gross carrying amounts below represent the Group's maximum exposure to credit risk on these assets as at 31 December 2018:

	Rating	RUB'000
Moody's(1)	A3 – Aaa	**1,462,017**
Moody's(1)	Ba2 – Baa1	**5,659,996**
Moody's(1)	B1	**152**
Moody's(1)	Caa1 – Caa3	**2,748**
Standard & Poor's(2)	B – BB+	**3,349**
Fitch(3)	BBB – BBB+	**652**
Other external non-rated banks – satisfactory credit quality (performing)		**439**
Total cash at bank and bank deposits(4)		**7,129,353**

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

The Group does not hold any collateral as security for any of the above balances.

The estimated expected credit loss allowance on cash and cash equivalents as at 31 December 2018, based on the general approach of IFRS 9, was immaterial. All cash and cash equivalents were performing (Stage 1) as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. Financial risk management continued

Credit risk at 31 December 2017

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:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	Total RUB'000
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

Receivables amounting to RUB 2,002,319 thousand as of 31 December 2017 were fully performing. The credit quality of financial assets that were neither past due or impaired was assessed by reference to external credit rating, if available. For accounts receivable with no external credit rating available management assessed credit quality by reference to the prior history of working with customers. Customers with longer history of working with the Group were regarded by management as having lower risk of default.

The credit quality of financial assets that were 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:

	RUB'000
Trade and other receivables	
Counterparties with external credit rating	
Moody's[2] (B1 – Ba1)	3,170
Standard & Poor's[3] (BB- – BB)	7,875
Fitch[4] (B- – BB+)	369,679
	380,724
Counterparties without external credit rating	
Group 1	1,527,462
Group 2	94,133
	1,621,595
Total trade and other receivables	2,002,319

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.

Receivables of RUB 689,778 thousand as of 31 December 2017 were past due but not impaired. These related to a number of independent customers for whom there was 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 were impaired only when there is an indication that the customer is unable to repay the balance.

The ageing analysis of past due trade receivables at 31 December 2017 as follows:

	RUB'000
Less than 1 month	433,790
From 1 to 3 months	72,246
From 3 to 6 months	6,773
From 6 months to 1 year	9,055
Over one year	167,914
	689,778

6. Financial risk management continued

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

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

Movements on the Group's provision for impairment of trade and other receivables during the year 2017 were as follows:

	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000
At 1 January	263,972	29,163	293,135
Provision for receivables impairment (Note 11)	42,267	18,488	60,755
Bad debt written off	(167,639)	(7,834)	(175,473)
Currency translation differences	2,736	–	2,736
Other	–	(31)	(31)
At 31 December	141,336	39,786	181,122

The creation and release of provision for impaired receivables have been included in "selling and marketing costs" in the income statement (Note 11). 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.

Cash at bank and short-term bank deposits

	Rating	RUB'000
Moody's(2)	A3 – Aaa	1,002,389
Moody's(2)	Ba2 – Baa1	3,101,414
Moody's(2)	B1	174
Moody's(2)	Caa1 – Caa3	1,844
Standard & Poor's(3)	BB+	658,258
Fitch(4)	BBB – BBB+	151,920
Other non-rated banks – satisfactory credit quality		49,715
Total cash at bank and bank deposits(1)		4,965,714

(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.

The maximum exposure to credit risk at 31 December 2017 was the fair value of each class of receivables mentioned above. The Group did 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.

Liquidity risk

The Group has an excess of current assets over current liabilities of RUB 708,587 thousand as at 31 December 2018 (2017: excess of current liabilities over current assets RUB 1,285,219 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 4,515,000 thousand as of 31 December 2018 (2017: RUB 19,140,000 thousand), together with long-term borrowings (Note 27) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

6. Financial risk management continued

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 2018 and 31 December 2017. 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 1 month RUB'000	Between 1 month and 3 months RUB'000	Between 3 and 6 months RUB'000	Between 6 months and less than 1 year RUB'000	Between 1 and 2 years RUB'000	Between 2 and 5 years RUB'000	Total RUB'000
31 December 2018							
Borrowings	**427,029**	**2,273,971**	**1,893,914**	**5,195,738**	**6,186,061**	**11,273,818**	**27,250,531**
Trade and other payables	**820,446**	**35,390**	**34,458**	**115,318**	**197,689**	**98,844**	**1,302,145**
Finance lease liabilities	**56,475**	**110,666**	**165,549**	**329,426**	**609,246**	**1,359,462**	**2,630,824**
	1,303,950	**2,420,027**	**2,093,921**	**5,640,482**	**6,992,996**	**12,732,124**	**31,183,500**
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

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

(a) 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 2018 and 31 December 2017 are as follows:

	2018 RUB'000	2017 RUB'000
Total borrowings	**25,728,911**	16,331,356
Total capitalisation	**73,356,937**	61,224,087
Total borrowings to total capitalisation ratio (percentage)	**35.07%**	26.67%

External requirements are imposed on the capital of the Group 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 2018 and 2017. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

6. Financial risk management continued

Fair value estimation

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

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

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

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

Financial assets 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.

The fair values of financial assets do not materially differ from their carrying amounts as the impact of discounting is not significant.

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

As at 31 December 2018 and 31 December 2017 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 2018 and 31 December 2017 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 2018 and 31 December 2017, respectively. The discount rate used was 9.5% p.a. (2017: 8% p.a.) (Note 27). The fair value as at 31 December 2018 of the fixed interest rate non-convertible bonds was equal to their quoted price and the resulting fair value measurement is within level 1.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

7. 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 31).

(b) Critical judgements in applying 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 under IFRS 15 "Revenue from contracts with customers", including impact of adoption

IFRS 15 "Revenue from contracts with customers" and its subsequent amendment were effective for the Group from 1 January 2018. The assessment of the impact of adoption of IFRS 15 on the Group's accounting policies and ongoing accounting under IFRS 15 required management to make certain critical judgements in the process of applying the principles of the new standard. The judgements that had the most significant effect on management's conclusion are the following:

Identification of performance obligations

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

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

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 with or without further recharge to its customers. There are certain characteristics indicating that the Group is acting as an agent in these arrangements, particularly the fact that OAO "Russian Railways" tariffs are available to the public and therefore are known to the customer. However, 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 historically took the position that the Group acts as a principal in these arrangements and the Group accounted for full receipts from customers as sales revenue and the OAO "Russian Railways" tariff was also included in cost of sales. Management re-assessed the accounting treatment followed historically by the Group 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", obtains the right to direct them to provide services on its behalf.

Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales for the year ended 31 December 2018 both would have decreased by RUB 22,682,168 thousand (2017: RUB 22,507,762 thousand).

7. Critical accounting estimates and judgements continued

(ii) Intention for the distribution of dividends by subsidiaries

Withholding tax at the rate of 5% is applied to the dividends distributed by the Russian subsidiaries of the Group to the Company. In case the dividends are distributed by the Estonian subsidiaries the tax of 20% will be applied to gross amount of such distributions. Management exercises judgement in determining the provisions to be recognised by the Group for such taxes. These provisions are based on management's estimates and intention for future dividend distribution by each respective subsidiary out of profits of subsidiaries as of 31 December 2018.

Deferred income tax liabilities of RUB 3,474,968 thousand (2017: RUB 2,785,978 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 to RUB 28,932,126 thousand as at 31 December 2018 (2017: RUB 20,506,150 thousand).

8. 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 2018				
Total revenue – operator's services (recognised over time)	56,578,061	26,171,577	1,070,226	83,819,864
Total revenue – operating lease	217,875	1,131,730	44,631	1,394,236
Inter-segment revenue	–	–	–	–
Revenue (from external customers)	56,795,936	27,303,307	1,114,857	85,214,100
Less: Infrastructure and locomotive tariffs – loaded trips	(16,072,497)	(6,093,700)	(515,971)	(22,682,168)
Less: Services provided by other transportation organisations	(2,631,711)	(571,819)	(27,620)	(3,231,150)
Adjusted revenue for reportable segments	38,091,728	20,637,788	571,266	59,300,782
Depreciation and amortisation	(4,445,258)	(1,085,940)	(84,314)	(5,615,512)
Impairment of property, plant and equipment	(10,073)	–	–	(10,073)
Loss on derecognition arising on capital repairs	(142,020)	(217,593)	(17,671)	(377,284)
Additions to non-current assets (included in reportable segment assets)	12,117,088	658,041	1,190,307	13,965,436
Reportable segment assets	50,970,274(1)	20,517,936	1,531,496	73,019,706

(1) Includes RUB 752,718 thousand of intangible assets representing customer relationships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Segmental information continued

	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
Inter-segment revenue	–	–	–	–
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 charge of intangible assets	630,223	–	–	630,223
Additions to non-current assets (included in reportable segment assets)	3,227,815	754,615	151,807	4,134,237
Reportable segment assets	44,100,083[(1)]	19,445,539	533,320	64,078,942

(1) Includes RUB 1,447,559 thousand of intangible assets representing customer relationships.

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

	2018 RUB'000	2017 RUB'000
Adjusted revenue for reportable segments	**59,300,782**	51,094,088
Other revenues	**1,558,642**	1,000,201
Total adjusted revenue	**60,859,424**	52,094,289
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 arising on capital repairs)	**(23,094,638)**	(22,352,208)
Selling, marketing and administrative expenses (excl. depreciation, amortisation and impairments)	**(4,771,519)**	(3,979,117)
Depreciation and amortisation	**(5,807,417)**	(5,680,445)
Reversal of impairment charge of customer relationships	**–**	630,223
Net impairment losses on financial assets	**(29,713)**	(60,755)
Impairment charge for property, plant and equipment	**(10,073)**	(111,172)
Loss on derecognition arising on capital repairs	**(377,284)**	(528,039)
Other income	**133,754**	57,967
Other gains – net	**(1,479)**	85,392
Operating profit	**26,901,055**	20,156,135
Finance income	**377,445**	480,585
Finance costs	**(1,778,460)**	(2,046,403)
Net foreign exchange transaction losses on financing activities	**(40,219)**	(236,540)
Profit before income tax	**25,459,821**	18,353,777

8. Segmental information continued

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

	2018		2017	
	Assets RUB'000	Liabilities RUB'000	Assets RUB'000	Liabilities RUB'000
Segment assets / liabilities	**73,019,706**	**–**	64,078,915	–
Unallocated:				
– Deferred tax liabilities	**–**	**6,284,868**	–	5,908,319
– Current income tax assets / liabilities	**191,277**	**50,948**	18,273	150,595
– Property, plant and equipment	**2,497,915**	**–**	2,139,551	–
– Intangible assets	**4,491**	**–**	6,242	–
– Other assets	**4,607,362**	**–**	3,006,369	–
– Trade receivables	**2,587,528**	**–**	2,363,470	–
– Loans and other receivables	**274,750**	**66,224**	–	
– Inventories	**904,375**	**–**	776,341	–
– Cash and cash equivalents	**7,129,918**	**–**	4,966,171	–
– Borrowings	**–**	**25,728,911**	–	16,331,356
– Trade and other payables	**–**	**2,953,694**	–	4,413,656
– Contract liabilities	**–**	**2,673,467**	–	–
Total	**91,217,322**	**37,691,888**	77,421,556	26,803,926

Geographic information

Revenues from external customers

	2018 RUB'000	2017 RUB'000
Revenue		
Russia	**85,532,368**	77,171,269
Estonia	**929,319**	749,218
Finland	**741**	6,404
Ukraine	**310,314**	153,641
	86,772,742	78,080,532

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:

	2018		2017	
	RUB'000	% revenue	RUB'000	% revenue
Revenue				
Customer A – rail tank cars segment	**17,162,366**	**20**	14,248,432	18
Customer B – gondola cars segment	**24,939,534**	**29**	24,146,713	31
Customer C – gondola cars segment	**13,397,567**	**15**	12,106,875	16

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8. Segmental information continued

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

	2018 RUB'000	2017 RUB'000
Non-current assets		
Russia	**63,583,859**	54,766,788
Estonia	**12,149,137**	10,947,603
Ukraine	**512,102**	527,835
Cyprus	**7,212**	4,468
	76,252,310	66,246,694

9. 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. These might not be consistent with measures (of similar description) used by other entities.

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 2018 and 2017 and its reconciliation to Total Revenue.

	2018 RUB'000	2017 RUB'000
Total revenue	**86,772,742**	78,080,532
Minus "pass through" items		
Infrastructure and locomotive tariffs: loaded trips	**(22,682,168)**	(22,507,762)
Services provided by other transportation organisations	**(3,231,150)**	(3,478,481)
Adjusted Revenue	**60,859,424**	52,094,289

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", "Net impairment losses on financial assets", "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", "Net impairment losses on financial assets", "Impairment of property, plant and equipment" and "Net (gain)/loss on sale of property, plant and equipment".

9. Non-GAAP financial information continued

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".

	2018 RUB'000	2017 RUB'000
"Pass through" cost items	**(25,913,318)**	(25,986,243)
– Infrastructure and locomotive tariffs: loaded trips	**(22,682,168)**	(22,507,762)
– Services provided by other transportation organisations	**(3,231,150)**	(3,478,481)
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**(34,090,644)**	(32,711,736)
Total Operating Cash Costs	**(27,893,504)**	(26,302,818)
– Infrastructure and locomotive tariffs – empty runs and other tariffs	**(13,848,049)**	(13,103,048)
– Repairs and maintenance	**(3,821,338)**	(3,769,086)
– Employee benefit expense	**(4,366,804)**	(3,425,986)
– Operating lease rentals – rolling stock	**(826,937)**	(1,634,370)
– Fuel and spare parts – locomotives	**(1,935,278)**	(1,519,083)
– Engagement of locomotive crews	**(795,289)**	(662,100)
– Other Operating Cash Costs	**(2,299,809)**	(2,189,145)
Advertising and promotion	**(37,716)**	(31,240)
Auditors' remuneration	**(58,760)**	(55,903)
Communication costs	**(33,391)**	(37,446)
Information services	**(26,626)**	(19,025)
Legal, consulting and other professional fees	**(70,084)**	(69,415)
Rental of tank-containers	**(43,770)**	(63,622)
Operating lease rentals – office	**(183,188)**	(179,887)
Taxes (other than on income and value added taxes)	**(681,263)**	(746,058)
Other expenses	**(1,165,011)**	(986,549)
Total Operating Non-cash Costs	**(6,197,140)**	(6,408,918)
– Depreciation of property, plant and equipment	**(5,110,715)**	(4,962,459)
– Amortisation of intangible assets	**(696,702)**	(717,986)
– Loss on derecognition arising on capital repairs	**(377,284)**	(528,039)
– Net impairment losses on financial assets	**(29,713)**	(60,755)
– Impairment of property, plant and equipment	**(10,073)**	(111,172)
– Net loss on sale of property, plant and equipment	**27,347**	(28,507)
Total cost of sales, selling and marketing costs and administrative expenses	**(60,003,962)**	(58,697,979)

Adjusted EBITDA

Adjusted EBITDA represents EBITDA excluding "Net foreign exchange transaction losses from financing activities", "Share of loss of associate", "Other losses/(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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

9. Non-GAAP financial information continued

The following table provides details on Adjusted EBITDA for 2018 and 2017 and its reconciliation to EBITDA and Profit for the year:

	2018 RUB'000	2017 RUB'000
Profit for the year	**19,583,435**	13,819,874
Plus (Minus)		
– Income tax expense	**5,876,386**	4,533,903
– Finance costs – net	**1,441,234**	1,802,358
– Net foreign exchange transaction losses on financing activities	**(40,219)**	(236,540)
– Amortisation of intangible assets	**696,702**	717,986
– Depreciation of property, plant and equipment	**5,110,715**	4,962,459
EBITDA	**32,668,253**	25,600,040
Plus (Minus)		
– Loss on derecognition arising on capital repairs	**377,284**	528,039
– Net foreign exchange transaction losses on financing activities	**40,219**	236,540
– Other losses/(gains) – net	**1,479**	(85,392)
– Net loss on sale of property, plant and equipment	**(27,347)**	28,507
– Impairment of property, plant and equipment	**10,073**	111,172
– Reversal of impairment of intangible assets	**–**	(630,223)
Adjusted EBITDA	**33,069,961**	25,788,683

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", "Finance lease principal payments" and "Purchases of intangible assets".

Total CAPEX calculated on a cash basis as the sum of "Purchases of property, plant and equipment", "Purchases of intangible assets", "Acquisition of subsidiary undertakings – net of cash acquired" and "Finance lease principal payments".

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 2018 and 2017, and its reconciliation to Cash generated from operations.

	2018 RUB'000	2017 RUB'000
Cash generated from operations	**32,602,394**	27,495,573
Tax paid	**(5,765,818)**	(3,631,769)
Interest paid	**(1,633,332)**	(1,943,746)
Purchases of property, plant and equipment	**(11,567,554)**	(4,872,076)
Finance lease principal payments	**(1,321,234)**	–
Purchases of intangible assets	**(110)**	–
Total CAPEX	**12,888,898**	4,872,076
Free Cash Flow	**12,314,346**	17,047,982
Attributable Free Cash Flow	**10,402,879**	15,516,885

9. Non-GAAP financial information continued

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 2018 and 2017, and reconciliation of Net Debt to Total Debt.

	2018 RUB'000	2017 RUB'000
Total debt	**25,728,911**	16,331,356
Minus		
Cash and cash equivalents	**7,129,918**	4,966,171
Net Debt	**18,598,993**	11,365,185
Net Debt to Adjusted EBITDA	**0.56x**	0.44x

10. Revenue

(a) Disaggregation of revenue

	2018 RUB'000	2017 RUB'000
Railway transportation – operator's services (tariff borne by the Group)	**48,129,793**	44,371,174
Railway transportation – operator's services (tariff borne by the client)	**35,690,071**	31,496,969
Other	**1,558,642**	1,000,201
Total revenue from contracts with customers recognised over time (2017: Total revenue)	**85,378,506**	76,868,344
Operating lease of rolling stock	**1,394,236**	1,212,188
Total revenue	**86,772,742**	78,080,532

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 2018 amounting to RUB 22,682,168 thousand (for the year ended 31 December 2017: RUB 22,507,762 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to RUB 3,231,150 thousand (2017: RUB 3,478,481 thousand).

(b) Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers as of 1 January 2018 (date of adoption of IFRS 15) and 31 December 2018:

	31 December 2018 RUB'000	1 January 2018 RUB'000
Contract liabilities relating to railway transportation contracts	**2,673,467**	2,229,306
Total contract liabilities	**2,673,467**	2,229,306

Contract liabilities represent advances from customers for transportation services. Until 31 December 2017, the carrying amount of advances from customers for transportation services was included within trade and other payables (Note 29). This amount consists of prepayments received in accordance with contracts for transportation services.

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10. Revenue continued

(c) Revenue recognised in relation to contract liabilities

The Group's revenue for the year ended 31 December 2018 includes the entire contract liability balance of RUB 2,229,306 thousand as of 1 January 2018.

The Group does not have any contracts where the period of provision of the services (that is, the period between the start and completion of a trip) exceeds one year. As permitted under IFRS 15, the transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations as of the balance sheet date is not disclosed.

11. Expenses by nature

	2018 RUB'000	2017 RUB'000
Cost of sales		
Infrastructure and locomotive tariffs: loaded trips	**22,682,168**	22,507,762
Infrastructure and locomotive tariffs: empty run trips and other tariffs	**13,848,049**	13,103,048
Services provided by other transportation organisations	**3,231,150**	3,478,481
Operating lease rentals – rolling stock	**826,937**	1,634,370
Rental of tank-containers	**43,770**	63,622
Employee benefit expense	**1,450,366**	1,163,527
Repairs and maintenance	**3,821,338**	3,769,086
Depreciation of property, plant and equipment	**5,062,376**	4,913,217
Loss on derecognition arising on capital repairs	**377,284**	528,039
Amortisation of intangible assets	**696,687**	717,968
Fuel and spare parts – locomotives	**1,935,278**	1,519,083
Engagement of locomotive crews	**795,289**	662,100
(Gain)/loss on sale of property, plant and equipment	**(20,754)**	32,695
Impairment of property, plant and equipment	**10,073**	111,172
Other expenses	**394,365**	404,677
Total cost of sales	**55,154,376**	54,608,847

	2018 RUB'000	2017 RUB'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**48,339**	49,242
Amortisation of intangible assets	**15**	18
Gain on sale of property, plant and equipment	**(6,593)**	(4,188)
Employee benefit expense	**2,916,438**	2,262,459
Net impairment losses on trade receivables and prepayments	**29,713**	60,755
Operating lease rental – office	**183,188**	179,887
Auditors' remuneration	**58,760**	55,903
Legal, consulting and other professional fees	**70,084**	69,415
Advertising and promotion	**37,716**	31,240
Communication costs	**33,391**	37,446
Information services	**26,626**	19,025
Taxes (other than income tax and value added taxes)	**681,263**	746,058
Other expenses	**770,646**	581,872
Total selling, marketing and administrative expenses	**4,849,586**	4,089,132

11. Expenses by nature continued

	2018 RUB'000	2017 RUB'000
Total expenses		
Depreciation of property, plant and equipment (Note 17)	**5,110,715**	4,962,459
Loss on derecognition arising on capital repairs (Note 17)	**377,284**	528,039
Amortisation of intangible assets (Note 18)	**696,702**	717,986
Impairment of property, plant and equipment (Note 17)	**10,073**	111,172
Total (gain)/loss on sale of property, plant and equipment (Note 17)	**(27,347)**	28,507
Employee benefit expense (Note 13)	**4,366,804**	3,425,986
Net impairment losses on trade receivables and prepayments	**29,713**	60,755
Operating lease rentals – rolling stock	**826,937**	1,634,370
Operating lease rentals – office	**183,188**	179,887
Repairs and maintenance	**3,821,338**	3,769,086
Fuel and spare parts – locomotives	**1,935,278**	1,519,083
Engagement of locomotive crews	**795,289**	662,100
Infrastructure and locomotive tariffs: loaded trips	**22,682,168**	22,507,762
Infrastructure and locomotive tariffs: empty run trips and other tariffs	**13,848,049**	13,103,048
Services provided by other transportation organisations	**3,231,150**	3,478,481
Rental of tank-containers	**43,770**	63,622
Auditors' remuneration	**58,760**	55,903
Legal, consulting and other professional fees	**70,084**	69,415
Advertising and promotion	**37,716**	31,240
Communication costs	**33,391**	37,446
Information services	**26,626**	19,025
Taxes (other than income tax and value added taxes)	**681,263**	746,058
Other expenses	**1,165,011**	986,549
Total cost of sales, selling and marketing costs and administrative expenses	**60,003,962**	58,697,979

Note: The auditors' remuneration stated above includes fees of RUB 16,798 thousand (2017: RUB 17,059 thousand) for statutory audit services and RUB 5,235 thousand (2017: RUB 4,714 thousand) for other assurance services charged by the Company'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 1,548 thousand for the year 2018 (RUB 2,085 thousand for the year 2017) in relation to fees paid to the Company's statutory audit firm for tax consultancy services.

