Globaltrans

Russia's leading freight rail group

On Track

Globaltrans Investment PLC
Annual Report 2015

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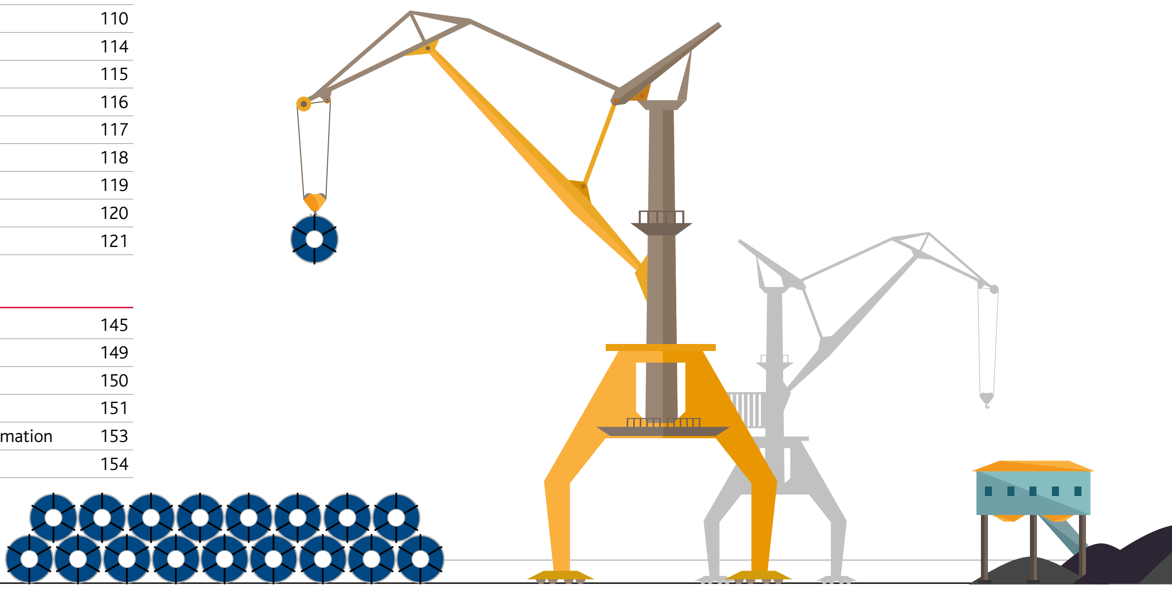
ADDITIONAL INFORMATION

Globaltrans is a leading freight rail transportation group operating in Russia, the CIS and the Baltic countries

"In 2015, we delivered another good operational performance, despite the unfavourable market backdrop. We again outperformed the market and increased business volumes, demonstrating our ability to effectively manage our operations while delivering the highest standards of client service.

Our financial results were solid, despite tough markets and intensified cost pressure. Continuous prudent capital allocation allowed us to further deleverage, achieving a Net Debt to Adjusted EBITDA ratio of just 1.0 times* at the year-end, meaning that our balance sheet is now one of the strongest in the industry. This, combined with our good level of Free Cash Flow, enabled us to propose a substantial dividend for 2015 that rewards shareholders for both the 2014 and 2015 financial years, confirming the importance we place on appropriate shareholder remuneration."

VALERY SHPAKOV
Chief Executive Officer



Summary of presentation of financial and other information

All financial information presented in this Annual Report is derived from the consolidated financial statements of Globaltrans Investment PLC (the "Company" or, together with its subsidiaries, "Globaltrans" or the "Group") and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS"). The Group's consolidated financial statements (audited) for the year ended 31 December 2015 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 Russian rouble (RUB), which is the functional currency of the Company as well as its Cypriot and Russian subsidiaries. Certain financial information derived from management accounts is marked in this Annual Report with an asterisk (*). In this Annual Report, the Group has used certain non-GAAP financial information (not recognised by EU IFRS or IFRS) as supplementary explanations of the Group's operating performance. Non-GAAP information and operational measures requiring additional explanation or defining are marked with initial capital letters and the explanations or definitions are provided in the Definitions section of this Annual Report. Rounding adjustments have been made in calculating some of the financial and operational information included in this Annual Report. As a result, numerical figures shown as totals in some tables may not be exact arithmetic 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, strategies and the development of the industry in which the Group operates may differ materially from those described in or suggested by the forward-looking statements contained in this Annual Report.

For a detailed description of the presentation of financial and other information, please see the Presentation of Financial and Other Information section of this Annual Report.

Highlights of the Year

GOOD OPERATIONAL PERFORMANCE

- Continued market outperformance and business volume growth, with the Group's Freight Rail Turnover up 6%, while overall Russian freight rail turnover remained relatively unchanged year-on-year.
- Solid average pricing, with the Average Price per Trip up 2% year-on-year.
- Continued high operational efficiency, with the Empty Run Ratio for gondola cars at 39% (2014: 38%).

ACCELERATED DELEVERAGING

- Net Debt down 31% to RUB 16,255 million* as of the end of 2015.
- The Net Debt to Adjusted EBITDA ratio further improved to 1.0 times* (1.3 times* as of the end of 2014).
- The share of rouble-denominated debt increased to almost 100%.

SOLID FINANCIAL RESULTS

- Adjusted Revenue increased 1% year-on-year to RUB 42,176 million* in 2015.
- Adjusted EBITDA was RUB 15,538 million*, with intensified cost inflation driving the 12% year-on-year decline. The Adjusted EBITDA Margin was 37%* (2014: 42%*).
- Good level of Free Cash Flow of RUB 9,614 million*, albeit down 19% year-on-year.

SUBSTANTIAL DIVIDEND PROPOSED

- The Board of Directors proposed a full-year dividend totalling RUB 2,218 million, or RUB 12.41 per ordinary share/Global Depositary Receipt.[1]
- The proposed dividend consists of 30% of Adjusted profit attributable to owners of the Company for 2014 and 30% for 2015[2]. This equates to a dividend payout of 74%[3].
- Track record re-established for paying a dividend for every financial year since 2009.

168.5bn

Freight Rail Turnover (tonnes-km), up 6% year-on-year

39%

Empty Run Ratio for gondola cars (2014: 38%)

8.3%

Market Share of Russia's freight rail volumes, stable year-on-year

RUB 16,255m*

Net Debt, down 31% year-on-year

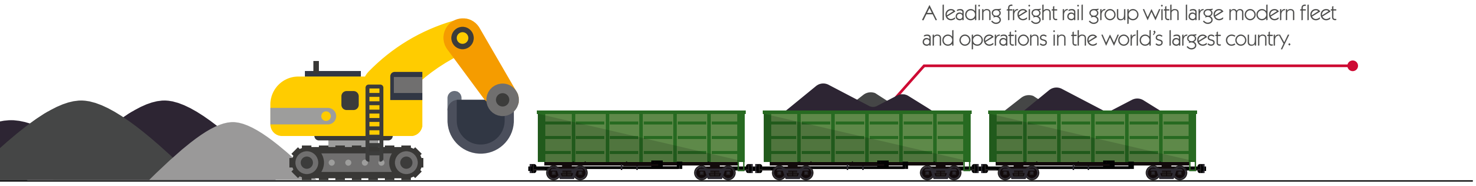
RUB 42,176m*

Adjusted Revenue, up 1% year-on-year

1.0 times*

Net Debt to Adjusted EBITDA (end 2014: 1.3 times*)

Strategically positioned
A leading freight rail group with large modern fleet and operations in the world's largest country.



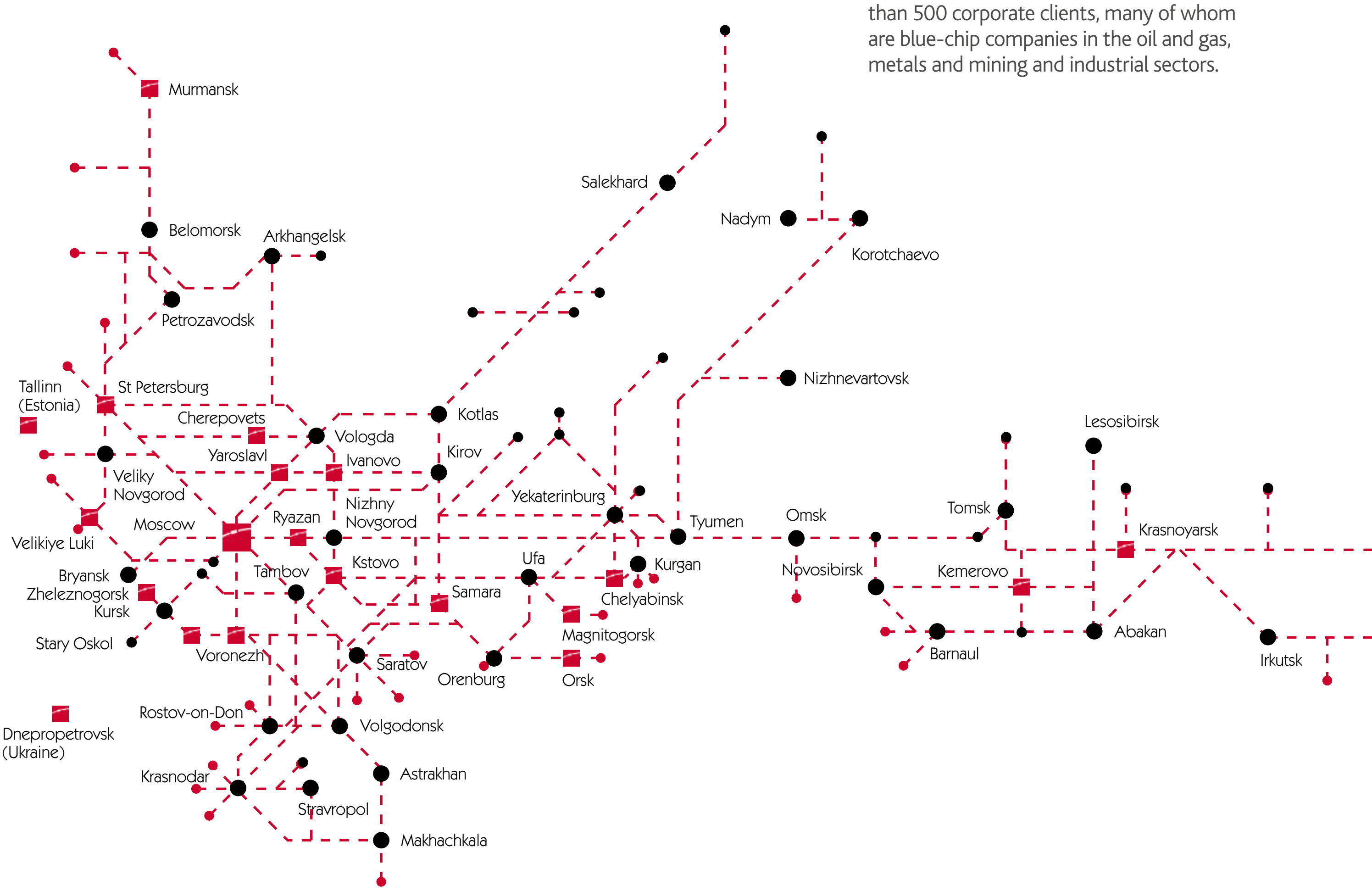
1 Subject to shareholders' approval, dividends will be paid in US dollars with conversion from Russian rouble to be executed at the official exchange rate for the Russian rouble of the Central Bank of Russia as of the date of the Annual General Meeting, which was called for 28 April 2016.
2 Adjusted Profit attributable to owners of the Company for 2015 excludes the impact of the impairment of customer relationships related to the service contract with MMK totalling RUB 996 million. For 2014, it excludes the impact of the impairment of goodwill of RUB 5,828 million related to the acquisition of captive rail operators completed in 2012 and 2013.
3 The dividend payout ratio is calculated as a proportion of Adjusted profit attributable to owners of the Company for 2015, which was RUB 2,979 million* and excludes the impact of the impairment of customer relationships related to the service contract with MMK of RUB 996 million.

Our Operations

Leading freight rail group serving businesses across the world's largest country

Globaltrans is a rail transportation group focused exclusively on the freight logistics sector in Russia, the CIS and the Baltic countries.

With one of the largest railcar fleets among its peers, and by focusing on efficiency and service quality, the Group has secured an 8.3% share of Russia's freight transportation market. Its customer base numbers more than 500 corporate clients, many of whom are blue-chip companies in the oil and gas, metals and mining and industrial sectors.



RUSSIA AND ITS RAIL NETWORK

Spanning 17.1 million square kilometres, Russia is the world's largest country, and central to its functioning is the national railway system. With over 85 thousand kilometres of operational tracks, it is the third most extensive in the world. In 2015, it handled around 87% of Russia's freight turnover, excluding pipeline traffic.

8.3%
Market Share

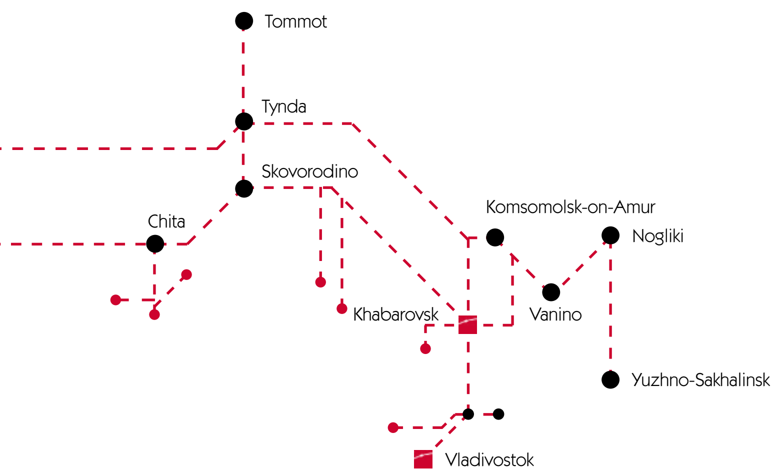
168.5bn
Freight Rail Turnover (tonnes-km)

>67,000
Total Fleet (units)

39%
Empty Run Ratio for gondola cars (2014: 38%)

OPERATING SUBSIDIARIES

НОВАЯ ПЕРЕВОЗОЧНАЯ
BaltTransServis
GTI MANAGEMENT
SPACECOM
SPACECOM TRANS AS
SYNTEZ RAIL
НОВА ПЕРЕВІЗНА



Russia's rail network's key illustrative routes

Branches and representative offices of Globaltrans operating subsidiaries

1.2m
Total Russia's railcar fleet (units)

2.3tn
Russia's freight rail turnover (tonnes-km)

87%
Share of rail in Russia's freight turnover, excluding pipeline traffic

Note: All information on this page relates to 2015 unless otherwise stated.

Our Assets and Customers

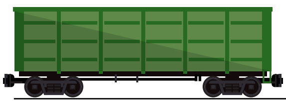
Modern fleet, solid operational platform and client base

LARGE, MODERN FLEET

One of Globaltrans' key competitive advantages is its large, modern fleet, which enables the Group to provide clients with scale, efficiency and service quality. At the end of 2015, its Total Fleet consisted of 67,349 units, while its Owned Fleet, 89% of that, had an average age of 9.5 years.

Gondola cars

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



42,684 units **63%**

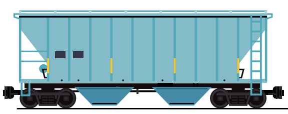
Rail tank cars

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

22,822 units **34%**

Other railcars

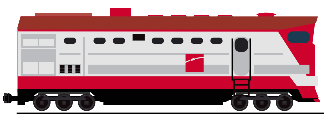
The Group's fleet of other railcars includes flat and hopper cars, among others.



1,768 units **3%**

Locomotives

The vast majority of Globaltrans' locomotives are used for the traction of block trains[1] carrying primarily oil products and oil.



75 units **<1%**

1 A block train consists of Group-operated rolling stock bound for one destination.

EFFICIENT OPERATIONAL PLATFORM

As a specialist freight rail transportation group, Globaltrans focuses on ensuring the highest levels of efficiency and service for its customers. To this end, the Group has invested in fleet and route management from the outset, and its centralised logistics system is one of the most advanced in the industry.

The hub of this system is a single dispatching centre, which works 24 hours a day, seven days a week. It monitors every aspect of Globaltrans' fleet of more than 40,000 gondola cars, managing shipments and routes to maximise efficiency, productivity and service quality.

Alongside analysing its overall fleet around the clock, Globaltrans focuses on specific areas of its operations. With numerous clients in certain sectors, particularly metals and mining, the Group has long-term service contracts that help planning and reduce costs for customers. Another example is block-train management, whereby the Group can schedule cargo or client-specific trains bound in the same direction, improving delivery times and fleet utilisation.

9.5 years

Average age of the Group's Owned Fleet

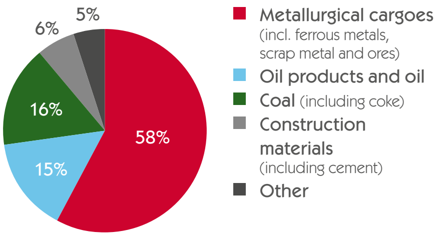
>500 clients

In Russia, the CIS and the Baltic states

63%

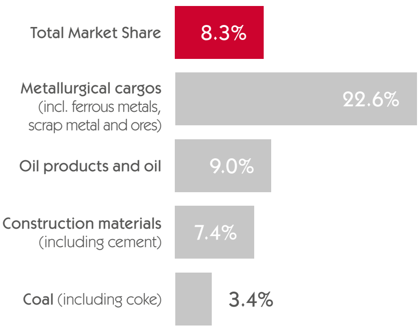
Share of long-term service contracts in Net Revenue from Operation of Rolling Stock

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2015



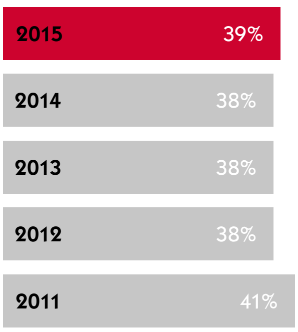
Source: Globaltrans

Globaltrans' Market Share by cargo, 2015



Source: Globaltrans

Globaltrans' Empty Run Ratio for gondola cars, 2011-15



Source: Globaltrans

ESTABLISHED CLIENT BASE

Created in the early 2000s, Globaltrans has earned itself the reputation of a freight rail group that offers best-in-class service over the long term. This is reflected by its established base of clients, many of whom have been with the Group from the outset.

Today, Globaltrans counts more than 500 companies among its customers in Russia, the CIS and the Baltic states. The majority of them are prominent names in the metals and mining, oil and gas and construction sectors. In a further endorsement of its approach, the Group has secured much of its business under long-term contracts, which accounted for more than 63% of Net Revenue from Operation of Rolling Stock in 2015.

Our Business Model and Strategy

Strong foundations, principles and focus

OUR PRIORITIES

Maintaining a resilient business profile

- Well-balanced fleet, consisting of gondola and rail tank cars
- High utilisation levels through long-term service contracts

Delivering operational excellence

- Large, modern, well-maintained fleet
- Wide geographical footprint
- Centralised logistics and best-in-class IT
- Partnerships with key customers, one-stop-shop solutions

Preserving a sound financial profile

- Solid balance sheet with low FX exposure
- Prudent capital allocation

Delivering return-oriented growth

- Carefully chosen strategic acquisitions
- Opportunistic organic growth
- Expansion into new niches of the freight rail market

Our goal is to drive shareholder value by being Russia's leading independent freight rail Group and the partner of choice for blue-chip customers.

2004

Globaltrans is established

2008

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

Ukrainian subsidiary is created and leasing businesses in Estonia are acquired

>26,000 units

Total Fleet

2009

Secondary Public Offering (SPO) conducted to finance business expansion

50% of BaltTransServis is acquired[1]

>37,000 units

Total Fleet

2010

>50,000 units

Total Fleet

Business is increasing by buying new rolling stock and expanding leased-in fleet

2012

Captive rail operator of Metalloinvest is acquired

SPO is conducted to finance growth

2013

Captive rail operator of MMK is acquired

Single gondola dispatching centre is created

>65,000 units

Total Fleet

2014

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

>60%
Share of long-term contracts in Net Revenue from Operation of Rolling Stock

2015

>67,000 units

Total Fleet

2016

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

Chairman's Statement

Outperforming the market, returning value

In 2015, despite difficult conditions, Globaltrans outperformed the market and re-established its dividend track record by proposing a substantial dividend covering 2014 and 2015. This confirms that we have the right business model, strategy and team in place to navigate challenging times successfully.

"Although 2015 was challenging, we continue to improve and become a stronger business every day. The industry is also developing alongside us and we see good long-term prospects for the Group."

MICHAEL ZAMPELAS
Chairman, Independent non-executive Director

Dear shareholders,
The freight rail sector experienced another challenging year in 2015, as demand stagnated against the backdrop of a shrinking Russian economy. The business was also impacted by railcar oversupply in the market and intensified inflationary pressure.

Nonetheless, despite these difficult market conditions, Globaltrans managed to increase business volumes and deliver respectable financial and operational results. In 2015, our Freight Rail Turnover grew by 6% year-on-year, primarily driven by improved logistics and resourceful cooperation with our clients, who continue to include the leaders of the Russian economy and have come to rely closely on our highly professional services over the years. On the back of this, Adjusted Revenue rose by 1% year-on-year, while Adjusted EBITDA was RUB 15,538 million*, with intensified cost inflation driving the 12% year-on-year decline.

In 2015, we retained our focus on prudent capital allocation. The Group continued to generate a good level of Free Cash Flow of RUB 9,614 million*, while the chosen approach of allocating maximum Free Cash Flow to repaying debt proved prudent: by the end of 2015, the Group had reduced Net Debt by 31% compared with a year earlier and decreased the Net Debt to Adjusted EBITDA ratio to a very comfortable 1.0 times*. The Board has also proposed to pay a substantial dividend for 2015, which reflects the performance of the Group for both 2014 and 2015.

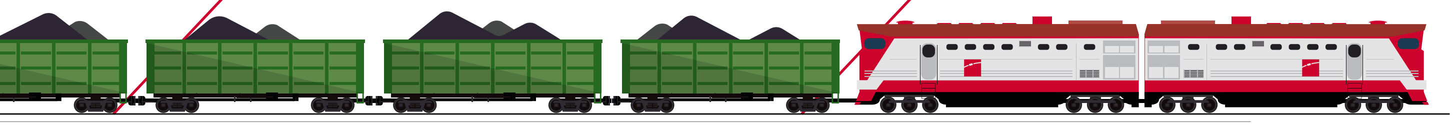
Prudent capital allocation

RUB 9,614m*

Free Cash Flow in 2015

-31%

Reduction in Net Debt in 2015



RIGHT STRATEGY BACKED BY STRONG GOVERNANCE

Achieving such steady financial and operational progress against the unfavourable macroeconomic backdrop has required engagement, cohesive teamwork and productivity from all employees. The Board of Directors plays a key role in determining the strategy and setting goals for Globaltrans and has been actively involved in business processes: working with management to minimise the impact of the economic crisis, optimising and simplifying the corporate structure and reducing costs where possible. I am pleased to say that through this collaborative and transparent approach to business, our strong and effective management team has once again proved able to manage such fluctuations and adapt to ever-changing economic developments.

DIVIDEND TRACK RECORD RE-ESTABLISHED

Dividends have always been a key component in delivering value to investors. We would like to thank our shareholders who, during an unprecedented volatile first half of 2015, supported our proposal to freeze dividend payments for the 2014 financial year. This was a cautious approach, but it was the right one, as it enabled us to mitigate the difficult times and focus on further debt repayment. As a result, despite the continuing weak economic environment, our strong financial position and solid Free Cash Flow have enabled us to resume dividend payments.

The Board of Directors has proposed to pay RUB 2,218 million in dividends, corresponding to RUB 12.41 per ordinary share/Global Depositary Receipt. This substantial dividend consists of 30% of Adjusted profit attributable to owners of the Company for 2014 and 30% for 2015[1] and equates to a payout ratio of 74%[2] for the financial year 2015. This re-establishes our track record for dividend payments in relation to every financial year since 2009. Remuneration of shareholders is important to us and our approach to the 2015 dividend reflects this.

OUR TEAM

Once again, I would like to thank all Globaltrans employees for their tremendous effort. As ever I remain impressed by their continued commitment and dedication. Every day, each employee makes a meaningful contribution to the business, enabling Globaltrans to develop sustainably, provide clients with best-in-class service, successfully tackle complex logistical tasks, and keep the rolling stock in excellent condition. Rail transport plays a major role in keeping the Russian economy moving, which is why we deliver freight 24/7 and we do this as a team.

On a separate note, I would like take this opportunity to thank Sergey Maltsev, one of the Group's co-founders. After many years serving as CEO, he has decided to move on and focus on the development of the national freight rail transportation industry from within OAO Russian Railways (RZD), the state rail holding company. We are extremely grateful to Sergey for his contribution, which has enabled the Group to become one of Russia's leading freight rail transportation groups, and wish him well in his endeavours.

Valery Shpakov, who has done an excellent job as Interim CEO since November 2015, was confirmed by the Board as the permanent Group CEO in March 2016. Valery was First Deputy CEO for many years, with responsibility for developing and managing the universal gondola fleet, which remains a key focus for the Group. He is an experienced manager with an accomplished track record of more than 30 years in the rail industry, and we are delighted that he has agreed to take the helm, as we continue to develop Globaltrans' strengths.

PROSPECTS FOR 2016

I would like to highlight that, despite the challenges of 2015, we continue to improve and become a stronger business every day. The industry is also developing alongside us and we envisage good long-term prospects for the Group.

As we move into 2016, the outlook remains challenging. However, the recent regulatory changes regarding the scrappage of old railcars make us cautiously optimistic about the future developments in the gondola car segment. With our strong team and track record, as well as our ability to innovate and adapt, we are confident that we can face the challenges of the year ahead.

1 Adjusted profit attributable to owners of the Company for 2015 excludes the impact of the impairment of customer relationships related to the service contract with MMK, totalling RUB 996 million. For 2014, it excludes the impact of the impairment of goodwill of RUB 5,828 million, related to the acquisition of captive rail operators completed in 2012 and 2013.

2 The dividend payout ratio is calculated as a proportion of Adjusted profit attributable to owners of the Company for 2015, which was RUB 2,979 million* and excludes the impact of the impairment of customer relationships related to the service contract with MMK of RUB 996 million.

Chairman's Statement Continued

STRATEGY Q&A

Did the deterioration in the economic environment make you reconsider your strategic priorities?

If anything, the worsening macroeconomic conditions showed that we have the right strategy in place, as we continued to focus on costs, make disciplined capital allocation decisions and concentrate on further debt repayment. As a result, we managed to partially mitigate inflationary pressure, succeeded in redeeming a RUB 10 billion bond and made our debt repayment schedule more flexible which together enabled us to propose a substantial dividend for the 2015 financial year.

Given the environment, we made corresponding tactical changes, such as focusing on simplifying the corporate structure and optimising business processes and headcount, rather than on expanding the business.

We remain open to potential growth prospects that arise and, in the absence of any attractive large-scale projects, we have become actively engaged in developing niche business opportunities. One example is SyntezRail, our recently launched tank container business, which is delivering a promising performance.

What are your key competitive advantages in the industry?

At Globaltrans, we believe that a business becomes successful through a combination of efficiency, reliability of service and long-term partnerships with clients. Thanks to our extensive experience, innovative business model and technological approaches, we have been able to tackle the most complex logistics tasks and provide clients with best-in-class service in the freight rail transportation industry.

Our single dispatching centre is supported by a developed network of regional representative offices, which continuously serves to improve our operating efficiency. Our Owned Fleet is considered one of the most modern in the industry, with an average age of less than 10 years, which guarantees a high standard of quality and well-scheduled supply of rail cars.

Having such a modern fleet is also a real advantage as the recent regulatory initiatives regarding the scrappage of old railcars will have a very limited impact on our operations, meaning we can continue to provide a market-leading service utilising our sizeable fleet.

What will be your investment priorities over the next year?

As mentioned, while our large-scale investment activities remain on hold, we continue to explore and, where appropriate, pursue attractive niche projects, as well as proceed with selective acquisition of limited numbers of rolling stock to support business development. One such niche opportunity that we would like to develop further is SyntezRail, founded by the Group and its partners in 2014. We believe that it will help us to gain further share in the market for rail transportation of petrochemicals, which remains attractive.

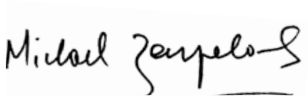
Looking to the long term, we expect further industry consolidation. Our strong balance sheet will enable us to invest in attractive projects that arise, a major competitive advantage in such an environment.

At Globaltrans, we believe that a business becomes successful through a combination of efficiency, reliability of service and long-term partnerships with clients.

What are your strategic objectives for 2016?

Our efforts will remain focused on cost management and client care. We have continued to build deeper partnerships with key clients, constantly improving the efficiency and reliability of our services. For instance, in early 2016, following years of successful collaboration, we extended our service contract with Rosneft for another five years, proving that our highly effective and reliable services remain in demand.

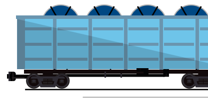
Other key objectives include maximising Free Cash Flow and keeping debt at a comfortable level, so that we can pursue new investment opportunities that could add value and scale to our business.



Michael Zampelas
Chairman, Independent non-executive Director

CEO's Review

Solid results underscore good long-term prospects



In the face of considerable headwinds, Globaltrans delivered solid financial and operational results in 2015, reconfirming that its focus on ensuring prudent capital allocation, maximising efficiency and delivering best-in-class service bode well for the long term.

"Despite the prevailing conditions, Globaltrans produced good operational results and maintained its market share in 2015."

VALERY SHPAKOV
Chief Executive Officer

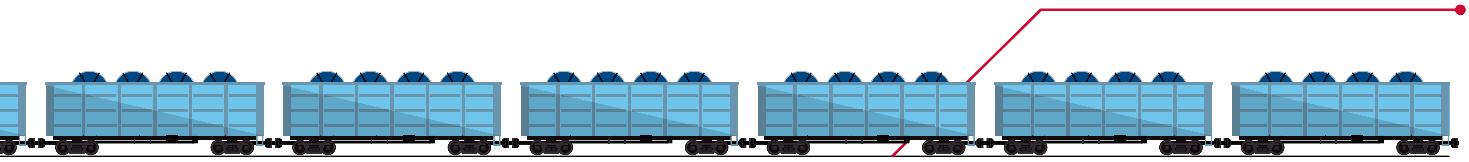
Dear shareholders,
It was an honour to be confirmed as CEO of Globaltrans in March 2016, having taken over as Interim CEO in November 2015. While this is the first time that I am addressing you in this capacity, I know the Group well, having joined more than 10 years ago and working alongside Sergey Maltsev, the former CEO, from my earliest days until his resignation last year. I have principally been responsible for developing and managing the universal gondola car segment, as CEO of Globaltrans' subsidiary New Forwarding Company, and this area remains a key priority for our business. This means I am familiar with our Group's strengths, which have again enabled it to outperform the market, and I am well aware of the difficult environment that Globaltrans is operating in.

MARKET REVIEW

Objectively speaking, 2015 was a challenging year for the Russian economy, and it remains too early to talk about stabilisation. Nevertheless, even against such a backdrop, the performance of Russia's freight rail sector, which serves the needs of the domestic economy, was relatively stable.

In 2015, Russian freight rail turnover remained largely unchanged year-on-year, mainly due to increased transportation distances, while overall transportation volumes dipped by 1%. Meanwhile, rail maintained its position as a leading means of transportation, its share of overall freight turnover, excluding transportation via pipelines, reaching 87%.

Established blue-chip client base
>60% of Net Revenue from Operation of Rolling Stock covered by long-term service contracts.



While the freight rail industry experienced weak demand in the construction materials segment (including cement), where overall Russian volumes fell by 10% year-on-year, the metallurgical cargoes and coal cargo segments performed quite respectably, with shipments of metallurgical cargoes (including ferrous metals, scrap metal and ores) remaining stable year-on-year, while shipments of coal (including coke) rose by 3%. In the oil products and oil segment the overall Russian volumes dropped by 2% year-on-year. The pricing environment remained under pressure, weighed down by sluggish demand and an oversupply of railcars.

However, the supply-demand balance is beginning to change for the better due to the new regulations regarding the scrappage of old fleet. At the end of 2015, Russia's fleet of rolling stock had decreased by 7% year-on-year, with the largest declines seen in the gondola car segment. Amid the accelerated scrappage of old railcars and moderate gondola car production, Russia's gondola fleet decreased by 9% to 515 thousand units in 2015. While supply and demand are still far from equalised, scrappage of the old fleet is expected to help to reduce the oversupply.

OPERATING RESULTS

Despite the prevailing conditions, Globaltrans produced good operational results and maintained its market share in 2015. Against the backdrop of a market that was broadly flat, the Group's Freight Rail Turnover rose by 6% in 2015 to 168.5 billion tonnes-km, driven by an increase in average transportation distances and relatively stable Transportation Volumes, which fell 1% year-on-year. The Group's Market Share remained unchanged at 8.3%. At the end of 2015, the Total Fleet had risen slightly and exceeded 67 thousand units, primarily due to an increase in the Group's Leased-in Fleet.

The extensive expertise and advanced logistics technologies that we deploy daily to support the partnerships with key clients remain among our strongest features, enabling us to tackle complex logistics challenges and provide best-in-class service. Our business model is based on providing effective logistics and was the principal reason for our solid operational performance in such difficult times. Our dispatching centre allows us to centrally operate more than 40,000 gondola cars. One of our key operational indicators is Empty Run Ratio for gondola cars, which remained solid at 39% in 2015, compared with 38% in 2014. This primarily reflected the increased coal transportation, which generally requires higher Empty Runs.

While the broader market for rail transportation of oil products and oil was sluggish, Globaltrans performed relatively well, actively collaborating with its major clients in the segment, such as Rosneft and Gazpromneft. Our strong market position in this segment is supported by our unique ability to transport oil products and oil in block trains[1] using our own locomotives, guaranteeing that we can deliver high quality service, reliability and efficient traffic optimisation.

One of our key aims has always been to underpin our business by developing long-term relationships with clients across a range of sectors. Today, more than 60% of our Net Revenue from Operation of Rolling Stock is generated from long-term service contracts with such clients as Metalloinvest, MMK and Rosneft. We remain active in seeking to identify new opportunities to increase volumes under long-term contracts.

1 A block train consists of Group-operated rolling stock bound for one destination.

CEO's Review continued

FINANCIAL RESULTS AND CAPITAL ALLOCATION

Solid average pricing allowed us to convert the growth in Freight Rail Turnover into a 5% increase in Net Revenue from Operation of Rolling Stock. The Group's Adjusted Revenue rose by 1% year-on-year to RUB 42,176 million* in 2015, with the improvement in Net Revenue from Operation of Rolling Stock partly offset by a decline in revenues from auxiliary operations. We managed our costs well, taking targeted action within the business.

Even with our intense focus on costs, certain elements were outside our direct control, such as the increase in RZD-regulated tariffs for the traction of empty railcars and general inflationary pressures, and they impacted profitability. As a result, the Group's Adjusted EBITDA declined by 12% year-on-year to RUB 15,538 million*, while the Adjusted EBITDA Margin slipped to 37%*. The Group continued to generate positive Free Cash Flow, which totalled RUB 9,614 million*.

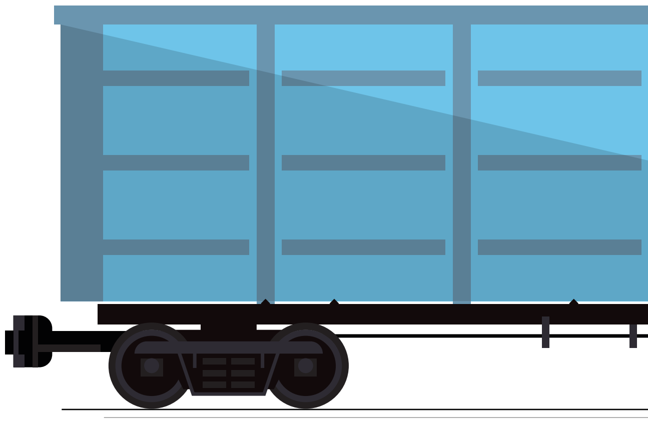
In 2015 we managed to reduce our debt significantly. By the end of that year, Net Debt had decreased by 31% year-on-year to RUB 16,255 million* and the Net Debt to Adjusted EBITDA ratio was at a very comfortable 1.0 times*. Our conservative borrowing policy helped to protect us from currency fluctuations, and by the end of 2015, the share of foreign-currency loans in our debt portfolio had been reduced to almost zero. Consequently, we entered 2016 with a strong balance sheet and a comfortable debt repayment schedule.

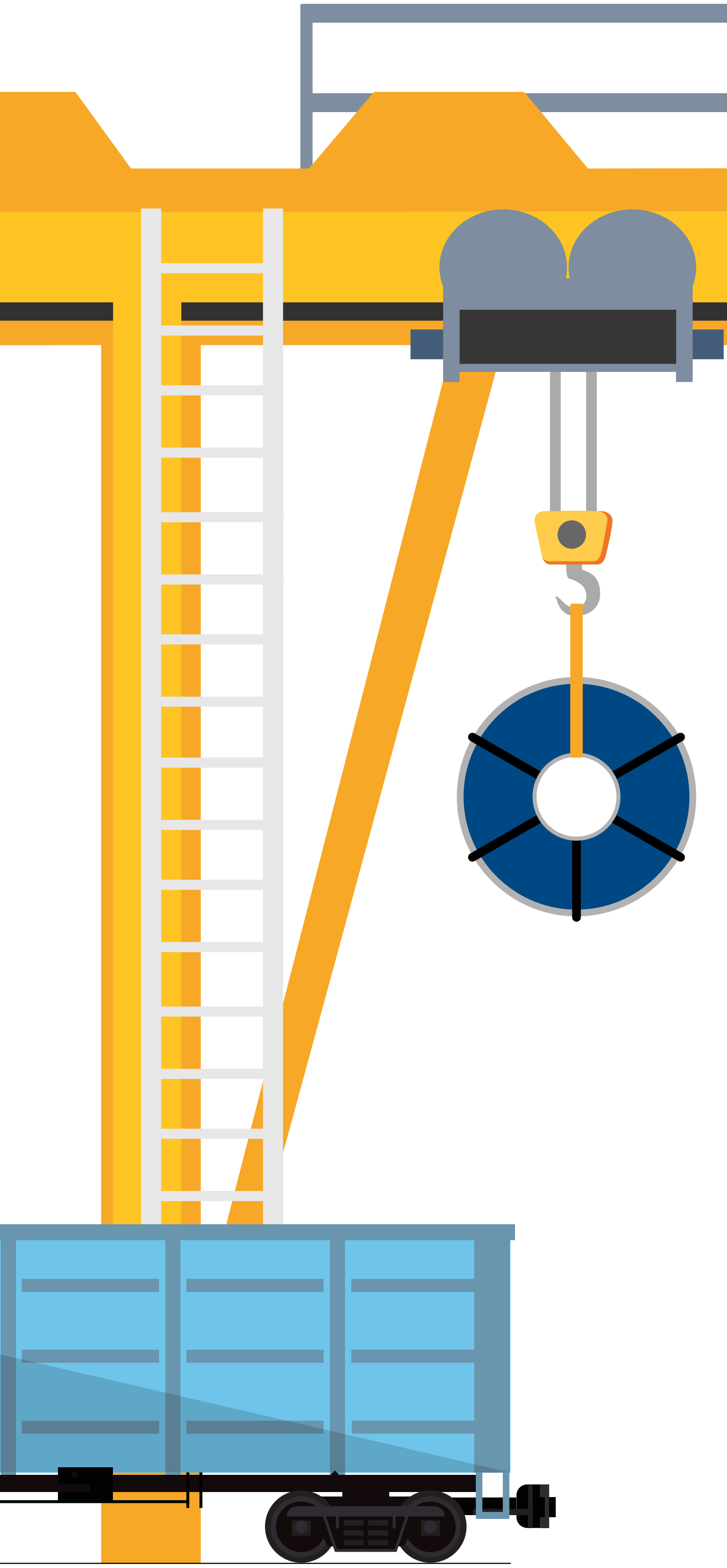
The Group's good level of Free Cash Flow enabled the Board to propose a substantial dividend. This re-establishes our solid track record for dividend payments and once again highlights the resilience of our business model.

Since 2013, we have suspended our investment programme due to the volatile market situation. While we currently see no attractive large-scale opportunities in the near term, we are making small investments in niche projects, such as the successful development of transportation of petrochemicals in tank containers. Our CAPEX needs mainly involve costs related to fleet maintenance and repair, as well as possible selective investments in new rolling stock to substitute fleet that is being retired. In 2016, we expect to take less than 300 units of our rolling stock out of commission, although, with a large portion of the fleet reaching the age of requiring their first capital repair, maintenance CAPEX will be higher.

OUTLOOK

In early 2016, volatility and uncertainty in the global economy were high. While the Russian economy remains under pressure, we continue strengthening relationships with our clients. For instance, in early 2016, we were able to extend our long-term service contract with Rosneft, one of our key clients, for a further five-year term. While this positive outcome was expected, we are pleased to have such a significant contract confirmed.





We believe that the long-term prospects for the sector remain positive. The recent regulatory decision to ban the use of railcars with useful life extensions undertaken after 1 January 2016 suggests that there might be some room for cautious optimism in terms of supply reduction which in turn should provide for stronger pricing in the gondola segment in particular. However, we do expect volume pressure to continue impacting the pricing environment in the oil products and oil sector.

In addition, our view regarding sector consolidation remains the same: we believe that it is inevitable and we are well placed to benefit.

Despite the uncertain economic outlook, we are reasonably optimistic about the future of our sector and ready for any new challenges in 2016. We firmly believe that our stable financial position, good operational indicators, well-established client base and strong business model put us on a sound footing, and we are confident that we can maintain our position as a leading freight rail transportation group in Russia.

Valery Shpakov
Chief Executive Officer

Market Review

Relative stability in a turbulent year

The Russian freight rail industry had another challenging year in 2015. Nonetheless, the performance of the sector, which serves the needs of the Russian economy, was relatively stable.

MARKET REMAINS SLUGGISH

Rail continues to play an important role in the Russian economy as one of the key means of freight transportation. In 2015, it accounted for 87% of overall freight turnover in Russia, excluding pipeline traffic.

Sluggish market conditions and Russia's weak economy continued to affect the freight rail industry in 2015. Amid a fall in domestic industrial production index of 3% year-on-year, freight rail transportation volumes dropped by 1% year-on-year to 1,217.9 million tonnes. However, thanks to adjustments in logistics resulting in greater average transportation distances, overall Russian freight rail turnover remained virtually unchanged year-on-year, at 2,305.5 billion tonnes-km.

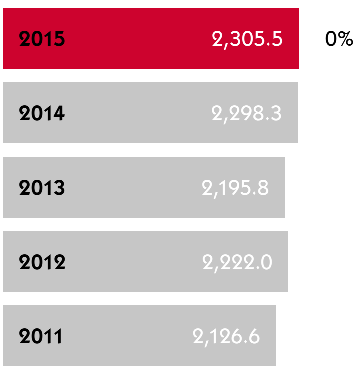
Demand for rail transportation varied by freight segment. Rail shipments of coal (including coke) rose by 3% year-on-year to 336.0 million tonnes in 2015, reflecting a 4% increase in coal mining volumes.

Rail shipments of oil products and oil declined by 2% year-on-year to 251.4 million tonnes. The majority of oil products are shipped by rail in Russia, while crude is transported mostly by pipeline. Domestic output of oil products remained relatively flat year-on-year in 2015.

Despite high volatility on commodity markets, demand for freight rail transportation for metallurgical cargoes (including ferrous metals, scrap metal and ores) remained relatively stable in 2015, with the overall volume at 215.8 million tonnes. Russian steel production declined by 2% year-on-year in 2015, with output of rolled ferrous metals down 1% and iron ore mining relatively flat. At a time of weak domestic demand and challenging export market conditions, the rouble devaluation helped to keep Russian steelmakers competitive internationally.

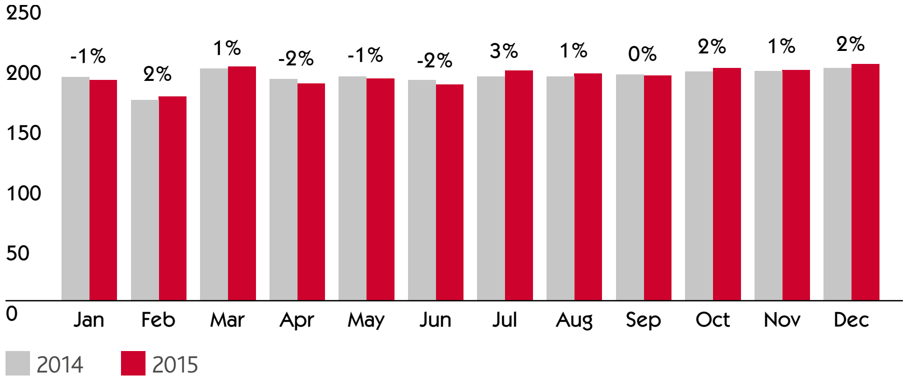
Rail shipments of construction materials (including cement) remained under pressure due to the weak domestic economy, volumes falling by 10% year-on-year to 159.5 million tonnes.

Russia's freight rail turnover, 2011-15 (billion tonnes-km)



Source: Rosstat

Russia's monthly freight rail turnover, 2014-15 (billion tonnes-km)



Source: Rosstat

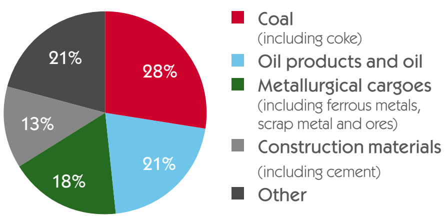
Sluggish market conditions and Russia's weak economy continued to affect the freight rail industry in 2015. However, thanks to adjustments in logistics resulting in greater average transportation distances, overall Russian freight rail turnover remained virtually unchanged year-on-year, at 2,305.5 billion tonnes-km.

Russia's freight rail transportation volumes, 2011-15 (million tonnes)

2015	1,217.9	-1%
2014	1,226.9	
2013	1,236.8	
2012	1,271.9	
2011	1,241.5	

Source: Rosstat

Breakdown of Russia's freight rail transportation volumes by freight, 2015



Source: Rosstat

RUSSIA'S FREIGHT RAIL TRANSPORTATION VOLUMES BY CARGO, 2011-2015 (MILLION TONNES)

Coal (including coke)

2015	336.0	+3%
2014	327.2	
2013	322.2	
2012	320.3	
2011	309.1	

Source: Rosstat

Oil products and oil

2015	251.4	-2%
2014	256.5	
2013	250.3	
2012	258.2	
2011	250.0	

Source: Rosstat

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

2015	215.8	0%
2014	216.4	
2013	218.1	
2012	223.6	
2011	228.4	

Source: Rosstat

Construction materials (including cement)

2015	159.5	-10%
2014	176.6	
2013	204.5	
2012	215.3	
2011	192.3	

Source: Rosstat

Market Review continued

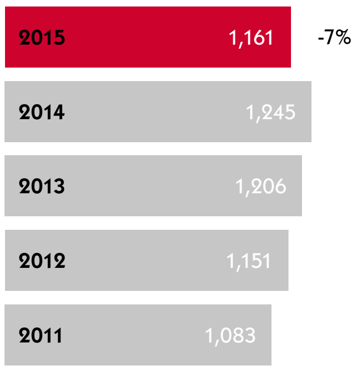
SCRAPPAGE OF OLD RAILCAR FLEET IMPROVES SUPPLY-DEMAND BALANCE

At the end of 2015, Russia's overall railcar fleet amounted to around 1,161 thousand units. Of those, some 44% (515 thousand units) were universal gondola cars and around 24% (281 thousand units) were rail tank cars, the second largest type.