12. Other (losses)/gains – net

	2018 RUB'000	2017 RUB'000
Other gains	**25,100**	47,591
Other losses	**(90,954)**	(88,136)
Net foreign exchange gains (Note 16)	**64,375**	65,049
Profit from sale of associate(1)	**–**	60,888
Total other (losses)/gains – net	**(1,479)**	85,392

(1) During the year 2017, the Group disposed its investment in associate, Daugavpils Lokomotivju Remonta Rupnica ("DLRR"), for a consideration of RUB 60,888 thousand, realising profit on disposal of RUB 60,888 thousand.

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13. Employee benefit expense

	2018 RUB'000	2017 RUB'000
Wages and salaries	**2,020,679**	1,776,586
Termination benefits	**8,467**	7,426
Bonuses	**1,382,287**	956,088
Share based payment expense (Note 20)	**236,572**	97,229
Social insurance costs	**718,799**	588,657
Total employee benefit expense	**4,366,804**	3,425,986
Average number of employees during the year	**1,540**	1,534

14. Finance income and costs

	2018 RUB'000	2017 RUB'000
Interest expense:		
– Bank borrowings	**(1,344,208)**	(1,991,826)
– Non-convertible bond	**(314,869)**	–
– Total interest expense calculated using the effective interest rate method	**(1,659,077)**	(1,991,826)
– Finance leases	**(108,216)**	–
Total interest expense	**(1,767,293)**	(1,991,826)
Other finance costs	**(11,167)**	(54,577)
Total finance costs	**(1,778,460)**	(2,046,403)
Interest income:		
– Bank balances	**141,095**	85,636
– Short-term deposits	**192,917**	346,322
– Loans to third parties	**1,425**	2,854
– Total interest income calculated using the effective interest rate method	**335,437**	434,812
– Finance leases – third parties	**42,008**	45,773
Total finance income	**377,445**	480,585
Net foreign exchange transaction gains on borrowings and other liabilities	**35,631**	271,933
Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets	**(75,850)**	(508,473)
Net foreign exchange transaction losses on financing activities (Note 16)	**(40,219)**	(236,540)
Net finance costs	**(1,441,234)**	(1,802,358)

15. Income tax expense

	2018 RUB'000	2017 RUB'000
Current tax:		
– Corporation tax	**4,751,834**	3,335,915
– Withholding tax on dividends	**748,003**	535,000
Total current tax	**5,499,837**	3,870,915
Deferred tax (Note 28):		
– Origination and reversal of temporary differences	**376,549**	662,988
Total deferred tax	**376,549**	662,988
Income tax expense	**5,876,386**	4,533,903

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

	2018 RUB'000	2017 RUB'000
Profit before tax	**25,459,821**	18,353,777
Tax calculated at domestic tax rates applicable to profits in the respective countries	**5,846,000**	4,490,473
Tax effects of:		
– Expenses not deductible for tax purposes	**255,960**	115,745
– Allowances and income not subject to tax	**(128,703)**	(8,558)
Tax effect of tax losses for which no deferred tax asset was recognised	**–**	(10,819)
Estonian income tax arising on distribution (1)	**59,899**	–
Withholding taxes:		
– Dividend withholding tax provision in relation to intended dividend distribution of subsidiaries	**(156,770)**	52,938
Tax charge	**5,876,386**	4,533,903

(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 2018, 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.

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15. Income tax expense continued

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.

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.

16. Net foreign exchange losses

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

	2018 RUB'000	2017 RUB'000
Finance income and costs (Note 14)	**(40,219)**	(236,540)
Other gains – net (Note 12)	**64,375**	65,049
	24,156	(171,491)

17. 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 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 11)	(4,801,088)	(12,338)	(29,654)	(119,379)	(4,962,459)
Transfers	64,155	1,403	–	(65,558)	–
Impairment charge[(1)] (Note 11)	(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

17. Property, plant and equipment continued

	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2018					
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
Year ended 31 December 2018					
Opening net book amount	62,631,383	267,702	88,567	1,783,255	64,770,907
Additions	13,965,522	–	51,054	510,617	14,527,193
Disposals	(429,359)	(103)	(15,353)	(238)	(445,053)
Depreciation charge (Note 11)	(4,920,692)	(12,388)	(30,390)	(147,245)	(5,110,715)
Transfers	2,021	–	1,828	(3,849)	–
Impairment charge (Note 11)	(10,073)	–	–	–	(10,073)
Transfer to inventories	(328,418)	–	–	(12)	(328,430)
Derecognition arising on capital repairs	(377,284)	–	–	–	(377,284)
Currency translation differences	1,733,888	1,729	2,260	481	1,738,358
Closing net book amount	72,266,988	256,940	97,966	2,143,009	74,764,903
At 31 December 2018					
Cost	107,436,162	347,949	201,242	2,662,667	110,648,020
Accumulated depreciation	(35,169,174)	(91,009)	(103,276)	(519,658)	(35,883,117)
Net book amount	72,266,988	256,940	97,966	2,143,009	74,764,903

Useful lives of rolling stock

The estimation of the useful lives of items of rolling stock is a matter of judgement based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. The Group assesses the remaining useful lives of its rolling stock as of each balance sheet date taking into account 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.

Based on management's assessment, the useful economic life of the Group's rolling stock as of 31 December 2018 is considered appropriate.

(1) 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. Property, plant and equipment continued

(2) Impairment assessment of rolling stock as of 31 December 2018
The Group assessed whether there were any indications for impairment of its rolling stock as of 31 December 2018 in accordance with its accounting policy for impairment of non-financial assets (Note 4). The Group's assessment did not reveal any indicators for impairment, with the exception of the Estonian rail tank cars/operating leasing CGU.

The recoverable amount of the Estonian rail tank cars/operating leasing CGU, with rolling stock of RUB 12,123,690 thousand as at 31 December 2018 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:

	2018 RUB'000	2017 RUB'000
Net book amount	**445,053**	573,712
Gain/(loss) on sale of property, plant and equipment (Note 11)	**27,347**	(28,507)
Consideration from sale of property, plant and equipment	**472,400**	545,205

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

	2018 RUB'000	2017 RUB'000
Cash consideration received within year	**409,794**	267,526
Property, plant and equipment disposed through finance lease transactions	**–**	256,664
Movement in advances received for sales of property, plant and equipment	**62,606**	21,015
	472,400	545,205

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

	2018 RUB'000	2017 RUB'000
Cost – capitalised finance leases	**5,646,924**	1,838,378
Accumulated depreciation	**(744,353)**	(429,242)
	4,902,571	1,409,136

17. Property, plant and equipment continued

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

	2018 RUB'000	2017 RUB'000
Rolling stock [1]	**3,414,376**	–
	3,414,376	–

(1) As at 31 December 2018 rolling stock with a net carrying amount of RUB 1,488,195 thousand (2017: RUB 1,409,136 thousand) was pledged under finance leases that have been repaid by the Group as at 31 December 2018 and 31 December 2017 for which 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 27):

	2018 RUB'000	2017 RUB'000
Rolling stock	**22,372,026**	16,567,626
Other (tank-containers)	**572,499**	1,395,772
	22,944,525	17,963,398

In accordance with the terms of its bank borrowings, the Group had a commitment as at 31 December 2018 to pledge tank-containers with a carrying amount of RUB 728,669 thousand within six months from the date of bank loan agreement; being 4 July 2018. The relevant pledge agreement was concluded in January 2019.

In accordance with the terms of its bank borrowings, the Group had a commitment as at 31 December 2017 to pledge rolling stock with a market value of not less than RUB 6,000,000 thousand within six months from the date of bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018. The relevant bank loan was fully repaid during March 2018.

Depreciation expense of RUB 5,062,376 thousand in 2018 (2017: RUB 4,913,217 thousand) has been charged to "cost of sales" and RUB 48,339 thousand in 2018 (2017: RUB 49,242 thousand) has been charged to "selling, marketing and administrative expenses". Impairment charge of RUB 10,073 thousand in 2018 (2017: RUB 111,172 thousand) has been charged to "cost of sales".

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18. Intangible assets

	Computer software RUB'000	Customer relationships RUB'000	Total RUB'000
At 1 January 2017			
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 11)	(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
Year ended 31 December 2018			
Opening net book amount	6,242	1,447,559	1,453,801
Amortisation charge (Note 11)	(1,888)	(694,814)	(696,702)
Additions	110	–	110
Transfers	27	(27)	–
Closing net book amount	4,491	752,718	757,209
At 31 December 2018			
Cost	10,934	4,863,734	4,874,668
Accumulated amortisation and impairment	(6,443)	(4,111,016)	(4,117,459)
Net book amount	**4,491**	**752,718**	**757,209**

As of 31 December 2018, the Group's intangible assets include a customer relationship with MMK Group with a carrying amount of RUB 752,718 thousand (2017: RUB 1,447,559 thousand). The customer relationship was allocated to the Russian gondola cars/operator's services CGU. During the year 2017, the customer relationship with Metalloinvest with a carrying amount of RUB 143,260 thousand at 1 January 2017 reached the end of its useful economic life.

Amortisation of RUB 696,687 thousand (2017: RUB 717,968 thousand) has been charged to "cost of sales" in the income statement and RUB 15 thousand (2017: RUB 18 thousand) to "administrative expenses".

Useful lives of customer relationships

The estimation of the useful lives of the customer relationships is a matter of judgement based on expectations of the duration of the relationship with the customers.

The contract with MMK Group was concluded in February 2013 for five years expiring in February 2018. In assessing the useful life of this customer relationship on initial recognition, management took the view that the cooperation with MMK Group would not terminate after the expiry of the underlying contract as the relationship is based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the customer. In view of these considerations, management estimated the useful economic life of the customer relationship with the MMK Group to be seven years on the initial acquisition of this customer relationship.

During 2014, the terms of the contract with MMK was prolonged for a further one year to February 2019. Management reassessed the useful economic life of the customer relationship and concluded that, despite the prolongation of the contract in year 2014, the remaining useful economic life of the customer relationship remained reasonable.

18. Intangible assets continued

During 2018, the contract with MMK was prolonged to September 2020. Management reassessed the useful economic life of the customer relationship and concluded that, despite the prolongation of the contract in year 2018, the remaining useful economic life of the customer relationship remains appropriate.

Based on management's assessment as of 31 December 2018 and 31 December 2017, the useful economic life of the customer relationship with MMK Group remains appropriate.

(1) 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, included 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-financial assets (Note 4).

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 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.

(2) Assessment for impairment as of 31 December 2018
The Group assessed whether there were any indications of impairment of the customer relationship with MMK Group as of 31 December 2018, in accordance with its accounting policy for impairment of non-financial assets (Note 4). The Group's assessment did not reveal any indicators of impairment and, as a result, management did not estimate the recoverable amount of this customer relationship.

19. Principal subsidiaries

The Group had the following subsidiaries at 31 December 2018 and 31 December 2017:

Name	Place of business/ country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%) 2018	Proportion of ordinary shares held by the Company (%) 2017	Proportion of ordinary shares held by the Group (%) 2018	Proportion of ordinary shares held by the Group (%) 2017	Proportion of ordinary shares held by non-controlling interest (%) 2018	Proportion of ordinary shares held by non-controlling interest (%) 2017
New Forwarding Company, AO	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
GTI Management, OOO	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
Ural Wagonrepair Company, AO	Russia	Repair and maintenance of rolling stock	**100**	100	**100**	100	**–**	–
Ukrainian New Forwarding Company OOO	Ukraine	Railway transportation	**100**	100	**100**	100	**–**	–
BaltTransServis, OOO	Russia	Railway transportation	**60**	60	**60**	60	**40**	40
RemTransServis, OOO(1)	Russia	Repair and maintenance of rolling stock	**–**	–	**59.4**	59.4	**40.6**	40.6
SyntezRail LLC(3)	Russia	Railway transportation	**–**	–	**60**	60	**40**	40
SyntezRail Ltd	Cyprus	Intermediary holding company	**60**	60	**60**	60	**40**	40
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	**65.25**	65.25	**65.25**	65.25	**34.75**	34.75
Ekolinja Oy(2)	Finland	Operating sub-lease of rolling stock	**–**	–	**65.25**	65.25	**34.75**	34.75
Spacecom Trans AS(4)	Estonia	Operating lease of rolling stock	**–**	65	**65.25**	65	**34.75**	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.
(4) During 2018 Spacecom AS acquired 100% of the shares of Spacecom Trans AS from the Company and the non-controlling shareholders. As a result, the proportion of ordinary shares held by the Company in Spacecom Trans AS increased from a direct holding of 65% to an indirect holding of 65.25%.

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 2018 and 31 December 2017 comprised the following:

	2018 RUB'000	2017 RUB'000
BaltTransServis, OOO (including RemTransservis, OOO)	**1,848,646**	1,668,540
Spacecom AS (including Ekolinja Oy)	**2,824,204**	3,105,411
Spacecom Trans AS	**1,064,637**	1,008,312
SyntezRail, OOO; SyntezRail Limited	**159,921**	(57,364)
Total	**5,897,408**	5,724,899

19. Principal subsidiaries continued

Transactions with non-controlling interests

During 2018 Spacecom AS acquired 100% of the shares of Spacecom Trans AS from the Company and the non-controlling shareholders, for a total consideration of Eur 30,100 thousand (equivalent to RUB 2,391,761 thousand). As a result, the proportion of ordinary shares held by the Company in Spacecom Trans AS increased from a direct holding of 65% to an indirect holding of 65.25%. The transaction aimed to optimise the management of both Estonian subsidiaries.

Out of the total amount payable to the non-controlling shareholders of RUB 837,116 thousand, RUB 5,980 thousand relate to the acquisition of 0.25% in Spacecom Trans AS by the Group. The difference between the consideration payable and the carrying amount of the non-controlling interest as of the disposal date of RUB 1,516 thousand was recognised in retained earnings. The remaining RUB 831,136 payable to the non-controlling shareholders was recognised as a reduction in the carrying amount of the non-controlling interest.

An amount of RUB 168,804 thousand was paid to the non-controlling interest within 2018.

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	
	2018 RUB'000	2017 RUB'000	**2018 RUB'000**	2017 RUB'000
Current				
Assets	**2,863,563**	2,625,172	**568,845**	716,544
Liabilities	**1,713,310**	1,395,496	**916,598**	49,972
Total current net assets	**1,150,253**	1,229,676	**(347,753)**	666,572
Non-current				
Assets	**5,571,362**	5,300,163	**12,252,920**	11,081,530
Liabilities	**2,099,999**	2,358,489	**827,446**	–
Total non-current net assets	**3,471,363**	2,941,674	**11,425,474**	11,081,530
Net assets	**4,621,616**	4,171,350	**11,077,721**	11,748,102

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19. Principal subsidiaries continued

Summarised income statement

	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2018 RUB'000	2017 RUB'000	**2018 RUB'000**	2017 RUB'000
Revenue	**26,128,533**	21,458,824	**943,402**	755,622
Profit before income tax	**5,726,124**	4,926,219	**276,877**	58,589
Income tax expense	**(1,175,858)**	(1,014,228)	**(59,289)**	–
Post-tax profit from continuing operations	**4,550,266**	3,911,991	**217,588**	58,589
Other comprehensive income	**–**	–	**1,824,144**	716,756
Total comprehensive income	**4,550,266**	3,911,991	**2,041,732**	775,345
Total comprehensive income allocated to non-controlling interests	**1,820,106**	1,564,796	**710,615**	270,120
Dividends paid to non-controlling interest	**(1,640,000)**	(2,200,000)	**(83,005)**	–

Summarised cash flow statements

	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2018 RUB'000	2017 RUB'000	**2018 RUB'000**	2017 RUB'000
Cash flows from operating activities				
Cash generated from operations	**6,288,546**	5,980,883	**642,591**	493,096
Income tax paid	**(1,209,550)**	(1,027,999)	**(59,289)**	(1,203)
Net cash generated from operating activities	**5,078,996**	4,952,884	**583,302**	491,893
Net cash generated from/(used in) investing activities	**(799,737)**	(347,927)	**(936,540)**	167,713
Net cash used in financing activities	**(4,416,883)**	(5,901,728)	**(99,337)**	(136,287)
Net increase/(decrease) in cash and cash equivalents	**(137,624)**	(1,296,771)	**(452,575)**	523,319
Cash and cash equivalents at beginning of year	**1,132,945**	2,429,582	**581,995**	42,618
Exchange differences on cash and cash equivalents	**(275)**	134	**66,093**	16,072
Cash and cash equivalents at end of year	**995,046**	1,132,945	**195,513**	582,009

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

20. Share-based payments

On 1 January 2015, the Group introduced a new remuneration programme for some of the members of management, including members of key management of the Group, which included, amongst other things, a three year compensation scheme in accordance to which, members of management received 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 equalled 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 reached the end of its vesting period on 31 December 2017 and on 1 January 2018 the Group introduced a new three year compensation scheme under similar major terms and conditions as the initial.

Both schemes fall within the scope of IFRS 2 "Share-based payment" and have therefore been classified as a cash-settled share based payment arrangements.

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

The Group recognised an employee benefit expense of RUB 236,572 thousand in this respect for the year ended 31 December 2018 (2017: RUB 97,229 thousand) and the Group's liability in respect of this amounted to RUB 290,805 as of 31 December 2018 (2017: RUB 226,560 thousand).

The share based payment liability as of 31 December 2018 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 and the weighted average USD/RUB exchange.

21. Financial assets

(a) Trade receivables

	2018 RUB'000	2017 RUB'000
Trade receivables – third parties	**2,733,570**	2,504,806
Less: Provision for impairment of trade receivables	**(146,042)**	(141,336)
Trade receivables – net	**2,587,528**	2,363,470
Less non-current portion:		
Trade receivables – third parties	**245,537**	203,153
Less: Provision for impairment of trade receivables	**(23,732)**	(19,637)
Total non-current portion	**221,805**	183,516
Current portion	**2,365,723**	2,179,954

Trade receivables amounting to RUB 245,537 thousand as of 31 December 2018 (2017: RUB 203,153 thousand) relate to a 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 2018, the Group recognised a provision for impairment of RUB 23,732 thousand (2017: RUB 19,637 thousand) in order to account for the expected time until receipt of the amount due (Note 31).

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21. Financial assets continued

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

	2018 RUB'000	2017 RUB'000
Currency:		
– US Dollar	**250,245**	195,948
– Russian Rouble	**2,183,841**	2,107,462
– Euro	**137,472**	59,650
– Ukrainian Hryvnia	**15,970**	410
	2,587,528	2,363,470

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

(b) Loans and other receivables

	2018 RUB'000	2017 RUB'000
Loans receivables – third parties	**11,904**	16,857
Other receivables	**112,434**	89,153
Other receivables – related parties (Note 33)	**200,064**	–
Less: Provision for impairment of other receivables	**(49,652)**	(39,786)
Loans and other receivables – net	**274,750**	66,224
Less non-current portion:		
– Loans receivables – third parties	**11,904**	16,857
Current portion	**262,846**	49,367

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

	2018 RUB'000	2017 RUB'000
Currency:		
– US Dollar	**2,207**	584
– Russian Rouble	**260,247**	48,476
– Ukrainian Hryvnia	**392**	307
– Other	**11,904**	16,857
	274,750	66,224

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

22. Other assets

	2018 RUB'000	2017 RUB'000
Prepayments – third parties	**2,857,251**	1,949,999
Finance leases to third parties	**316,668**	445,919
VAT recoverable	**1,433,443**	610,451
Other assets	**4,607,362**	3,006,369
Less non-current portion:		
– Finance leases to third parties	**289,374**	414,869
– Prepayments for property, plant and equipment	**693,267**	21,986
– VAT recoverable	**36,931**	–
Total non-current portion	**1,019,572**	436,855
Current portion	**3,587,790**	2,569,514

The Group's finance leases as at 31 December 2018 and 31 December 2017 are denominated in Russian Roubles.

The finance lease receivables are scheduled as follows:

	Less than one year RUB'000	Between 1 to 5 years RUB'000	Over 5 years RUB'000	Total RUB'000
At 31 December 2018				
Minimum lease receivable	61,311	291,591	96,489	449,391
Less: Unearned finance income	(34,017)	(97,059)	(1,647)	(132,723)
Present value of minimum lease receivables	**27,294**	**194,532**	**94,842**	**316,668**
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

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

The effective interest rates on finance lease receivables at the balance sheet were as follows:

	2018 %	2017 %
Finance leases to third parties	**11.17**	11.28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

23. Inventories

	2018 RUB'000	2017 RUB'000
Raw materials, spare parts and consumables	**904,375**	776,341
	904,375	776,341

All inventories are stated at cost.

24. Cash and cash equivalents

	2018 RUB'000	2017 RUB'000
Cash at bank and in hand	**6,685,392**	3,313,155
Short-term bank deposits	**444,526**	1,653,016
Total cash and cash equivalents	**7,129,918**	4,966,171

The weighted average effective interest rate on short-term deposits was 6.46% in 2018 (2017: 7.61%) and these deposits have a maturity of 1 to 30 days (2017: 1 to 30 days).