For the last few years, the market has been suffering from an oversupply of railcars, particularly universal gondola cars. However, recent changes in regulations have accelerated the industry-wide retirement of old railcars, which, along with moderate new railcar production, improves the supply-demand balance.

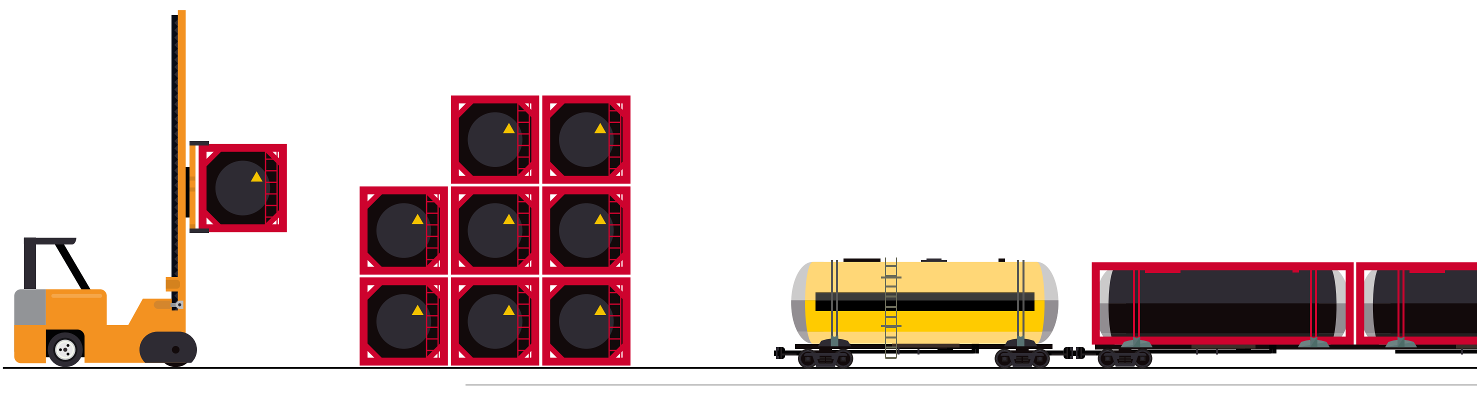
At the end of 2015, Russia's overall railcar fleet declined by 7% year-on-year. The gondola car fleet declined the most in 2015, down 9% year-on-year, while the number of rail tank cars fell 4%. The ban on operating older rolling stock with useful life extensions undertaken after 1 January 2016 (excluding certain types of specialised railcars) should further reduce Russia's railcar fleet. More than 70 thousand units are expected to reach the end of their useful life in 2016, including about 40 thousand gondola cars and about 10 thousand rail tank cars. Freight rail operators with modern fleets like Globaltrans are benefiting from the accelerated retirement of old fleet. Given the high debt levels across the industry and the weak economic environment, investments in replacements look likely to be limited.

Total Russia's railcar fleet
At year-end, 2011-15 (thousand units)



Source: RZD, Railsovet, Company estimations

Freight rail operators with modern fleets like Globaltrans are benefiting from the accelerated retirement of old fleet.



Further operational improvements made in 2015

VYACHESLAV STANISLAVSKY
Deputy CEO, Head of Operations

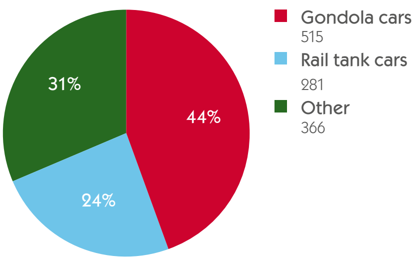
Globaltrans reconfirmed its position as an operational leader in the rail freight sector in 2015 and, despite the overall environment, maintained market share, increased business volumes and strengthened its competitive position. I am proud to say that we achieved the main operational objectives set at the beginning of the year.

Two ongoing priorities were operational efficiency and service reliability. The Group continued to improve its integrated fleet management system established through New Forwarding Company, a fully owned subsidiary. In October 2015, as a result of an intra-group reorganisation, Steeltrans, another fully owned subsidiary, was incorporated into New Forwarding Company.

Globaltrans has one of the highest levels of operational efficiency in the industry. In 2015, we optimised Empty Runs by combining outbound traffic of finished goods with inbound shipments of raw materials. We also concentrated on accelerating fleet turnover, making the transportation process more efficient.

The most important tools for enhancing operational efficiency are logistics and dispatch control. Our own custom-built logistics centre provides automated logistics planning and optimal route calculations. In addition, through our 24/7 dispatching centre, clients can monitor cargo movements at every step in real time. The dispatching centre now coordinates the work of more than 40,000 gondola cars.

Total Russia's railcar fleet
By car type, end-2015 (thousand units)



Source: Railsovet, Company estimations

168.5bn tonnes-km

Group's overall Freight Rail Turnover in 2015

Operational Performance

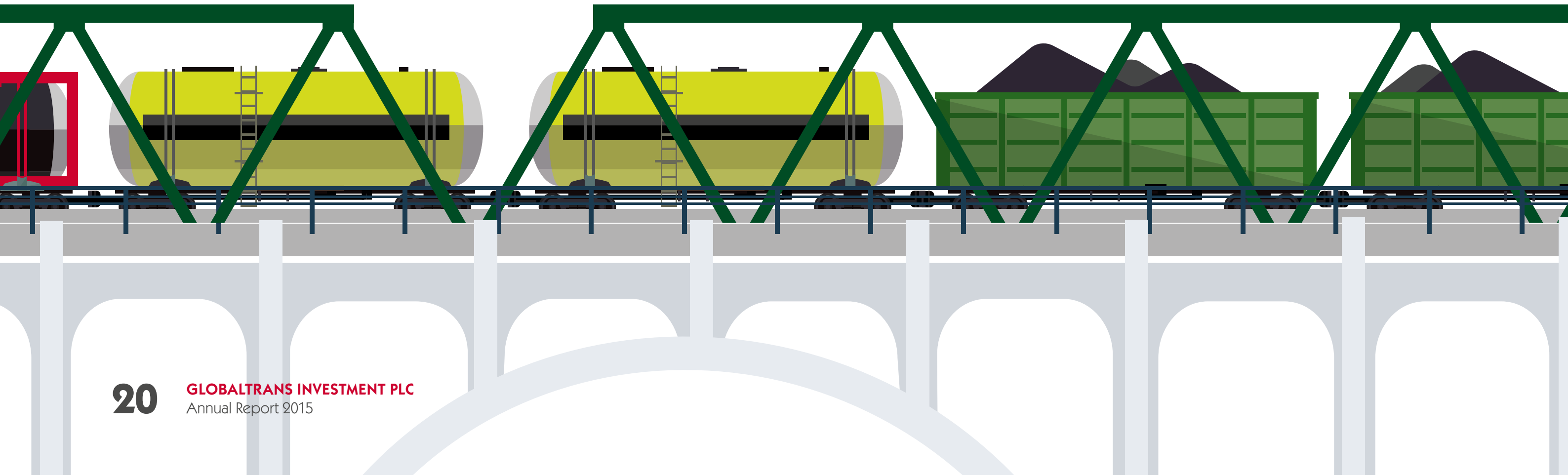
Leading the way with modern, efficient and service-oriented operations

In 2015, Globaltrans continued to outperform the market, primarily due to its modern fleet and efficient logistics, which represent an enduring competitive advantage.

Highlights of Globaltrans' freight rail transportation business, 2014-15

	2014	2015	Change
Freight Rail Turnover, billion tonnes-km (incl. Engaged Fleet)	159.7	**168.5**	6%
Transportation Volume, million tonnes (incl. Engaged Fleet)	102.7	**101.3**	-1%
Freight Rail Turnover, billion tonnes-km (excl. Engaged Fleet)	135.1	**146.4**	8%
Transportation Volume, million tonnes (excl. Engaged Fleet)	86.9	**90.1**	4%
Market Share, %	8.4%	**8.3%**	–
Average Price per Trip, RUB	26,804	**27,462**	2%
Average Rolling Stock Operated, units	53,813	**54,251**	1%
Average Distance of Loaded Trip, km	1,547	**1,620**	5%
Average Number of Loaded Trips per Railcar	25.4	**25.9**	2%
Total Empty Run Ratio, %	51%	**51%**	–
Empty Run Ratio for gondola cars, %	38%	**39%**	–
Share of Empty Run Kilometres Paid by Globaltrans, %	87%	**88%**	–

Source: Globaltrans



8.3%

Group's Market Share in 2015

25.9 trips

Average Number of Loaded Trips per Railcar (+2% year-on-year)

OPERATIONAL HIGHLIGHTS

- Continued market outperformance and business volume growth, with the Group's Freight Rail Turnover up 6% year-on-year to 168.5 billion tonnes-km, while overall Russian freight rail turnover remained relatively unchanged year-on-year.
- Market Share of overall Russian freight rail volumes remained stable at 8.3%.
- Solid average pricing, with the Average Price per Trip up 2% year-on-year. The Average Distance of Loaded Trip increased 5% year-on-year.
- Continued high operational efficiency, with the Empty Run Ratio for gondola cars at 39% (2014: 38%); the Total Empty Run Ratio was stable year-on-year at 51%. Improved railcar turnover, with the Average Number of Loaded Trips per railcar up 2% year-on-year.
- Total Fleet up 2% to 67,349 units, largely reflecting an increase in Leased-in Fleet.
- Long-term contracts with largest three clients (Rosneft, MMK and Metalloinvest) contributed 63% of the Group's Net Revenue from Operation of Rolling Stock in 2015. The service contract with Rosneft was renewed for a further five years[1].

CONTINUED MARKET OUTPERFORMANCE

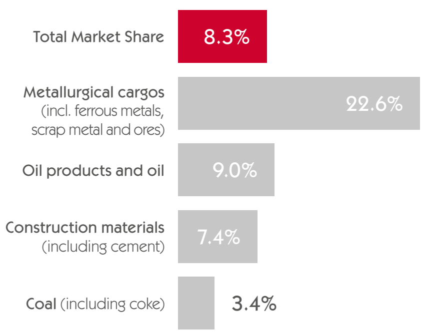
Despite the continuing weak economic environment, Globaltrans delivered a strong operational performance in 2015. The Group's Freight Rail Turnover grew by 6% year-on-year to 168.5 billion tonnes-km, outperforming the overall figure for Russia, which was almost unchanged from 2014.

Three key freight segments contributed to Globaltrans' solid Freight Rail Turnover performance: metallurgical cargos (up 6% year-on-year), coal (up 16% year-on-year) and construction materials (up 6% year-on-year).

In 2015, the Group transported 101.3 million tonnes of cargo, down 1% year-on-year.

The Group maintained its Market Share at 8.3% and had the strongest market positions in the metallurgical cargoes (22.6%) and oil products and oil (9.0%) segments.

Globaltrans' Market Share by cargo, 2015



Source: Globaltrans

1 As announced on 25 February 2016.

39%

Group's Empty Run Ratio for gondola cars in 2015

Operational Performance continued

+6%

Growth in Globaltrans' Freight Rail Turnover in 2015

+2%

Increase in the Group's Average Price per Trip in 2015

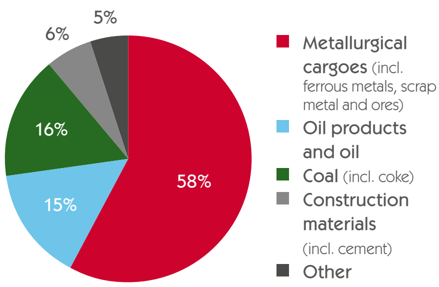
In 2015, Globaltrans' Freight Rail Turnover for metallurgical cargoes (including ferrous metals, scrap metal and ores) was 98.5 billion tonnes-km, up 6% year-on-year and representing 58% of the Group's overall Freight Rail Turnover. The two main drivers were ferrous metals (up 7% year-on-year) and iron ore (up 8% year-on-year). Metallurgical cargoes remain one of the target segments for the Group, as the logistics of steelmaking facilities naturally facilitate improvements in fleet efficiency and reduce Empty Runs (railcars delivering raw materials to clients can be turned around to ship finished goods from them).

Globaltrans' Freight Rail Turnover, 2014-15 (billion tonnes-km)

	2014	2015	Change
Metallurgical cargoes (incl. ferrous metals, scrap metal and ores)	92.8	**98.5**	6%
Oil products and oil	26.4	**25.7**	-3%
Coal (incl. coke)	22.5	**26.2**	16%
Construction materials (incl. cement)	9.8	**10.4**	6%
Other	8.1	**7.7**	-6%
Total	**159.7**	**168.5**	**6%**

Source: Globaltrans

Breakdown of Globaltrans' Freight Rail Turnover by cargo, 2015



Source: Globaltrans

Globaltrans' Freight Rail Turnover for oil products and oil amounted to 25.7 billion tonnes-km in 2015, down 3% year-on-year and accounting for 15% of the overall figure for the Group. In response to volatile demand, Globaltrans decreased the number of rail tank cars leased and engaged, reducing the average number of rail tank cars in operation over the year.

In the coal segment (which includes coke), the Group delivered a solid performance in 2015, boosting its Freight Rail Turnover by 16% year-on-year to 26.2 billion tonnes-km. This segment accounted for 16% of the Group's overall Freight Rail Turnover.

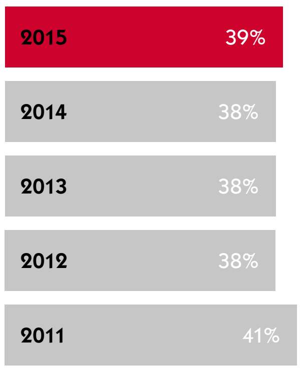
As for construction materials (including cement), its Freight Rail Turnover rose by 6% year-on-year to 10.4 billion tonnes-km, or 6% of the overall figure. Transporting construction materials helps the Group to optimise Empty Runs on inbound traffic.

In 2015, all of the Group's railcars were deployed, and the Average Rolling Stock Operated climbed by 1% year-on-year to 54,251 units. The Average Number of Loaded Trips grew by 2% year-on-year and the Average Distance of Loaded Trip by 5% year-on-year.

ONGOING HIGH OPERATIONAL EFFICIENCY

In 2015, Globaltrans continued to focus closely on efficient fleet management. Its Empty Run Ratio for gondola cars remained at a solid level of 39%, compared with 38% in 2014. The increase was primarily due to greater shipments of coal, a segment in which demand was strong in the year. The Group currently operates more than 40,000 gondola cars from a single 24/7 dispatching centre. The total Empty Run Ratio (for gondola cars, rail tank cars and others) stood stable year-on-year at 51% in 2015. The Share of Empty Kilometres Paid by Globaltrans amounted to 88% in 2015, versus 87% in 2014.

Globaltrans' Empty Run Ratio for gondola cars, 2011-15



Source: Globaltrans

9.5 years

Average age of the Group's Owned Fleet at end-2015

89%

Share of Owned Fleet in the Group's Total Fleet in 2015

SECURE CLIENT BASE

Building a sustainable client base has always been one of Globaltrans' top priorities. Most of its clients are blue-chip names and include leading metals and mining companies, such as Metalloinvest, MMK, Severstal, TMK and SUEK, and prominent oil producers like Rosneft and Gazpromneft.

Globaltrans' extensive expertise and operational excellence are reflected in its solid partnerships with clients. Thanks to its unique ability to tackle complex logistics, the Group has been recognised as a highly efficient and reliable industry leader.

Breakdown of Globaltrans' Net Revenue from Operation of Rolling Stock by largest clients (including their affiliates and suppliers), 2014-15

	2014	2015
Rosneft	34%	**40%**
MMK	18%	**12%**
Metalloinvest	11%	**12%**
Gazpromneft	9%	**8%**
Evraz	4%	**4%**
Sovfracht	4%	**3%**
TMK	1%	**1%**
Severstal	1%	**1%**
SUEK	0.4%	**1%**
UGMK-Trans	1%	**2%**
Other (incl. small and medium enterprises)	16%	**17%**

Source: Globaltrans

Globaltrans works with numerous clients under long-term contracts, providing best-in-class services in the freight rail transportation industry. For instance, under the terms of the service contract with Metalloinvest, a leading global producer and supplier of hot briquetted iron and iron ore products and a regional producer of high-quality steel, the Group is responsible for all of the client's freight rail transportation needs. This contract was signed in 2012 and runs until the end of 2016.

In 2013, Globaltrans agreed on a long-term service contract with MMK, one of the world's largest steel producers and a leading Russian metals company, which was later extended to the end of February 2019. Under this contract, the Group is handling at least 70% of MMK's freight rail transportation needs.

Another major long-term client is Rosneft, a leading Russian oil company. After the reporting period, at the start of 2016, Rosneft agreed to continue working with Globaltrans for a further five years.

EXPANDED FLEET

In 2015, Globaltrans expanded its Total Fleet by 2%, primarily reflecting an increase in the number of railcars leased from third parties. At the year-end, the Group's Total Fleet stood at 67,349 units, consisting mainly of universal gondola cars (42,684 units, or 63% of the Total Fleet) and rail tank cars (22,822 units, or 34% of the Total Fleet). Globaltrans intends to maintain the appropriate commercial balance between its Owned Fleet (89% of the Total Fleet) and the Leased-in Fleet (11% of the Total Fleet).

Occasionally, the Group engages railcars from third parties for individual trips. At the end of 2015, the Group's Engaged Fleet consisted of about six thousand units.

Globaltrans has always considered the age and condition of its fleet as a key competitive advantage. Currently, the Group owns one of the most modern and largest fleets on the market, with an average age of 9.5 years at the end of 2015.

Globaltrans also operates one of the largest privately owned locomotive fleets in Russia's freight rail industry, with 75 units at the end of 2015. While OAO Russian Railways (RZD), a state monopoly, carries out the majority of locomotive traction, the Group actively employs its own locomotives to transport primarily oil products and oil in block trains. This service optimises delivery times and fleet utilisation and is in high demand among clients in the oil industry.

The Group's freight rail transportation business is well complemented by leasing operations. At the end of 2015, the Leased-out Fleet consisted of 9,958 units, primarily rail tank cars.

Globaltrans' Total Fleet by type of rolling stock, end-2015 (units)

	Owned	Leased-in	Total	% of total
Gondola cars	40,082	2,602	**42,684**	**63%**
Rail tank cars	18,573	4,249	**22,822**	**34%**
Other cars (incl. flat and hopper cars, etc)	1,451	317	**1,768**	**3%**
Locomotives	75	0	**75**	**0.1%**
Total	**60,181**	**7,168**	**67,349**	**100%**

Source: Globaltrans

Financial Review

"Despite the challenging market conditions, Globaltrans delivered solid financial results in 2015.

Revenue from main activity recovered, while strict cost control enabled the Group to partly offset the effect of inflation. One priority was further balance sheet strengthening through debt repayment, and a good level of Free Cash Flow enabled the Group to reduce Net Debt by more than 30%. At present, Globaltrans has one of the most comfortable levels of debt on the market, with a Net Debt to Adjusted EBITDA ratio of 1.0 times* as of the end of 2015. Based on the results, the Board of Directors proposed a substantial dividend covering both 2015 and 2014."

ALEXANDER SHENETS
Chief Financial Officer

FINANCIAL HIGHLIGHTS

- Net Revenue from Operation of Rolling Stock recovered, rising by 5% year-on-year to RUB 38,568 million* and demonstrating a solid performance. Adjusted Revenue increased by 1% year-on-year to RUB 42,176 million* in 2015, with the improvement in Net Revenue from Operation of Rolling Stock partly offset by decline in revenues from auxiliary operations.
- The increase in regulated RZD tariffs[1], general inflationary pressures and higher business volumes contributed to an 11% year-on-year rise in Total Operating Cash Costs.
- Adjusted EBITDA was RUB 15,538 million*, down 12% year-on-year due to intensified cost inflation. The Adjusted EBITDA Margin was 37%* (2014: 42%*).
- Good level of Free Cash Flow at RUB 9,614 million*, albeit down 19% compared with the previous year.
- Adjusted profit attributable to owners of the Company[2] was RUB 2,979 million*, down 32% year-on-year.
- Deleveraging accelerated, with Net Debt down 31% to RUB 16,255 million* as of the end of 2015. The Net Debt to Adjusted EBITDA ratio further improved to 1.0 times* (1.3 times* as of the end of 2014). The percentage of rouble-denominated debt increased to almost 100%.

1 The regulated RZD tariffs (including for the traction of empty railcars) increased 10% year-on-year from January 2015.
2 Adjusted profit attributable to owners of the Company for 2015 excludes the impact of the impairment of customer relationships related to the service contract with MMK in the amount of RUB 996 million. For 2014, it excludes the impact of the impairment of goodwill in the amount of RUB 5,828 million related to the acquisition of captive rail operators completed in 2012 and 2013.

RESULTS IN DETAIL

The following table provides the Group's key financial and operational information for the year ended 31 December 2015 and 2014.

EU IFRS financial information

	2014 RUB mln	2015 RUB mln	Change %
Revenue			
Including	68,700	**68,200**	-1%
Total revenue – operator's services	65,093	**65,421**	1%
Total revenue – operating lease	3,259	**2,408**	-26%
Total cost of sales, selling and marketing costs and administrative expenses	(57,326)	**(58,971)**	3%
Impairment of intangible assets	(5,828)	**(996)**	-83%
Operating profit	5,577	**8,549**	53%
Finance costs – net	(2,788)	**(2,945)**	6%
Profit before income tax	2,777	**5,550**	100%
Income tax	(2,206)	**(1,248)**	-43%
Profit for the year	571	**4,302**	653%
(Loss)/Profit attributable to:			
Owners of the Company	(1,416)	**1,983**	NM
Non-controlling interests	1,987	**2,319**	17%
Basic and diluted (losses)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	(7.92)	**11.09**	NM

	2014 RUB mln	2015 RUB mln	Change %
Cash generated from operations	18,854	**15,679**	-17%
Tax paid	(2,286)	**(1,322)**	-42%
Net cash from operating activities	16,568	**14,357**	-13%
Net cash used in investing activities	(1,042)	**(1,177)**	13%
Net cash used in financing activities	(14,815)	**(13,615)**	-8%

Non-GAAP financial information

	2014 RUB mln	2015 RUB mln	Change %
Adjusted Revenue	41,890*	**42,176***	1%
Including			
Net Revenue from Operation of Rolling Stock	36,661*	**38,568***	5%
Operating leasing of rolling stock	3,259	**2,408**	-26%
Net Revenue from Engaged Fleet	1,622*	**829***	-49%
Total Operating Cash Costs	24,152*	**26,749***	11%
Including			
Empty Run Cost	10,354*	**11,804***	14%
Repairs and maintenance	3,800	**4,196**	10%
Employee benefit expense	3,236	**3,466**	7%
Fuel and spare parts locomotives	1,403	**1,615**	15%
Operating lease rentals – rolling stock	1,249	**1,334**	7%
Adjusted EBITDA	17,560*	**15,538***	-12%
Adjusted EBITDA Margin, %	42%*	**37%***	–
Free Cash Flow	11,907*	**9,614***	-19%
Adjusted profit attributable to owners of the Company	4,412*	**2,979***	-32%

Debt profile

	As of 31 Dec 2014 RUB mln	As of 31 Dec 2015 RUB mln	Change %
Total debt	28,306	**20,359**	-28%
Cash and cash equivalents	4,648	**4,104**	-12%
Net Debt	23,658*	**16,255***	-31%
Net Debt to Adjusted EBITDA (times)	1.3*	**1.0***	–

Financial Review continued

REVENUE

The Group's Total revenue was RUB 68,200 million in 2015, down 1% year-on-year primarily reflecting a 1% year-on-year increase in the Group's Adjusted Revenue as well as a decrease in a "pass through" item "Services provided by other transportation organisations".

The following table provides details of Total revenue, broken down by revenue-generating activity, for the year ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln	Change %
Railway transportation – operators services (tariff borne by the Group)[3]	44,996	**46,731**	4%
Railway transportation – operators services (tariff borne by the client)	20,097	**18,689**	-7%
Railway transportation – freight forwarding	29	**24**	-16%
Operating leasing of rolling stock	3,259	**2,408**	-26%
Other	319	**347**	9%
Total revenue	**68,700**	**68,200**	**-1%**

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 being a part of Adjusted Revenue.

The Group's Adjusted Revenue was up 1% year-on-year to RUB 42,176 million* in 2015, primarily reflecting the 5% year-on-year increase in Net Revenue from Operation of Rolling Stock and a decline in revenues from auxiliary leasing and Engaged Fleet operations.

The following table provides details of Adjusted Revenue for the year ended 31 December 2015 and 2014 and its reconciliation to Total revenue.

	2014 RUB mln	2015 RUB mln	Change %
Total revenue	68,700	**68,200**	-1%
Minus "pass through" items			
Infrastructure and locomotive tariffs: loaded trips	23,251	**23,326**	0%
Services provided by other transportation organisations	3,560	**2,698**	-24%
Adjusted Revenue	**41,890***	**42,176***	**1%**

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 non-core business activities, including freight forwarding, repair and maintenance services provided to third parties, and other.

The following table provides a breakdown of Adjusted Revenue for the year ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln	Change %
Net Revenue from Operation of Rolling Stock	36,661*	**38,568***	5%
Operating leasing of rolling stock	3,259	**2,408**	-26%
Net Revenue from Engaged Fleet	1,622*	**829***	-49%
Railway transportation – freight forwarding	29	**24**	-16%
Other	319	**347**	9%
Adjusted Revenue	**41,890***	**42,176***	**1%**

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure describing the net revenue generated from freight rail transportation and is defined as "Total revenue – operator's services[4]" 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 91% of the Group's Adjusted Revenue in 2015.

3 Includes "Infrastructure and locomotive tariffs: loaded trips" for the year ended 31 December 2015 of RUB 23,326 million (2014: RUB 23,251 million) and "Services provided by other transportation organisations" of RUB 2,698 million (2014: RUB 3,560 million).

4 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)".

The following table provides Net Revenue from Operation of Rolling Stock for the year ended 31 December 2015 and 2014, and its reconciliation to Total revenue – operator's services.

	2014 RUB mln	2015 RUB mln	Change %
Total revenue – operator's services[4]	65,093	**65,421**	1%
Minus			
Infrastructure and locomotive tariffs: loaded trips	23,251	**23,326**	0%
Services provided by other transportation organisations	3,560	**2,698**	-24%
Net Revenue from Engaged Fleet	1,622*	**829***	-49%
Net Revenue from Operation of Rolling Stock	**36,661***	**38,568***	**5%**

The Group's Net Revenue from Operation of Rolling Stock increased 5% year-on-year to RUB 38,568 million* in 2015. The key factors that contributed to this performance included:

- Solid average pricing with Average Price per Trip up 2% year-on-year to RUB 27,462; and
- Average Number of Loaded Trips per Railcar was up 2% year-on-year to 25.9 trips in 2015 on the back of improved railcar turnover and changed logistics (Average Distance of Loaded Trips rose 5% year-on-year to 1,620 km).

Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock, which contributed 6% of the Group's Adjusted Revenue in 2015, declined 26% year-on-year to RUB 2,408 million, primarily reflecting a combination of the decline in the leasing rates and a lower average number of rolling stock leased-out during the year.

Net Revenue from Engaged Fleet

Net Revenue from Engaged Fleet 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").

Net Revenue from Engaged Fleet, comprising 2% of the Group's Adjusted Revenue in 2015, decreased 49% year-on-year to RUB 829 million* in 2015. This was primarily driven by the decrease in the number of Engaged Fleet as the Group partly substituted Engaged Fleet with Leased-in Fleet as well as a decline in pricing terms over the year.

As of the end of 2015, the Group engaged about 6 thousand units of rolling stock from third parties to meet demand under service contracts not covered by Owned and Leased-in Fleets.

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 year ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln	Change %
Cost of sales	52,789	**54,428**	3%
Selling and marketing costs	334	**295**	-12%
Administrative expenses	4,202	**4,248**	1%
Total cost of sales, selling and marketing costs and administrative expenses	**57,326**	**58,971**	**3%**

In 2015, the Group's Total cost of sales, selling and marketing costs and administrative expenses rose 3% year-on-year to RUB 58,971 million, largely reflecting the factors described below.

- "Pass through" cost items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations") were down 3% year-on-year to RUB 26,024 million*;
- The Group's Cost of sales, selling and marketing costs and administrative expenses adjusted for the "pass-through" cost items increased 8% year-on-year to RUB 32,947 million* in 2015, which reflected:
  - The 11% year-on-year increase in Total Operating Cash Costs to RUB 26,749 million*, reflecting primarily growth in the business volumes (the Group's Freight Rail Turnover excluding Engaged Fleet was up 8% year-on-year) as well as general inflation pressure, in particular a 10% year-on-year increase in regulated RZD tariffs (including for the traction of empty railcars); and
  - Total Operating Non-Cash Costs that were down 3% year-on-year to RUB 6,198 million* in 2015.

Financial Review continued

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:

	2014 RUB mln	2015 RUB mln	Change %
"Pass through" cost items	**26,810***	**26,024***	**-3%**
Infrastructure and locomotive tariffs: loaded trips	23,251	**23,326**	0%
Services provided by other transportation organisations	3,560	**2,698**	-24%
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**30,515***	**32,947***	**8%**
Total Operating Cash Costs	**24,152***	**26,749***	**11%**
Empty Run Costs	10,354*	**11,804***	14%
Repairs and maintenance	3,800	**4,196**	10%
Employee benefit expense	3,236	**3,466**	7%
Fuel and spare parts – locomotives	1,403	**1,615**	15%
Operating lease rentals – rolling stock	1,249	**1,334**	7%
Infrastructure and Locomotive Tariffs – Other Tariffs	1,018*	**1,318***	29%
Engagement of locomotive crews	468	**516**	10%
Other Operating Cash Costs	2,624*	**2,500***	-5%
Total Operating Non-Cash Costs	**6,363***	**6,198***	**-3%**
Depreciation of property, plant and equipment	5,085	**4,879**	-4%
Amortisation of intangible assets	1,079	**1,078**	0%
Impairment charge for receivables	178	**119**	-33%
Impairment of property, plant and equipment	0.2	**141**	NM
Net loss/(profit) on sale of property, plant and equipment	22	**(20)**	NM
Total cost of sales, selling and marketing costs and administrative expenses	**57,326**	**58,971**	**3%**

"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[5] and is reflected in equal amounts in both the Group's Total revenue and Cost of sales. This cost item stood unchanged year-on-year at RUB 23,326 million in 2015 (2014: RUB 23,251 million).

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. This cost item includes tariffs that the Group pays to third-party rail operators for subcontracting their rolling stock (Engaged Fleet), which are reflected equally in both the Group's Total revenue and Cost of sales.

Services provided by other transportation organisations were down 24% year-on-year to RUB 2,698 million in 2015, primarily driven by a reduction in the number of Engaged Fleet as the Group partly substituted Engaged Fleet with Leased-in Fleet.

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 11% year-on-year to RUB 26,749 million* in 2015. The combination of factors described below contributed to the change in Total Operating Cash Costs.

The following table provides a breakdown of the Total Operating Cash Costs for the year ended 31 December 2015 and 2014.

	2015 % of Total	2014 RUB mln	2015 RUB mln	Change %
Empty Run Costs	**44%**	10,354*	**11,804***	14%
Repairs and maintenance	**16%**	3,800	**4,196**	10%
Employee benefit expense	**13%**	3,236	**3,466**	7%
Fuel and spare parts – locomotives	**6%**	1,403	**1,615**	15%
Operating lease rentals – rolling stock	**5%**	1,249	**1,334**	7%
Infrastructure and Locomotive Tariffs – Other Tariffs	**5%**	1,018*	**1,318***	29%
Engagement of locomotive crews	**2%**	468	**516**	10%
Other Operating Cash Costs	**9%**	2,624*	**2,500***	-5%
Total Operating Cash Costs	**100%**	**24,152***	**26,749***	**11%**

5 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.

Empty Run Costs

Empty Run Costs (a non-GAAP financial measure) accounted for 44% of the Group's Total Operating Cash Costs in 2015. Empty Run Costs rose 14% year-on-year to RUB 11,804 million* in 2015, less than the combined increase in the regulated RZD tariffs and growth in the Group's Freight Rail Turnover (excluding Engaged Fleet). The increase was the result of a combination of the following factors:

- 10% year-on-year increase in the regulated RZD tariffs (including for the traction of empty railcars);
- Increase in the Group's business volumes with Freight Rail Turnover (excluding Engaged Fleet) up 8% year-on-year;
- Group's Total Empty Run Ratio stood unchanged year-on-year at 51% with an Empty Run Ratio for gondola cars that was slightly higher at 39% (2014: 38%) due to an increase in coal transportation, which logistically generally requires higher Empty Runs; and
- Share of Empty Run Kilometres paid by Globaltrans increased to 88% from 87% a year earlier.

Repairs and maintenance

Repairs and maintenance costs, which comprised 16% of the Group's Total Operating Cash Costs in 2015, increased 10% year-on-year to RUB 4,196 million. This reflected primarily an increase in the number of current repairs due to improved industry safety regulations coupled with the increase in costs related to the repair and maintenance of locomotives.

Employee benefit expense

Employee benefit expense, which accounted for 13% of the Group's Total Operating Cash Costs, rose 7% year-on-year to RUB 3,466 million in 2015, below the level of inflation. This reflected primarily a combination of an increase in termination benefits related primarily to corporate restructuring as well as a rise in social insurance costs. Employee benefit expense excluding termination benefits was up 2% year-on-year, largely driven by a 2% year-on-year decline in the headcount and a below-inflation rise in wages and salaries, combined with lower bonuses. The decline in headcount was achieved through the optimisation of administrative personnel which was down 12% year-on-year.

Fuel and spare parts – locomotives

Fuel and spare parts – locomotives expenses, comprising 6% of the Group's Total Operating Cash Costs, were RUB 1,615 million in 2015, 15% higher than in the previous year. The increase in this cost item primarily reflected the cost inflation in prices for fuel and machine oil as well as a rise in the number of block train runs[6] with owned locomotives.

Operating lease rentals – rolling stock

Operating lease rentals – rolling stock, which accounted for 5% of the Group's Total Operating Cash Costs in 2015, were up 7% to RUB 1,334 million compared with the previous year, reflecting primarily the increased average number of railcars leased-in from third parties which was partly offset by decreased leased-in rates.

Infrastructure and Locomotive Tariffs – Other Tariffs

Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure), which is presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of cost of sales reported under EU IFRS, accounted for 5% of the Group's Total Operating Cash Costs in 2015. This cost item includes the costs of relocation of rolling stock to and from maintenance, the transition of purchased rolling stock to its first place of commercial utilisation, and the relocation of rolling stock in and from lease operations as well as other expenses.

Infrastructure and Locomotive Tariffs – Other Tariffs was RUB 1,318 million* in 2015, an increase of 29% year-on-year, mainly reflecting a combination of the 10% year-on-year rise in the regulated RZD tariffs, the increase in the usage of RZD bank engines and number of block train runs[6] due to changed client logistics as well as an increase in relocation costs.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD (2% of the Group's Total Operating Cash Costs) were up 10% year-on-year to RUB 516 million in 2015, largely due to higher service volumes, reflecting the increase in the number of block train runs[6] with owned locomotives.

Other Operating Cash Costs

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

Other Operating Cash Costs, which comprised 9% of the Group's Total Operating Cash Costs, were down 5% to RUB 2,500 million* in 2015 compared with the previous year. The reduction in this cost item reflected a decrease in Taxes (other than income tax and value added taxes) which predominantly includes property tax, a decrease in Operating lease rentals – office, Information services and Other expenses.

Total Operating Non-Cash Costs

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

6 A block train consists of Group-operated rolling stock bound for one destination.

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The following table provides a breakdown of the Total Operating Non-Cash Costs for the year ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln	Change %
Depreciation of property, plant and equipment	5,085	**4,879**	-4%
Amortisation of intangible assets	1,079	**1,078**	0%
Impairment charge for receivables	178	**119**	-33%
Impairment of property, plant and equipment	0.2	**141**	NM
Net loss/(profit) on sale of property, plant and equipment	22	**(20)**	NM
Total Operating Non-Cash Costs	**6,363***	**6,198***	**-3%**

Total Operating Non-Cash Costs were down 3% year-on-year to RUB 6,198 million* in 2015, reflecting a combination of the following factors:

- Depreciation of property, plant and equipment decreased 4% year-on-year to RUB 4,879 million; and
- Impairment of property, plant and equipment increased to RUB 141 million compared with RUB 0.2 million in the previous year.

IMPAIRMENT OF INTANGIBLE ASSETS

As a result of an impairment assessment the Group recognised a full impairment of goodwill in the amount of RUB 5,828 million at the end of 2014, which related to the acquisitions of captive rail operators completed in 2012 and 2013 (the impairment primarily reflected the increased cost of capital in Russia, deterioration of economic conditions, as well as the continued weak pricing environment in the gondola car segment). No impairment was recognized in relation to customer relationships with Metalloinvest and MMK at the end of 2014.

As of the end of 2015, the Group recognised RUB 996 million as an impairment of intangible assets related to the customer relationships with MMK, which reflected deterioration in the general market and industry conditions. No impairment was recognised in relation to customer relationships with Metalloinvest as of the end of 2015.

ADJUSTED EBITDA (NON-GAAP FINANCIAL MEASURE)

The Group's Adjusted EBITDA in 2015 decreased 12% year-on-year to RUB 15,538 million*, primarily reflecting the factors described above. The Adjusted EBITDA Margin contracted to 37%* compared with 42%* in the previous year, on the back of a 1% year-on-year increase in Adjusted Revenue and 11% year-on-year increase in Total Operating Cash Costs.

The difference between EBITDA and Adjusted EBITDA arises primarily from "Net foreign exchange transaction gains/(losses) on borrowings and other liabilities" and "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets", which are eliminated from Adjusted EBITDA.

The following table provides detail on Adjusted EBITDA for the year ended 31 December 2015 and 2014, and its reconciliation to EBITDA and Profit for the year.

	2014 RUB mln	2015 RUB mln	Change %
Profit for the year	**571**	**4,302**	**653%**
Plus (Minus)			
Income tax expense	2,206	**1,248**	-43%
Finance costs – net	2,788	**2,945**	6%
Net foreign exchange transaction losses on borrowings and other liabilities	(431)	**(163)**	-62%
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	539	**(46)**	NM
Amortisation of intangible assets	1,079	**1,078**	0%
Depreciation of property, plant and equipment	5,085	**4,879**	-4%
Impairment of property, plant and equipment	0.2	**141**	NM
Impairment of intangible assets	5,828	**996**	-83%
EBITDA	**17,665***	**15,381***	**-13%**
Minus (Plus)			
Net foreign exchange transaction losses on borrowings and other liabilities	(431)	**(163)**	-62%
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	539	**(46)**	NM
Share of loss of associate	(12)	**(54)**	342%
Other gains – net	31	**86**	180%
Net (loss)/profit on sale of property, plant and equipment	(22)	**20**	NM
Adjusted EBITDA	**17,560***	**15,538***	**-12%**

FINANCE INCOME AND COSTS

The following table provides a breakdown of Finance income and costs for the year ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln	Change %
Included in finance costs:			
Borrowings from third parties	(16)	(2)	-86%
Bank borrowings	(1,923)	(2,758)	43%
Non-convertible bonds	(1,100)	(194)	-82%
Finance leases	(34)	(1)	-97%
Total interest expense	(3,073)	(2,955)	-4%
Other finance costs	(19)	(42)	114%
Total finance costs	**(3,093)**	**(2,996)**	**-3%**
Included in finance income:			
Loans receivables from third parties	1	5	393%
Bank balances	41	96	135%
Short term bank deposits	143	159	11%
Total interest income	185	260	41%
Other finance income	11	–	-100%
Total finance income	**196**	**260**	**32%**
Net foreign exchange transaction losses on borrowings and other liabilities	(431)	(163)	-62%
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	539	(46)	NM
Net foreign exchange transaction gains/(losses) from financing activities	**109**	**(209)**	**NM**
Net finance costs	**(2,788)**	**(2,945)**	**6%**

Total finance income

In 2015, the Group recorded total finance income of RUB 260 million, an increase of 32% year-on-year, largely reflecting a combination of the rise in interest rates on bank deposits and an increase in the total amount of bank deposits during the reporting year.

Total finance costs

Total finance costs were down 3% year-on-year to RUB 2,996 million in 2015, primarily reflecting the reduction of the Group's Total debt, which was partly offset by the increase in the Group's weighted average effective interest rate.

Net foreign exchange transaction gains/(losses) on financing activities

A decrease in Net foreign exchange transaction losses on borrowings and other liabilities in 2015 to RUB 163 million compared with RUB 431 million in the previous year reflects the increase in the proportion of rouble-denominated debt to almost 100% of the Group's debt as of 31 December 2015.

In 2015 the Group recorded Net foreign exchange transaction losses on cash and cash equivalents and other monetary assets of RUB 46 million compared with gain of RUB 539 million in the previous year. This was the result of the negative impact of foreign exchange volatility on the available cash and cash equivalents denominated in foreign currency in 2015.

PROFIT BEFORE INCOME TAX

The Group reported Profit before income tax of RUB 5,550 million in 2015, an increase of 100% compared with the previous year. This increase was driven by the 53% year-on-year increase in the Group's Operating profit to RUB 8,549 million largely reflecting the factors described above along with a decline in the impairment of intangible assets from RUB 5,828 million in 2014 (related to goodwill – the acquisition of captive rail operators completed in 2012 and 2013) to RUB 996 million in 2015 (related to customer relationships with MMK).

Profit before income tax (excluding the impact of impairment of intangible assets) was down 24% year-on-year to RUB 6,546 million* in 2015.

INCOME TAX EXPENSE

Income tax expense was down 43% year-on-year to RUB 1,248 million in 2015, largely reflecting the decline in the Group's Profit before income tax (excluding the impact of impairment of intangible assets) and a change in the weighted average effective tax rate used for 2015.

The weighted average effective tax rate for the year ended 31 December 2015 was 22.5% (2014: 79.4%). Excluding the impact of the impairment charge of goodwill which had no tax implications for the Group, the weighted average effective tax rate for the year ended 31 December 2014 was 25.6%. The decrease in the weighted average effective tax rate is due to certain reductions in the provision of withholding tax on intra-group dividends, which were lower in 2015 as compared with 2014 and also due to a change in the composition of the profitability of the Group arising from the Group entities operating in different tax jurisdictions.

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LIQUIDITY AND CAPITAL RESOURCES

In 2015, the Group's large scale capital expenditure (CAPEX) for expansion remained on hold and the Group's capital expenditure consisted primarily of maintenance CAPEX. 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 2014 as well as proceeds from borrowings.

The Group manages its liquidity based on expected cash flows. As at 31 December 2015, the Group had Net Working Capital of RUB 2,506 million*. Utilising its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to enable it to operate successfully.

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for the year ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln
Cash flows from operating activities	17,768	**15,701**
Changes in working capital:		
Inventories	(91)	**56**
Trade and other receivables	(424)	**1,449**
Trade and other payables	1,600	**(1,527)**
Cash generated from operations	18,854	**15,679**
Tax paid	(2,286)	**(1,322)**
Net cash from operating activities	**16,568**	**14,357**
Cash flows from investing activities		
Indemnification received	78	**–**
Loans granted to third parties	–	**(86)**
Loans repayments received from third parties	1	**20**
Purchases of property, plant and equipment	(1,532)	**(1,459)**
Purchases of intangible assets	(0.05)	**–**
Proceeds from disposal of property, plant and equipment	221	**93**
Interest received	190	**255**
Net cash used in investing activities	**(1,042)**	**(1,177)**
Cash flows from financing activities		
Net cash outflows from borrowings and financial leases[7]	(5,393)*	**(7,634)***
Acquisition of non-controlling interests	(2)	**–**
Proceeds from disposal of non-controlling interests	–	**(0.2)**
Interest paid	(3,129)	**(3,285)**
Dividends paid to Company's shareholders	(3,984)	**–**
Dividends paid to non-controlling interests	(2,307)	**(2,696)**
Net cash used in financing activities	**(14,815)**	**(13,614)**
Net increase/(decrease) in cash and cash equivalents	711	**(434)**
Exchange gains/(losses) on cash and cash equivalents	530	**(109)**
Cash, cash equivalents and bank overdrafts at beginning of the year	3,406	**4,648**
Cash, cash equivalents and bank overdrafts at the year end	**4,648**	**4,104**

Net cash from operating activities

Net cash generated from operating activities declined 13% year-on-year to RUB 14,357 million in 2015. This reflects the 12% year-on-year decrease in Cash flows from operating activities, primarily due to the factors described above, combined with stable working capital requirements in 2015 (compared with a working capital release of RUB 1,085 million in 2014), which was partly offset by lower Tax paid in 2015.

Net cash used in investing activities

Net cash used in investing activities remained low at RUB 1,177 million in 2015 (up 13% year-on-year), reflecting the continued low investment activity of the Group. The Purchases of property, plant and equipment largely consisted of maintenance CAPEX.

Net cash used in financing activities

Net cash used in financing activities was RUB 13,614 million in 2015, down 8% from the previous year. This was due to a combination of the following factors:

- Net cash outflows from borrowings and finance leases[7] were up 42% year-on-year to RUB 7,634 million* in 2015 illustrating the Group's preference for using cash for debt repayments during the reporting year;

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

- The 5% year-on-year increase in Interest paid to RUB 3,285 million in 2015, mainly reflecting the increase in the Group's weighted average effective interest rate;
- No dividend was paid in 2015 to the owners of the Company in respect of financial year 2014 compared with the RUB 3,984 million paid out in the previous year, in order to use cash flow for debt repayment due to the challenging borrowing environment that prevailed in the first half of 2015; and
- The payment of RUB 2,696 million in dividends to non-controlling interests in subsidiaries, compared with the RUB 2,307 million paid in the previous year.

CAPITAL EXPENDITURE

The Group's capital expenditure for the acquisition of rolling stock on an accrual basis was RUB 1,164 million in 2015, a decrease of 14% compared with RUB 1,354 million in the previous year. In both years, the Group's capital expenditure mainly constituted maintenance CAPEX. This low level of maintenance CAPEX demonstrates the relatively young age of the Group's Owned Fleet with an average age of 9.5 years as of 31 December 2015. As of the end of 2015, the net reduction in the Group's Owned Fleet was 444 units of rolling stock or 1% compared with the end of 2014, which largely constituted a write-off of 733 railcars, which had reached the end of their useful life and the acquisition of 289 railcars from the secondary market. The Group expects a write-off of around 300 units of rolling stock (or about 0.5% of the Group's Owned Fleet) by the end of 2016.