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

	2018 RUB'000	2017 RUB'000
Cash and cash equivalents	**7,129,918**	4,966,171
Total cash and cash equivalents	**7,129,918**	4,966,171

Cash and cash equivalents are denominated in the following currencies:

	2018 RUB'000	2017 RUB'000
Russian Rouble	**5,485,393**	4,016,241
US Dollar	**759,190**	441,311
Euro	**838,956**	482,936
Ukrainian Hryvnia	**46,379**	25,683
Total cash and cash equivalents	**7,129,918**	4,966,171

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

25. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2017 / 31 December 2017 / 1 January 2018 / 31 December 2018	**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 2017 / 31 December 2017 / 1 January 2018 / 31 December 2018	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2018 was 233,918,128 shares with a par value of USD 0.10 per share (31 December 2017: 233,918,128 shares with a par value of USD 0.10 per share). All issued shares are fully paid.

26. Dividends

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

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

In April 2018, the shareholders of the Company approved the payment of a dividend for the financial year ended 31 December 2017 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 (US Dollar equivalent of USD 130,728 thousand).

In August 2018, the Board of Directors of the Company approved payment of total dividend in the amount of 45.9 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,204,208 thousand (US Dollar equivalent of USD 119,724 thousand), including interim dividend in the amount of RUB 3,771,433 thousand (US Dollar equivalent of USD 55,037 thousand) or RUB 21.10 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,432,775 thousand (US Dollar equivalent of USD 64,687 thousand) or RUB 24.80 per ordinary share/GDR.

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 2018 total dividend in the amount of 46.50 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,311,453 thousand, including final dividend for 2018 in the amount of RUB 1,429,927 thousand or RUB 8.00 per ordinary share/GDR and a special final dividend in the amount of RUB 6,881,526 thousand or RUB 38.50 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at 19 April 2019, subject to the approval of the shareholders at the Annual General Meeting on 22 April 2019.

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26. Dividends continued

During the years ended 31 December 2018 and 2017, 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.

	2018 RUB'000	2017 RUB'000
Dividends declared to equity holders of the Company	**16,220,738**	15,014,237
Dividends paid to equity holders of the Company	**16,220,738**	15,014,237
Dividends declared to non-controlling interest	**1,723,005**	2,200,000
Dividends paid to non-controlling interest	**1,723,005**	2,200,000

27. Borrowings

	2018 RUB'000	2017 RUB'000
Current		
Bank borrowings	**7,831,616**	7,280,588
Non-convertible unsecured bonds	**131,100**	–
Finance lease liabilities	**496,874**	–
Total current borrowings	**8,459,590**	7,280,588
Non-current		
Bank borrowings	**10,568,008**	9,050,768
Non-convertible unsecured bonds	**4,985,519**	–
Finance lease liabilities	**1,715,794**	–
Total non-current borrowings	**17,269,321**	9,050,768
Total borrowings	**25,728,911**	16,331,356
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**5,186,713**	5,727,105
Between 2 and 5 years	**10,366,814**	3,323,663
	15,553,527	9,050,768

Bank borrowings

Bank borrowings mature by 2023 (2017: by 2022) and bear average interest of 7.99% per annum (2017: 9.38% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2018 and 31 December 2017.

The current and non-current bank borrowings amounting to RUB 6,775,211 thousand and RUB 9,681,198 thousand respectively (2017: RUB 4,746,499 thousand and RUB 6,559,101 thousand respectively) are secured by pledge of rolling stock and tank-containers with a total carrying net book value of RUB 22,944,525 thousand (2017: RUB 17,963,398 thousand) (Note 17).

In accordance with the terms of its bank borrowings, the Group had a commitment as at 31 December 2018 to pledge tank-containers with a carrying amount of RUB 728,669 thousand within six months from the date of bank loan agreement; being 4 July 2018. The relevant pledge agreement was concluded in January 2019.

In accordance with the terms of its bank borrowings, the Group had a commitment as at 31 December 2017 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 relevant bank was fully repaid during March 2018.

27. Borrowings continued

Non-convertible bonds

Non-convertible Russian Rouble denominated bonds issued by New Forwarding Company AO ("NFC") in 2018 for a total amount of RUB 5 billion, out of a total RUB 100 billion registered programme, carry a coupon rate of 7.25% p.a. and have maturity in 2023.

The Company acts as the guarantor for the bond issue.

Finance lease liabilities

Finance lease liabilities are effectively secured as the rights to the leased asset reverts to the lessor in the event of default. For details of assets under finance leases refer to Note 17.

	2018 RUB'000	2017 RUB'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	**662,116**	–
Later than 1 year and not later than 5 years	**1,968,708**	–
Future finance charges of finance leases	**(418,156)**	–
Present value of finance lease liabilities	**2,212,668**	–
The present value of finance lease liabilities is as follows:		
– Not later than 1 year	**496,874**	–
– Later than 1 year and not later than 5 years	**1,715,794**	–
	2,212,668	–

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:

	2018 RUB'000	2017 RUB'000
6 months or less	**2,742,720**	3,635,970
6 to 12 months	**5,716,870**	3,644,631
1 to 5 years	**17,269,321**	9,050,755
	25,728,911	16,331,356

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

27. Borrowings continued

Movements in borrowings are analysed as follows:

	Bank borrowings and loans (excl. overdrafts) RUB'000	Finance lease RUB'000	Non-convertible unsecured bonds RUB'000	Total RUB'000
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
Year ended 31 December 2018				
Opening amount as at 1 January 2018	16,331,356	–	–	16,331,356
Cash flows:				
– Amounts advanced	15,197,467	–	5,000,000	20,197,467
– Repayments of borrowings	(13,127,743)	(1,321,234)	–	(14,448,977)
– Interest paid	(1,335,018)	(100,064)	(198,250)	(1,633,332)
– Interest charged	1,344,208	108,216	314,869	1,767,293
Non-cash changes:				
– Net foreign exchange	294	–	–	294
– Finance lease liability	(10,940)	3,525,750	–	3,514,810
Closing amount as at 31 December 2018	**18,399,624**	**2,212,668**	**5,116,619**	**25,728,911**

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

	Carrying amount		Fair value	
	2018 RUB'000	2017 RUB'000	**2018 RUB'000**	2017 RUB'000
Bank borrowings	**18,399,624**	16,331,356	**18,087,461**	16,646,324
Non-convertible unsecured bonds	**5,116,619**	–	**4,940,619**	–
Finance lease liabilities	**2,212,668**	–	**2,166,542**	–
	25,728,911	16,331,356	**25,194,622**	16,646,324

The fair value as at 31 December 2018 and 31 December 2017 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 2018 and 31 December 2017. The discount rates was 9.5% p.a. (2017: 8% p.a.). The fair value measurements are within level 2 of the fair value hierarchy (2017: level 2). The fair value as at 31 December 2018 of the fixed interest rate non-convertible bonds was equal to their quoted price and the resulting fair value measurement is within level 1.

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.

27. Borrowings continued

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

	2018 RUB'000	2017 RUB'000
Russian Rouble	**25,724,528**	16,331,356
Euro	**4,383**	–
	25,728,911	16,331,356

The Group has the following undrawn borrowing facilities:

	2018 RUB'000	2017 RUB'000
Fixed rate:		
– Expiring within one year	**1,490,000**	2,640,000
– Expiring beyond one year	**3,025,000**	16,500,000
	4,515,000	19,140,000

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

	2018 %	2017 %
Bank borrowings	**8.0**	9.4
Non-convertible unsecured bonds	**7.3**	–
Finance lease liabilities	**8.4**	–

28. 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:

	2018 RUB'000	2017 RUB'000
Beginning of year	**5,908,319**	5,245,331
Income statement charge (Note 15)	**376,549**	662,988
End of year	**6,284,868**	5,908,319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

28. Deferred income tax continued

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 2017	5,170,969	498,130	306,681	5,975,780
Charged/(credited) to: – Income statement (Note 15)	309,021	211,103	(17,174)	502,950
At 31 December 2017 / 1 January 2018	5,479,990	709,233	289,507	6,478,730
Charged/(credited) to: – Income statement (Note 15)	1,385,566	(224,097)	(139,181)	1,022,288
At 31 December 2018	**6,865,556**	**485,136**	**150,326**	**7,501,018**

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 2017	(19,309)	(128,500)	(487,792)	(94,848)	(730,449)
Charged/(credited) to: – Income statement (Note 15)	(40,599)	45,636	210,865	(55,864)	160,038
At 31 December 2017 / 1 January 2018	(59,908)	(82,864)	(276,927)	(150,712)	(570,411)
Charged/(credited) to: – Income statement (Note 15)	896	(103,606)	(546,414)	3,385	(645,739)
At 31 December 2018	**(59,012)**	**(186,470)**	**(823,341)**	**(147,327)**	**(1,216,150)**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred tax assets in the amount of RUB 433,600 thousand (2017: RUB 428,551 thousand) for tax losses amounting to RUB 2,721,000 thousand (2017: RUB 2,701,554 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 3,474,968 thousand (2017: RUB 2,785,978 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 28,932,126 thousand as at 31 December 2018 (2017: RUB 20,506,150 thousand).

29. Trade and other payables

	2018 RUB'000	2017 RUB'000
Current		
Trade payables to third parties	**539,995**	707,143
Other payables to third parties	**569,084**	129,552
VAT payable and other taxes	**685,328**	738,433
Accrued expenses	**106,789**	85,336
Accrued key management compensation, including share based payment (Note 33)	**648,141**	523,886
Advances from customers for transportation services[1]	**–**	2,229,306
	2,549,337	4,413,656
Non-current		
Accrued key management compensation, including share based payment (Note 33)	**114,751**	–
Other payables to third parties	**289,606**	–
	404,357	–

(1) Advances from customers consist of prepayments received in accordance with contracts on transportation services. Following adoption of IFRS 15 on 1 January 2018, this balance is included within contract liabilities (Note 10).

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

30. 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.

	2018	2017
Profit attributable to equity holders of the Company (RUB thousand)	**17,671,968**	12,288,777
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	**98.87**	68.75

31. Contingencies

Operating environment

The Group and its subsidiaries mainly operate in the Russian Federation, Estonia, Finland 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 continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Co-operation 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 2018 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 in Cyprus, Russia, Ukraine, Estonia and Finland. The tax liabilities of the Group are determined on the assumption that these companies are tax residents in the countries where they are incorporated and are not subject to profits tax of other tax jurisdictions, because they do not have permanent establishments in other jurisdictions. The Company and the non-controlling shareholding companies holding interests in the Company's Russian subsidiaries are the only and full beneficial owners of the equity interests held directly and indirectly in these subsidiaries. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

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. There is currently an ongoing tax investigation in one of the Russian subsidiaries of the Group, which may give rise to the tax authorities challenging positions and interpretations applied by management. Management will vigorously defend the positions and interpretations applied in determining taxes recognised in this condensed consolidated interim financial information if these are challenged by the 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.

31. Contingencies continued

Ukraine

Starting in 2013, the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to deterioration of the state's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The Central bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. The recent political situation has been volatile, with changes in the Ukrainian Parliament and the Presidency.

Despite certain improvements in recent years, 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 2018 and 31 December 2017 (Note 27).

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 2018 and 31 December 2017, the Company's subsidiaries were involved as a claimants and defendants in a number of court proceedings.

Georgian Railways case

As at 31 December 2018 the Group has outstanding receivable amounting to EUR 3,090 thousand/RUB 245,537 thousand (2017: EUR 2,950 thousand/RUB 203,153 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.

Based on assessment performed as at 31 December 2018, management recognised a loss allowance of EUR 299 thousand/ RUB 23,732 thousand (2017: EUR 285 thousand/ RUB 19,637 thousand).

The Group issued additional invoices of EUR 1,555 thousand (RUB 115,244 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 380,000 thousand) claiming compensation for storage costs incurred during the period the wagons remain in Georgia plus interest.

In March 2018, the Georgian Court ruled in favour of the Group an amount of 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.

31. Contingencies continued

Claim in relation to sale of rolling of stock
In February 2018, the Group received a claim from a third party in relation to a sale of rolling stock. In March 2018, the third party initiated legal action claiming from the Group an amount of RUB 996 million. In June 2018, there was a court decision against the Group for an amount of RUB 684 million. Both parties have appealed this decision and on 27 September 2018 the 2nd instance court cancelled the penalty in full amount. On 15 February 2019 the Moscow Arbitrary court cancelled all court decisions made. The amount of claim was decreased to RUB 727 million. No provision has been recognised in respect of this claim as the Group has received an unconditional irrevocable guarantee for the entire amount of this claim.

Claim in relation to unpaid railroad tariffs
In December 2018, the Group, jointly with a third party customer, received a claim from a third party for the total amount of RUB 519 million in relation to discount applied on railroad tariffs. No provision has been recognised in the Consolidated Financial Statements in respect of this claim as the Group is of the opinion that it is not probable that it will be required to make a payment under this claim.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2018 and 2017 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.

32. Commitments

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

	2018 RUB'000	2017 RUB'000
Property, plant and equipment	**2,707,799**	–

(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 11.

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

	2018 RUB'000	2017 RUB'000
Not later than 1 year	**477,188**	280,530
Later than 1 year not later than 5 years	**882,449**	107,891
Later than 5 years	**19,195**	–
	1,378,832	388,421

32. Commitments continued

(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:

	2018 RUB'000	2017 RUB'000
Not later than 1 year	**348,257**	200,975
Later than 1 year not later than 5 years	**28,182**	–
	376,439	200,975

There were no contingent-based rents to be recognised in the income statement for the year ended 31 December 2018 and 31 December 2017.

33. Related party transactions

Marigold Investments Ltd, Onyx Investments Ltd and Maple Valley Investments Ltd are Company's shareholders with a direct shareholding as at 31 December 2018 11.5%, 11.5% and 10.8%, respectively (as at 31 December 2017 of 11.5%, 11.5% and 11.2%, respectively).

Litten Investments Ltd, controlled by member of key management of the Group, has a shareholding in the Company of 5.8% as at 31 December 2018 (31 December 2017: 6.3%).

From 7 March 2018 and as at 31 December 2018, Goldriver Resources Ltd, which has a shareholding in the Company of 4.7% , is controlled by a member of key management personnel of the Group.

As at 31 December 2018, 55.5% (2017: 59.4%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company. The remaining 0.2% (2017: 0.1%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

33. Related party transactions continued

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2018 RUB'000	2017 RUB'000
Sales of services:		
– Associate	–	484,208
	–	484,208

(b) Purchases of goods and services

	2018 RUB'000	2017 RUB'000
Purchases of services:		
– Associate	–	115,820
	–	115,820

(c) Key management compensation

	2018 RUB'000	2017 RUB'000
Key management salaries and other short-term employee benefits (1)	**1,675,673**	961,204
Share-based compensation (Note 20)	**236,572**	97,229
	1,912,245	1,058,433

(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 408,987 thousand (2017: RUB 130,387 thousand).

(d) Year-end balances arising from sale of shares/purchases of services

	2018 RUB'000	2017 RUB'000
Other receivable from related parties (Note 21):		
– Receivable from entity controlled by key management	**200,064**	–
	200,064	–

	2018 RUB'000	2017 RUB'000
Accrued key management remuneration – current (Note 29):		
– Accrued salaries and other short-term employee benefits	**472,087**	297,326
– Share-based payment liability (Note 20)	**176,054**	226,560
	648,141	523,886

	2018 RUB'000	2017 RUB'000
Accrued key management remuneration – non-current (Note 29):		
– Share-based payment liability (Note 20)	**114,751**	–
	114,751	–

34. Events after the balance sheet date

In February 2019, New Forwarding Company AO successfully placed a second five-year Russian Rouble denominated exchange-traded bond for a total amount of RUB 5 billion, out of RUB 100 billion registered programme, priced at a coupon rate of 8.8% 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 2018 total dividend in the amount of 46.50 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,311,453 thousand, including final dividend for 2018 in the amount of RUB 1,429,927 thousand or RUB 8.00 per ordinary share/GDR and a special final dividend in the amount of RUB 6,881,526 thousand or RUB 38.50 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at 19 April 2019, subject to the approval of the shareholders at the Annual General Meeting on 22 April 2019.

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 97 to 101.

MANAGEMENT REPORT AND PARENT COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

Contents

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Mr. Michael Zampelas
Senior Independent Non-executive Director
Chairman of the Nomination Committee
Member of Remuneration Committee

Dr. Johann Franz Durrer
Independent Non-executive Director
Chairman of the Remuneration Committee
Member of the Nomination Committee

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. Michalakis Thomaides
Non-executive Director

Ms. Melina Pyrgou
Non-executive Director

Mr. Marios Tofaros
Non-executive Director

Mr. Sergey Maltsev
Chairman of the Board of Directors
Executive Director
Appointed on 23 April 2018
Alternate Director: Mr. Yuri Isaev

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

Mr. Sergey Tolmachev
Executive Director

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

Mr. Konstantin Shirokov
Executive Director

Mr. Andrey Gomon
Executive Director
Alternate Director: Ms. Melina Pyrgou

Mr. Alexander Tarasov
Non-executive Director

Board support

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

Company Secretary

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

Assistant secretary: Mr. Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol, Cyprus

MANAGEMENT REPORT

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2018. The parent company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal activities of the Company, which are unchanged from last year, are the holding of investments and provision of financing to other Group companies.

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

The Company's profit for the year increased to RUB 15,847,719 thousand compared to RUB 9,967,841 thousand for the year ended 31 December 2017. This was mainly the result of the increase in the dividend income earned from the subsidiaries from RUB 10,700,007 thousand during the year ended 31 December 2017 to RUB 15,112,974 thousand in the current year.

The total asset position of the Company has increased as of 31 December 2018 compared to 31 December 2017, with total assets as of 31 December 2018 amounting to RUB 48,696,474 thousand compared to RUB 46,304,334 thousand as of 31 December 2017. The net asset position of the Company has decreased as of 31 December 2018 compared to 31 December 2017, with net assets as of 31 December 2018 amounting to RUB 40,837,914 thousand compared to RUB 41,210,933 thousand as of 31 December 2017. The decrease in the net asset position of the Company was the result of the dividend distributions to the owners of the Company made during the year ended 31 December 2018 which exceeded the net profit for the year by RUB 373,019 thousand.

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

Changes in Group structure

During 2018 Spacecom AS acquired 100% of the shares of Spacecom Trans AS from the Company and the non-controlling shareholders. As a result, the proportion of ordinary shares held by the Company in Spacecom Trans AS increased from a direct holding of 65% to an indirect holding of 65.25%. The transaction aimed to optimise the management of both Estonian subsidiaries. There were no other changes in the group structure of the Group during the year ended 31 December 2018. For the principal subsidiaries of the Company, refer to Note 17 of the financial statements.

Non-Financial Information and Diversity Statement

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

Environmental matters

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

Human resources

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

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

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

Principal risks and uncertainties

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

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

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

Strategic risks

The strategic risks faced by the Company and its subsidiaries, together referred to as "Group", that pose risks that influence the Group's ability to achieve its strategy include the general economic situation and operating environment in Russia, Kazakhstan, Ukraine, CIS and Baltic countries in which the Group operates; the regulatory risk relating to the operation of the Russian railway transportation market including railway tariff regulation and technical requirements for fleet maintenance; the highly competitive Russian rail transportation market with unregulated operators' services tariffs; the significant concentration of the Group's customer base with the top 10 customers (including their affiliates and suppliers) accounting for around 74% of the Group's Net Revenue from the operation of rolling stock in 2018; 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 60% of the Group's Net Revenue from the Operation of Rolling Stock in 2018 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.

Operational risks

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

The Group is managing operational risk by ensuring that practically all of the Group's rolling stock is insured against damage. Further, the Group monitors its rolling stock through the Group's dispatch centre on a 24/7 basis and plans routes accordingly to minimise the risks of disruption. The Group monitors FAS initiatives with the aim of detecting possible changes in tariff-setting methodology and tries to reflect respective changes in contracts with customers. Among the Group's key objectives are to increase operational efficiency and to focus on control and reduction of costs. The Group continuously monitors its costs to maintain efficiency.

The Human Resource function regularly monitors salary levels and other benefits offered by competitors to ensure that the Group's remuneration packages are adequate. Customer satisfaction is one of the key metrics that the Group's management monitors, with customer feedback being analysed and appropriate follow-up actions being taken. Local IT specialists have introduced solutions to maintain the availability of IT services and ensure their recovery in case of disruption. The IT function and Internal Audit function monitor all IT-related activities and performance for compliance with IT policies and procedures.

Further the Group permanently monitors any disruptive events and applies a Business Continuity Policy to ensure the safety of employees and human life; maintain continuity of time-critical services; minimise disruptions to clients and partners; and minimise operational, financial and reputational impact.

Compliance risks

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

MANAGEMENT REPORT
continued

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

Financial risks

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

Foreign exchange risk

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

During the year 2018 there was increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies, especially in the second half of the year. As of the end of December 2018 the Russian Rouble has depreciated against the US Dollar from 57.6002 as of 31 December 2017 to 69.4706 Russian Roubles (21% devaluation).

The fluctuations in the exchange rate between (i) US Dollar and Russian Rouble and (ii) Euro and Russian Rouble expose the Company to foreign exchange risk.

Had US Dollar exchange rate strengthened/weakened by 20% (2017: 5% change) against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2018 would have increased/decreased by RUB 150,147 thousand (2017: RUB 24,641 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of US Dollar denominated loans receivable and cash and cash equivalents as of 31 December 2018 and as of 31 December 2017.

Had Euro exchange rate strengthened/weakened by 20% (2017: 5% change) against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2018 would have increased/decreased by RUB 276,343 thousand (2017: decreased/increased by RUB 2,811 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of Euro denominated other receivables, cash and cash equivalents and payables as of 31 December 2018 and as of 31 December 2017.

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

Interest-rate risk

The Company holds interest bearing financial instruments at fixed interest rates.

Financial assets and liabilities issued at fixed rates expose the Company to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2018 and 31 December 2017 would not have any impact on the Company's post tax profit or equity.

Financial assets and liabilities issued at floating rate expose the Company to cash flow interest rate risk. As of 31 December 2018 the Company did not have any floating interest rate borrowings or receivables, therefore was not exposed to cash flow interest rate risk. The Company's current policy is not to hedge interest rate risk.

Credit risk

Financial instruments which potentially subject the Company to credit risk, consist principally of loans and other receivables, cash and cash equivalents and financial guarantees issued by the Company for borrowings of the subsidiaries.

At each balance sheet date, the Company assesses on a forward looking basis the expected credit losses associated with its loans receivable from subsidiaries. Based on the assessment performed as 31 December 2018, a reversal of impairment losses of RUB 728,378 thousand was recognised.

The majority of the Company's bank balances are held with independently rated banks with a minimum rating of 'Ba2'. This policy enables the Company to reduce its credit risk significantly.

The Company has issued financial guarantees on the borrowings of its subsidiaries. As a result, the Company is exposed to credit risk arising from potential risk of default of the Company's subsidiaries on their external debt. As of 31 December 2018, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings. No significant expected credit losses arose on these.

Liquidity risk

As at 31 December 2018, the Company has an excess of current liabilities over current assets of RUB 965,709 thousand (2017: RUB 1,961,776 thousand). Management believes that the Company will be able to meet its obligations as they fall due.

Management controls current liquidity based on expected cash flows, expected dividend and interest income receipts, expected dividend payments and advancements under borrowings from subsidiaries. In the long-term perspective, the liquidity risk is determined by forecasting future cash flows at the moment of signing new loans and by budgeting procedures.

Contingencies

The Company's contingencies are disclosed in Note 26 to the financial statements.

Future developments

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

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

Results

The Company's results for the year are set out on pages 189 and 190. 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 2017, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2016 in the amount of 39.20 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 7,006,644 thousand (US Dollar equivalent of USD 124,605 thousand).

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

In April 2018, the shareholders of the Company approved the payment of a dividend for the financial year ended 31 December 2017 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 (US Dollar equivalent of USD 130,728 thousand).

In August 2018, the Board of Directors of the Company approved payment of total dividend in the amount of 45.9 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,204,208 thousand (US Dollar equivalent of USD 119,724 thousand), including interim dividend in the amount of RUB 3,771,433 thousand (US Dollar equivalent of USD 55,037 thousand) or RUB 21.10 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,432,775 thousand (US Dollar equivalent of USD 64,687 thousand) or RUB 24.80 per ordinary share/GDR.

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 2018 total dividend in the amount of 46.50 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,311,453 thousand, including final dividend for 2018 in the amount of RUB 1,429,927 thousand or RUB 8.00 per ordinary share/GDR and a special final dividend in the amount of RUB 6,881,525 thousand or RUB 38.50 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at 19 April 2019, subject to the approval of the shareholders at the Annual General Meeting on 22 April 2019.

Share capital

As at 31 December 2018 the issued share capital of the Company, which remains unchanged from the prior year, comprised 178,740,916 ordinary shares with a par value of USD 0.10 per share.

Research and development activities

The Company has not undertaken any research and development activities during the year ended 31 December 2018.

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 27 to the financial statements.

Branches

The Company does not operate through any branches.

Treasury shares

In 2018 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

The Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2019, including cash flows and borrowing facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

MANAGEMENT REPORT
continued

Auditors

The Board of Directors in accordance with the requirements of the EU introduced into Cypriot legislation undertook a mandatory audit tender in respect of the 2019 audit. Following this the Independent Auditor, PricewaterhouseCoopers Limited, has expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

Corporate governance

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

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

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

The role of the Board of Directors

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

Members of the Board of Directors

As at 31 December 2018 and at the date of this report, the Board comprises 15 members (2017: 14 members), nine (2017: 10 members) of whom are Non-executive Directors. Four (2017: four) of the Non-executive Directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company, and they are able to exercise objective judgement on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2018 and at the date of this report are shown on page 175. All of them were members of the Board throughout the year 2018, except Mr. Sergey Maltsev, who was appointed as Director 23 April 2018.

There were no significant changes in the assignment of responsibilities of the Board of Directors, with the exception of the change in the Chairman of the Board on 23 April 2018 from Mr. Michael Zampelas to Mr. Sergey Maltsev.

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

The total gross remuneration of the members of the Board of Directors incurred by the Company in 2018 amounted to RUB 186,911 thousand (2017: RUB 45,375 thousand).

Board performance

The Board held 16 meetings in 2018. The Directors' attendance is presented in the table below.

	Eligible	Attended
Michael Zampelas	16	16
Johann Franz Durrer	16	16
Carroll Colley	16	16
George Papaioannou	16	16
Alexander Eliseev	16	14
Melina Pyrgou	16	15
Konstantin Shirokov	16	15
Alexander Storozhev	16	16
Marios Tofaros	16	16
Elia Nicolaou	16	16
Sergey Tolmachev	16	16
Sergey Maltsev (Chairman)(1)	12	10
Andrey Gomon	16	15
Alexander Tarasov	16	16
Michael Thomaides	16	16

(1) Sergey Maltsev was appointed as a member of the Board of Directors on 23 April 2018.

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 Mr. Zampelas and Dr. Durrer 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 23 April 2018.

Refer to Note 24 of the financial statements for details of remuneration of Directors and other key management personnel.

Diversity policy

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

As of the date of publication of these financial statements the Board has two females representing approximately 13% from the total number of Directors. The age of the members of the Board of Directors ranges from over 35 to over 70 years, with the average age of Directors being 52 years. The Board members have the following educational backgrounds: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management. The Board has a necessary balance of skills and expertise to run the Company and the Group.

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

MANAGEMENT REPORT
continued

Regulations with regard to the amendment of the Articles of Association

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

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

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

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

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

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

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

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

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

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

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

Significant direct or indirect holdings (including indirect shareholding through 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 55.5%(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 2018 was follows:

Onyx Investments Ltd(2)	11.5%
Marigold Investments Ltd(2)	11.5%
Maple Valley Investments Ltd(2)	10.8%
Litten Investments Ltd(3)	5.8%
Goldriver Resources Ltd(4)	4.7%
Controlled by Directors and management of Globaltrans	0.2%
Free float(1)	55.5%

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

(2) *Nikita Mishin, Andrey Filatov and Konstantin Nikolaev are co-founders of the Company and beneficiaries with regard to 11.5%, 11.5% and 10.8% respectively of Globaltrans' ordinary share capital each through their respective SPVs (Onyx Investments Ltd, Marigold Investments Ltd and Maple Valley Investments Ltd).*

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

(4) *Beneficially owned by Sergey Maltsev, Executive Director and co-founder of the Company.*

Directors' interests

The interests in the share capital of Globaltrans Investment PLC, both direct and indirect, of those who were Directors of the Company as at 31 December 2018 and 31 December 2017 are shown below:

Name	Type of holding	2018	2017
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**10,315,790**	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	**8,382,860**	n/a
Johann Franz Durrer	Holding of GDRs	**160,606**	160,606

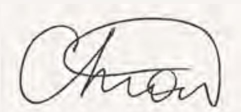
The holders of special titles that provide special control rights and description of such rights

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, 29 March 2019

DIRECTORS' RESPONSIBILITY

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

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

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

Each of the Directors confirms to the best of his or her knowledge that the parent company financial statements (presented on pages 189 to 231) give a true and fair view of the financial position of Globaltrans Investment PLC (the "Company") as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

(i) proper books of account have been kept by the Company;

(ii) the Company's Parent Company Financial Statements are in agreement with the books of account;

(iii) the Parent Company Financial Statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required;

(iv) the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, and the information given therein is consistent with the financial statements;

(v) the information included in the corporate governance statement is in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the financial statements; and

(vi) the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

By order of the Board

Sergey Tolmachev
Director

Limassol, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

to the Members of Globaltrans Investment PLC

Report on the Audit of the Parent Company Financial Statements

Our opinion

In our opinion, the accompanying parent company financial statements give a true and fair view of the financial position of the parent company Globaltrans Investment PLC (the "Company") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the parent company financial statements which are presented in pages 189 to 231 and comprise:

- the balance sheet as at 31 December 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the parent company financial statements, which include a summary of significant accounting policies.

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

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

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

Materiality	Overall materiality: RUB 829,870 thousand, which represents approximately 5% of profit before tax.
Key audit matters	We have determined that there are no key audit matters to communicate in our report.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the parent company financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

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

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INDEPENDENT AUDITOR'S REPORT
continued

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

Overall materiality	RUB 829,870 thousand
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark, because in our view, it is the benchmark against which the performance of the Company is most commonly measured by the users of the parent company financial statements and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above RUB 41,494 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

We have determined that there are no Key Audit Matters to communicate in our report.

Reporting on other information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Company in 2005 by shareholders' resolution for the audit of the financial statements for the year ended 31 December 2004. Our appointment has been renewed annually since then, by shareholders' resolution. In 2008 the Company listed Global Depository Receipts on the Main Market of the London Stock Exchange and, accordingly, the first financial year after the Company qualified as a European Union Public Interest Entity was the year ended 31 December 2009. Since then, the total period of uninterrupted engagement appointment was 10 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the parent company financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 28 March 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

INDEPENDENT AUDITOR'S REPORT
continued

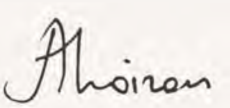
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matter

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

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

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

29 March 2019

INCOME STATEMENT

for the year ended 31 December 2018

	Note	2018 RUB'000	2017 RUB'000
Revenue	8	**15,160,887**	10,806,345
Selling and marketing costs		**(6,406)**	(5,633)
Administrative expenses		**(347,143)**	(244,161)
Reversal of impairment losses on loans receivable	24	**728,378**	120,960
Other income		**133,754**	57,967
Other gains – net	9	**1,133,853**	1,695
Operating profit		**16,803,323**	10,737,173
Finance income	12	**22,181**	51,845
Finance costs	12	**(349,985)**	(209,160)
Net foreign exchange transaction gains/(losses) on financing activities	12	**121,892**	(77,017)
Finance costs – net	12	**(205,912)**	(234,332)
Profit before tax		**16,597,411**	10,502,841
Income tax expense	13	**(749,692)**	(535,000)
Profit for the year		**15,847,719**	9,967,841

The notes on pages 194 to 231 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

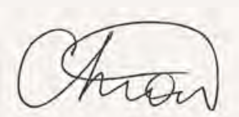
	2018 RUB'000	2017 RUB'000
Profit for the year	**15,847,719**	9,967,841
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	**15,847,719**	9,967,841

The notes on pages 194 to 231 are an integral part of these financial statements.

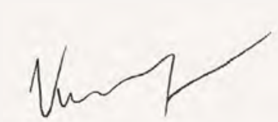
BALANCE SHEET
at 31 December 2018

	Note	31 December 2018 RUB'000	31 December 2017 RUB'000
Assets			
Non-current assets			
Investments in subsidiary undertakings	17	**45,151,248**	45,252,722
Property, plant and equipment	16	**2,572**	4,468
Other assets	19	**4,640**	–
Loans and other receivables	18	**876,476**	407,186
Total non-current assets		**46,034,936**	45,664,376
Current assets			
Loans and other receivables	18	**1,379,274**	204,528
Other assets	19	**2,296**	1,555
Income tax assets		**11,919**	11,794
Cash and cash equivalents	20	**1,268,049**	422,081
Total current assets		**2,661,538**	639,958
Total assets		**48,696,474**	46,304,334
Equity and liabilities			
Capital and reserves			
Share capital	21	**516,957**	516,957
Share premium	21	**27,929,478**	27,929,478
Capital contribution		**2,694,851**	2,694,851
Retained earnings		**9,696,628**	10,069,647
Total equity		**40,837,914**	41,210,933
Non-current liabilities			
Borrowings	22	**4,231,313**	2,491,667
Total non-current liabilities		**4,231,313**	2,491,667
Current liabilities			
Borrowings	22	**3,241,204**	2,534,089
Payables and accrued expenses	23	**386,043**	67,645
Total current liabilities		**3,627,247**	2,601,734
Total liabilities		**7,858,560**	5,093,401
Total equity and liabilities		**48,696,474**	46,304,334

On 29 March 2019 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.



Sergey Tolmachev,
Director



Konstantin Shirokov,
Director

The notes on pages 194 to 231 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	Share capital RUB'000	Share premium RUB'000	Capital contribution RUB'000	Retained earnings RUB'000	Total RUB'000
Balance at 1 January 2017		516,957	27,929,478	2,694,851	15,116,043	46,257,329
Comprehensive income						
Profit for the year		–	–	–	9,967,841	9,967,841
Total comprehensive income for 2017		–	–	–	9,967,841	9,967,841
Transactions with owners						
Dividend to owners of the Company	*15*	–	–	–	(15,014,237)	(15,014,237)
Total distributions to owners of the Company		–	–	–	(15,014,237)	(15,014,237)
Total transactions with owners		–	–	–	(15,014,237)	(15,014,237)
Balance at 31 December 2017/1 January 2018		516,957	27,929,478	2,694,851	10,069,647	41,210,933
Comprehensive income						
Profit for the year		–	–	–	15,847,719	15,847,719
Total comprehensive income for 2018		–	–	–	15,847,719	15,847,719
Transactions with owners						
Dividend to owners of the Company	*15*	–	–	–	(16,220,738)	(16,220,738)
Total distributions to owners of the Company		–	–	–	(16,220,738)	(16,220,738)
Total transactions with owners		–	–	–	(16,220,738)	(16,220,738)
Balance at 31 December 2018		**516,957**	**27,929,478**	**2,694,851**	**9,696,628**	**40,837,914**

The notes on pages 194 to 231 are an integral part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2018

	Note	2018 RUB'000	2017 RUB'000
Cash flows from operating activities			
Profit before tax		**16,597,411**	10,502,841
Adjustments for:			
– Depreciation of property, plant and equipment	16	**1,896**	2,301
– Interest on loans to related parties	8	**(47,913)**	(106,338)
– Bank interest income	12	**(22,181)**	(51,845)
– Interest expense	12	**349,985**	209,160
– Reversal of impairment losses on loans receivable	24	**(728,378)**	(120,960)
– Profit from sale of subsidiaries	9	**(1,134,752)**	–
– Net foreign exchange transaction (gains)/losses on financing activities	12	**(121,892)**	77,017
Operating cash flows before working capital changes		**14,894,176**	10,512,176
Changes in working capital			
– Other assets		**(741)**	(1,218)
– Payables and accrued expenses		**44,107**	313,491
Net cash generated from operations		**14,937,542**	10,824,449
Interest received from loans from related parties		**21,743**	129,173
Tax paid		**(748,003)**	(535,000)
Net cash generated from operating activities		**14,211,282**	10,418,622
Cash flows from investing activities			
– Proceeds from sale of subsidiary	17	**671,441**	–
– Loans granted to related parties	24	**(900,000)**	(650,000)
– Loan repayments received from related parties	24	**936,968**	1,564,249
– Bank interest received		**22,181**	51,845
Net cash generated from investing activities		**730,590**	966,094
Cash flows from financing activities			
– Proceeds from bank borrowings	22	**8,000,000**	5,000,000
– Proceeds from borrowings – related parties	22	**–**	610,798
– Repayment of bank borrowings	22	**(5,558,000)**	–
– Repayment of borrowings – related parties	22	**–**	(1,362,798)
– Interest paid – related parties	24	**–**	(47,649)
– Interest paid on bank borrowings	22	**(345,224)**	(139,459)
– Dividends paid to the Company's shareholders	15	**(16,220,738)**	(15,014,237)
Net cash used in financing activities		**(14,123,962)**	(10,953,345)
Net increase in cash and cash equivalents		**817,910**	431,371
– Exchange losses on cash and cash equivalents		**28,058**	(323,967)
Cash and cash equivalents at beginning of year		**422,081**	314,677
Cash and cash equivalents at end of year	20	**1,268,049**	422,081

The notes on pages 194 to 231 are an integral part of these financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. General information

Country of incorporation

Globaltrans Investment Plc ("the Company") is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113 and converted into a public company on 15 April 2008. The address of its registered office is 20 Omirou Street, Limassol, Cyprus.

Approval of the parent company financial statements

These parent company financial statements were authorised for issue by the Board of Directors of the Company on 29 March 2019.

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 activities of the Company, which are unchanged from last year, are the holding of investments and provision of financing to other Group companies.

Consolidated financial statements

The Company has also prepared Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries ("the Group"). These Consolidated Financial Statements can be obtained from the Company's website at: **www.globaltrans.com**

2. Basis of preparation

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

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by International Accounting Standards Board ("IASB") that are relevant to the Company's operations and are effective as at 1 January 2018 have been adopted by the EU through the endorsement procedure established by the European Commission.

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

The Company has prepared these parent company financial statements for compliance with the requirements of the Cyprus Companies Law, Cap. 113 and disclosure rules as issued by the Financial Conduct Authority of United Kingdom.

Users of these parent company financial statements should read them together with the Company's Consolidated Financial Statements as at and for the year ended 31 December 2018 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 7.

3. Adoption of new or revised standards and interpretations

During the current year the Company adopted all the new and amended standards International Financial Reporting Standards ("IFRS") that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. None of these has affected these financial statements with the exception of IFRS 9 "Financial Instruments", the adoption of which resulted in changes in the Company's accounting policies.

IFRS 9 "Financial instruments"
IFRS 9 "Financial instruments" replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and those to be measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For assets measured at fair value, gains and losses are either recorded in profit or loss or in other comprehensive income.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

IFRS 9 also introduces a single impairment model applicable for debt instruments at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debt based on Expected Credit Losses ("ECL"), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified approach for calculating impairment on trade receivables as well as for calculating impairment on contract assets and lease receivables; which also fall within the scope of the impairment requirements of IFRS 9.

For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

With the introduction of IFRS 9 "Financial Instruments", the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognised in profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedge ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

Impact of adoption
In accordance with the transition provisions in IFRS 9, the Company has elected the simplified transition method for adopting the new standard. Accordingly, the effect of transition to IFRS 9 was recognised as at 1 January 2018 as an adjustment to the opening retained earnings directly in equity. In accordance with the transition method elected by the Company for implementation of IFRS 9 the comparatives have not been restated but are stated based on the previous policies, which comply with IAS 39. Consequently, the revised requirements of IFRS 7 "Financial Instruments: Disclosures" have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior period.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

3. Adoption of new or revised standards and interpretations continued

On 1 January 2018, the Company's management assessed which business models apply to the financial assets held by the Company that were classified as loans and receivables under IAS 39. Management concluded to classify all the financial assets held by the Company at the amortised cost measurement category under IFRS 9 as these are held with the objective to collect the contractual cash flows and their cash flows represent solely payments of principal and interest. As a result, the measurement basis for the Company's financial assets remained unchanged by the adoption of IFRS 9. The adoption of IFRS 9 did not have an impact on the classification and measurement basis of the Company's financial liabilities.

As a result of the adoption of IFRS 9 the Company revised its impairment methodology for each class of financial instruments subject to the new impairment requirements. The Company has three types of financial instruments that are subject to IFRS 9's new expected credit loss model: loans and other receivables, cash and cash equivalents and financial guarantees. Based on the assessment performed by management, the incremental impairment loss as of 1 January 2018 was immaterial. Accordingly, the impact of adoption of IFRS 9 on the Company's retained earnings as of 1 January 2018 was immaterial.

The Company's new accounting policies following adoption of IFRS 9 at 1 January 2018 are set out in Note 4.

Changes in presentation following adoption of IFRS 9

The Company has voluntarily changed the presentation of certain amounts in the balance sheet to reflect their different nature. In particular, prepayments and other non-financial assets, which were previously presented within "Loans and other receivables", are now presented as "Other assets" on the face of the balance sheet.

Comparative figures have been adjusted to conform to the changes in the presentation for the current year. The following table summarises the impact of the changes made on each financial statement line item of the balance sheet affected. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	31 December 2017 – as previously presented RUB'000	Reclassification RUB'000	31 December 2017 – as restated RUB'000
Current assets			
Loans and other receivables	206,083	(1,555)	204,528
Other assets	–	1,555	1,155
Total current assets	639,958	–	639,958
Total assets	46,304,334	–	46,304,334

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 effective from 1 January 2018, these policies have been consistently applied to all the years presented.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble. The financial statements are also presented in Russian Roubles ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

(b) Transactions and balances

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

4. Summary of significant accounting policies continued

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

All other foreign exchange gains and losses are presented in the income statement within "Other gains/(losses)".

Dividend income

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

Employee benefits

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

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

Current and deferred income tax

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

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

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

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

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

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

Dividend distribution

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

Operating leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

Property, plant and equipment
Property, plant and equipment are recorded at purchase cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, less residual value, over their estimated useful lives, as follows:

	Number of years
Motor vehicles	3 – 5

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

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

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

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

Investments in subsidiary undertakings
Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

In cases of acquisitions of subsidiaries from entities under common control or subsidiaries of the Company, the cost of acquisition is determined to be the fair value of the investment acquired as opposed to the transaction price. Any differences between the transaction price and the fair value of the investment acquired reflect notional contributions/distributions from entities under common control or subsidiaries and are recognised as such, i.e. directly in equity in cases of transactions with common control entities and as an additional contribution to or distribution from the subsidiary transferring the investment to the Company.

Group reorganisations resulting into an exchange of non-financial assets and where the future cash inflows before and after the reorganisation do not change as a result of the reorganisation are considered to lack commercial substance and no gains or losses are recognised relating to such restructurings.

Indemnification assets received for contingent liabilities of the investments in subsidiaries that existed at the time of acquisition of such subsidiaries are recognised against the cost of the relevant investment.