CAPITAL RESOURCES

In 2015, the Group continued to use cash for debt repayments. As of the end of 2015, the Group's financial indebtedness consisted of bank borrowings, finance lease liabilities and loans from third parties for an aggregate amount of RUB 20,359 million (including accrued interest of RUB 45 million*), down 28% compared with the end of 2014. The Group's Net Debt as of the end of 2015 was RUB 16,255 million*, a reduction of 31% from the level of Net Debt at the end of 2014.

The following table provides detail on the Group's financial indebtedness structure as of 31 December 2015 (including accrued interest of RUB 45 million*).

	As of 31 December 2015 RUB mln	% of Total
Bank borrowings	**20,335**	100%
Finance lease liabilities	**0.1**	0%
Loans from third parties	**24**	0%
Total	**20,359**	**100%**

The Group continued to deleverage with a ratio of Net Debt to Adjusted EBITDA at 1.0 times* as of the end of 2015 (31 December 2014: 1.3 times*). The currency structure of the Group's indebtedness was further improved with rouble-denominated borrowings accounting for almost 100% of the Group's debt portfolio as of the end of 2015, compared with 98% as of the end of 2014. The carrying amounts were denominated in the following currencies as of the end of 2015.

	As of 31 December 2015 RUB mln	% of Total
Russian rouble	**20,359**	100%
US dollar	**0.1**	0%
Total	**20,359**	**100%**

The weighted average effective interest rate rose to 12.0%* as of 31 December 2015 compared with 10.3%* as of the end of 2014 due to higher interest rates in the Russian financial market arising from the challenging borrowing environment that prevailed in the first half of 2015 albeit improved from 12.5%* as of the end of 30 June 2015. The share of borrowings with a fixed interest rate increased to 99%* at 31 December 2015 compared with 90%* at the end of 2014. The Group has a balanced maturity profile, supported by the Group's solid cash flow generation, available cash and cash equivalents, as well as undrawn credit facilities in the amount of RUB 4,576 million* as of 31 December 2015.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of RUB 45 million*) as of 31 December 2015.

	As of 31 December 2015 RUB mln
Q1 2016	**2,336***
Q2 2016	**2,496***
Q3 2016	**2,260***
Q4 2016	**2,203***
2017	**4,812***
2018-2020	**6,253***
Total	**20,359***
Free Cash Flow (2015)	**9,614***
Cash and cash equivalents	**4,104**
Undrawn credit facilities[8]	**4,576***

8 Excluding the unissued registered rouble-denominated exchange-traded bonds in the amount of RUB 15 billion.

Financial Review continued

RELATED PARTY TRANSACTIONS

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

Maple Valley Investments, Onyx Investments and Marigold Investments[9] are Company's shareholders with a direct shareholding as at 31 December 2014 and as at 31 December 2015 of 11.5% each.

As at 31 December 2014, Litten Investments Limited[10] and Goldriver Resources Limited[11], both controlled by the members of key management of the Company had a direct shareholding in the Company of 6.3% and 4.5% respectively. As from November 2015, Goldriver Resources Limited is no longer a related party to the Group.

As at 31 December 2015, 59% (31 December 2014: 54.5%) of the shares represent the free market-float of Global Depositary Receipts (GDRs) and ordinary shares held by investors not affiliated or associated with the Company (including ordinary shares and GDRs held by Goldriver Resources Limited). The remaining 0.2% (31 December 2014: 0.2%) of the shares of the Company are controlled by Directors and management of the Company.

The following table sets forth the summary of transactions, which were carried out with related parties for the years ended 31 December 2015 and 2014.

	2014 RUB mln	2015 RUB mln
Sales of services	1	**2**
Purchases of goods and services	242	**209**
Additions of property, plant and equipment	8	**22**
Profit on disposal of property, plant and equipment	1	**1**
Key management compensation[12]	669	**1,036**[13]

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

	2014 RUB mln	2015 RUB mln
Trade and other receivables	10	**8**
Prepayments	50	–
Trade payables	11	–
Advances	5	–
Accrued key management remuneration	276	**504**

The following table sets forth the Group's operating lease commitments under non-cancellable operating leases with related parties.

	2014 RUB mln	2015 RUB mln
Group as a lessee	91	–

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

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

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

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

12 Including key management salaries and other short-term employee benefits as well as share-based compensation.

13 Key management compensation for 2015 includes, among the other items, a long-term component of share-based compensation which calculated using the weighted average market quotations of the Global Depositary Receipts of the Group, and termination benefits and is also affected by the increase in the average rate of euro and US dollars to Russian rouble in 2015 related to the compensation paid by the Group to the members of the Board.

Principal risks and uncertainties

The Board has adopted a formal process to identify, evaluate and manage key risks and uncertainties. Using it, the Group systematically monitors and assesses risks that are critical to its performance and the delivery of its strategy. The risks that the Board of Directors considers to be significant are presented on the following pages. The order in which these risks are presented is not an indication of the probability of their occurrence or the magnitude of their potential effects. There may be additional risks not currently known to the Group, or that it believes are immaterial, which could also have an adverse effect on its business, financial condition, results of operations or future prospects and the trading price of the GDRs.

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

Risk	Risk description	Controls and mitigating factors
General economic situation and operating environment	The Group and its subsidiaries operate mainly in Russia, other emerging markets and Estonia. Emerging markets, such as Russia, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative risks. Moreover, the Group's business depends on the demand in the Russian freight rail transportation market, which in turn depends on certain key commodities 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 its growth prospects. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia and by Russia on other countries have had a negative impact on the Russian economy, resulted in a significant weakening of the Russian rouble, increased the cost of borrowing, made it harder to raise funding from international sources and had a negative impact on the freight rail transportation market and on the Group's business. The ongoing threat of further sanctions by the United States, the European Union and other countries and by Russia on other countries, and the continuation or escalation of turmoil in the region, could affect the Group's ability to conduct its business, increase the negative impact on the Russian economy and have a negative impact on the demand for key commodities in Russia. The threat of sanctions against the existing customers of the Group 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 by all 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. The Group has built an effective risk management system that includes risk controls and mitigation on all levels. Risk managers have direct access to the key management of the Group. A well-balanced fleet is one of the cornerstones of the Group's business model. The Group intends to continue to maintain a balance between universal gondola cars, adaptable to the demand for the transportation of particular bulk cargos, and rail tank cars, which are used for the transportation of oil products and oil. In addition, the Group has entered into long-term service contracts with several of its large clients. Management assessed the possible impairment of the Group's tangible and intangible assets by considering the current economic environment and outlook. The future economic and regulatory situation may differ from management's current expectations. 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

Globaltrans has developed a risk management system seeking to adhere to the highest international standards and designed to monitor, minimise and, where possible, eliminate threats to its business. Globaltrans reviews its risk management system comprehensively on a regular basis to ensure that it functions optimally.

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

Risk	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 the reform of the railway industry. Any unexpected changes to the regulatory environment of the Russian railway transportation market, or in other markets where the Group operates, could negatively impact the Group and its business. Government authorities have a significant influence over the functioning of the Russian freight rail market. A deterioration in the Group's direct or indirect relationship with government authorities at either the local or federal level could result in greater government scrutiny of the Group's business or less effective access to services dependant upon government authorities. In addition, the Group is dependent on the services (including maintenance and repairs), infrastructure and information provided by, and its relationship with, RZD, an entity controlled by the state. Although the Group has enjoyed a good relationship with RZD, there is no assurance it will always continue to do so in the future or that RZD will not increase its charges for such service provision and infrastructure use. Railway transportation regulations in countries bordering Russia may change, limiting the access of the Group's rolling stock on certain territories.	The management of the Group constantly monitors any 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. rolling stock repair services), which allows it to use private repair depots (including two in-house repair facilities) to ensure less dependence on RZD-owned depots providing railcar repair services, higher quality and to minimise costs. RZD continues to be 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 bound for the same direction) on some routes. The Group also continues to monitor market liberalisation reforms, to ensure that it will be able to take advantage of any opportunities when they arise. The Group seeks to minimise its exposure to adverse changes in RZD's regulated tariffs for usage of infrastructure and locomotive traction by providing that these changes are adequately passed on to the Group's customers where possible.
Growth strategies	Business growth can be constrained by a limited supply of long-term funding and/or an increase in the cost of borrowing as well as adverse market conditions. Moreover, the Group takes a conservative approach to investments, and any deterioration in market environment may negatively impact the profitability and payback period of investments into rolling stock, thus limiting the Group's ability to expand its business. In addition to pursuing organic growth strategies, the Group has expanded its operations through acquisitions in 2008, 2009, 2012 and 2013, 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 Group's growth opportunities.	Any valuation of an acquisition target is subject to review by external advisers, and fairness opinions are normally provided by recognised investment banks to the Board of Directors of the Group when a transaction is considered. Any acquisition of rolling stock is matched against the demand for railway transportation and the economically viable expected payback period for such investments. The Group deals with a number of rolling stock producers in Russia and CIS countries without placing too much reliance on any particular supplier.

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

Risk	Risk description	Controls and mitigating factors
Competition and customer concentration	The Russian rail transportation market is highly competitive as a result of further deregulation and railcar oversupply, while demand has been stagnating. The majority of the commercial fleet in Russia is no longer subject to tariff regulation, which leads to greater price competition for the Group. The risk of irrational supply of railcars on the market by railcar producers and/or irrational behaviour of Group's competitors may put additional pressure on the profitability of railway transportations and thus negatively impact the Group. The Group's customer base is characterised by significant concentration and is heavily dependent on a few large industrial groups and their suppliers, with its top 10 customers and their suppliers accounting for approximately 83% of the Group's Net Revenue from the Operation of Rolling Stock in 2015. While the Group has long-term contracts with several key customers, failure to extend and/or maintain the current service contracts may have a negative impact on the Group's performance and results of operations.	Globaltrans has significant competitive advantages that have enabled the Group to secure strong market positions and expand its market share. These advantages include its: (i) strong reputation for high-quality service and reliability; (ii) independent status; (iii) long-term partnership with customers; (iv) sophisticated operating capabilities; and (v) 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. About 63% of the Group's Net Revenue from the Operation of Rolling Stock in 2015 is covered by long-term service contracts with several large clients. Such service contracts provide additional stability and greater certainty as to transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.
Locomotive traction	The Group is dependent upon 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, there is a risk they will have lower utilisation. 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 of its clients because 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 licenses and respective permits from RZD. The Group regularly monitors the progress of the reform relating to continuing deregulation in locomotive traction. In addition, the Group's management actively participates in the development of the required regulation through various dedicated industrial organisations and partnerships.

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY

Risk	Risk description	Controls and mitigating factors
Infrastructure	The physical infrastructure owned and operated by RZD, particularly its rail network, but also the railway network and other physical infrastructure in Kazakhstan and Ukraine, largely dates back to Soviet times. In some cases, it has not been adequately maintained, which could negatively affect the condition of the Group's rolling stock, performance and business. RZD loaded tariffs for the use of the railway network and for the provision of locomotive services are regulated by the Federal Antimonopoly Service (FAS) and are in principal "pass through" for the Group and other private freight rail operators. Meanwhile, RZD tariffs for traction of empty railcars are in most cases a direct cost to the Group and other private freight rail operators. Significant upward changes in the regulated tariffs, whether as a result of annual indexation or changes in the tariff setting methodology, could have an adverse effect on the Group's business.	Practically all the Group's rolling stock is insured against damage. Moreover, as a freight carrier on the railway network, RZD bears full responsibility for third-party losses caused by accidents on the network. The Group monitors its rolling stock through its dispatch centre on a 24/7 basis and plans its routes accordingly to minimise the risks of disruption. The Group monitors the FAS initiatives with the aim of detecting possible changes in tariff-setting methodology and tries to reflect respective changes in the Group's contracts with its customers.

Risk Management continued

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY continued

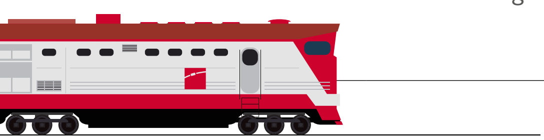
Risk	Risk description	Controls and mitigating factors
Operational performance	Rising inflation in Russia may increase the Group's costs, while the Group may have limited opportunities to its increase tariffs to customers.	One of the Group's key objectives is to increase the efficiency of its operations and to focus on control and reduction of costs. The Group permanently monitors its costs to maintain efficiency.
Employees	The Group's future success will partly depend on its ability to continue to attract, retain and motivate key employees and qualified personnel, in particular an experienced management team. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.	Adequate remuneration packages, which are in line with or in excess of market levels, are offered to all our employees and key management and remuneration is linked to the Group's financial results. The Group's Human Resource function regularly monitors salary levels and other benefits offered by our competitors to ensure that remuneration packages in the Group are adequate.
Customer satisfaction	Customers rely on the Group for the provision of high-quality freight rail transportation and other related services and expect the Group to be commercially responsive to their needs. These include timely pick-up and delivery of cargo and availability of rolling stock. The ability to meet customer expectations is often outside the direct control of the Group. Since the Group relies on RZD for locomotive traction and infrastructure usage, timely delivery of cargo is highly dependent on a third party whose own incentives may result in its performing in a manner that would be unsatisfactory to 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 the Group's key customers stay with the Group for many years. In addition, the Group serves several of its key clients on the basis of long-term contracts and has recently extended some of these contracts.
IT availability/ continuity	The Group uses specialised rail transport and logistics software to ensure the efficiency and effectiveness of the Group's logistics, dispatching and rolling stock tracking services. These systems are either licenced 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 security, cyber attacks and security of data.	Local IT specialists 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.

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY continued

Risk	Risk description	Controls and mitigating factors
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, and 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 of these events may reduce the Group's business volumes, cause idle time for the Group's rolling stock or disruptions to its operations in part or in whole, subject the Group to liability or impact its brand and reputation and may otherwise hinder normal operations. This could have a material adverse effect on the Group's business, results of operations or financial condition.	The Group's rolling stock is insured against damage, and the responsibility for third-party losses caused by accidents on the network lies with RZD. The Group permanently monitors any disruptive events and applies a Business Continuity Policy to: • ensure the safety of employees and human life; • maintain continuity of time-critical services; • minimise disruptions to clients and partners; and • minimise operational and financial impact and impact on reputation.

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

Risk	Risk description	Controls and mitigating factors
Pending and potential legal actions	The Group is being involved in material legal action from time to time. Some of it may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and might result in claims from different government authorities.	The Group runs its operations in compliance with tax, currency, labour, customs 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 a rigorous review by all of the Group functions concerned and a formal approval process prior to execution.
Fiscal risk	Local tax, currency and customs legislation, especially in Russia, other emerging markets and Cyprus, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation.	The Group has controls in place, including highly qualified and experienced personnel, to monitor changes in legislation and determine the appropriate treatment in order to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group retains external consultants.



Risk Management continued

FINANCIAL: RISKS THAT INFLUENCE THE GROUP'S FINANCIAL PERFORMANCE

Risk	Risk description	Controls and mitigating factors
Currency risks	Currently, the Group has a negligent share of borrowings and lease liabilities denominated in US dollars and does not have formal arrangements for hedging this foreign-exchange risk. The Group is therefore exposed to a limited extent to the effects of currency fluctuations between the US dollar and the Russian rouble. The Group is also exposed to the effects of currency fluctuations between the Russian rouble (the functional currency of the Group) and the euro (the functional currency of the Group's Estonian subsidiaries), and between the Russian rouble and the Ukrainian hryvnia (the functional currency of the Group's Ukrainian subsidiary).	A large proportion of the Group's revenues and expenses are denominated and settled in Russian rouble. 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 US dollar-denominated liabilities with long-term debt denominated in Russian rouble. Since 2008, the Group has taken action to mitigate currency risks and adjusted the profile of borrowings in the Group's credit portfolio. As of 31 December 2015, the Group had about 100% of its total debt denominated in Russian rouble.
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. The 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 the purchase of rolling stock and acquisition 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 is practicable by ensuring that the Group has financial liabilities with both floating and fixed interest rates. As of 31 December 2015, the proportion of total debt with a fixed interest rate amounted to 99%*. Management also considers alternative means of financing.
Credit risk	Financial assets that potentially subject the Group to credit risk consist principally of trade receivables, cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including its affiliates and suppliers. Its top 10 clients accounted for 63%* of the Group's trade and other receivables on 31 December 2015.	The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The majority of bank balances are held with independently rated banks with a minimum rating of "B".
Liquidity risk	The Group's business is capital-intensive. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia have had a negative impact on the Russian financial markets and limited the Group's access to international sources of funding. The lack of available funding from international and Russian sources and increases in market interest rates could have a negative impact on the Group's ability to obtain financing for the settlement of its liabilities or cash to meet its financial obligations.	The Group has a budgeting policy in place that allows the management to control current liquidity based on expected cash flows. These include, among others, operating cash flows, capital expenditure needs, funds borrowed from financial institutions and funds raised from listed debt instruments.

Committed to long-term sustainability

As a leading freight rail Group on Russia's rail network, a key part of national infrastructure, Globaltrans believes that it has a responsibility to contribute to the long-term sustainability of society. It does this by undertaking various corporate social responsibility initiatives, focusing its efforts in four key areas: employees, health and safety, charity work and environment.

EMPLOYEES

At Globaltrans, we believe that our people are our most important asset: every employee plays a vital role in our long-term success. As such, we strive to provide a working environment that is safe, positive and motivating, and we encourage an open dialogue within the Group. We also provide competitive salaries and benefit programmes that include medical insurance. Just as important as present conditions are future opportunities: for employees keen to develop their careers, we provide equipment and training to help them achieve their goals.

HEALTH AND SAFETY

The health and safety of employees is the number one priority at Globaltrans, and we continuously monitor and review conditions in the workplace, seeking to adhere to the high standards throughout. Education plays a central role in this process: the Group organises regular programmes designed to raise awareness among employees and instil and reinforce a 'safety-first' culture at its facilities. It also seeks to promote a healthy lifestyle among staff.

CHARITY WORK

Helping those in need is a central part of long-term sustainability. Globaltrans is actively involved in numerous charitable endeavours through donations and other support. Organisations that it has helped include the Life Line Fund, the Konstantin Khabensky Charitable Foundation and SOS Children's Villages, that work with seriously ill children and orphans. Through the Pochet Charity Fund, we have provided aid packages for war veterans and elderly people who worked in rail transportation segment. Alongside helping people, we seek to preserve cultural heritage by donating to restoration and other similar initiatives.

ENVIRONMENT

Equally vital to sustainability is the environment: it is the world in which we live and breathe. Globaltrans has devised an environmental policy based on general ethical standards and in line with state regulations in the area. Recognising the need to protect our surroundings, the Group strives to mitigate its environmental footprint where possible. It also seeks to promote 'green' practices and conserve natural resources: for example, by implementing specialised technologies and equipment.

Directors' Responsibility

Each of the Directors confirms that to the best of his or her knowledge the Strategic Report presented on pages 08 to 41 of this Annual Report includes a fair review of the development and performance of the business and the position of Globaltrans Investment PLC and the 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

Board of Directors

Providing leadership and strategy

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

Michael Zampelas became senior independent non-executive director of the Globaltrans Board in March 2008. Since 2013, he has been the chairman of the Board of Globaltrans and a member of both the Remuneration and Nomination committees.

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

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

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

Dr Johann Franz Durrer was appointed to the Board as an independent non-executive director in March 2008. He is chairman of the Remuneration and Nomination committees.

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

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

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

John Carroll Colley was appointed to the Board as an independent non-executive director in April 2013. He is chairman of the Audit Committee and has extensive experience in international trade and risk management within both the public and private sectors.

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

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

George Papaioannou
Independent non-executive Director

George Papaioannou joined the Board as an independent non-executive director in April 2013. He also serves on the Audit Committee.

Mr Papaioannou has more than 17 years' experience in financial reporting, risk management, auditing, financial performance analysis and taxation. In 2004, Mr Papaioannou founded G. Papaioannou Auditors Ltd, which provides accounting, audit, tax and consulting services. From 2002 to 2004, he worked at Grant Thornton in Cyprus and before that for PricewaterhouseCoopers.

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

Alexander Eliseev
Non-executive Director

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

Mr Eliseev co-founded Globaltrans and has been actively involved in reforming the Russian rail market by introducing market-based principles. He has spent more than 15 years in senior management positions, mostly in the rail sector. He is also the chairman of the Board of the New Forwarding Company, GTI Management, AS Spacecom and BaltTransServis, all subsidiaries of Globaltrans.

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

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

Elia Nicolaou joined the Board in March 2008 and serves as a non-executive director. She is the company secretary and a member of the Audit Committee.

Ms Nicolaou has extensive experience in commercial and corporate 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 sits on several boards of the Cyprus Chamber of Commerce.

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

Melina Pyrgou
Non-executive Director

Melina Pyrgou was appointed to the Board as a non-executive director in April 2013. She is a barrister and one of the three directors at Pyrgou Vakis Law Firm, a Cyprus-based corporate and commercial law practice serving Cypriot and international clients.

Ms Pyrgou has more than 24 years of experience in corporate law and litigation. From 2007 to 2008, she worked for PricewaterhouseCoopers in Cyprus as director of Legal Services. She had previously been a partner at Kinanis – Pyrgou and Co. From 1991 to 1994, she was an associate at G. Colokassides and Co and Lellos Demetriades and Co, mainly focusing on litigation.

Ms Pyrgou won a scholarship to study for a diploma in Environmental Law from the University of Geneva, and has a degree in Law and Sociology from the University of Keele. She was called to the Bar in Cyprus in 1992 and in London in 1995. She is a member of Gray's Inn.

Konstantin Shirokov
Executive Director, Head of Internal Audit Function

Konstantin Shirokov was appointed to the Board as an executive director in March 2008. He is the head of the Internal Audit function of Globaltrans.

Mr Shirokov has over 10 years' management experience in several major companies. Prior to joining Globaltrans, he worked in senior finance roles at Mechel and as an economist at Glencore International. He is also a non-executive member of the Board of Directors of Global Ports Investments PLC and sits on its Audit and Risk Committee.

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

Alexander Storozhev
Executive Director, Chief Procurement Officer

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

He is also currently a member of the boards of GTI Management, AS Spacecom, New Forwarding Company and BaltTransServis, all of which are Globaltrans subsidiaries. Since February 2015, he has been director of Investments and Business Development of New Forwarding Company.

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

Board of Directors continued

Alexander Tarasov
Non-executive Director

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

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

Michael Thomaides
Non-executive Director

Michael Thomaides was appointed to the Board as a non-executive director in April 2014.

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

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

Marios Tofaros
Non-executive Director

Marios Tofaros was appointed to the Board as a non-executive director in April 2013.

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

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

Sergey Tolmachev
Executive Director

Sergey Tolmachev was appointed to the Board as a non-executive director in April 2013 and as an executive director in October 2013. He has been the Group's managing director since October 2013.

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

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

Executive Management

Exceptional experience

Valery Shpakov
Chief Executive Officer

Mr 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.

Vladimir Prokofiev
Deputy Chief Executive Officer, CEO of BaltTransServis

Mr Prokofiev has served as CEO of BaltTransServis (a Globaltrans subsidiary) since 1999. With more than 40 years of experience in the rail sector, he is one of the industry's most experienced managers. He is a recipient of the "Honoured Railwayman of Russia" award.