Deferred consideration
Deferred consideration arises when settlement of all or any part of the cost of an acquisition is deferred. Deferred consideration is stated at fair value at the date of acquisition, which is determined by discounting the amounts due to present value using market interest rates at the date of initial recognition. Interest is accrued on the fair value of deferred consideration at the original effective interest rate and is recognised in finance costs.

4. Summary of significant accounting policies continued

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.

Financial instruments

(i) Accounting policies applicable from 1 January 2018

(a) Financial assets

Recognition and derecognition. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade-date; being the date on which the Company commits to purchase or sell the asset. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising upon their derecognition is recognised directly in the income statement.

Classification. The Company classifies its financial assets at amortised cost. The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the assets. Management determines the classification of financial assets at initial recognition.

Financial assets at amortised cost are held for collection of contractual cash flows and their cash flows represent solely payments of principal and interest. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's financial assets at amortised cost comprise of loans and other receivables and cash and cash equivalents on the balance sheet.

Reclassification. Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

Measurement. At initial recognition, the Company measures financial assets classified at amortised cost at their fair value plus incremental transaction costs that are directly attributable to the acquisition of the financial assets. Subsequently, these are measured at amortised cost.

Interest income. Interest income on financial assets at amortised cost is recognised using the effective interest rate method. Interest income on loans granted to related parties is recognised within 'Revenue' in the income statement. All other interest income recognised on debt financial assets carried at amortised cost is included within 'Finance income' in the income statement. In particular, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset; that is after deduction of the loss allowance. The Company's definition of credit-impaired assets is explained in Note 6, credit risk section.

Impairment. The Company assesses on each reporting date and on a forward looking basis the Expected Credit Losses ("ECL") associated with its debt financial assets carried at amortised cost. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised on the face of the income statement. Subsequent recoveries of amounts for which loss allowance was previously recognised are credited against the same line item.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

For all its debt financial assets carried at amortised cost, the Company applies the general approach. In particular, the Company applies the three stage model for calculating impairment, which is based on changes in the credit quality of the financial asset since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. The ECL of financial assets in Stage 1 is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter. If the Company identifies a Significant Increase in Credit Risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until its contractual maturity but considering expected prepayments, if any. Refer to Note 6, credit risk section for a description of how the Company determines when a SICR has occurred. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Company's definition of credit impaired assets and definition of default is explained in Note 6, credit risk section.

Write-off. Financial assets are written-off, in whole or in part, when the Company has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments for a period of greater than 180 days past due. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are recognised directly on the face of the income statement.

Modification. The Company sometimes renegotiates or otherwise modifies the contractual terms of its financial assets, The Company assesses whether the modification of the contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Company also assesses whether the new loan or debt instrument meets the SPPI criterion.

Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different because of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets), and recognises a modification gain or loss in profit or loss.

Classification as loans and other receivables. These amounts are held with the objective to collect their contractual cash flows and their contractual cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost using the effective interest method, less provision for impairment. Loans and other receivables are classified as current assets if they are 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 assets.

Classification as cash and cash equivalents. In the cash flow statement, cash and cash equivalents include cash in hand and deposits held at call with banks or 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, less provision for impairment. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

(b) Financial liabilities
Classification. The Company's financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost.

4. Summary of significant accounting policies continued

Derecognition of financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in income statement as other income or finance costs. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts, including costs or fees incurred for the modification, is recognised in profit or loss within finance costs. When the terms of the existing financial liability are not substantially modified, the existing liability is not derecognised and the gain/loss arising on the modification, including costs or fees incurred for the modification, is recognised in the income statement within finance costs.

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 Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowings are removed from the balance sheet when the obligation specified in the contract is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement within "finance costs-net".

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

Financial guarantees. Financial guarantee contracts are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of debt instrument. Financial guarantees are recognised as a financial liability at the time the guarantee is issued. 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 in "other gains/(losses)" in the income statement.

At the end of each reporting period, the guarantee is subsequently measured at the higher of (i) the amount of the loss allowance determined in accordance with the expected credit loss model under IFRS 9 and (ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 "Revenue from Contracts with Customers".

The fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and are recognised as part of the cost of the investment in the respective subsidiary in the financial statements of the Company.

(ii) Accounting policies applied until 31 December 2017

(a) Financial assets

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise loans and other receivables and cash and cash equivalents in the balance sheet.

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

Interest income. Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Company 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.

Impairment. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired based on the incurred loss model.

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

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised on the face of the income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are recognised on the face of the income statement.

Classification as cash and cash equivalents. In the 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.

(b) Financial liabilities
Classification. The Company's financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost.

Derecognition of financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in income statement as other income or finance costs.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts, including costs or fees incurred for the modification, is recognised in profit or loss within finance costs. When the terms of the existing financial liability are not substantially modified, the existing liability is not derecognised and the gain/loss arising on the modification, including costs or fees incurred for the modification, is recognised in the income statement within finance costs.

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.

4. Summary of significant accounting policies continued

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

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

Fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investment in the respective subsidiary in the financial statements of the Company.

Amortisation of financial guarantees is recognised in "other gains/(losses)" in the income statement on a straight-line basis.

Share capital, share premium and treasury shares

Ordinary shares are classified as equity.

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

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

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

Capital contribution

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

Provisions and contingent liabilities

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

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

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

4. Summary of significant accounting policies continued

Transactions with equity owners/subsidiaries
The Company enters into transactions with its shareholders and subsidiaries. When consistent with the nature of the transaction, the Company's accounting policy is to recognise (a) any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contribution or the payment of dividends; and (b) any losses with subsidiaries as cost of investment in subsidiaries. Similar transactions with non-equity holders, or subsidiaries, are recognised through the income statement in accordance with IFRS 9 "Financial Instruments" (2017: IAS 39 "Financial Instruments").

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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. 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.

Cash flow statement
Cash flows arising from dividend income and interest income on loans granted to related parties which form part of the revenue of the Company are reported as part of operating activities in the cash flow statement. Interest income received on other balances which form part of the Company's finance income are reported within cash flows from investing activities in the cash flow statement. Interest expense arising from deferred consideration for acquisition in subsidiaries is recognised within financing activities. Principal payments of deferred consideration are recognised as acquisition of subsidiaries within cash flows from investing activities.

Comparatives
Comparative figures have been adjusted to conform with changes in the presentation for the current year. Details of the reclassifications are disclosed in Note 3.

5. New accounting pronouncements

Certain new standards, amendments to existing standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2019, that are expected to have an impact on the Company's financial statements and which the Company has not early adopted. Items marked with * have not been endorsed by the European Union ("EU"). The Company will only be able to apply the new standards, amendments to existing standards or interpretations when these are endorsed by the EU.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

In accordance with the transition provisions of IFRS 16, the Company has elected the modified retrospective transition method for adopting the new standard with the effect of transition to be recognised in the opening retained earnings as at 1 January 2019 in the financial statements for the year ending 31 December 2019; which will be the first year when the Company will apply IFRS 16. The Company opted the practical expedient provided by IFRS 16 to measure the right-of-use assets on transition at an amount equal to that of the lease liability (adjusted for any prepaid or accrued expenses).

5. New accounting pronouncements continued

A reconciliation of the operating lease commitments as at 31 December 2018 disclosed in Note 25 to the recognised liability on 1 January 2019 is as follows:

	1 January 2019 RUB'000
Total future minimum lease payments for non-cancellable operating leases (Note 25)	7,758
Effect of discounting to present value	(466)
Total lease liabilities	**7,292**

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019)

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgements or estimates required by the interpretation as a change in accounting estimate.

Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgement or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgements and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements and as of the date of issue of these financial statements the impact of the interpretation is not known.

Definition of materiality –amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)*

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Company is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

Annual improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019)

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

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)*

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Company is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

6. Financial risk management

Financial risk factors

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

Market risk

(a) Foreign exchange risk

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

During the year 2018 there was increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies, especially in the second half of the year. As of the end of December 2018 the Russian Rouble has depreciated against the US Dollar from 57.6002 as of 31 December 2017 to 69.4706 Russian Roubles (21% devaluation).

The fluctuations in the exchange rate between (i) US Dollar and Russian Rouble and (ii) between Euro and Russian Rouble expose the Company to foreign exchange risk.

The carrying amounts of monetary assets denominated in US Dollars as at 31 December 2018 and 31 December 2017 are as follows:

	2018 RUB'000	2017 RUB'000
Assets	**865,298**	563,223
Liabilities	**7,315**	–

There were no significant monetary liabilities denominated in US Dollars as at 31 December 2018 and 31 December 2017.

The carrying amounts of monetary assets and liabilities denominated in Euro as at 31 December 2018 and 31 December 2017 are as follows:

	2018 RUB'000	2017 RUB'000
Assets	**1,656,925**	3,386
Liabilities	**77,822**	67,645

Had US Dollar exchange rate strengthened/weakened by 20% (2017: 5% change) against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2018 would have increased/decreased by RUB 150,147 thousand (2017: RUB 24,641 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of US Dollar denominated loans receivable and cash and cash equivalents as of 31 December 2018 and as of 31 December 2017.

Had Euro exchange rate strengthened/weakened by 20% (2017: 5% change) against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2018 would have increased/decreased by RUB 276,343 thousand (2017: decreased/increased by RUB 2,811 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of Euro denominated other receivables, cash and cash equivalents and payables as of 31 December 2018 and as of 31 December 2017.

In prior years, the Company has impaired fully loans receivable from its subsidiary, Ukrainian New Forwarding Company, OOO, which were denominated in US Dollars. The gross amount of the said loans is RUB 1,901,961 thousand as of 31 December 2018 (2017: RUB 1,954,255 thousand). Therefore, although the Company is subject to foreign exchange risk in relation to these loans, yet, any foreign exchange difference arising on these loans as a result of fluctuations in the Russian Rouble to US Dollar exchange rate would trigger an opposite and equivalent adjustment to the loss allowance for these loans and therefore would not have an impact on the income statement of the Company.

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

6. Financial risk management continued

(b) Cash flow and fair value interest rate risk
The Company holds interest bearing financial instruments at fixed interest rates.

Financial assets and liabilities issued at fixed rates expose the Company to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2018 and 31 December 2017 would not have any impact on the Company's post tax profit or equity.

Financial assets and liabilities issued at floating rate expose the Company to cash flow interest rate risk. As of 31 December 2018 and 31 December 2017 the Company did not have any floating interest rate borrowings or receivables, therefore was not exposed to cash flow interest rate risk.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Credit risk arises from cash and cash equivalents, loans and other receivables and financial guarantees issued by the Company for borrowings of subsidiaries.

(i) Risk management
For banks and financial institutions, the Company has established policies whereby the majority of bank balances are held with independently rated parties with a minimum rating of 'Ba2'. These policies enable the Company to reduce its credit risk significantly.

(ii) Impairment of financial assets
The Company has three types of financial instruments that are subject to the expected credit loss model:

- loans and other receivables;
- cash and cash equivalents; and
- financial guarantees.

The Company applies the general approach, prescribed in IFRS 9, for assessing expected credit losses on all its debt financial assets and financial guarantees issued. In particular, the Company applies the three stage model for calculating impairment, which is based on changes in the credit quality of the financial asset since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. The ECL of financial assets in Stage 1 is measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter. If the Company identifies a significant increase in credit risk since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until its contractual maturity but considering expected prepayments, if any. If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

Significant increase in credit risk. The Company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower/counterparty;
- significant increases in credit risk on other financial instruments of the same borrower/counterparty;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty in the Group and changes in the operating results of the borrower.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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6. Financial risk management continued

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the receivables. Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

Default and credit-impaired. A default on a financial asset is when the financial asset meets one or more of the following criteria: (i) the borrower is more than 90 days past due on its contractual payments, (ii) the borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due, (iii) the Company, for economic or contractual reasons relating to the borrower's financial difficulty, granted to the borrower a concession(s) that it would not otherwise consider. The Company considers defaulted assets to be credit-impaired so that Stage 3 represents all debt financial assets which are considered defaulted.

Write-off. Assets are written-off, in whole or in part, when the Company has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments for a period of greater than 180 days past due. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are recognised directly on the face of the income statement.

The Company calculates expected credit losses based on a probability-weighted estimate of the present value of future cash shortfalls (i.e. the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes.

The Company calculates ECL using the following three components: exposure at default ("EAD"), probability of default ("PD") and loss given default ("LGD"). EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. PD is an estimate of the likelihood of default to occur over a given time period and LGD is an estimate of the loss arising on default.

The Company's exposure to credit risk for each class of financial instruments subject to the expected credit loss model is set out below:

Loans receivable and other receivables

The Company assesses, on an individual basis, its exposure to credit risk arising from loans and other receivables. This assessment takes into account, amongst others, the period the loan receivable or other receivable balance is past due (in days), expectations around changes in business, financial or economic conditions as well as expectations around the performance of the counterparty.

The following table contains an analysis of the credit risk exposure for loans receivable and other receivables by reference to the Company's internal credit risk rating grades. The gross carrying amounts below represent the Company's maximum exposure to credit risk on these assets as at 31 December 2018.

		Gross carrying amount	
Internal credit risk rating grade	Company definition of category	Loans receivable RUB'000	Other receivables RUB'000
Performing	**Stage 1** – Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	**450,401**	**883,203**
Under-performing	**Stage 2** – Counterparties for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	–	–
Non-performing or credit-impaired	**Stage 3** – Interest and/or principal repayments are 90 days past due	**3,274,507**	–

The gross carrying amounts, as per above, represent the Company's maximum exposure to credit risk on these assets as at 31 December 2018, without taking account of any collateral held. The Company does not hold any collateral as security for any loans receivable or other receivable balances.

6. Financial risk management continued

The movement in the credit loss allowance for loans receivable during the year 2018 is presented in the table below:

	Loans receivable non-performing RUB'000
Opening balance as at 1 January 2018	(2,258,613)
Recoveries	728,378
Foreign exchange difference	(371,274)
At 31 December 2018	(1,901,961)

During the year 2018, the only movement in the gross carrying amount of the credit impaired loans receivable were repayments and foreign exchange differences. The impact of these on the credit loss allowance is reflected in the table above.

The estimated credit loss allowance on performing loans receivable and other receivable balances as at 1 January 2018 and 31 December 2018 was not material. There were no write-offs in loans and other receivable balances within the year 2018.

During the year 2018, the contractual cash flows of the Company's credit-impaired loans receivable as at 1 January 2018 were modified so as to extend the maturity of the loans. No other changes to the terms of the loans were made. As the modification was driven by financial difficulties of the counterparties and inability to make the originally agreed payments and the risks and rewards of the loans did not change, the modification did not result in derecognition of the said loans. In addition, these modifications did not significantly impact the ECL on these loans.

Cash and cash equivalents

The Company assesses, on an individual basis, its exposure to credit risk arising from cash at bank based on ratings from external credit rating institutions and internal reviews, if external are not available.

The following table contains an analysis of the gross carrying amount of the Company's cash at bank by reference to the credit risk ratings assigned by external credit rating agencies. The gross carrying amounts below represent the Company's maximum exposure to credit risk on these assets as at 31 December 2018:

	Rating	Gross carrying amount RUB'000
Moody's(1)	A3	1,157,196
Moody's(1)	Aa2	108,737
Moody's(1)	Ba2	1,119
Moody's(1)	Caa1	997
Total		1,268,049

(1) International rating agency Moody's Investors Service.

The Company does not hold any collateral as security for any of the above balances.

The estimated expected credit loss allowance on cash and cash equivalents as at 31 December 2018, based on the general approach of IFRS 9, was immaterial. All cash and cash equivalents were performing (Stage 1) as at 31 December 2018.

Financial guarantees

The primary purpose of these instruments is to ensure that funds are available to a borrower as required. Guarantees which represent irrevocable assurances that the Company will make payments in the event that a counterparty cannot meet its obligations to third parties, carry the same credit risk as loans receivable.

The Company has issued financial guarantees on the borrowings of its subsidiaries and quoted bonds issued by its subsidiaries (Note 24). As a result, the Company is exposed to credit risk arising from potential risk of default of the Company's subsidiaries on their external debt. As of 31 December 2018 and 31 December 2017, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings/bonds.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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6. Financial risk management continued

The following table contains an analysis of the exposure to credit risk on financial guarantee by reference to the Company's internal credit risk rating grades. The amounts below represent the Company's maximum exposure to credit risk on these financial instruments as at 31 December 2018.

	Stage 1 RUB'000
– Performing	**12,993,934**
– Underperforming	–
– Non-performing	–
Total unrecognised gross amount	**12,993,934**

The amounts, as per above, represent the Company's maximum exposure to credit risk on these financial instruments as at 31 December 2018, without taking account of any collateral held. The Company does not hold any collateral as security for any guarantees issued to its subsidiaries.

The estimated provision as at 1 January 2018 and 31 December 2018 for free of charge financial guarantees issued by the Company for obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary was estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from the respective subsidiaries in full.

The estimated provision as at 1 January 2018 and 31 December 2018 for free of charge financial guarantees issued by the Company for unsecured or underpledged obligations of its subsidiaries in accordance with loan agreements with financial institutions and quoted bonds issued by subsidiaries was estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries, and loss given default, as estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the guarantees. This was assessed as RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from the respective subsidiaries in full.

Credit risk at 31 December 2017

The credit quality of financial assets that are neither past due or impaired was assessed by reference to external credit rating, if available. For receivables with no external credit rating available management assessed credit quality by reference to the prior history of working with counterparties.

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 Company was as follows:

Cash at bank and short-term bank deposits

Agency	Rating	2017 RUB'000
Moody's[1]	Aa3	90,993
Moody's[1]	A3	328,783
Moody's[1]	Ba2	499
Moody's[1]	Caa1	1,806
Total cash at bank and short-term bank deposits		422,081

(1) International rating agency Moody's Investors Service.

6. Financial risk management continued

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:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	Total RUB'000
As of 31 December 2017					
Loans receivable	–	–	2,870,327	(2,258,613)	611,714
	–	–	2,870,327	(2,258,613)	611,714

The maximum exposure to credit risk at 31 December 2017 was the fair value of each class of receivables mentioned above. The Company did not hold any collateral as security for any receivables.

Movements on the Company's provision for impairment of loans and other receivables were as follows:

	RUB'000
At 1 January 2017	(2,489,700)
Reversal of provision for receivables impairment	120,960
Foreign exchange difference	110,127
At 31 December 2017	(2,258,613)

The creation and release of provision for impaired receivables have been included on the face of the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Liquidity risk

As at 31 December 2018, the Company has an excess of current liabilities over current assets of RUB 965,709 thousand (2017: RUB 1,961,776 thousand). Management believes that the Company will be able to meet its obligations as they fall due.

Management controls current liquidity based on expected cash flows, expected dividend and interest income receipts, expected dividend payments and advancements under borrowings from subsidiaries. In the long-term perspective, the liquidity risk is determined by forecasting future cash flows at the moment of signing new loans and by budgeting procedures.

The table below summarises the analysis of financial liabilities of the Company by maturity as of 31 December 2018 and 31 December 2017. The amounts in the table are contractual undiscounted cash flows. Non-interest bearing trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 month RUB'000	Between 1 month and 3 months RUB'000	Between 3 and 6 months RUB'000	Between 6 months to 1 year RUB'000	Between 1 and 2 years RUB'000	Between 2 and 5 years RUB'000	Total RUB'000
31 December 2018							
Payables and accrued expenses(1)	–	**311,398**	–	–	–	–	**311,398**
Borrowings	**20,384**	**506,041**	**746,563**	**2,457,111**	**2,663,258**	**1,869,822**	**8,263,179**
Financial guarantee contracts(2)	**7,877,315**	**5,116,619**	–	–	–	–	**12,993,934**
	7,897,699	**5,934,058**	**746,563**	**2,457,111**	**2,663,258**	**1,869,822**	**21,568,511**
31 December 2017							
Payables and accrued expenses(1)	–	11,218	–	–	–	–	11,218
Borrowings	–	1,399,575	54,252	1,424,402	2,607,890	–	5,486,119
Financial guarantee contracts(2)	4,160,401	201,386	–	–	–	–	4,361,787
	4,160,401	1,612,179	54,252	1,424,402	2,607,890	–	9,859,124

(1) Payables and accrued expenses exclude statutory liabilities as the analysis is provided for financial liabilities only.
(2) The maximum possible amount of obligation under financial guarantee contracts is disclosed at the earliest time it may be called.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

6. Financial risk management continued

Capital risk management

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

For defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalisation ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

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

The rate of borrowings to total capitalisation as at 31 December 2018 and 31 December 2017 are as follows:

	2018 RUB'000	2017 RUB'000
Total borrowings	**7,472,517**	5,025,756
Total capitalisation	**48,310,431**	46,236,689
Total borrowings to total capitalisation ratio (percentage)	**15.47%**	10.87%

Fair value estimation

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

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level 1 measurements are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using discounted cash flows valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Refer to Note 18.

6. Financial risk management continued

The fair value as at 31 December 2018 and 31 December 2017 of fixed interest rate instruments with stated maturity with subsidiary entities was estimated based on expected cash flows discounted using the rate of similar instruments, denominated in the same currency, entered into by the subsidiaries of the Company on their bank borrowings close to the year-end. In the absence of similar instruments entered into by a subsidiary of the Company with non-related parties close to the year-end the estimated fair value was estimated based on expected cash flows discounted at an estimated rate that reflects management's best estimate of the current interest rate of new instruments, denominated in a similar currency and with similar credit risk and remaining maturity.

The discount rate used for US Dollar denominated loans to related parties as at 31 December 2018 was 8% (31 December 2017: 8%). The discount rates used for Russian Rouble denominated loans to related parties as at 31 December 2018 were 6.5% and 17.7% (31 December 2017: 17.7%) and for other receivables from related parties was 3%.The fair value measurements of loans to related parties and other receivables from related parties as at 31 December 2018 and 31 December 2017 are within level 3 of the fair value hierarchy. Refer to Note 18.

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

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

As at 31 December 2018 and 31 December 2017, the fair value of fixed interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble denominated instruments entered into by the subsidiaries of the Company on their bank borrowings close to 31 December 2018 and 31 December 2017.

The discount rate used for Russian Rouble denominated bank borrowings as at 31 December 2018 was 9.5% (2017: 8.0%) (Note 22). There were no US Dollar denominated borrowings as at 31 December 2018 and 31 December 2017. The fair value measurements of liabilities as at 31 December 2018 and 31 December 2017 are within level 2 (2017: level 2) of the fair value hierarchy.

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

7. Critical accounting estimate and judgements

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

(a) Critical accounting estimates

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

1. Fair value of guarantees issued and subsequent measurement

Management estimated the fair value of the free of charge guarantees issued by the Company to secure the liabilities of its subsidiaries based on the best estimate of expenditure required to settle the obligation. Specifically, the fair values on initial recognition and the expected credit losses as at 1 January 2018 and at the reporting date of guarantees issued by the Company for obligations of its subsidiaries in accordance with loan agreements with financial institutions and quoted bonds issued by subsidiaries were estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries and loss given default.

The loss given default for the financial guarantees issued by the Company for the obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary has been estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

7. Critical accounting estimate and judgements continued

The loss given default for guarantees issued by the Company for unsecured or underpledged obligations of its subsidiaries in accordance with loan agreements with financial institutions and quoted bonds issued by subsidiaries was estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the assessment. The fair values on initial recognition were estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

On 1 January 2018 and at 31 December 2018, the Company assesses whether any ECL provision is needed for the guarantees in issue as of that date. As of 1 January 2018 and 31 December 2018, management has assessed that no need for provision arises in relation to any of the guarantees issued by the Company on the basis that, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

2. Impairment assessment of loans receivable from subsidiaries

At each balance sheet date, the Company assesses, on a forward-looking basis, the expected credit losses associated with its loans receivable from subsidiaries carried at amortised cost, in accordance with the accounting policy stated in Note 4. The assessment performed as of 31 December 2018 resulted in the recognition of reversal of impairment losses of RUB 728,378 thousand.

The assessment of expected credit losses on the loans receivable from Ukrainian New Forwarding Company OOO, with a carrying amount of RUB 398,566 thousand as at 31 December 2018, classified as credit-impaired (Stage 3) as of that date, required management to use estimates and projections of future cash flows. The expected credit losses were determined based on multiple forward-looking recovery scenarios to measure the expected cash shortfalls, discounted using the loans' original effective interest rate method, weighted based on the probability of each scenario occurring.

In making this assessment, the Company considered all reasonable and supportable forward-looking information available without undue cost and effort. The cash flow projections were determined by reference to management's cash flow estimates, which were based on historical financial performance of the subsidiary, as adjusted to take into consideration the impact of forecasted industry and market conditions.

As with any forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and that the chosen scenarios are appropriately representative of the range of possible scenarios. The key input in this assessment are the recovery rates assigned to each scenario. Any reasonable change in these would not result in a material increase/decrease in the reversal of impairment losses recognised in the income statement for the year ended 31 December 2018.

3. Income taxes

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Refer to Note 26.

(b) Critical judgements in the application of the Company's accounting policies

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

Initial recognition of related party transactions

In the normal course of business, the Company enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 24.

8. Revenue

	2018 RUB'000	2017 RUB'000
Interest on loans to related parties calculated using the effective interest rate method (Note 24)	**47,913**	106,338
Dividend income (Note 24)	**15,112,974**	10,700,007
Total	**15,160,887**	10,806,345

9. Other gains – net

	2018 RUB'000	2017 RUB'000
Net foreign exchange transaction (losses)/gains on non-financing activities (Note 14)	**(899)**	1,695
Profit from sale of subsidiaries (Note 17)	**1,134,752**	–
Other gains – net	**1,133,853**	1,695

10. Expenses by nature

	2018 RUB'000	2017 RUB'000
Statutory auditor's remuneration for statutory audit services	**16,343**	16,762
Statutory auditor's remuneration for other assurance services	**5,293**	4,714
Advertising and marketing expenses	**6,406**	5,633
Office rent	**2,291**	2,057
Depreciation of property, plant and equipment (Note 16)	**1,896**	2,301
Employee benefit expense (Note 11)	**221,845**	132,181
Legal, consulting and other professional services (1)	**35,085**	29,045
Bank charges	**2,260**	2,525
Non-executive Directors' fees (Note 24)	**22,200**	20,950
Travel expenses	**13,836**	13,614
Stock exchange and financial regulator fees	**4,754**	4,058
Taxes other than on income	**10,043**	8,127
Other expenses	**11,297**	7,827
Total selling and marketing costs and administrative expenses	**353,549**	249,794

(1) Includes RUB 1,388 thousand for the year 2018 (RUB 2,085 thousand for the year 2017) in fees paid to the Company's statutory audit firm for tax consultancy services.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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11. Employee benefit expense

	2018 RUB'000	2017 RUB'000
Salaries	**123,123**	66,202
Bonuses	**92,539**	62,810
Social security costs	**6,183**	3,169
Total employee benefit expense	**221,845**	132,181
Average number of staff employed during the year	**7**	7

12. Finance costs – net

	2018 RUB'000	2017 RUB'000
Included in finance costs:		
– Interest expense on borrowings from related parties (Note 22)	**–**	(43,945)
– Interest expense on bank borrowings (Note 22)	**(349,985)**	(165,215)
Total interest expense calculated using the effective interest rate method	**(349,985)**	(209,160)
Total finance costs	**(349,985)**	(209,160)
Included in finance income:		
– Interest income on bank balances	**22,181**	51,845
Total interest income calculated using the effective interest rate method	**22,181**	51,845
Total finance income	**22,181**	51,845
Net foreign exchange transaction gains/(losses) on cash and cash equivalents, loans and dividends receivable	**86,267**	(339,728)
Net foreign exchange transaction gains on borrowings, dividends payable and other financial liabilities	**35,625**	262,711
Net foreign exchange transactions gains/(losses) from financing activities (Note 14)	**121,892**	(77,017)
Finance costs – net	**(205,912)**	(234,332)

13. Income tax expense

	2018 RUB'000	2017 RUB'000
Current tax:		
– Corporation tax	**1,689**	–
– Defence contribution	**–**	–
– Withholding tax on dividends receivable	**748,003**	535,000
Total tax expense	**749,692**	535,000

13. Income tax expense continued

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

	2018 RUB'000	2017 RUB'000
Profit before tax	**16,597,411**	10,502,841
Tax calculated at the applicable tax rate	**2,074,676**	1,312,855
Tax effect of expenses not deductible for tax purposes	**64,150**	40,640
Tax effect of allowances and income not subject to tax	**(2,137,137)**	(1,353,495)
Foreign withholding tax on dividends receivable	**748,003**	535,000
Tax charge	**749,692**	535,000

The Company is subject to income tax on taxable profits at the rate of 12.5% as from 1 January 2013. As from tax year 2012 brought forward losses of only five years may be utilised.

Up to 31 December 2008, under certain conditions interest may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014.

In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence. Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon, etc.) are exempt from Cyprus income tax.

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

At 31 December 2018, the Company has tax losses carried forward amounting RUB 1,020,501 thousand (2017: RUB 1,049,617 thousand) for which no deferred tax was recognised as profits for future periods against which these losses can be utilised cannot be estimated with sufficient reliability.

14. Net foreign exchange gains/(losses)

	2018 RUB'000	2017 RUB'000
Finance costs – net (Note 12)	**121,892**	(77,017)
Other (losses)/gains (Note 9)	**(899)**	1,695
Total foreign exchange gains/(losses)	**120,933**	(75,322)

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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15. Dividends

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

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

In April 2018, the shareholders of the Company approved the payment of a dividend for the financial year ended 31 December 2017 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 (US Dollar equivalent of USD 130,728 thousand).

In August 2018, the Board of Directors of the Company approved payment of total dividend in the amount of 45.9 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,204,208 thousand (US Dollar equivalent of USD 119,724 thousand), including interim dividend in the amount of RUB 3,771,433 thousand (US Dollar equivalent of USD 55,037 thousand) or RUB 21.10 per ordinary share/GDR and a special interim dividend in the amount of RUB 4,432,775 thousand (US Dollar equivalent of USD 64,687 thousand) or RUB 24.80 per ordinary share/GDR.

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 2018 total dividend in the amount of 46.50 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,311,453 thousand, including final dividend for 2018 in the amount of RUB 1,429,927 thousand or RUB 8.00 per ordinary share/GDR and a special final dividend in the amount of RUB 6,881,526 thousand or RUB 38.50 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at 19 April 2019, subject to the approval of the shareholders at the Annual General Meeting on 22 April 2019.

During the years ended 31 December 2018 and 31 December 2017, the Company declared and paid as detailed in the table below:

	2018 RUB'000	2017 RUB'000
Dividends declared	**16,220,738**	15,014,237
Dividends paid	**16,220,738**	15,014,237

16. Property, plant and equipment

	Motor vehicles RUB'000	Total RUB'000
At 1 January 2017		
Cost	11,470	11,470
Accumulated depreciation	(4,701)	(4,701)
Net book amount	6,769	6,769
Year ended 31 December 2017		
Depreciation charge (Note 10)	(2,301)	(2,301)
Closing net book amount	4,468	4,468
At 31 December 2017 / 1 January 2018		
Cost	11,470	11,470
Accumulated depreciation	(7,002)	(7,002)
Net book amount	4,468	4,468
Year ended 31 December 2018		
Depreciation charge (Note 10)	(1,896)	(1,896)
Closing net book amount	2,572	2,572
At 31 December 2018		
Cost	11,470	11,470
Accumulated depreciation	(8,898)	(8,898)
Net book amount	**2,572**	**2,572**

17. Investments in subsidiary undertakings

	2018 RUB'000	2017 RUB'000
At beginning of year	**45,252,722**	45,252,722
Contribution into the capital of subsidiary	**300,090**	–
Disposal of subsidiary	**(401,564)**	–
At end of year	**45,151,248**	45,252,722

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

17. Investments in subsidiary undertakings continued

Details of the direct and indirect investments in the subsidiary undertakings are as follows:

Name	Country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non-controlling interest (%)	
			2018	2017	**2018**	2017	**2018**	2017
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 (4)	Russia	Railway transportation	**–**	–	**60**	60	**40**	40
SyntezRail Ltd	Cyprus	Intermediary holding company	**60**	60	**60**	60	**40**	40
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	**65.25**	65.25	**65.25**	65.25	**34.75**	34.75
Ekolinja Oy (2)	Finland	Operating sub-lease of rolling stock	**–**	–	**65.25**	65.25	**34.75**	34.75
Spacecom Trans AS (3)	Estonia	Operating lease of rolling stock	**–**	65	**65.25**	65	**34.75**	35

(1) RemTransServis, OOO is a 99% subsidiary of BaltTransServis, OOO.
(2) Ekolinja Oy is a 100% subsidiary of Spacecom AS.
(3) During 2018 Spacecom AS acquired 100% of the shares of Spacecom Trans AS from the Company and the non-controlling shareholders. As a result, the proportion of ordinary shares held by the Company in Spacecom Trans AS increased from a direct holding of 65% to an indirect holding of 65.25%.
(4) Syntezrail LLC is a 100% subsidiary of Syntezrail Limited.

Contribution to subsidiary during the year 2018

During the year ended 31 December 2018, the Company subscribed to newly issued share capital of Syntezrail Ltd for an amount of RUB 300,090 thousand. There was no change in the proportion of the ordinary shares held by the Company in the subsidiary as a result of this acquisition of shares. The amount remained payable to the subsidiary as of 31 December 2018 (Note 23).

Disposal of subsidiary during the year 2018

During 2018 Spacecom AS acquired 100% of the shares of Spacecom Trans AS from the Company and the non-controlling shareholders, for a total consideration of Eur 30,100 thousand (equivalent to RUB 2,391,761 thousand).

As a result, the proportion of ordinary shares held by the Company in Spacecom Trans AS increased from a direct holding of 65% to an indirect holding of 65.25%. The transaction aimed to optimise the management of both Estonian subsidiaries. As a result of the sale, the Company recognised a profit on disposal of RUB 1,134,752 thousand (Note 9).

Out of the total consideration payable by Spacecom AS for this transaction, Eur 19,565 thousand (equivalent of RUB 1,536,316 thousand) was payable to the Company. An amount of RUB 671,441 thousand was received by the Company within the year 2018 with the remaining RUB 883,203 thousand remained outstanding as at 31 December 2018 (Note 18).

17. Investments in subsidiary undertakings continued

The following amounts are included in the statement of cash flows in relation to acquisitions and disposals of subsidiaries:

	2018 RUB'000	2017 RUB'000
Contribution to the share capital of Syntezrail Ltd	**–**	–
Proceeds from sale of Spacecom Trans AS	**671,441**	–
Total cash inflow for the disposal of subsidiaries	**671,441**	–

18. Loans and other receivables

	2018 RUB'000	2017 RUB'000
Loans to related parties	**3,274,508**	2,870,327
Less: Provision for impairment of loans to related parties	**(1,901,961)**	(2,258,613)
Loans to related parties – net (Note 24)	**1,372,547**	611,714
Other receivables – related party (Note 24)	**883,203**	–
Total loans and other receivables – net	**2,255,750**	611,714
Less non-current portion:		
Loans to related parties (Note 24)	**338,635**	407,186
Other receivables – related party (Note 24)	**537,840**	–
Total non-current portion	**876,476**	407,186
Current portion	**1,379,274**	204,528

The weighted average contractual interest rate on loans receivable from related parties was 6.57% at 31 December 2018 (31 December 2017: 6.90%). The weighted average effective interest rate on loans receivables from related parties was 11.21% (2017: 12.60%) at 31 December 2018.

The contractual interest rate and effective interest rate on other receivables from related parties was 3% at 31 December 2018.

The fair values of non-current loans and other receivables are as follows:

	2018 RUB'000	2017 RUB'000
Financial assets		
Loans to related parties	**338,635**	407,186
Other receivables – related party	**537,840**	–
Total financial assets	**876,476**	407,186

The fair values of current loans and other receivables equal their carrying amount as the impact of discounting is not significant.

As at 31 December 2018, the fair values of US Dollar denominated loans to related parties are based on cash flows discounted using a rate 8% (31 December 2017: 8%). The discount rate used for Russian Rouble denominated loans to related parties as at 31 December 2018 was 6.5% and 17.7% (31 December 2017: 17.7%). The fair value measurements of loans to related parties and other receivables from related parties as at 31 December 2018 and 31 December 2017 are within level 3 of the fair value hierarchy.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

18. Loans and other receivables continued

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

	2018 RUB'000	2017 RUB'000
US Dollars	**398,566**	321,624
Russian Roubles	**973,981**	290,090
Euro	**883,203**	–
Total loans and other receivables	**2,255,750**	611,714

(1) Impairment assessment of loans receivable from subsidiaries as of 31 December 2017

At 31 December 2017 the Company reviewed its loans receivable from subsidiaries for any indication of impairment. The analysis of impairment indicators as of 31 December 2017 revealed indicators for impairment/reversal of impairment with respect to the loans to Ural Wagonrepair Company, ZAO and Ukrainian New Forwarding Company OOO. Based on the impairment testing performed, no impairment loss or reversal of impairment was identified, other than the amounts already recognised in the financial statements.

The recoverable amount of the loans was determined based on the present value of the expected cash flows to be received from each loan, discounted at its original effective interest rate. The cash flow projections have been determined by reference to management's estimates which are based on historical financial performance of each subsidiary, as adjusted to take into consideration the impact of prevailing industry and market conditions.

If the present value of the projected cash flows had been 10% higher/lower than management's estimate at 31 December 2017, the recoverable amount would increase/decrease, resulting in increase/decrease in the reversal of impairment of RUB 61,171 thousand in relation to these loans receivable.

(2) Assessment of credit losses on loans receivable from subsidiaries as of 31 December 2018

At 31 December 2018, the Company assessed, on a forward looking basis, the expected credit losses associated with its loans receivable from subsidiaries carried at amortised cost, in accordance with the accounting policy stated in Note 4. The assessment performed resulted in the recognition of reversal of impairment losses of RUB 728,378 thousand. Refer to Note 7 for more information in this respect.

19. Other assets

	2018 RUB'000	2017 RUB'000
Prepayments – third parties	**6,935**	1,555
VAT recoverable	**1**	–
Total other assets	**6,936**	1,155
Less non-current portion:		
Prepayments – third parties	**4,640**	–
Total non-current portion	**4,640**	–
Current portion	**2,296**	1,555

20. Cash and cash equivalents

	2018 RUB'000	2017 RUB'000
Cash at bank	**1,268,049**	422,081
Total cash and cash equivalents	**1,268,049**	422,081

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

	2018 RUB'000	2017 RUB'000
Cash and cash equivalents	**1,268,049**	422,081
	1,268,049	422,081

Cash and cash equivalents are denominated in the following currencies:

	2018 RUB'000	2017 RUB'000
US Dollars	**466,732**	241,599
Russian Roubles	**27,595**	177,096
Euro	**773,722**	3,386
Total cash and cash equivalents	**1,268,049**	422,081

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

21. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2017 / 31 December 2017 / 1 January 2018 / 31 December 2018	**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 2017 / 31 December 2017 / 1 January 2018 / 31 December 2018	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2018 was 233,918,128 shares with a par value of USD 0.10 per share (31 December 2017: 233,918,128 shares with a par value of USD 0.10 per share). All issued shares are fully paid.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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22. Borrowings

	2018 RUB'000	2017 RUB'000
Current		
Bank borrowings	**3,241,204**	2,534,089
Total current borrowings	**3,241,204**	2,534,089
Non-current		
Bank borrowings	**4,231,313**	2,491,667
Total non-current borrowings	**4,231,313**	2,491,667
Total borrowings	**7,472,517**	5,025,756
Maturity of non-current borrowings		
Between 1 and 2 years	**2,418,131**	2,491,667
Between 2 and 5 years	**1,813,182**	–
	4,231,313	2,491,667

As at 31 December 2018, Rouble-denominated bank borrowings bear fixed average interest at 7.97% p.a. (2017: 8.35% p.a.). There were no US Dollar denominated borrowings as at 31 December 2018 and 31 December 2017.

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

	2018 RUB'000	2017 RUB'000
6 months or less	**1,032,416**	1,290,339
6 to 12 months	**2,208,788**	1,243,750
1 to 5 years	**4,231,313**	2,491,667
	7,472,517	5,025,756

Note: The amounts disclosed are based on the earliest of the contractual re-pricing dates and the maturity date.

The Company's borrowings as of 31 December 2018 are secured by pledge of rolling stock held by its subsidiaries New Forwarding Company OOO and GTI Management OOO with a market value of not less than RUB 4,133,290 thousand and RUB 4,344,689 respectively.

All of the Company's bank loans as of 31 December 2017 were unsecured. In accordance with the terms of its bank borrowings as of 31 December 2017, the Company had a commitment to pledge rolling stock held by its subsidiary New Forwarding Company OOO with a market value of not less than RUB 6,000,000 thousand within six months from the date of the bank loan agreement; being 15 August 2017. The relevant pledge agreement was concluded in February 2018. The relevant bank loan was fully repaid during March 2018.

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

	2018 %	2017 %
Bank borrowings	**7.97**	8.35

22. Borrowings continued

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

	Carrying amount		Fair value	
	2018 RUB'000	2017 RUB'000	**2018 RUB'000**	2017 RUB'000
Bank borrowings	**7,472,517**	5,025,756	**7,351,544**	5,087,607
	7,472,517	5,025,756	**7,351,544**	5,087,607

The fair value of borrowings and other liabilities were determined using valuation techniques.

As at 31 December 2018 and 31 December 2017, the fair value of fixed interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble denominated instruments entered into by the subsidiaries of the Company on their bank borrowings close to 31 December 2018 and 31 December 2017, respectively. The discount rate used for Russian Rouble denominated borrowings from related parties as at 31 December 2018 was a level 2 discount rate of 9.50% (8.00% as at 31 December 2017).

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

	2018 RUB'000	2017 RUB'000
Russian Roubles	**7,472,517**	5,025,756
Total borrowings	**7,472,517**	5,025,756

Reconciliation of liabilities arising from financing activities:

	Bank borrowings RUB'000	Loans from related parties RUB'000	Total liabilities from financing activities RUB'000
Opening balance 1 January 2018	5,025,756	–	5,025,756
Cash flows:			
– Proceeds from borrowings	8,000,000	–	8,000,000
– Repayment of principal	(5,558,000)	–	(5,558,000)
– Interest paid	(345,224)	–	(345,224)
Interest expense	349,985	–	349,985
At end of year 2018	**7,242,517**	**–**	**7,242,517**

	Bank borrowings RUB'000	Loans from related parties RUB'000	Total liabilities from financing activities RUB'000
Opening balance 1 January 2017	–	755,703	755,703
Cash flows:			
– Proceeds from borrowings	5,000,000	610,798	5,610,798
– Repayment of principal	–	(1,362,797)	(1,362,797)
– Interest paid	(139,459)	(47,649)	(187,108)
Interest expense	165,215	43,945	209,160
At end of year	5,025,756	–	5,025,756

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
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23. Payables and accrued expenses

	2018 RUB'000	2017 RUB'000
Current		
Accrued key management personnel compensation (Note 24)	**74,645**	56,427
Accrued expenses	**9,531**	9,834
Other payables to third parties	**1,777**	1,384
Other payables to related parties (Note 24)	**300,090**	–
Total current trade and other payables	**386,043**	67,645

The fair value of payables, which are due within one year approximates, their carrying amount at the balance sheet date.