Alexander Shenets
Chief Financial Officer

Having more than 12 years of experience in senior finance positions, mostly in the rail sector, Mr. Shenets has been the CFO of Globaltrans since the Group`s establishment. He holds an MBA from Lomonosov Moscow State University. He is a member of the boards of GTI Management, New Forwarding Company, BaltTransServis, AS Spacecom, Spacecom Trans and Ural Wagonrepair Company, all subsidiaries of Globaltrans.

Irina Alexandrova
Deputy Chief Executive Officer, CEO of GTI Management

Ms Alexandrova, the Group's Deputy CEO, has served as CEO of GTI Management (the Globaltrans subsidiary created through the recent merger of Sevtechnotrans and Ferrotrans) since September 2006. She has more than 15 years of management experience in the railway industry.

Vyacheslav Stanislavsky
Deputy Chief Executive Officer, Head of Operations

Mr Stanislavsky has worked for New Forwarding Company (a Globaltrans subsidiary) as Deputy General Director for Operations and Commerce since March 2010 and as First Deputy General Director since April 2011. He has more than 30 years of experience in the rail industry.

Alexander Storozhev
Chief Procurement Officer, Executive Director

Mr Storozhev joined the Board as an executive director in April 2013. He has worked in Globaltrans since its establishment and has held various senior railway management roles for over 20 years. He is also currently a member of the boards of GTI Management, AS Spacecom, New Forwarding Company and BaltTransServis, all of which are Globaltrans subsidiaries.

Roman Goncharov
Head of Treasury

Mr Goncharov has served as CFO of New Forwarding Company (a Globaltrans subsidiary) since 2007 and has over 12 years of management experience. His qualifications include an MBA from the Moscow International School of Business.

Corporate Governance

"As a company listed on the London Stock Exchange, and with a free float of more than 50%, Globaltrans is committed to maintaining international best practice in accountability and transparency. In 2015, the Group once again proved that its corporate governance system ensures the most thorough oversight, which is especially important in more challenging economic conditions."

MICHAEL ZAMPELAS
Chairman of the Board, Independent non-executive Director

Globaltrans seeks to adhere to the highest standards of corporate governance, and its listing on the main market of the London Stock Exchange (LSE) is confirmation of this. The Group has devised a governance system involving principles and policies that aim to protect the rights and interests of all stakeholders; promote its financial and economic interests; and return value to shareholders.

CORPORATE GOVERNANCE POLICIES

Alongside the abovementioned principles, Globaltrans has devised and introduced various policies to ensure an effective and transparent corporate governance framework. All employees are required to comply with them, and the management is ultimately responsible for ensuring that all departments follow them.

The policies include:

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

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

BOARD OF DIRECTORS

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

Board members possess extensive industry knowledge, expertise and experience in areas such as accounting, finance, business management and strategic planning. The Group recognises the need for an appropriate balance between executive and non-executive directors, together with the presence of independent directors, to represent the interests of all shareholders and to govern itself in the most effective and efficient way. It also believes that such a composition is critical to ensuring strong performance.

The Board meets regularly and its responsibilities include:

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

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

MEMBERSHIP OF THE BOARD OF DIRECTORS

The process for Board appointments is led by the Nomination Committee, and members of the Board of Directors are elected at the General Meeting.

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

The chairman is a non-executive director and was independent upon appointment, and overall there are four independent directors, including the chairman.

Consistent with the requirements of the UK Corporate Governance Code, Globaltrans separates the positions of chairman and CEO to ensure an appropriate segregation of roles and a clear division of responsibilities. Mr Michael Zampelas, the chairman and an independent non-executive director, oversees the leadership of the Board, ensuring its effectiveness and setting its agenda. Mr Valery Shpakov, the CEO, is responsible for the day-to-day management of the Group and for implementing the strategy laid down by the Board.

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

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

The directors' biographies are on pages 42-44.

In 2015, members of the Board of Directors held 11,479,515 shares and GDRs in Globaltrans.

Corporate Governance continued

COMMITTEES OF THE BOARD OF DIRECTORS

Globaltrans has established three committees to assist the Board and ensure transparency and impartiality in specific areas: the Audit Committee, Nomination Committee and Remuneration Committee. The chairperson of each committee is an independent director.

All committees are advisory bodies. The Board accepts that, while these committees have the authority to examine particular issues and report back with decisions and/or recommendations, the ultimate responsibility for all matters lies with the entire Board.

AUDIT COMMITTEE

Number of members	Three; two independent
Minimum meetings a year	Four
Members	John Carroll Colley (chairman), Elia Nicolaou and George Papaioannou
Responsibilities	- Integrity of the Group's financial statements; - Effectiveness of the Group's internal control and risk management systems; - Relationship with the Group's external auditors, including the audit process and reports; - Terms of the auditor's appointment and remuneration; - Implementation of codes of conduct; and - Efficiency of the chairman of the Board's performance.
Number of meetings in 2015	Seven
Issues considered in 2015	- Review of the Group's consolidated financial statements for 2014 and interim financial results for the six months ended 30 June 2015, including significant financial reporting judgements made by management. The committee recommended approval of the same to the Board; - Review of the external auditor's report to the Audit Committee following its full-year audit for 2014; - Consideration of independence of the external auditor; - Review of the terms of appointment of the Group's external auditor for 2015. The Committee recommended reappointment of the external auditors to the Board which, in turn, proposed their reappointment at the Annual General Meeting of the Group; - Review of the report of the external auditor on the audit strategy for 2014; - Review of regulatory announcements of a financial nature by the Group; - Review of internal control and risk management processes; - Approval of non-audit services to be provided to the Group by the external auditor; and - Review of the internal audit function and reports on its activities, and on the internal audit model and plan.

NOMINATION COMMITTEE

Number of members	Two; two independent
Minimum meetings a year	One
Members	Johann Franz Durrer (chairman), Michael Zampelas
Responsibilities	- Preparation of selection criteria and appointment procedures for Board members; - Regular review of the Board's structure, size and composition; - Future appointments regarding the Board's composition; and - Recommendations regarding the membership of the Audit and Remuneration committees.
Number of meetings in 2015	Two
Issues considered in 2015	- Composition of the Board; and - Advice to the Annual General Meeting on the appointment of Board members.

REMUNERATION COMMITTEE

Number of members	Two; two independent
Minimum meetings a year	One
Members	Johann Franz Durrer (chairman), Michael Zampelas
Responsibilities	- Amount of remuneration of executive directors (chairman and executive directors decide the remuneration for independent members); and - Review of the Group's remuneration policies.
Number of meetings in 2015	Two
Issues considered in 2015	- Board remuneration levels; - Key management remuneration plan; and - CEO's employment agreement.

EXTERNAL AUDITOR

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

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

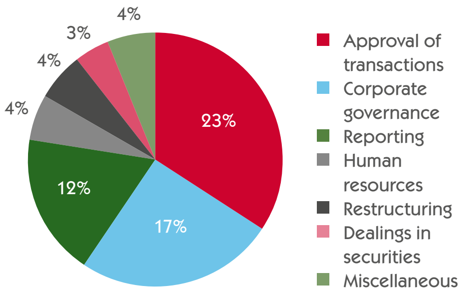
In 2015, the Committee carried out a review of the Group's auditor and it was decided to retain PricewaterhouseCoopers.

BOARD ACTIVITIES

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

The Board met 14 times during 2015 and considered 67 items.

Matters considered during Board meetings



Matters considered included the following:

Regular meetings

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

Ad-hoc meetings

- Approval of material borrowings and pledges by subsidiaries and dividend distribution by subsidiaries;
- Review and consideration of potential acquisitions and other business development opportunities;
- Review and approval of amendments to the Group's corporate structure aimed at transparency and streamlining the ownership of certain Russian subsidiaries;
- Approval of particular share transactions by Group shareholders (the Group has adopted a code of practice on dealings in securities, which, among other things, prescribes the members of the Board and executive management to request consent of the Board for any transfer of the Group's shares); and
- 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.

Corporate Governance continued

INTERNAL CONTROL AND AUDIT

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

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

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

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

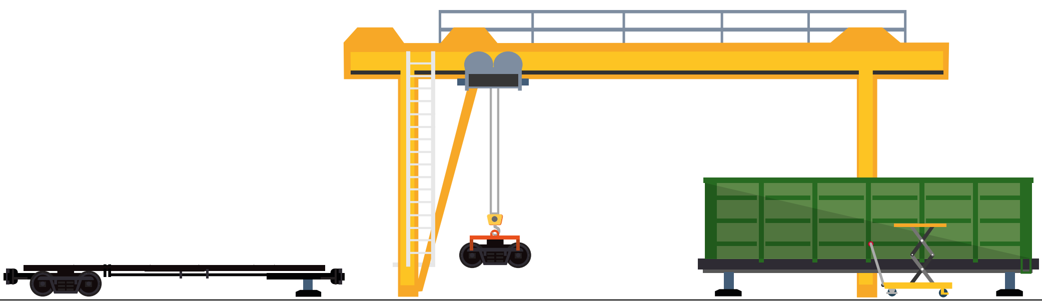
For details of the main risks facing the Group, please refer to the Risk Management section of this report and Note 3, "Financial risk management of the directors' report and consolidated financial statements", included in the Financial Statements section of this Annual Report.

REMUNERATION OF THE BOARD OF DIRECTORS AND MANAGEMENT

Directors serve on the Board under letters of appointment, which specify their terms of appointment and remuneration. Appointments are effective until the next Annual General Meeting. Levels of remuneration for non-executive directors reflect their time commitment, responsibilities and membership of any Board committees. Directors are also reimbursed for expenses associated with the discharge of their duties.

Non-executive directors are not eligible for bonuses, retirement benefits or participation in any incentive plans operated by the Group. The Group's shareholders approved the remuneration of Board members at the Annual General Meeting held on 27 April 2015. For details of remuneration paid to the Board and key members of management, please refer to Note 30d of the consolidated financial statements, included in the Financial Statements section of this Annual Report.

The total gross remuneration of the members of the Board of Directors incurred by the Company in 2015 amounted to RUB 162 million.



BOARD AND BOARD COMMITTEES MEETINGS IN 2015 AND THE ATTENDANCE OF DIRECTORS

	Board of Directors		Nomination Committee		Remuneration Committee		Audit Committee	
	E	A	E	A	E	A	E	A
Michael Zampelas	14	14	2	2	2	2	–	–
Johann Franz Durrer	14	14	2	2	2	2	–	–
Carroll Colley	14	14	–	–	–	–	7	7
George Papaioannou	14	14	–	–	–	–	7	7
Alexander Eliseev	14	12	–	–	–	–	–	–
Sergey Maltsev[1]	12	4	–	–	–	–	–	–
Andrey Gomon[2]	14	12	–	–	–	–	–	–
Melina Pyrgou	14	12	–	–	–	–	–	–
Konstantin Shirokov	14	14	–	–	–	–	–	–
Alexander Storozhev	14	11	–	–	–	–	–	–
Marios Tofaros	14	10	–	–	–	–	–	–
Elia Nicolaou	14	11	–	–	–	–	7	7
Sergey Tolmachev	14	14	–	–	–	–	–	–
Alexander Tarasov	14	10	–	–	–	–	–	–
Michael Thomaides	14	10	–	–	–	–	–	–

E - Number of meetings eligible to attend during the year.
A - Number of meetings attended.

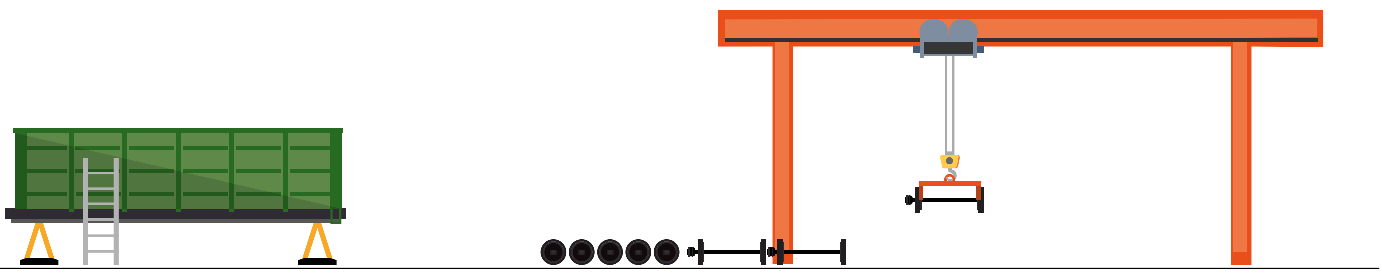
1 Resigned on the 6th of November 2015.
2 Resigned on the 18th of December 2015.

RELATIONS WITH SHAREHOLDERS

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

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

In 2015, Globaltrans held more than 400 individual meetings with investors.



Directors' Report and Consolidated Financial Statements
For the Year Ended 31 December 2015

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors and Other Officers

BOARD OF DIRECTORS

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

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

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

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

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

Mr Alexander Eliseev
Non-executive Director
Alternate Director: Ms Ekaterina Golubeva

Mr Marios Tofaros
Non-executive Director

Mr Sergey Tolmachev
Executive Director

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

Mr Konstantin Shirokov
Executive Director

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

Mr Michael Thomaides
Non-executive Director

Ms Melina Pyrgou
Non-executive Director

Mr Sergey Maltsev
Executive Director, Chief Executive Officer
Alternate Director: Mr. Artemis M. Thomaides (resigned 13 April 2015)
Resigned on 06 November 2015

Mr Andrey Gomon
Non-executive Director
Alternate Director: Ms. Melina Pyrgou
Resigned on 18 December 2015

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

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2015. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

PRINCIPAL ACTIVITIES

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

REVIEW OF DEVELOPMENTS, POSITION AND PERFORMANCE OF THE GROUP'S BUSINESS

The net profit of the Group for the year ended 31 December 2015 was RUB 4,301,887 thousand (2014: RUB 571,253 thousand). On 31 December 2015, the total assets of the Group were RUB 82,135,629 thousand (2014: RUB 89,118,734 thousand) and net assets were RUB 53,555,521 thousand (2014: RUB 50,136,380 thousand).

Globaltrans produced a solid overall financial performance in 2015. Nonetheless, the Group's financial results were affected by the deteriorating economic conditions, intensified inflation as well as the mixed pricing environment.

The Group was able to mitigate the worst effects of the sluggish market conditions, assisted by its long-term contracts and well-balanced fleet. Moreover, management continued to make disciplined decisions on capital allocation whilst pursuing cost improvement and productivity measures.

Taking into consideration the sluggish market conditions, management has assessed the recoverable amount of customer relationships, which are allocated to Russian gondola cars/operator's services cash generating unit, as described in Notes 4 and 13. As a result, the customer relationship with MMK Group, being part of intangible assets, was partially impaired as at 31 December 2015.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial risk management and critical accounting estimates and judgements are disclosed in Notes 3 and 4 to the consolidated financial statements.

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

The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Group.

FUTURE DEVELOPMENTS

Subject to the ongoing uncertainty of the Russian economy, 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 freight rail group in Russia.

RESULTS

The Group's results for the year are set out on pages 60 and 61. 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 GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Company expects to pay dividends in US dollars. If dividends are not paid in US dollars, except as otherwise described under "Terms and Conditions of the GDRs – Conversion of Foreign Currency", they will be converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

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

No interim dividends were declared by the Board of Directors during the years ended 31 December 2014 and 31 December 2015.

On the date of this report, the Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2015 in the amount of 12.41 Russian roubles per ordinary share, amounting to a total dividend of RUB 2,218,175 thousand to be paid in US dollars at the rate as at the date of Annual General Meeting.

SHARE CAPITAL

As at 31 December 2015, the issued share capital of the Company comprised 178,740,916 ordinary shares with a par value of USD 0.10 per share.

THE ROLE OF THE BOARD OF DIRECTORS

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

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

MEMBERS OF THE BOARD OF DIRECTORS

As at 31 December 2015, and at the date of this report, the Board comprises 13 members (2014: 15 members), 10 (2014: 10 members) of whom are non-executive directors (including the Chairman). Four of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2015 and at the date of this report are shown on pages 42 to 44. There were no significant changes in the assignment of responsibilities of the Board of Directors. The CEO of the Group, Mr Sergey Maltsev, resigned on 6 November 2015. Mr Valery Shpakov, who had been acting as interim CEO since 6 November 2015, was appointed as the new CEO of the Group on 30 March 2016.

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

The total gross remuneration of the members of the Board of Directors incurred by the Group in 2015 amounted to RUB 229,823 thousand (2014: RUB 116,172 thousand).

DIRECTORS' INTERESTS

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors of the Company as at 31 December 2015 and 31 December 2014 are shown below:

Name	Type of holding	2015	2014
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**11,318,909**	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	**n/a**	8,021,339
Johann Franz Durrer	Holding of GDRs	**160,606**	160,606

Total number of issued shares of the Company as at 31 December 2015 was 178,740,916 (31 December 2014: 178,740,916).

EVENTS AFTER THE BALANCE SHEET DATE

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

BOARD PERFORMANCE

The Board held 14 meetings in 2015. The Directors' attendance is presented in the table below.

	Eligible	Attended
Michael Zampelas	14	14
Johann Franz Durrer	14	14
John Carroll Colley	14	14
George Papaioannou	14	14
Alexander Eliseev	14	12
Sergey Maltsev	12	4
Andrey Gomon	14	12
Melina Pyrgou	14	12
Konstantin Shirokov	14	14
Alexander Storozhev	14	11
Marios Tofaros	14	10
Elia Nicolaou	14	11
Sergey Tolmachev	14	14
Alexander Tarasov	14	10
Michalakis Thomaides	14	10

Report of the Board of Directors continued

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 IAS. The IAS is responsible for testing the systems of risk management, internal control and corporate governance of the Group.

Nomination Committee

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

Remuneration Committee

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

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/

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 27 April 2015.

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

BRANCHES

The Group operates through branches and representative offices, maintaining eleven branches and eleven representative offices during 2015 (eleven branches and eleven representative offices during 2014).

TREASURY SHARES

In 2015, the Company did not own or acquire either directly or through a person in his or her own name, but on the Company's behalf, any of its own shares.

GOING CONCERN

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2016, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

AUDITORS

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

By Order of the Board

Sergey Tolmachev
Director
Limassol, 30 March 2016

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.

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 60 to 107) 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 2015 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; and
(iv) the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

By order of the Board

Sergey Tolmachev
Director

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS
We have audited the accompanying consolidated financial statements of Globaltrans Investment Plc (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements
The 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 is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, 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.

REPORT ON OTHER LEGAL REQUIREMENTS
Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

OTHER MATTER
This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 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.

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 30 March 2016

Consolidated Income Statement
For the Year Ended 31 December 2015

	Note	2015 RUB '000	2014 RUB '000
Revenue	5	**68,199,831**	68,700,394
Cost of sales	6	**(54,427,692)**	(52,789,268)
Gross profit		**13,772,139**	15,911,126
Selling and marketing costs	6	**(295,076)**	(334,218)
Administrative expenses	6	**(4,248,125)**	(4,202,172)
Impairment of intangible assets	13	**(996,160)**	(5,828,085)
Other income		**230,727**	–
Other gains – net	7	**85,717**	30,596
Operating profit		**8,549,222**	5,577,247
Finance income	9	**259,900**	196,293
Finance costs	9	**(2,996,197)**	(3,092,683)
Net foreign exchange transaction (losses)/gains on financing activities	9	**(209,129)**	108,579
Finance costs – net	9	**(2,945,426)**	(2,787,811)
Share of loss of associate	14	**(53,739)**	(12,164)
Profit before income tax		**5,550,057**	2,777,272
Income tax expense	10	**(1,248,170)**	(2,206,019)
Profit for the year		**4,301,887**	571,253
Profit/(loss) attributable to:			
Owners of the Company		**1,982,956**	(1,415,739)
Non-controlling interest		**2,318,931**	1,986,992
		4,301,887	571,253
Basic and diluted earnings/(losses) per share for profit/(loss) attributable to the equity holders of the Company during the year (expressed in RUB per share)	27	**11.09**	(7.92)

The notes on pages 66 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2015

	2015 RUB '000	2014 RUB '000
Profit for the year	**4,301,887**	571,253
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**1,172,174**	2,646,399
Items that may not subsequently reclassified to profit or loss		
Currency translation differences attributable to non-controlling interest	**697,904**	1,501,892
Other comprehensive income for the year, net of tax	**1,870,078**	4,148,291
Total comprehensive income for the year	**6,171,965**	4,719,544
Total comprehensive income attributable to:		
– owners of the Company	**3,155,130**	1,230,660
– non-controlling interest	**3,016,835**	3,488,884
	6,171,965	4,719,544

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 66 to 107 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet
At 31 December 2015

	Note	31 December 2015 RUB '000	31 December 2014 RUB '000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**69,288,960**	71,380,758
Intangible assets	13	**2,367,741**	4,442,396
Income tax assets		**49,207**	57,892
Trade and other receivables	19	**101,264**	32,233
Investment in associate	14	**65,497**	110,182
Total non-current assets		**71,872,669**	76,023,461
Current assets			
Inventories	20	**722,381**	735,694
Current income tax assets		**139,428**	1,010,322
Trade and other receivables	19	**5,297,072**	6,701,470
Cash and cash equivalents	21	**4,104,079**	4,647,787
Total current assets		**10,262,960**	13,095,273
Total assets		**82,135,629**	89,118,734
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	22	**516,957**	516,957
Share premium	22	**27,929,478**	27,929,478
Common control transaction reserve		**(10,429,876)**	(10,429,876)
Translation reserve		**4,569,396**	3,397,222
Capital contribution		**2,694,851**	2,694,851
Retained earnings		**21,090,196**	19,100,433
Total equity attributable to the owners of the Company		**46,371,002**	43,209,065
Non-controlling interest		**7,184,519**	6,927,315
Total equity		**53,555,521**	50,136,380
Non-current liabilities			
Borrowings	24	**11,064,576**	10,049,915
Trade and other payables	26	**61,053**	13,278
Deferred tax liabilities	25	**4,455,748**	5,207,410
Total non-current liabilities		**15,581,377**	15,270,603
Current liabilities			
Borrowings	24	**9,294,484**	18,256,223
Trade and other payables	26	**3,643,694**	5,245,646
Current tax liabilities		**60,553**	209,882
Total current liabilities		**12,998,731**	23,711,751
Total liabilities		**28,580,108**	38,982,354
Total equity and liabilities		**82,135,629**	89,118,734

On 30 March 2016, 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 66 to 107 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2015

		Attributable to the owners of the Company								
	Note	Share capital RUB '000	Share premium RUB '000	Common control transaction reserve RUB '000	Translation reserve RUB '000	Capital contribution RUB '000	Retained earnings RUB '000	Total RUB '000	Non-controlling interest RUB '000	Total RUB '000
Balance at 1 January 2014		**516,957**	**27,929,478**	**(10,429,876)**	**750,823**	**2,694,851**	**24,517,956**	**45,980,189**	**5,727,409**	**51,707,598**
Comprehensive income										
(Loss)/profit for the year		–	–	–	–	–	(1,415,739)	(1,415,739)	1,986,992	571,253
Other comprehensive income										
Currency translation differences		–	–	–	2,646,399	–	–	2,646,399	1,501,892	4,148,291
Total comprehensive income for 2014		–	–	–	2,646,399	–	(1,415,739)	1,230,660	3,488,884	4,719,544
Transactions with owners of the Company										
Dividends to owners of the Company	23	–	–	–	–	–	(3,981,615)	(3,981,615)	–	(3,981,615)
Dividends to non-controlling interest	23	–	–	–	–	–	–	–	(2,306,714)	(2,306,714)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	(3,981,615)	(3,981,615)	(2,306,714)	(6,288,329)
Acquisition of non-controlling interest	16	–	–	–	–	–	(20,169)	(20,169)	17,736	(2,433)
Total transactions with owners of the Company		**–**	**–**	**–**	**–**	**–**	**(4,001,784)**	**(4,001,784)**	**(2,288,978)**	**(6,290,762)**
Balance at 31 December 2014		**516,957**	**27,929,478**	**(10,429,876)**	**3,397,222**	**2,694,851**	**19,100,433**	**43,209,065**	**6,927,315**	**50,136,380**