The carrying amounts of the Company's payables and accrued expenses are denominated in the following currencies:

	2018 RUB'000	2017 RUB'000
Euro	**77,822**	67,645
Russian Roubles	**300,031**	–
US Dollars	**7,315**	–
Other	**875**	–
Total payables and accrued expenses	**386,043**	67,645

24. Related party transactions

Marigold Investments Ltd, Onyx Investments Ltd and Maple Valley Investments Ltd are Company's shareholders with a direct shareholding as at 31 December 2018 11.5%, 11.5% and 10.8%, accordingly (as at 31 December 2017 of 11.5%, 11.5% and 11.2%, accordingly).

Litten Investments Ltd, controlled by member of key management of the Group, has a shareholding in the Company of 5.8% as at 31 December 2018 (31 December 2017: 6.3%).

From 7 March 2018 and as at 31 December 2018, Goldriver Resources Ltd, which has a shareholding in the Company of 4.7% , is controlled by a member of key management personnel of the Group.

As at 31 December 2018, 55.5% (2017: 59.4%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company. The remaining 0.2% (2017: 0.1%) 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.

24. Related party transactions continued

The following transactions were carried out with related parties:

(a) Loans to related parties

	2018 RUB'000	2017 RUB'000
Loans to subsidiaries:		
– At beginning of year	**611,714**	1,442,781
– Loan advances	**900,000**	650,000
– Interest charged (Note 8)	**47,913**	106,338
– Loan repaid during the year	**(936,968)**	(1,564,249)
– Interest repaid during the year	**(21,743)**	(129,173)
– Reversal of impairment	**728,378**	120,960
– Net foreign exchange	**43,253**	(14,943)
At end of year	**1,372,547**	611,714
Consists of:		
– Non-current portion	**303,951**	407,186
– Current portion	**1,068,596**	204,528
At end of year	**1,372,547**	611,714
Loans to related parties – gross amount	**3,247,508**	2,870,327
Less: Provision for impairment of loans to related parties	**(1,901,961)**	(2,258,613)
Loans to related parties – net	**1,372,547**	611,714

The balances at the 31 December 2018 carry a weighted average contractual interest rate of 6.57% (2017: 6.9%) p.a. The weighted average effective interest rate at the 31 December 2018 was 11.21% (2017: 12.60%).

(b) Loans from related parties

	2018 RUB'000	2017 RUB'000
Loans from subsidiaries:		
– At beginning of year	**–**	755,703
– Loans advanced during the year	**–**	610,798
– Interest charged (Note 12)	**–**	43,945
– Interest repaid during the year	**–**	(47,649)
– Loan repaid during the year	**–**	(1,362,797)
At end of year	**–**	–

(c) Other receivables from related parties

	2018 RUB'000	2017 RUB'000
Other receivables for the sale of shares		
Subsidiaries	**883,203**	–
At end of year	**883,203**	–
Consists of:		
– Non-current portion	**537,840**	–
– Current portion	**345,363**	–
At end of year	**883,203**	–

The balance at the 31 December 2018 carry a contractual interest rate of 3% p.a. The weighted average effective interest rate at the 31 December 2018 was 3%.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

24. Related party transactions continued

(d) Dividend income from related parties

	2018 RUB'000	2017 RUB'000
Dividend income from related parties		
Subsidiaries	**15,112,974**	10,700,007
Total	**15,112,974**	10,700,007

(e) Interest income and finance costs

	2018 RUB'000	2017 RUB'000
Interest income		
Subsidiaries	**47,913**	106,338
Total interest income calculated using the effective interest rate method	**47,913**	106,338
Interest expense:		
Subsidiaries – borrowings	–	(43,945)
Total interest expense calculated using the effective interest rate method	–	(43,945)
Total finance income	**47,913**	62,393

(f) Guarantees in favour of subsidiaries

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following obligations:

	2018 RUB'000	2017 RUB'000
Subsidiaries (1)	**12,933,934**	4,361,787
Total guaranteed obligations	**12,933,934**	4,361,787

(1) Represents the maximum amount of obligation under each contract, being the contractual undiscounted cash flows under the loan agreements as at 31 December 2018 and 2017.

During the years ended 31 December 2018 and 31 December 2017 the Company has acted as the guarantor for the obligation of its subsidiaries for loan agreements entered into with financial institutions and third parties and quoted bonds issued by subsidiaries. The fair values of such guarantees are amortised through the income statement. As at 31 December 2018 and 31 December 2017 there were no financial guarantees recognised by the Company.

Management estimated the fair value of the free of charge guarantees issued by the Company to secure the liabilities of its subsidiaries based on the best estimate of expenditure required to settle the obligation. Specifically, the fair values on initial recognition and the expected credit losses at 1 January 2018 and at the reporting date of guarantees issued by the Company for obligations of its subsidiaries in accordance with loan agreements with financial institutions and quoted bonds issued by subsidiaries were estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries and loss given default.

The loss given default for the financial guarantees issued by the Company for the obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary has been estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

The loss given default for guarantees issued by the Company for unsecured or underpledged obligations of its subsidiaries in accordance with loan agreements with financial institutions and quoted bonds issued by subsidiaries was estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the assessment. The fair values on initial recognition were estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

24. Related party transactions continued

On 1 January 2018 and at 31 December 2018, the Company assesses whether any ECL provision is needed for the guarantees in issue as of that date. As of 1 January 2018 and 31 December 2018, management has assessed that no need for provision arises in relation to any of the guarantees issued by the Company on the basis that, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

At 31 December 2017, the Company assessed whether any provision was needed for the guarantees in issue as of that date. Management reviewed the financial condition and performance of the Company's subsidiaries and their ability to service the loans which were being guaranteed by the Company as of that date and assessed that no need for provisioning arose in relation to any of the guarantees issued by the Company.

(g) Impairment losses

	2018 RUB'000	2017 RUB'000
Reversal of impairment losses of loans to subsidiaries (Notes 7 and 18)	**728,378**	120,960

(h) Key management personnel compensation

	2018 RUB'000	2017 RUB'000
Key management salaries and other short-term employee benefits (1)	**222,479**	135,893
	222,479	135,893

(1) 'Key management salaries and other short-term employee benefits' include Directors' remuneration amounting to RUB 186,911 thousand (2017: RUB 45,735 thousand).

(i) Directors' remuneration

	2018 RUB'000	2017 RUB'000
Directors' fees (Note 10)	**22,200**	20,950
Emoluments in their executive capacity	**164,711**	24,425
Total Directors' remuneration	**186,911**	45,375

(j) Year-end balances arising from payables to key management

	2018 RUB'000	2017 RUB'000
Accrued key management remuneration (Note 23):		
– Accrued salaries and other short-term employee benefits	**74,645**	56,427
	74,645	56,427

(k) Year-end balances arising from subscription to share capital of subsidiaries

	2018 RUB'000	2017 RUB'000
Payable for subscription to share capital of subsidiaries	**300,090**	–
	300,090	–

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

25. Commitments

Operating lease commitments – Company as lessee

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

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

	2018 RUB'000	2017 RUB'000
Not later than 1 year	**2,527**	1,881
Later than 1 year not later than 5 years	**5,231**	–
	7,758	–

26. Contingencies

Operating environment of the Company

The Company's subsidiaries operate in the Russian Federation, Estonia, Ukraine and Finland.

Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Tax contingencies. Cypriot tax legislation is subject to varying interpretations. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company is incorporated outside Russia. Tax liabilities of the Company are determined on the assumption that it is not subject to Russian profits tax because it does not have a permanent establishment in Russia. The Company is a tax resident of Cyprus only and full beneficial owner of the equity interest held directly and indirectly in its subsidiaries. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Company.

Estonia and Finland

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

Ukraine

Starting in 2013, the political situation in Ukraine has experienced instability with numerous protests and continued political uncertainty that has led to deterioration of the state's finances, volatility of financial markets and sharp depreciation of the national currency against major foreign currencies. The ratings of Ukrainian sovereign debt were downgraded by international rating agencies with negative outlooks for the future. The Central bank of Ukraine, among other measures, imposed certain restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. The recent political situation has been volatile, with changes in the Ukrainian Parliament and the Presidency. The Company's exposure to Ukraine comprises loans receivable of RUB 398,566 thousand (2017: RUB 321,624 thousand) from Ukrainian New Forwarding Company OOO (Note 18).

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

27. Events after the balance sheet date

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 2018 total dividend in the amount of 46.50 Russian Roubles per ordinary share/GDR, amounting to a total dividend of RUB 8,311,453 thousand, including final dividend for 2018 in the amount of RUB 1,429,927 thousand or RUB 8.00 per ordinary share/GDR and a special final dividend in the amount of RUB 6,881,526 thousand or RUB 38.50 per ordinary share/GDR. Such dividends shall be paid in US Dollars at the rate as at 19 April 2019, subject to the approval of the shareholders at the Annual General Meeting on 22 April 2019.

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

Independent Auditor's Report on pages 185 to 188.

ADDITIONAL INFORMATION

SELECTED OPERATIONAL INFORMATION

for the year ended 31 December 2018

Fleet (including rolling stock and containers)

	2018[1]	2017[1]	Change	Change, %
Owned Fleet				
Gondola cars	**44,878**	41,282	3,596	9%
Rail tank cars	**17,938**	18,133	(195)	-1%
Locomotives	**69**	69	0	0%
Other railcars (including flat, hopper cars, etc)	**860**	510	350	69%
Containers (including petrochemical and other)	**1,660**	1,256	404	32%
Total	**65,405**	61,250	4,155	7%
Owned Fleet as % of Total Fleet	***95%***	*92%*	–	–
Leased-in Fleet				
Gondola cars	**104**	2,321	(2,217)	-96%
Rail tank cars	**2,488**	1,989	499	25%
Locomotives	**0**	0	0	NM
Other railcars	**646**	752	(106)	-14%
Containers (including petrochemical and other)	**380**	380	0	0%
Total	**3,618**	5,442	(1,824)	-34%
Leased-in Fleet as % of Total Fleet	***5%***	*8%*	–	–
Total Fleet (Owned Fleet and Leased-in Fleet)				
Gondola cars	**44,982**	43,603	1,379	3%
Rail tank cars	**20,426**	20,122	304	2%
Locomotives	**69**	69	0	0%
Other railcars (including flat, hopper cars, etc)	**1,506**	1,262	244	19%
Containers (including petrochemical and other)	**2,040**	1,636	404	25%
Total	**69,023**	66,692	2,331	3%
Total Fleet by type, %				
Gondola cars	**65%**	65%	–	–
Rail tank cars	**30%**	30%	–	–
Locomotives	**0.1%**	0.1%	–	–
Other railcars (including flat, hopper cars, etc.)	**2%**	2%	–	–
Containers (including petrochemical and other)	**3%**	2%	–	–
Total	**100%**	100%	–	–
Average age of Owned Fleet				
Gondola cars	**10.0**	9.9	–	–
Rail tank cars	**14.5**	14.3	–	–
Locomotives	**14.7**	13.7	–	–
Other railcars	**10.9**	24.1	–	–
Containers (including petrochemical and other)	**1.8**	1.2	–	–
Total	**11.0**	11.1	–	–

(1) *At year-end.*

Operation of rolling stock (excluding Engaged Fleet)[1]

	2018	2017	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**79.0**	87.8	(8.8)	-10%
– Ferrous metals	***35.5***	*33.4*	*2.1*	*6%*
– Scrap metal	***3.7***	*4.1*	*(0.4)*	*-11%*
– Iron ore	***39.8***	*50.2*	*(10.4)*	*-21%*
Oil products and oil	**21.2**	20.5	0.6	3%
Coal (incl. coke)	**29.5**	34.3	(4.8)	-14%
Construction materials	**5.8**	8.0	(2.2)	-28%
– Crushed stone	***4.7***	*6.6*	*(1.9)*	*-29%*
– Cement	***0.3***	*0.3*	*(0.1)*	*-19%*
– Other construction materials	***0.8***	*1.1*	*(0.2)*	*-23%*
Other	**10.7**	9.4	1.3	14%
Total	**146.2**	160.1	(13.9)	-9%
Freight Rail Turnover by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	**54%**	55%	–	–
Oil products and oil	**14%**	13%	–	–
Coal (including coke)	**20%**	21%	–	–
Construction materials (including cement)	**4%**	5%	–	–
Other	**7%**	6%	–	–
Total	**100%**	100%	–	–
Transportation Volume, million tonnes				
Metallurgical cargoes	**45.0**	45.5	(0.5)	-1%
– Ferrous metals	***16.8***	*16.1*	*0.7*	*5%*
– Scrap metal	***3.1***	*3.5*	*(0.3)*	*-10%*
– Iron ore	***25.0***	*25.9*	*(0.9)*	*-3%*
Oil products and oil	**20.7**	20.2	0.5	2%
Coal (including coke)	**9.6**	10.4	(0.8)	-8%
Construction materials	**6.4**	9.1	(2.7)	-30%
– Crushed stone	***5.6***	*8.2*	*(2.6)*	*-31%*
– Cement	***0.3***	*0.2*	*0.0*	*7%*
– Other construction materials	***0.5***	*0.7*	*(0.2)*	*-27%*
Other	**6.8**	6.6	0.1	2%
Total	**88.5**	91.9	(3.4)	-4%

(1) Excluding operational and financial information of container business segment. The revenue from this segment is included in "Other" revenue in EU IFRS statements.

SELECTED OPERATIONAL INFORMATION
continued

Operation of rolling stock (excluding Engaged Fleet) continued

	2018	2017	Change	Change, %
Average Rolling Stock Operated, units				
Gondola cars	**41,268**	42,052	(783)	-2%
Rail tank cars	**11,832**	10,961	871	8%
Locomotives	**47**	48	(2)	-4%
Other railcars	**415**	523	(107)	-21%
Total	**53,562**	53,584	(21)	0%
Average Number of Loaded Trips per Railcar				
Gondola cars	**24.3**	25.1	(0.8)	-3%
Rail tank cars	**28.9**	30.9	(1.9)	-6%
Other railcars	**66.4**	69.0	(2.6)	-4%
Total	**25.6**	26.7	(1.0)	-4%
Average Distance of Loaded Trip, km				
Gondola cars	**1,885**	1,985	(99)	-5%
Rail tank cars	**1,010**	997	13	1%
Other railcars	**766**	808	(42)	-5%
Total	**1,644**	1,720	(76)	-4%
Average Price per Trip, RUB	**41,859***	34,790*	7,068	20%
Net Revenue from Operation of Rolling Stock by cargo type, RUB million				
Metallurgical cargoes	**23,346***	18,753*	4,593	24%
– Ferrous metals	***11,772****	*8,789**	*2,982*	*34%*
– Scrap metal	***1,816****	*1,503**	*313*	*21%*
– Iron ore	***9,758****	*8,460**	*1,298*	*15%*
Oil products and oil	**19,207***	17,124*	2,084	12%
Coal (including coke)	**8,115***	7,551*	564	7%
Construction materials (including cement)	**2,761***	3,176*	(416)	-13%
Other	**4,045***	3,105*	940	30%
Total	**57,474***	49,709*	7,766	16%

Operation of rolling stock (excluding Engaged Fleet) continued

	2018	2017	Change	Change, %
Net Revenue from Operation of Rolling Stock by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	**41%**	38%	–	–
Oil products and oil	**33%**	34%	–	–
Coal (including coke)	**14%**	15%	–	–
Construction materials (including cement)	**5%**	6%	–	–
Other	**7%**	6%	–	–
Total	**100%**	100%	–	–
Net Revenue from Operation of Rolling Stock by largest clients (incl. their affiliates and suppliers), %				
Rosneft	**23%**	25%	–	–
Metalloinvest	**17%**	15%	–	–
MMK	**16%**	15%	–	–
Gazprom Neft	**5%**	7%	–	–
Evraz	**4%**	5%	–	–
TMK	**2%**	2%	–	–
UGMK-Trans	**2%**	2%	–	–
SDS-Ugol	**2%**	2%	–	–
Severstal	**1%**	1%	–	–
ChelPipe	**1%**	1%	–	–
Other (including small and medium enterprises)	**26%**	26%	–	–
Empty Run Ratio, %				
Gondola cars	**38%**	37%	–	–
Rail tank cars and other railcars	**90%**	95%	–	–
Total Empty Run Ratio, %	**46%**	45%	–	–
Empty Run Costs, RUB million	**12,956***	12,154*	802	7%
Share of Empty Run Kilometres paid by Globaltrans, %	**89%**	86%	–	–

SELECTED OPERATIONAL INFORMATION
continued

Operation of rolling stock (including Engaged Fleet)[(1)]

	2018	2017	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**89.6**	103.6	(14.0)	-14%
– Ferrous metals	***37.8***	*36.8*	*1.0*	*3%*
– Scrap metal	***3.7***	*4.1*	*(0.5)*	*-11%*
– Iron ore	***48.1***	*62.7*	*(14.6)*	*-23%*
Oil products and oil	**22.2**	20.7	1.5	7%
Coal (including coke)	**30.4**	36.4	(5.9)	-16%
Construction materials	**5.8**	8.0	(2.2)	-28%
– Crushed stone	***4.7***	*6.6*	*(1.9)*	*-29%*
– Cement	***0.3***	*0.3*	*(0.1)*	*-18%*
– Other construction materials	***0.8***	*1.1*	*(0.2)*	*-23%*
Other	**10.9**	9.5	1.4	15%
Total	**158.9**	178.2	(19.3)	-11%
Transportation Volume, million tonnes				
Metallurgical cargoes	**50.4**	53.2	(2.8)	-5%
– Ferrous metals	***18.0***	*17.9*	*0.1*	*0%*
– Scrap metal	***3.2***	*3.5*	*(0.3)*	*-10%*
– Iron ore	***29.3***	*31.8*	*(2.6)*	*-8%*
Oil products and oil	**22.0**	20.5	1.5	7%
Coal (including coke)	**10.0**	11.4	(1.4)	-12%
Construction materials	**6.4**	9.2	(2.8)	-30%
– Crushed stone	***5.7***	*8.3*	*(2.6)*	*-31%*
– Cement	***0.3***	*0.2*	*0.0*	*8%*
– Other construction materials	***0.5***	*0.7*	*(0.2)*	*-27%*
Other	**7.1**	6.8	0.3	5%
Total	**96.0**	101.1	(5.2)	-5%

(1) Excluding operational and financial information of container business segment. The revenue from this segment is included in "Other" revenue in EU IFRS statements.

Engaged Fleet

	2018	2017	Change	Change, %
Net Revenue from Engaged Fleet, RUB million	432*	173*	259	149%

Operating leasing of rolling stock[1]

	2018[2]	2017[2]	Change	Change, %
Leased-out Fleet				
Gondola cars	462	353	109	31%
Rail tank cars	7,098	8,631	(1,533)	-18%
Other railcars (including flat, hopper cars, etc.)	67	96	(29)	-30%
Total	7,627	9,080	(1,453)	-16%
Leased-out Fleet as % of Total Fleet	*11%*	*14%*	–	–

Employees

	2018[2]	2017[2]	Change	Change, %
Total	1,549	1,594	(45)	-3%

(1) Excluding operational and financial information of container business segment. The revenue from this segment is included in "Other" revenue in EU IFRS statements.

(2) At year-end.

OWNERSHIP

The issued share capital of Globaltrans consists of 178,740,916 ordinary shares with a nominal value of USD 0.10 each, a certain portion of which is held in the form of 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 56.9%(1) of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of Globaltrans.

Shareholder structure(2)

Marigold Investments Ltd(3)	**11.5%**
Onyx Investments Ltd(3)	**11.5%**
Maple Valley Investments Ltd(3)	**10.8%**
Litten Investments Ltd(4)	**5.1%**
Goldriver Resources Ltd(5)	**4.0%**
Controlled by Directors and management of Globaltrans	**0.2%**
Free float	**56.9%**

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

(2) The information is based upon notifications and other information received by the Company with respect to beneficial ownership as of 18 April 2019.

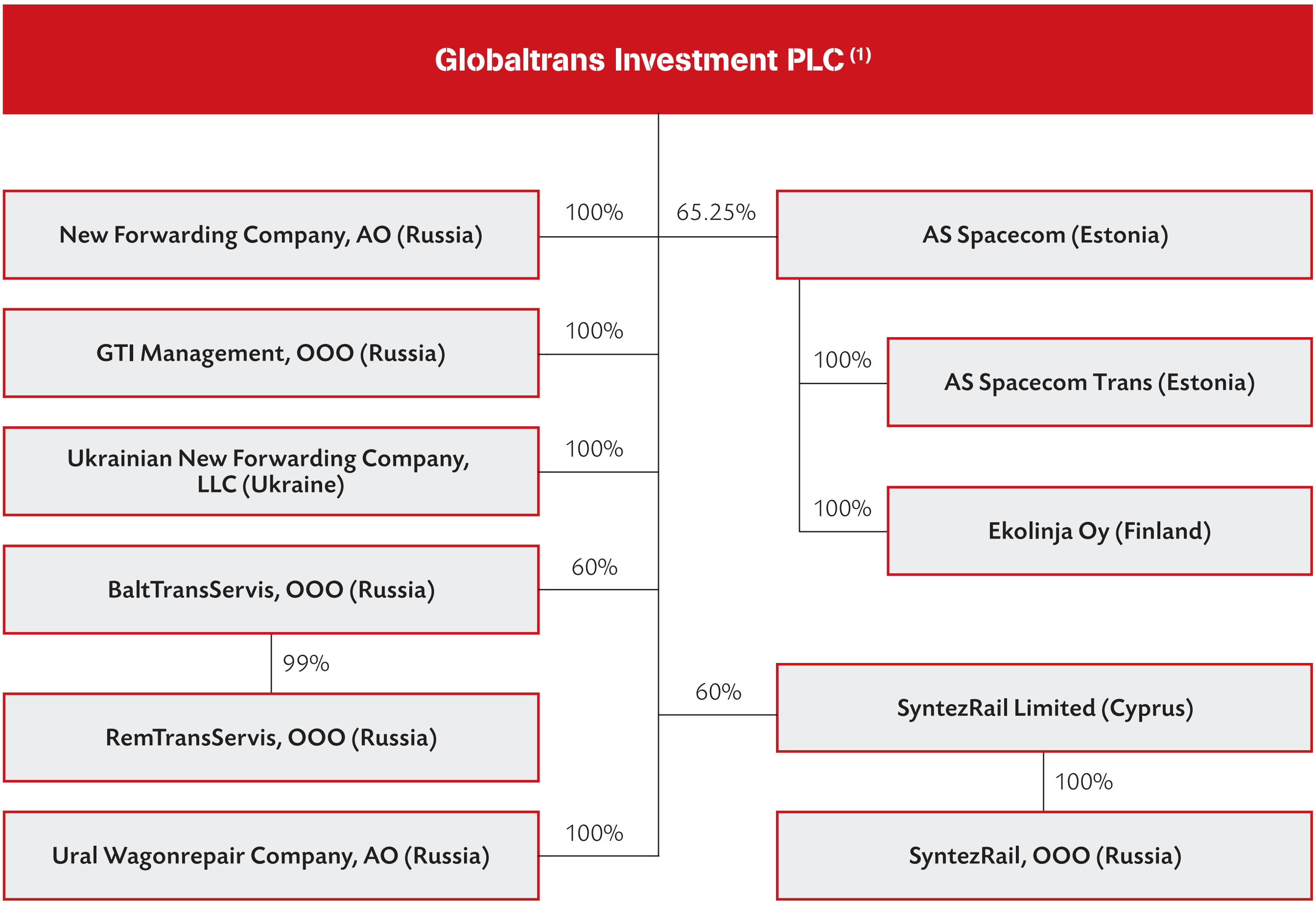
(3) Andrey Filatov, Nikita Mishin and Konstantin Nikolaev are co-founders of Globaltrans and are beneficiaries with regard to 11.5% and 11.5% and 10.8% respectively of Globaltrans' ordinary share capital each through their respective SPVs (Marigold Investments Ltd, Onyx Investments Ltd and Maple Valley Investments Ltd).