Consolidated Statement of Changes in Equity continued
For the Year Ended 31 December 2015

		Attributable to the owners of the Company								
	Note	Share capital RUB '000	Share premium RUB '000	Common control transaction reserve RUB '000	Translation reserve RUB '000	Capital contribution RUB '000	Retained earnings RUB '000	Total RUB '000	Non-controlling interest RUB '000	Total RUB '000
Balance at 1 January 2015		**516,957**	**27,929,478**	**(10,429,876)**	**3,397,222**	**2,694,851**	**19,100,433**	**43,209,065**	**6,927,315**	**50,136,380**
Comprehensive income										
Profit for the year		–	–	–	–	–	1,982,956	1,982,956	2,318,931	4,301,887
Other comprehensive income										
Currency translation differences		–	–	–	1,172,174	–	–	1,172,174	697,904	1,870,078
Total comprehensive income for 2015		–	–	–	1,172,174	–	1,982,956	3,155,130	3,016,835	6,171,965
Transactions with owners of the Company										
Dividends to non-controlling interest	23	–	–	–	–	–	–	–	(2,753,022)	(2,753,022)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	–	–	(2,753,022)	(2,753,022)
Disposal of non-controlling interest	16	–	–	–	–	–	6,807	6,807	(6,609)	198
Total transactions with owners of the Company		**–**	**–**	**–**	**–**	**–**	**6,807**	**6,807**	**(2,759,631)**	**(2,752,824)**
Balance at 31 December 2015		**516,957**	**27,929,478**	**(10,429,876)**	**4,569,396**	**2,694,851**	**21,090,196**	**46,371,002**	**7,184,519**	**53,555,521**

The notes on pages 66 to 107 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement
For the Year Ended 31 December 2015

	Note	2015 RUB '000	2014 RUB '000
Cash flows from operating activities			
Profit before tax		**5,550,057**	2,777,272
Adjustments for:			
Depreciation of property, plant and equipment	12	**4,878,797**	5,084,746
Amortisation of intangible assets	13	**1,078,456**	1,078,644
(Profit)/loss on sale of property, plant and equipment	12	**(19,737)**	21,839
Impairment of property, plant and equipment	12	**140,734**	223
Impairment of receivables	6	**119,332**	177,519
Interest income	9	**(259,900)**	(184,956)
Interest expense	9	**2,996,197**	3,092,683
Other finance income	9	**–**	(11,337)
Other income		**(41,898)**	–
Share of profit of associates	14	**53,739**	12,164
Foreign exchange losses/(gains) on financing activities	11	**209,129**	(108,579)
Impairment of intangible assets	13	**996,160**	5,828,085
		15,701,066	17,768,303
Changes in working capital:			
Inventories		**56,049**	(90,651)
Trade and other receivables		**1,448,979**	(423,667)
Trade and other payables		**(1,526,698)**	1,599,638
Cash generated from operations		**15,679,396**	18,853,623
Tax paid		**(1,322,290)**	(2,285,626)
Net cash from operating activities		**14,357,106**	16,567,997
Cash flows from investing activities			
Indemnification received	28	**–**	78,400
Loans granted to third parties		**(86,057)**	–
Loans repayments received from third parties		**20,374**	1,332
Purchases of property, plant and equipment		**(1,458,987)**	(1,532,167)
Purchases of intangible assets	13	**–**	(49)
Proceeds from disposal of property, plant and equipment	12	**92,658**	220,724
Interest received		**254,978**	189,913
Net cash used in investing activities		**(1,177,034)**	(1,041,847)
Cash flows from financing activities			
Proceeds from borrowings		**15,018,939**	6,688,521
Repayments of borrowings		**(22,447,939)**	(10,494,675)
Acquisition of non-controlling interest	16	**–**	(2,433)
Proceeds from disposal of non-controlling interest	16	**198**	
Finance lease principal payments		**(204,635)**	(1,586,842)
Interest paid		**(3,284,554)**	(3,128,620)
Dividends paid to Company's shareholders	23	**–**	(3,983,892)
Dividends paid to non-controlling interests	23	**(2,696,490)**	(2,306,714)
Net cash used in financing activities		**(13,614,481)**	(14,814,655)
Net (decrease)/increase in cash and cash equivalents		**(434,409)**	711,495
Exchange (losses)/gains on cash and cash equivalents		**(109,299)**	529,989
Cash and cash equivalents at beginning of year	21	**4,647,787**	3,406,303
Cash and cash equivalents at end of year	21	**4,104,079**	4,647,787

PRINCIPAL NON-CASH INVESTING AND FINANCING TRANSACTIONS

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

The notes on pages 66 to 107 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Country of incorporation

The Company is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113 and converted into a public company on 15 April 2008. The address of its registered office is 20 Omirou Street, CY-3095 Limassol, Cyprus. The Group's principal place of business is at 16/15 Spartakovskaya Sqr., Moscow, Russia.

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 30 March 2016.

Global Depositary Receipts

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

Principal activities

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2015 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

(a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2015:

- IFRIC 21 – Levies. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group was not materially impacted by the application of this interpretation.
- Annual Improvements to IFRSs 2013. The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The application of these amendments did not have an impact on the Group's financial statements.

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

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

- **IFRS 9 "Financial Instruments: Classification and Measurement" *(issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:**
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be

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

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

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

- **Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 February 2015).** The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.
- **Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).** In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendment on its financial statements.
- **IFRS 15, Revenue from Contracts with Customers* (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016. EU endorsement has been postponed; awaiting IASB developments).** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

  Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its financial statements.

- **Disclosure Initiative Amendments to IAS 1 (issued in December 2015 and effective for annual periods on or after 1 January 2016).** The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group is currently assessing the impact of the amendments on its financial statements.

Notes to the Consolidated Financial Statements continued

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- **IFRS 16 "Leases" * (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.
- **Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 * (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.
- **Disclosure Initiative – Amendments to IAS 7 * (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements.

Basis of consolidation

(a) Subsidiaries

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

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

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

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

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

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiaries

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

(d) Associates

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

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

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

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

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

Segment reporting

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

Revenue recognition

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

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

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

(a) Revenue from railway transportation services

The Group operates the following services:

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

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

There are three types of operator's services:

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

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

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

The Group has a contractual relationship with the client to act as a legal intermediary for organising transportation services and pays transport fees on behalf of its clients. These fees, which are reimbursed by the Group's clients, are not included in revenues and cost of sales; they are recorded on the Group's transit accounts as reimbursements. In this service, the transportation is provided with the use of OAO "Russian Railways" rolling stock and the client is doing business with the OAO "Russian Railways" as the principal carrier. Consequently, only the Group's fees for intermediary activities are recognised as revenue. Receivables and liabilities that arise in the course of these activities are recognised as accounts receivable and accounts payable. Revenue is recognised in accordance with the stage of completion of the transaction.

Notes to the Consolidated Financial Statements continued

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(b) Revenues from leasing

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

(c) Revenues from sale of rail cars and locomotives

The Group may acquire rail cars and locomotives that are held for sale in the ordinary course of business.

Revenues are recognised when significant risks and rewards of ownership of the rail cars and locomotives have been transferred to the customer, which is usually the date of delivery.

No revenue is recognised when rail cars and locomotives are acquired and used in the supply of services and are subsequently disposed. Gains and losses on disposal are determined as explained in the accounting policy for property, plant and equipment and are recognised within operating profit.

(d) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(e) Dividend income

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

Foreign currency translation

(a) Functional and presentation currency

Items included in the Group's financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and majority of the Group's subsidiaries is the Russian rouble (RUB). The consolidated financial statements are presented in Russian roubles (RUB) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

(b) Transactions and balances

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

Up to 2014, the Group presented foreign exchange gains and losses that related to financial liabilities in the income statement within 'Finance costs' and foreign exchange gains and losses that related to cash and cash equivalents, loans and dividends receivable in the income statement within 'Finance income'. Management has considered this presentation and has decided to reflect the net foreign exchange differences arising from financial liabilities, cash and cash equivalents, loans and dividends receivable on the face of the income statement in the line "net foreign transaction (losses)/gains on financing activities", with the appropriate disclosure of the split presented in the note "Finance Income and Costs". The comparatives have also been amended to reflect this presentation.

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

(c) Group companies

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations including foreign exchange differences on long term loans receivable designated as part of the net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of or sold and control or significant influence is lost, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal. On partial disposal of a foreign operation, the proportionate share of the cumulative amount of the exchange differences recorded in equity relating to the amount disposed is reclassified in the income statement. The Group assesses whether there is a partial disposal of a foreign operation on the basis of the change in the Group's proportionate ownership interest in the foreign operation.

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

Property, plant and equipment

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

Land is not depreciated.

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

	Number of years, range
Buildings	30
Rolling stock (except locomotives)	15-32
Locomotives	9-25
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10

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

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

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

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

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

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

Intangible assets

(a) Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. The Group's goodwill as at 1 January 2014 was monitored at the Russian gondola cars/operator's services group of cash generating units.

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

(b) Customer relationships

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

(c) Computer software

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

Impairment of non-financial assets

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

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

Notes to the Consolidated Financial Statements continued

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

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

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

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

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

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

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

Inventories

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

Cash and cash equivalents

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

Cash flow statement

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

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

Trade receivables

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

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

Share capital, share premium and treasury shares

Ordinary shares are classified as equity.

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

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

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

Capital contribution

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

Trade payables

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

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

Provisions and contingent liabilities

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

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

Notes to the Consolidated Financial Statements continued

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

Borrowings

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

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

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

Borrowing costs

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

Financial guarantees

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

Current and deferred income tax

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

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

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

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

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

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

Russian Value Added Tax (VAT)

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

Employee benefits

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

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

Termination benefits

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

Share-based payment transactions

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

Dividend distribution

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

Prepayments

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

Comparatives

Up to 2014, the Group presented foreign exchange gains and losses that related to financial liabilities in the income statement within 'Finance costs' and foreign exchange gains and losses that related to cash and cash equivalents, loans and dividends receivable in the income statement within 'Finance income'. Management has considered this presentation and has decided to reflect the net foreign exchange differences arising from financial liabilities, cash and cash equivalents, loans and dividends receivable on the face of the income statement in the line "net foreign transaction (losses)/gains on financing activities", with the appropriate disclosure of the split presented in the note "Finance Income and Costs". The change has been applied retrospectively in line with IAS8 "Accounting Policies, Changes in accounting Estimates and Errors" and as a result the comparative financial information for the year ended 31 December 2014 has been amended to reflect this presentation.

The impact of this reclassification on the profit or loss financial statement lines for the year ended 31 December 2014 is summarised in the table below:

	As previously stated RUB '000	Reclassification RUB '000	As restated RUB '000
Finance costs	(3,523,555)	430,872	(3,092,683)
Finance income	735,744	(539,451)	196,293
Net foreign exchange transaction (losses)/gains on financing activities	–	108,579	108,579
Net finance costs	(2,787,811)	–	(2,787,811)

3. FINANCIAL RISK MANAGEMENT

Financial risk 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.

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

From the beginning of 2014, there has been increased volatility in currency markets and the Russian rouble has depreciated significantly against some major currencies, especially in the last quarter of 2014. As of end of December 2015, the Russian rouble has depreciated against the US dollar from 56.2584 as of 31 December 2014 to 72.8827 Russian roubles (29.6% devaluation).

Notes to the Consolidated Financial Statements continued

3. FINANCIAL RISK MANAGEMENT CONTINUED

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 carrying amounts of monetary assets and liabilities denominated in US dollars as at 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB '000	2014 RUB '000
Assets	**1,657,749**	1,658,965
Liabilities	**250,587**	760,331

Had the US dollar exchange rate strengthened/weakened by 30% against the Russian rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2015, would have increased/decreased by RUB 233,503 thousand (2014: 70% change, effect RUB 403,931 thousand) and equity would have increased/decreased by RUB 973,544 thousand (2014: 70% change, effect RUB 1,533,016 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US dollars for the Group entities with the Russian rouble being their functional currency. Profit was less sensitive to fluctuations of the exchange rate of the Russian rouble to the US dollar for the year ended 31 December 2015 compared with 2014 mainly due to the decrease of the proportion of US dollar-denominated borrowings as at the end of 2015 (Note 24) combined with the increase of the proportion of US dollar-denominated cash and cash equivalents as at the end of 2015 as well as changes in the US dollar-denominated intercompany loans. 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 the 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 2015, would have increased /decreased by RUB 11,221 thousand (2014: 15% change, effect (RUB 25,164 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US dollars for the Estonian subsidiaries of the Group. Profit was less sensitive to fluctuations of the exchange rate of the US dollar to the euro for the year ended 31 December 2015 compared with 2014 mainly due to the decrease of the proportion of US dollar-denominated borrowings as at the end of 2015 (Note 24).

Had the US dollar exchange rate strengthened/weakened by 30% against the Ukrainian hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged (2014: 70% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2015 would have decreased/increased by RUB 973,544 thousand (2014: 70% change, effect RUB 1,533,016 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US dollars for the Ukrainian subsidiary of the Group.

(b) Cash flow and fair value interest rate risk

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

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

Had Russian rouble and US dollar lease and credit interest rates shifted by 7% and 0.5% respectively (in the case of floating interest rates) as at 31 December 2014 and all other variables remained unchanged, the post-tax profit of the Group would have changed by RUB 393,438 thousand for the year ended 31 December 2014. As at 31 December 2015, the Group did not have any material Russian rouble and US dollar lease and credit facilities, respectively, at floating interest rates, therefore any reasonably possible change in market interest rates would not have any significant impact on the post-tax profit or equity of the Group.

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

(c) Credit risk

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

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

However, the Group's business is heavily dependent on a few large key customers, with the top ten customers accounting for 63.32% of the Group's trade and other receivables (excluding VAT receivable and prepayments) as at 31 December 2015 (2014: 69.58%).

These figures include trade and other receivables arising from business with related parties which account for Nil as at 31 December 2015 (2014: Nil).

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 2015 and 31 December 2014:

	Fully performing RUB '000	Past due RUB '000	Impaired RUB '000	Impairment provision RUB '000	Total RUB '000
As of 31 December 2015					
Trade receivables	1,480,550	1,055,122	367,909	(367,909)	**2,535,672**
Loans receivable	54,021	–	–	–	**54,021**
Other receivables	39,568	10,684	29,500	(29,500)	**50,252**
	1,574,139	1,065,806	397,409	(397,409)	**2,639,945**
As of 31 December 2014					
Trade receivables	1,873,701	853,612	315,345	(315,345)	**2,727,313**
Loans receivable	20,125	–	–	–	**20,125**
Other receivables	44,322	30,873	45,476	(45,476)	**75,195**
	1,938,148	884,485	360,821	(360,821)	**2,822,633**

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

Liquidity risk

The Group has an excess of current liabilities over current assets of RUB 2,735,771 thousand as at 31 December 2015 (2014: excess of current liabilities over current assets RUB 10,616,478 thousand).

The Group has predictable cash flows which allow the Group to repay its liabilities when they fall due. The Group also has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to RUB 19,576,000 thousand as of 31 December 2015 (2014: RUB 21,902,000 thousand), together with long-term borrowings (Note 24), the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2015 and 31 December 2014. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month RUB '000	Between one month and three months RUB '000	Between three and six months RUB '000	Less than one year RUB '000	Between 1 and 2 years RUB '000	Between 2 and 5 years RUB '000	Total RUB '000
31 December 2015							
Borrowings	1,401,966	1,474,411	3,021,186	5,301,266	5,879,524	7,035,751	**24,114,104**
Trade and other payables	675,707	17,225	62,800	11,681	–	–	**767,413**
	2,077,673	1,491,636	3,083,986	5,312,947	5,879,524	7,035,751	**24,881,517**
31 December 2014							
Borrowings	546,582	12,416,224	2,475,888	4,498,915	8,154,470	3,577,527	**31,669,606**
Trade and other payables	700,796	41,062	5,544	35,071	15,681	–	**798,154**
	1,247,378	12,457,286	2,481,432	4,533,986	8,170,151	3,577,527	**32,467,760**

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

(d) Capital risk management

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

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

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

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

Notes to the Consolidated Financial Statements continued

3. FINANCIAL RISK MANAGEMENT CONTINUED

The rate of borrowings to total capitalisation as at 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB '000	2014 RUB '000
Total borrowings	**20,359,060**	28,306,138
Total capitalisation	**66,730,062**	71,515,203
Total borrowings to total capitalisation ratio (percentage)	**30.51%**	39.58%

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to the Company and certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2015 and 2014. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(e) Fair value estimation

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

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

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

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

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

Liabilities carried at amortised cost. Fair values of borrowings and other liabilities were determined using valuation techniques. In 2014, the fair value of non-convertible unsecured bonds was based on quoted market prices.

As at 31 December 2015 and 31 December 2014, the estimated fair value of fixed and floating interest rate instruments with stated maturity denominated in a currency other than the Russian rouble was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value as at 31 December 2015 of fixed and floating interest rate instruments with stated maturity denominated in Russian roubles was estimated based on expected cash flows discounted using the rate of similar Russian rouble-denominated instruments entered into by the Group close to 31 December 2015. In the absence of similar Russian rouble-denominated instruments entered into by the Group close to 31 December 2014, due to the adverse fluctuation of interest rates, the fair value as at 31 December 2014 of fixed interest rate instruments with stated maturity denominated in Russian roubles was estimated based on expected cash flows discounted at an estimated rate of MosPrime[1] plus a margin. Such rate was management's best estimate of the interest rate it would achieve had it entered into a similar instrument as at the year end. The discount rates used ranged from 12.30% p.a. to 13.15 % p.a. (2014: 20.14% p.a. to 25.02% p.a.) depending on the length and currency of the liability (Note 24).

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

1 MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian rouble deposits.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

ii) Assessment of impairment of customer relationships

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

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

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

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

As a result of the impairment assessment of the customer relationship with MMK Group, an impairment charge of RUB 996,160 thousand was recognised during the year ended 31 December 2015 against the carrying amount of customer relationship with MMK Group.

The projections prepared are based on 6-year (2014: 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 16.36% has been applied for years 2016 and 2017 and 15.00% for years 2018 to 2021 (2014: 17% for years 2015 and 2016 and 15.75% for years 2017 to 2019).

Two of the main assumptions are transportation volumes and tariffs per trip which are the main components of revenue as well as cost drivers which are projected on 2015 actual results. These projected volumes reflect past experience and management's estimates. The transportation prices are estimated in accordance with the past performance of the Group and management's expectations of market development. The key assumptions thereon, are the estimated growth in the EBITDA margin during the projected period as well as the discount rate.

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

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

iii) Useful lives of customer relationships

The estimation of the useful lives of customer relationships arising on business combinations and included within intangible assets is a matter of judgment based on expectations of the duration of the relationship with the customers. As of 31 December 2015, the Group carries customer relationships with Metalloinvest and MMK Groups with a carrying amount of RUB 526,695 thousand and RUB 1,841,000 thousand respectively.

The contract with MMK Group was concluded in February 2013 for 5 years expiring in February 2018, and the contract with Metalloinvest Group was concluded in May 2012 for 3 years expiring in May 2015. In assessing the useful life of these customer relationships on initial recognition, management took the view that the cooperation with Metalloinvest and MMK Groups would not terminate after the expiry of the underlying contracts as the relationships are based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the customers. In view of these considerations, management estimated the useful economic lives of the customer relationships with Metalloinvest and MMK Group to be 5 and 7 years respectively on the initial acquisition of these customer relationships.

During 2014, the terms of the contracts with MMK and Metalloinvest Groups were prolonged for a further 1 year and 1.5 years to February 2019 and December 2016 respectively. Management has reassessed the useful economic life of the customer relationships as of 31 December 2015 and has concluded that despite the prolongation of the contracts, the remaining useful economic lives of the customer relationships remain reasonable in view of the current volatile market conditions.

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

Notes to the Consolidated Financial Statements continued

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

iv) Assessment of impairment of rolling stock

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

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

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

As a result of the impairment assessment, no impairment charges were noted in any of the CGUs of the Group tested. An impairment loss amounting to of RUB 140,734 thousand arising on 6 locomotives within the locomotives/operating leasing segment which are currently not in use and require substantial repair costs have been separately impaired. These locomotives were impaired to their scrap value, determined based on a fair value less cost to sell measurement. This measurement did not involve significant estimates.

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

Russian gondola cars/operator's services CGU

The recoverable amount for the Russian gondola cars/operator's services CGU amounting to RUB 54,475,000 thousand as of 31 December 2015 (2014: RUB 50,851,000 thousand) has been estimated based on value-in-use calculations and is sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this CGU. These calculations require use of estimates.

The value-in-use calculations for the Russian gondola cars/operator's services CGU were based on 7-year (2014: 7-year) post-tax cash flow projections and all the assumptions in relation to growth rates were determined by reference to management's past experience and industry forecasts. A 7-year period has been used in the value-in-use calculations in view of current volatile market and industry conditions. Cash flows beyond the seven-year period were extrapolated using the estimated growth rate stated below. The growth rate did not exceed the long-term average growth rate for the operator's business in which the CGUs operate. A terminal growth rate of 4% (2014: 4.1%) and discount rate of 16.36% for years 2016 and 2017 and 15% thereafter had been applied (2014: 17% for years 2015 and 2016 and 15.75% thereafter).

The main assumptions were price per trip growth rate and as well as revenue and cost drivers which are projected on 2015 actual results. The projected volumes reflect past experience and management's estimates. The transportation prices were estimated in accordance with the past performance of the Group and management's expectations of market developments. The key assumptions thereon, are the estimated growth in the EBITDA margin as well as the discount rate.

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

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

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

Estonian rail tank cars/operating leasing CGU

The recoverable amount of the Estonian rail tank cars/operating leasing CGU was determined based on a level 3 fair value less cost to sell and is sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this CGU.

The fair value less cost to sell was determined based on the prices quoted by major manufacturers of the specific rolling stock held by the Group, adjusted to take into account the age of each specific asset in the possession of the Group and expenses necessary to bring the assets to the location and condition that enables their current use, assessed by management as being their highest and best use.

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

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

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by RUB 23,325,581 thousand for the year ended 31 December 2015 (RUB 23,250,748 thousand for the year ended 31 December 2014).

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

The Group has contracts with several customers where under the legal form of these contracts the Group acts as an agent in respect of services provided by other transportation organisations and recharges such costs to its customers. Management believes that despite the legal form of the contracts the substance of the relationship with the customers is such that the Group acts as a principal, because the Group's customers do not interact with operators supplying the engaged fleet but have a contractual relationship with the Group, the Group has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Group bears the credit and price risk and controls the flow of receipts and payments. The Group accounts for full amounts of receipts from customers as revenue and the services provided by other operators are included in cost of sales. Had the services provided by other transportation organisations directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by RUB 1,239,295 thousand for the year ended 31 December 2015 (RUB 3,117,203 thousand for the year ended 31 December 2014).

ii) Intention for the distribution of dividends by subsidiaries

Withholding tax at the rate of 5% is applied to the dividends distributed by the Russian subsidiaries of the Group to the Company. In case the dividends are distributed by the Estonian subsidiaries the tax of 20% will be applied to gross amount of such distributions. Recognition of the provisions for such taxes by the Group is based on the management's intention for future dividend distribution by each respective subsidiary. Deferred income tax liabilities of RUB 3,531,476 thousand (2014: RUB 3,312,499 thousand) have not been recognised for the withholding taxes that would be payable in case unremitted earnings of certain subsidiaries are distributed to the Company in the form of dividends as it is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled RUB 28,382,638 thousand as at 31 December 2015 (2014: RUB 23,736,246 thousand).