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

(5) Beneficially owned by Sergey Maltsev, Chairman of the Board of Directors, Chief Strategy Officer and co-founder of Globaltrans.

CORPORATE STRUCTURE

Globaltrans' corporate structure ensures efficient asset management and operational control, while creating logical business segments. Since its creation, the Group has sought to streamline its structure to optimise management and ensure transparency. Today, Globaltrans is a well-honed business and recognised as adhering to the highest corporate standards, as evidenced by the listing on the London Stock Exchange.



(1) *As of 31 December 2018.*

DIVIDEND POLICY

As approved by the Board of Directors on 31 March 2017 and amended on 24 August 2018

1. Introduction

1.1. This Dividend Policy (hereinafter the Dividend Policy) of Globaltrans Investment PLC (hereinafter GLTR or the Company) is designed to provide the Company's shareholders with an opportunity to participate in the Company's profits and free cash flow and sets out the guiding principles to be followed by the Board of Directors of the Company (hereinafter the Board) when making recommendations to the shareholders or decisions, when applicable, on declaration and distribution of dividends.

1.2. When adopting the Dividend Policy, the Board expects that it will remain in force for an indefinite period of time. This Dividend Policy replaces the dividend policy adopted by the Board of Directors of the Company on 6 July 2012. The provisions of this Dividend Policy are subject to modification from time to time as the Board may deem appropriate, as a result of assessment of changes in the applicable laws and regulations, the Articles of Association of GLTR or as provided in clause 5.1 hereof.

1.3. This Dividend Policy outlines the basis upon which the Board will assess and make its recommendations to the shareholders with respect to dividends on shares and the terms and methods of distribution of those dividends.

2. Main principles

2.1. Shareholders are entitled to receive dividends on their shares in the Company out of a portion of the Company's net profits and under this Dividend Policy with reference to the Attributable Free Cash Flow (as this term is defined in Annex 1 (Definitions) hereto) of the GLTR and its subsidiaries and associates (hereinafter the Group).

2.2. Dividends shall be allotted to the shareholders in proportion to the amount of GLTR shares owned by them.

2.3. The declaration and distribution of dividends on the shares are subject to the Cyprus Companies Law, Cap. 113 and the Articles of Association of GLTR.

2.4. The Company's dividend policy is based on a balance of long-term interests of the Group and its shareholders and respect for and strict observation of the shareholders' rights as provided by the applicable laws and regulations.

3. Amount of dividends. Decision on payment of dividends

3.1. Depending on the actual Leverage Ratio of GLTR as at the end of each financial year and subject to applicable laws and regulations, the Articles of Association of GLTR and clause 3.2 below, the Board will recommend the payment of dividends in the amounts of not less than the following proportions of Attributable Free Cash Flow of the Group for such financial year:

Leverage Ratio	Dividends, % of Attributable Free Cash Flow
Less 1.0x	Not less than 50%
From 1.0x to 2.0x	Not less than 30%
2.0x or higher	0% or more

3.2. The Board reserves the right to recommend to the general meeting of the shareholders (the GM) the dividend in the amount calculated on a reasonable basis other than described in clause 3.1. above in its sole discretion. The factors that the Board should consider include but are not limited to: (i) the Group's needs for business development and strategy implementation purposes; (ii) financial resources for business expansion; (ii) any adverse changes in regulatory, economic and market environment; (iii) the ability of the Company and its subsidiaries to meet their obligations as they fall due; (iv) the availability of distributable reserves at the Company's and subsidiaries' level and (v) other factors considered by the Board of Directors important in light of the current circumstances, including maintenance of the Company's credit ratings.

3.3. The decision to pay the final dividend and the amount of the total dividend in respect of each financial year shall be approved by the GM upon the recommendation of the Board based on the audited stand-alone financial statements of the Company, the Company's retained earnings and the Consolidated Financial Statements of the Group for that financial year. The Board will recommend to the GM to approve the final dividend and the final decision regarding declaration or distribution of dividends, if any, shall be taken by the GM at its sole discretion.

3.4. The distribution of dividends shall take place at least once a year.

3.5. Interim dividends, if declared, are declared and approved at the discretion of the Board. When considering interim dividends, the Board will take into account the interim performance results based on the interim consolidated financial information provided by the management of the Group (semi-annual accounts) and prospects of the Group, its planned and committed capital expenditures, financial flexibility requirements, the availability and cost of funds from external sources, and other relevant matters.

3.6. From time to time, the Company may declare and approve a special final dividend or special interim dividend, which shall be paid together with the final dividend or interim dividend, in excess of thresholds provided in clause 3.1. above. The Board of Directors at its sole discretion shall determine the amount of such special final dividend or special interim dividend and (a) recommend to the GM to approve such special final dividend in case of a final dividend and (b) approve such special interim dividend in case of an interim dividend.

3.7. The Company's dividends per one share shall be calculated according to the following formula:

$D = Q / S$

where D is the dividend to be paid by the Company per one share;

Q is the amount of dividends determined in accordance with clause 3.1; and

S is the quantity of shares issued by the Company.

3.8. The decision on payment (declaration) of dividends / interim dividends shall specify:

- the class of shares on which dividend is declared;
- the size of dividend corresponding to one share of a certain class;
- period of payment, which commences on the date of resolution to declare the dividends;
- form of payment; and
- dividend record day for owners of shares [(1)].

3.9. Dividends shall not be accrued and paid if shares are:

- un-issued (unplaced);
- held in treasury by the Company; and
- in other cases provided for by the applicable laws and regulations.

4. Payment of dividends

4.1. Only shareholders recorded as such in the register of members of GLTR as of the record date are entitled to receive dividends on shares issued by GLTR. The record date is the date of the declaration of dividends, unless otherwise determined by the Board.

4.2. GLTR is responsible for due and full distribution of declared dividends on the basis of the relevant information provided by its shareholders.

4.3. Certain dividend payments may be subject to withholding tax on their gross amount in accordance with tax laws of Cyprus and the countries of residence of shareholders. When calculating, withholding and transferring the tax amounts, GLTR will act with respect to taxes levied on dividends in the Republic of Cyprus as prescribed by the applicable law, including, if applicable, any international agreements for the avoidance of double taxation to which the Republic of Cyprus is a party. The shareholders will take all responsibility to pay taxes on the dividends received in the countries of their residence.

4.4. When calculating the amount of withholding tax, subject to clause 4.5 below, GLTR will take into account the existing Cyprus legislation, EU legislation and double tax treaties with the countries where shareholders are registered applicable as at the date of the dividend payment.

4.5. The shareholders shall be responsible for providing the information and documents necessary for proper taxation, including but not limited to the information and documents required to apply any international agreements for the avoidance of double taxation to which the Republic of Cyprus is party, if applicable.

4.6. Unless the Board approves otherwise, dividends on GLTR shares will be declared in Russian Roubles and paid in US Dollars at the exchange rate of the Bank of Russia as at the date of the GM. In case the Board declares interim dividends on GLTR shares, such interim dividends will be declared in Russian Roubles and paid in US Dollars at the exchange rate of the Bank of Russia as at the date of the respective Board meeting, the record date or as at any other date stipulated by the resolution of the Board meeting. Notwithstanding the foregoing, with effect from the first dividend to be paid in 2019 (but not prior thereto), shareholders may request to receive payment of dividends (including interim dividends) in Russian Roubles, if such holder makes such request by the time, in the manner and pursuant to such procedures as may be prescribed by the Company which will be set forth on the Group's website www.globaltrans.com (which may be amended from time to time in the sole discretion of the Company). The Board may in its sole discretion change or revoke this policy from time to time, and shall be under no obligation to make payments of dividends in Russian Roubles. [(2)]

(1) The dividend record date for holders of the Company's shares may be different from dividend record date set for owners of global depositary receipts, which is set and announced by the Depositary that issued global depositary receipts.

(2) Only holders of ordinary shares may request to receive payment of dividends in Russian roubles; the rights of holders of global depositary receipts are governed by the deposit agreement with the Depositary.

DIVIDEND POLICY

continued

4.7. Unless the Board proposes and shareholders approve otherwise, dividends on GLTR shares shall be paid in cash through a cash transfer to the shareholders' accounts provided by shareholders.

4.8. Unless the shareholders or the Board decide otherwise, dividends shall be distributed not later than 30 (thirty) days after the Board or the GM pass the respective resolution. No shareholders shall enjoy the advantage of prior dividend payout.

5. Approval and updates to dividend policy

5.1. The way the Dividend Policy is applied might need to change over time to reflect changes in circumstances under which the Company operates. In these cases, the Company innovates and adapts its Dividend Policy provisions to remain competitive in a changing and uncertain world, so that it can respond to existing and exploit new opportunities.

5.2. The resolution to approve the provisions of the Dividend Policy, as well as any resolutions to make amendments or additions to these provisions and any resolutions to cancel them, shall be made by the Board. The provisions shall enter into force upon their approval by the Board.

Annex 1: Definitions

Exclusively for the purpose of the current Dividend Policy, the definitions of terms below shall have the following meaning. The Board reserves the right to amend the definitions below on the reasonable basis in its sole discretion.

Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted Profit Attributable to Non-controlling Interests.

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

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

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

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

Leverage Ratio or Net Debt to Adjusted EBITDA (a non-GAAP financial measure) is the ratio of Net Debt on the last day of a particular financial period to Adjusted EBITDA in respect of the twelve months to the end of that same period.

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

DEFINITIONS

Terms that require definitions are marked with capital letters in this Annual Report and their definitions are provided below in alphabetical order:

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

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

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

Adjusted Revenue (a non-GAAP financial measure) is calculated as "Total revenue" less the following "pass through" items "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations".

Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted Profit Attributable to Non-controlling Interests.

Average Distance of Loaded Trip is calculated as the sum of the distances of all loaded trips for a period divided by the number of loaded trips for the same period.

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

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

Average Rolling Stock Operated is calculated as the average weighted (by days) number of rolling stock available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased out, Engaged Fleet, flat cars and containers used in the container business segment).

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

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

Empty Run Costs (a non-GAAP financial measure meaning costs payable to RZD for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of "Cost of sales" reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased in or leased out, Engaged Fleet, flat cars and containers used in the container business segment.

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, flat cars and containers used in the container business segment).

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

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

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

DEFINITIONS
continued

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

Leased-in Fleet is defined as fleet leased in under operating leases, including railcars, locomotives and containers.

Leased-out Fleet is defined as fleet leased out to third parties under operating leases (excluding flat cars and containers used in the container business segment).

Leverage Ratio or Net Debt to Adjusted EBITDA (a non-GAAP financial measure) is the ratio of Net Debt on the last day of a particular financial period to Adjusted EBITDA in respect of the 12 months to the end of that same period.

Market Share is calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of Russia as the denominator. It is defined as a percentage of the overall Russian freight rail transportation volume or freight rail turnover and includes volumes transported by Engaged Fleet, unless otherwise stated.

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

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

Net Revenue from Operation of Rolling Stock (a non-GAAP financial measure, derived from management accounts) is defined as the sum of "Revenue from railway transportation – operators services (tariff borne by the Group)" and "Revenue from railway transportation – operators services (tariff borne by the client)" less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisation" and Net Revenue from Engaged Fleet.

Net Working Capital (a non-GAAP financial measure) is calculated as the sum of the current portions of "Inventories", "Current income tax assets", "Trade receivables – net", "Other receivables – net" ("Other receivables – third parties" and "Other receivables – related parties" net of "Provision for impairment of other receivables"), "Prepayments – third parties", "Prepayments – related parties" and "VAT recoverable", less the sum of the current portions of "Trade payables to third parties", "Trade payables to related parties", "Other payables to third parties", "Other payables to related parties", "Accrued expenses", "Accrued key management compensation, including share-based payment", "Contract liabilities", "Advances from customers for transportation services" and "Current tax liabilities".

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

Owned Fleet is defined as the fleet owned and leased in under a finance lease as at the end of the reporting period. It includes railcars, locomotives and containers, unless otherwise stated, and excludes Engaged Fleet.

Share of Empty Run Kilometres paid by Globaltrans is defined as the percentage of empty run kilometres paid by Globaltrans divided by the total amount of empty run kilometres incurred by the fleet operated by Globaltrans (not including relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, and rolling stock leased-out, Engaged Fleet, flat cars and containers used in the container business segment) in the relevant period.

Total CAPEX (a non-GAAP financial measure) calculated on a cash basis as the sum of "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets", "Acquisition of subsidiary undertakings – net of cash acquired" and "Finance lease principal payments" (as part of the capital expenditures was financed with a finance lease).

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, flat cars and containers used in the container business segment) 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 containers, unless otherwise stated, and excludes Engaged Fleet.

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

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

Transportation Volume is a measure of freight carriage activity over a particular period, measuring weight of cargo carried in million tonnes. It excludes volumes transported by Engaged Fleet and the performance of the container business segment, unless otherwise stated.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial information

All financial information presented in this Annual Report is derived from the Consolidated Management Report and Consolidated Financial Statements of Globaltrans Investment PLC (the "Company" and, together with its subsidiaries, "Globaltrans" or the "Group") and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 (EU IFRS). The Group's Consolidated Management Report and Consolidated Financial Statements and the parent company financial statements for the year ended 31 December 2018 are included in the Financial Statements section of this Annual Report. Financial statements for prior years can be found on Globaltrans' corporate website (www.globaltrans.com). Certain financial information derived from the management accounts is marked in this Annual Report with an asterisk (*). The presentational currency of the Group's financial results is Russian Roubles (RUB), which is the functional currency of the Company as well as of its Cypriot and Russian subsidiaries.

Non-GAAP financial information

In this Annual Report, the Group has used certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures"). The management believes that these non-GAAP measures provide valuable information to readers, because they enable them to focus more directly on the underlying day-to-day performance of the Group's business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. Further explanations of the reasons for presenting such measures are included in the Financial Review section of this Annual Report. The non-GAAP measures that have been used in this Annual Report as supplemental measures of the Group's operating performance. All non-GAAP financial information is calculated on the basis of EU IFRS financial statements and/or management accounts. Reconciliations to the closest IFRS measures are included in the Financial Review section of this Annual Report. Non-GAAP measures requiring additional explanation or definitions appear with initial capital letters and the definitions and explanations are provided in the Definitions section of this Annual Report. Other companies in the freight rail transportation sector may calculate the above non-GAAP measures differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures. All non-GAAP financial information presented in this Annual Report should be used only as an analytical tool and investors should not consider such information, in isolation or in any combination, as a substitute for analysis of the Group's Consolidated Financial Statements reported under EU IFRS and included in the Financial Statements section of this Annual Report.

Operational and market information

Globaltrans reports certain operational information to illustrate the changes in the Group's operational and financial performance during the reporting periods. This operational information is derived from management accounts. The Group's selected operational information for the year ended 31 December 2018 is provided in the Additional Information section of this Annual Report. Selected operational information for prior years can be found on Globaltrans' corporate website (www.globaltrans.com). Terms referring to such operational information appear with initial capital letters with definitions or explanations provided in the Definitions section of this Annual Report. The Group has obtained certain statistical, market and pricing information that is presented in this announcement on such topics as the Russian freight rail transportation market and related subjects from the following third-party sources: Federal State Statistics Service of Russian Federation ("Rosstat"), OAO Russian Railways ("RZD") and the Federal Antimonopoly Service ("FAS"). The Group has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third-party sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Group has not independently verified this third-party information. In addition, the official data published by Russian governmental agencies may be substantially less complete or researched than that of more developed countries.

Cautionary note

This Annual Report, including its appendices, may contain forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward-looking statements by terms such as expect, believe, estimate, anticipate, intend, will, could, may or might, the negative of such terms or other similar expressions. These forward-looking statements include matters that are not historical facts and statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth and strategies, and the development of the industry in which the Group operates, may differ materially from those described in or suggested by the forward-looking statements contained in this Annual Report. In addition, even if the Group's results of operations, financial condition, liquidity, prospects, growth and strategies and the development of the industry in which the Group operates are consistent with the forward-looking statements contained in these materials, those results or developments may not be indicative of results or developments in future periods. The Group does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in forward-looking statements of the Group. Among others, these include general economic conditions, the competitive environment, risks associated with operating in Russia, market change in the Russian freight rail market and many other risks specifically related to the Group and its operations. This Annual Report has been prepared to assist shareholders to assess the Group's financial condition, results of operations, business, strategies and prospects and for no other purpose. The Group, its Directors, employees, agents and advisers do not accept or assume responsibility for any other purpose or to any other person to whom this Annual Report is shown or who may have access to it, and any such responsibility or liability is expressly disclaimed.

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102-3	• Location of headquarters	• Key Contacts	p.249
102-4	• Location of operations • Number of countries where the organisation operates	• At a Glance • Market Review	p.4 p.24-25
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102-7	• Scale of the organisation	• Operational Performance • Financial Review	p.32-37 p.40
102-8	• Information on employees and other workers	• Corporate Social Responsibility	p.63-64
102-9	• Supply chain	• Operational Performance	p.36
102-10	• Significant changes to the organisation and its supply chain	• No significant changes in the supply chain	
102-11	• Precautionary Principle or approach	• The Group does not explicitly use the precautionary principle	
102-12	• External initiatives • A list of externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or which it endorses	• The Group does not have membership in external initiatives	
102-13	• Membership of associations • A list of the main memberships of industry or other associations, and national or international advocacy organisations	• Corporate Social Responsibility • Union of Railway Transport Operators – SOZHT *(AO New Forwarding Company)* • Council of Russian Transport Workers – STR *(AO New Forwarding Company)* • Railway Engineering Association – OPZHT *(AO Ural Wagonrepair Company)* • Estonian Chamber of Commerce and Industry *(AS Spacecom (Estonia) and AS Spacecom Trans (Estonia))*	p.61
102-14	• Statement from senior decision-maker	• Chairman's Statement • Chief Executive Officer's Review	p.14-16 p.20-23
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102-35	• Remuneration policies	• Corporate Governance – Remuneration of the Board of Directors and management	p.81
102-40	• List of stakeholder groups	• Corporate Social Responsibility	p.60-61
102-41	• Collective bargaining agreements	• As at 31 December 2018, 51% of total employees in OOO BaltTransServis were covered by collective bargaining agreements. In other Group subsidiaries there were no collective bargaining agreements.	
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Indicator	Definition	Report section / notes	Annual Report page
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102-45	• Entities included in the consolidated financial statements	• Notes to the Consolidated Financial Statements	p.154
102-46	• Defining report content and topic boundaries	• Corporate Social Responsibility	p.60
102-47	• List of the material topics	• Corporate Social Responsibility	p.60
102-48	• Restatements of information given in previous reports	• This is the second time the Group has published a Corporate Social Responsibility section in the Annual Report. No restatements of information provided in the previous report were made	
102-49	• Significant changes from previous reporting periods in the list of material topics and topic boundaries	• No significant changes	
102-50	• Reporting period	• Calendar year 2018	
102-51	• Date of most recent report	• April 2017	
102-52	• Reporting cycle	• Annual	
102-53	• Contact point for questions regarding the report	• Investor Relations Phone: +357 25 328 860 Email: irteam@globaltrans.com	
102-54	• Claims of reporting in accordance with the GRI standards	• The Corporate Social Responsibility Report was prepared in accordance with the GRI Standards – core option	
102-55	• GRI content index	• GRI content index	p.250-252
102-56	• External assurance	• External assurance for the Group's Corporate Social Responsibility section was not conducted in the reporting period	
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103-2	• The management approach and its components	• Corporate Social Responsibility	p.60-67
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405-1	• Diversity of governance bodies and employees	• Corporate Social Responsibility • Corporate Governance • Consolidated Management Report • Management Report	p.64 p.79-80 p.93 p.176-181

(1) Given the fact that Globaltrans has decided to disclose data on water consumption only this year, the mechanism for collecting, processing and presenting such information has not yet been fully developed. Therefore, the Company does not have enough statistics to fully demonstrate the trends occurring in all of its business units. Data only for BaltTransServis and Ural Wagonrepair were collected.

(2) Taking into account that this is the first year the Group has disclosed its indirect greenhouse gases emissions, only data for 2018 is available.

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