5. SEGMENTAL INFORMATION

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

The Board considers the business from two perspectives: by type of activity and by type of rolling stock used. From a type of activity perspective, management reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective management assesses the performance of each type (gondola cars, rail tank cars, locomotives, hopper cars, platforms) at the level of adjusted revenue.

Adjusted revenue is the measure of profit looked at by the chief operating decision-maker and this includes the revenues derived from the relating type of rolling stock used less infrastructure 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 (excluding depreciation on wheel pairs) and amortisation charges for rolling stock and customer relationships respectively and impairment charges in respect of rolling stock, customer relationships and goodwill. All other information provided to the Board in relation to profit or loss items, other than adjusted revenue and depreciation, is measured in a manner consistent with that in the financial statements.

Segment assets consist of rolling stock, customer relationships and goodwill. Rolling stock reported to the Board does not include IFRS adjustments relating to component approach for wheel pairs. Unallocated assets comprise all the assets of the Group except for rolling stock, customer relationship and goodwill, as included within segment assets.

Liabilities are not segmented since they are not reviewed from that perspective by the chief operating decision maker.

The Board reviews additions to segment assets, which include rolling stock (excluding wheel pairs) and customer relationships and goodwill arising on business combinations.

Notes to the Consolidated Financial Statements continued

5. SEGMENTAL INFORMATION CONTINUED

The Group does not have transactions between different business segments.

	Gondola cars RUB '000	Rail tank cars RUB '000	All other segments RUB '000	Total RUB '000
Year ended 31 December 2015				
Total revenue – operator's services	32,236,615	31,618,300	1,565,967	65,420,882
Total revenue – operating lease	48,676	2,022,326	336,945	2,407,947
Revenue (from external customers)	32,285,291	33,640,626	1,902,912	67,828,829
less Infrastructure and locomotive tariffs – loaded trips	(12,610,946)	(10,152,542)	(562,093)	(23,325,581)
less Services provided by other transportation organisations	(2,454,112)	(152,842)	(91,534)	(2,698,488)
Adjusted revenue for reportable segments	**17,220,233**	**23,335,242**	**1,249,285**	**41,804,760**
Depreciation and amortisation	(4,112,575)	(1,032,233)	(214,160)	(5,358,968)
Impairment of customer relationships	(996,160)	–	–	(996,160)
Impairment of property, plant and equipment	–	–	(140,734)	(140,734)
Additions to non-current assets (included in reportable segment assets)	250,246	82,454	970	333,670
Reportable segment assets	44,878,676[2]	21,386,056	1,815,166	68,079,898

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

	Gondola cars RUB '000	Rail tank cars RUB '000	All other segments RUB '000	Total RUB '000
Year ended 31 December 2014				
Total revenue – operator's services	33,391,260	30,604,015	1,097,878	65,093,153
Total revenue – operating lease	95,919	2,752,666	410,751	3,259,336
Revenue (from external customers)	33,487,179	33,356,681	1,508,629	68,352,489
less Infrastructure and locomotive tariffs – loaded trips	(12,142,924)	(10,663,667)	(444,157)	(23,250,748)
less Services provided by other transportation organisations	(3,015,090)	(538,497)	(6,000)	(3,559,587)
Adjusted revenue for reportable segments	**18,329,165**	**22,154,517**	**1,058,472**	**41,542,154**
Depreciation and amortisation	(4,507,121)	(904,996)	(439,072)	(5,851,189)
Impairment of goodwill	(5,828,085)	–	–	(5,828,085)
Additions to non-current assets (included in reportable segment assets)	371,861	91,001	12,296	475,158
Reportable segment assets	50,278,599[3]	20,465,275	2,238,696	72,982,570

3 Includes RUB 4,442,080 thousand of intangible assets representing customer relationships.

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

	2015 RUB '000	2014 RUB '000
Adjusted revenue for reportable segments	**41,804,760**	41,542,154
Other revenues	**371,002**	347,905
Total adjusted revenue	**42,175,762**	**41,890,059**
Cost of sales (excl. Infrastructure and locomotive tariffs – loaded trips, services provided by other transportation organisations, impairments, depreciation of property, plant and equipment and amortisation of intangible assets)	**(22,361,029)**	(19,868,946)
Selling, marketing and administrative expenses (excl. depreciation, amortisation and impairments)	**(4,368,476)**	(4,305, 245)
Depreciation and amortisation	**(5,957,253)**	(6,163,390)
Impairment of goodwill	**–**	(5,828,085)
Impairment of customer relationships	**(996,160)**	–
Impairment charge for receivables	**(119,332)**	(177,519)
Impairment charge for property, plant and equipment	**(140,734)**	(223)
Other income	**230,727**	–
Other gains – net	**85,717**	30,596
Operating profit	**8,549,222**	**5,577,247**
Finance income	**259,900**	196,293
Finance costs	**(2,996,197)**	(3,092,683)
Net foreign exchange transaction (losses)/gains on financing activities	**(209,129)**	108,579
Share of loss of associate	**(53,739)**	(12,164)
Profit before income tax	**5,550,057**	**2,777,272**

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

	2015		2014	
	Assets RUB '000	Liabilities RUB '000	Assets RUB '000	Liabilities RUB '000
Segment assets/ liabilities	**68,079,898**		72,982,570	
Unallocated:				
Deferred tax	**–**	**4,455,748**	–	5,207,410
Income tax assets/liabilities	**188,635**	**60,553**	1,068,214	209,882
Investment in associate	**65,497**	**–**	110,182	–
Inventories	**722,381**	**–**	735,694	–
Intangible assets	**46**	**–**	316	–
Current borrowings	**–**	**9,294,484**	–	18,256,223
Non-current borrowings	**–**	**11,064,576**	–	10,049,915
Property, plant and equipment	**3,576,757**	**–**	2,840,268	–
Receivables	**5,398,336**	**–**	6,733,703	–
Payables	**–**	**3,704,747**	–	5,258,924
Cash and cash equivalents	**4,104,079**	**–**	4,647,787	–
Total	**82,135,629**	**28,580,108**	**89,118,734**	**38,982,354**

Geographic information

Revenues from external customers

	2015 RUB '000	2014 RUB '000
Revenue		
Russia	**66,547,569**	66,640,666
Estonia	**487,381**	1,091,297
Finland	**1,116,626**	897,875
Ukraine	**48,255**	70,556
	68,199,831	68,700,394

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:

	2015		2014	
	RUB '000	% revenue	RUB '000	% revenue
Revenue				
Customer A – rail tank cars segment	**19,501,505**	**29**	17,816,240	26
Customer B – gondola cars segment	**15,942,608**	**23**	13,938,612	21
Customer C – gondola cars segment	**8,875,465**	**13**	10,860,920	16

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

	2015 RUB '000	2014 RUB '000
Non-current assets		
Russia	**56,601,954**	62,077,740
Estonia	**14,262,612**	12,754,548
Ukraine	**949,946**	1,186,884
Cyprus	**9,070**	1,827
	71,823,582	76,020,999

Analysis of revenue by category:

	2015 RUB '000	2014 RUB '000
Railway transportation – operators services (tariff borne by the Group)	**46,731,431**	44,996,497
Railway transportation – operators services (tariff borne by the client)	**18,689,451**	20,096,656
Railway transportation – freight forwarding	**24,199**	28,681
Operating lease of rolling stock	**2,407,947**	3,259,336
Other	**346,803**	319,224
Total revenue	**68,199,831**	68,700,394

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 2015 amounting to RUB 23,325,581 thousand (for the year ended 31 December 2014: RUB 23,250,748 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to RUB 2,698,488 thousand (2014: RUB 3,559,587 thousand).

Notes to the Consolidated Financial Statements continued

6. EXPENSES BY NATURE

	2015 RUB '000	2014 RUB '000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**23,325,581**	23,250,748
Empty run trips and other tariffs	**13,121,826**	11,372,482
Services provided by other transportation organisations	**2,698,488**	3,559,587
Operating lease rentals – rolling stock	**1,333,561**	1,249,183
Employee benefit expense	**984,009**	879,538
Repairs and maintenance	**4,196,340**	3,800,368
Depreciation of property, plant and equipment	**4,823,635**	5,031,328
Amortisation of intangible assets	**1,078,225**	1,078,436
Fuel and spare parts – locomotives	**1,615,099**	1,402,774
Engagement of locomotive crews	**516,165**	467,994
(Profit)/loss on sale of property, plant and equipment	**(20,097)**	21,017
Impairment of property, plant and equipment	**140,734**	223
Other expenses	**614,126**	675,590
	54,427,692	52,789,268

	2015 RUB '000	2014 RUB '000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**55,162**	53,418
Amortisation of intangible assets	**231**	208
Loss on sale of property, plant and equipment	**360**	822
Employee benefit expense	**2,481,843**	2,356,252
Impairment charge of receivables	**119,332**	177,519
Operating lease rental – office	**229,380**	249,189
Auditors' remuneration	**69,334**	60,835
Legal, consulting and other professional fees	**100,941**	101,565
Advertising and promotion	**26,383**	25,079
Communication costs	**43,234**	48,328
Information services	**27,368**	45,623
Taxes (other than income tax and value added taxes)	**911,696**	951,072
Other expenses	**477,937**	466,480
	4,543,201	4,536,390

	2015 RUB '000	2014 RUB '000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**4,878,797**	5,084,746
Amortisation of intangible assets (Note 13)	**1,078,456**	1,078,644
Impairment of property, plant and equipment (Note 12)	**140,734**	223
Net (profit)/loss on sale of property, plant and equipment (Note 12)	**(19,737)**	21,839
Employee benefit expense (Note 8)	**3,465,852**	3,235,790
Impairment charge for receivables (Note 19)	**119,332**	177,519
Operating lease rentals – rolling stock	**1,333,561**	1,249,183
Operating lease rentals – office	**229,380**	249,189
Repairs and maintenance	**4,196,340**	3,800,368
Fuel and spare parts – locomotives	**1,615,099**	1,402,774
Engagement of locomotive crews	**516,165**	467,994
Infrastructure and locomotive tariffs:		
Loaded trips	**23,325,581**	23,250,748
Empty run trips and other tariffs	**13,121,826**	11,372,482
Services provided by other transportation organisations	**2,698,488**	3,559,587
Auditors' remuneration	**69,334**	60,835
Legal, consulting and other professional fees	**100,941**	101,565
Advertising and promotion	**26,383**	25,079
Communication costs	**43,234**	48,328
Information services	**27,368**	45,623
Taxes (other than income tax and value added taxes)	**911,696**	951,072
Other expenses	**1,092,063**	1,142,070
Total cost of sales, selling and marketing costs and administrative expenses	**58,970,893**	57,325,658

Note: The auditors' remuneration stated above includes fees of RUB 27,137 thousand (2014: RUB 13,875 thousand) for audit services charged by the Group's statutory audit firm. The rest of the auditors' remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company. Legal, consulting and other professional fees include RUB 627 thousand for the year 2015 (RUB 153 thousand for the year 2014) in relation to fees paid to the Company's statutory auditor for tax consultancy services.

7. OTHER GAINS – NET

	2015 RUB '000	2014 RUB '000
Other gains	**19,074**	47,862
Other losses	**(87,377)**	(29,373)
Net foreign exchange gains (Note 11)	**154,020**	12,107
Total other gains – net	**85,717**	30,596

8. EMPLOYEE BENEFIT EXPENSE

	2015 RUB '000	2014 RUB '000
Wages and salaries	**1,770,316**	1,648,625
Termination benefits	**163,978**	–
Bonuses	**880,009**	1,102,964
Share based payment expense (Note 15)	**79,847**	–
Social insurance costs	**571,702**	484,201
Total employee benefit expense	**3,465,852**	3,235,790

9. FINANCE INCOME AND COSTS

	2015 RUB '000	2014 RUB '000
Included in finance costs:		
Borrowings from third parties	**(2,161)**	(15,799)
Bank borrowings	**(2,757,671)**	(1,923,420)
Non-convertible bond	**(193,621)**	(1,099,531)
Finance leases	**(1,178)**	(34,493)
Total interest expense	**(2,954,631)**	(3,073,243)
Other finance costs	**(41,566)**	(19,440)
Total finance costs	**(2,996,197)**	(3,092,683)
Included in finance income:		
Loans receivables from third parties	**4,887**	992
Bank balances	**96,333**	40,919
Short term bank deposits	**158,680**	143,045
Total interest income	**259,900**	184,956
Other finance income	**–**	11,337
Total finance income	**259,900**	196,293
Net foreign exchange transaction losses on borrowings and other liabilities	**(162,986)**	(430,872)
Net foreign exchange transaction (losses)/gains on cash and cash equivalents and other monetary assets	**(46,143)**	539,451
Net foreign exchange transactions (losses)/gains from financing activities (Note 11)	**(209,129)**	108,579
Net finance costs	**(2,945,426)**	(2,787,811)

Notes to the Consolidated Financial Statements continued

10. INCOME TAX EXPENSE

	2015 RUB '000	2014 RUB '000
Current tax:		
Corporation tax	**1,804,832**	1,272,768
Withholding tax on dividends for which deferred tax had been recognised	**195,000**	407,500
Withholding tax on dividends for which no deferred tax was recognised	**–**	32,000
Total current tax	**1,999,832**	1,712,268
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**(680,314)**	496,878
Impact of change in intention for distribution of profits by subsidiary	**–**	(18,703)
Impact of merger of subsidiary	**(71,348)**	–
Impact of change in Ukrainian tax rate	**–**	15,576
Total deferred tax	**(751,662)**	493,751
Income tax expense	**1,248,170**	2,206,019

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

	2015 RUB '000	2014 RUB '000
Profit before tax	**5,550,057**	2,777,272
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,123,984**	1,412,985
Tax effects of:		
Expenses not deductible for tax purposes	**262,574**	478,569
Allowances and income not subject to tax	**(4,479)**	(14,597)
Tax effect of revaluation of deferred tax at current tax rates	**–**	15,576
Tax effect of tax losses for which no deferred tax asset was recognised/(Tax effect of utilisation of previously unrecognised tax losses)	**780**	(84,058)
Withholding tax on dividends for which no deferred tax was recognised	**–**	32,000
Derecognition of deferred tax asset previously recognised	**–**	206,544
Withholding taxes:		
Withholding tax incurred on distribution by Estonian subsidiary not previously provided for[4]	**110,088**	–
Dividend withholding tax provision (Note 25)	**(173,429)**	177,703
Impact of change in intention for distribution of profits by subsidiary on dividend withholding tax provision[5]	**–**	(18,703)
Impact of merger of subsidiary on dividend withholding tax provision (Note 25)[6]	**(71,348)**	–
Tax charge	**1,248,170**	2,206,019

4 Estonian tax law calls for profits to be taxed at the time of distribution and not during the year in which they are incurred. During the year, the Group incurred taxes on a non-recurring distribution from an Estonian subsidiary.

5 During the year ended 31 December 2014, following the merger of Ferrotrans OOO and Sevtekhnotrans OOO into GTI Management OOO, management reassessed their intention for distribution of dividends for this newly combined entity and concluded that it is no longer probable that dividend distributions in relation to prior period profits would be made out of this entity. Following this change in management's intention, deferred tax liability relating to withholding tax provision amounting to RUB 18,703 thousand was released to the income statement.

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

The weighted average effective tax rate for the year ended 31 December 2015 was 22.5% (2014: 79.4%). Excluding the impact of the impairment charge of goodwill which had no tax implications for the Group, the weighted average effective tax rate for the year ended 31 December 2014 was 25.6%. The decrease in the weighted average annual income tax rate is due to certain reduction in provision of withholding tax on intra-group dividends which were paid on smaller amount in 2015 as compared with 2014 and also due to a change in the composition of the profitability of the Group by group entities operating in different tax jurisdictions.

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

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

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

For subsidiaries in Estonia, the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 20% (until 31 December 2014: 21%) of net dividend paid. During the year ended 31 December 2015, the Group incurred a charge of RUB 110,088 thousand (2014: RUB Nil) as a result of distribution of dividends distributed by an Estonian subsidiary. This constituted a non-recurring distribution by an Estonian subsidiary of the Group for which no deferred tax liability had been recognised in the past. No provision has been made for any future distributions from Estonian subsidiaries as it is not considered probable that any future dividend distributions will be made by the Estonian subsidiaries out of their retained earnings as of 31 December 2015.

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 and to 16% from January 2016.

The revision of tax code effective from 1 January 2015 had the following effects in the Ukrainian subsidiary of the Group: (i) Provisions for doubtful accounts receivable are no longer tax deductible and (ii) amortisation of the financial assets and liabilities is not included in list of differences between tax and accounting profits. Management interpretation is that such amortisation will be fully deductible and no temporary difference arises for deferred tax calculation purposes.

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

11. NET FOREIGN EXCHANGE (LOSSES)/GAINS

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

	2015 RUB '000	2014 RUB '000
Finance income and costs (Note 9)	**(209,129)**	108,579
Other gains – net (Note 7)	**154,020**	12,107
	(55,109)	120,686

12. 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 2014					
Cost	88,206,436	303,499	168,402	770,667	89,449,004
Accumulated depreciation	(17,840,424)	(42,333)	(80,862)	(191,366)	(18,154,985)
Net book amount	**70,366,012**	**261,166**	**87,540**	**579,301**	**71,294,019**
Year ended 31 December 2014					
Opening net book amount	70,366,012	261,166	87,540	579,301	71,294,019
Additions	1,354,399	–	40,088	55,903	1,450,390
Disposals	(243,257)	–	(7,188)	(19,143)	(269,588)
Depreciation charge (Note 6)	(4,972,677)	(7,766)	(28,613)	(75,690)	(5,084,746)
Impairment charge (Note 6)	(223)	–	–	–	(223)
Transfer to inventories	(126,523)	–	–	–	(126,523)
Currency translation differences	4,073,222	4,011	6,101	34,095	4,117,429
Closing net book amount	**70,450,953**	**257,411**	**97,928**	**574,466**	**71,380,758**
At 31 December 2014					
Cost	93,861,283	314,076	204,501	838,921	95,218,781
Accumulated depreciation	(23,410,330)	(56,665)	(106,573)	(264,455)	(23,838,023)
Net book amount	**70,450,953**	**257,411**	**97,928**	**574,466**	**71,380,758**

Notes to the Consolidated Financial Statements continued

12. 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 2015					
Cost	93,861,283	314,076	204,501	838,921	95,218,781
Accumulated depreciation	(23,410,330)	(56,665)	(106,573)	(264,455)	(23,838,023)
Net book amount	**70,450,953**	**257,411**	**97,928**	**574,466**	**71,380,758**
Year ended 31 December 2015					
Opening net book amount	70,450,953	257,411	97,928	574,466	71,380,758
Additions	1,164,159	30,717	42,507	204,934	1,442,317
Disposals	(127,927)	–	(5,192)	(3,335)	(136,454)
Depreciation charge (Note 6)	(4,765,703)	(9,961)	(30,544)	(72,589)	(4,878,797)
Impairment charge (Notes 4 and 6)	(140,734)	–	–	–	(140,734)
Transfer to inventories	(162,095)	–	–	(45)	(162,140)
Currency translation differences	1,758,910	1,917	2,853	20,330	1,784,010
Closing net book amount	**68,177,563**	**280,084**	**107,552**	**723,761**	**69,288,960**
At 31 December 2015					
Cost	96,139,342	349,932	210,898	1,054,691	97,754,863
Accumulated depreciation	(27,961,779)	(69,848)	(103,346)	(330,930)	(28,465,903)
Net book amount	**68,177,563**	**280,084**	**107,552**	**723,761**	**69,288,960**

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

	2015 RUB '000	2014 RUB '000
Net book amount	**136,454**	269,588
Profit/(loss) on sale of property, plant and equipment (Note 6)	**19,737**	(21,839)
Consideration from sale of property, plant and equipment	**156,191**	247,749

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

	2015 RUB '000	2014 RUB '000
Cash consideration received within year	**92,658**	220,724
Movement in advances received in accounts payable for sales of property, plant and equipment	**63,533**	27,025
	156,191	247,749

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

	2015 RUB '000	2014 RUB '000
Cost – capitalised finance leases	**2,968,899**	3,269,958
Accumulated depreciation	**(497,063)**	(522,215)
	2,471,836	2,747,743

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

	2015 RUB '000	2014 RUB '000
Rolling stock[7]	**2,471,836**	2,747,743
	2,471,836	2,747,743

7 Property, plant and equipment that are leased under finance leases as at 31 December 2015 include rolling stock, with a net carrying amount of RUB 2,163,158 thousand, pledged under finance leases that have been substantially repaid by the Group as at 31 December 2015. The relevant pledges on the rolling stock under these finance leases has not been released as of 31 December 2015, however the Group has the unilateral right to request for release of the pledged rolling stock with immediate effect.

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

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

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

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

	2015 RUB '000	2014 RUB '000
Rolling stock	**33,793,041**	26,140,205

Depreciation expense of RUB 4,823,635 thousand in 2015 (2014: RUB 5,031,328 thousand) has been charged to "cost of sales" and RUB 55,162 thousand in 2015 (2014: RUB 53,418 thousand) has been charged to "selling, marketing and administrative expenses". Impairment charge of RUB 140,734 thousand in 2015 (2014: 223 thousand) has been charged to "cost of sales".

13. INTANGIBLE ASSETS

	Goodwill RUB '000	Computer software RUB '000	Customer relationships RUB '000	Total RUB '000
At 1 January 2014				
Cost	5,828,085	17,477	6,780,826	12,626,388
Accumulated amortisation and impairment	–	(16,796)	(1,260,516)	(1,277,312)
Net book amount	**5,828,085**	**681**	**5,520,310**	**11,349,076**
Year ended 31 December 2014				
Opening net book amount	5,828,085	681	5,520,310	11,349,076
Amortisation charge (Note 6)	–	(414)	(1,078,230)	(1,078,644)
Additions	–	49	–	49
Impairment charge (1)	(5,828,085)	–	–	(5,828,085)
Closing net book amount	–	316	4,442,080	4,442,396
At 31 December 2014				
Cost	5,828,085	1,749	6,780,785	12,610,619
Accumulated amortisation and impairment	(5,828,085)	(1,433)	(2,338,705)	(8,168,223)
Net book amount	**–**	**316**	**4,442,080**	**4,442,396**
Year ended 31 December 2015				
Opening net book amount	–	316	4,442,080	4,442,396
Amortisation charge (Note 6)	–	(231)	(1,078,225)	(1,078,456)
Impairment charge (Note 4)	–	–	(996,160)	(996,160)
Write–off	–	(39)	–	(39)
Closing net book amount	–	46	2,367,695	2,367,741
At 31 December 2015				
Cost	5,828,085	1,272	6,780,787	12,610,144
Accumulated amortisation and impairment	(5,828,085)	(1,226)	(4,413,092)	(10,242,403)
Net book amount	**–**	**46**	**2,367,695**	**2,367,741**

The carrying amount of the customer relationships within the Russian gondola cars/operator's services cash-generating unit within the gondola cars/operator's services segment has been reduced to its recoverable amount through recognition of an impairment loss against customer relationships of RUB 996,160 thousand (2014: impairment loss against goodwill of RUB 5,828,085 thousand). This loss has been reported on the face of the income statement within operating profit.

Amortisation of RUB 1,078,225 thousand (2014: RUB 1,078,436 thousand) is included in 'cost of sales' in the income statement; RUB 231 thousand (2014: RUB 208 thousand) in 'administrative expenses'.

(1) Impairment test for goodwill as of 31 December 2014

Management reviews the business performance based on type of rail cars and types of business. It has identified gondola cars and rail tank cars as the main types of rail cars and operator's services and operating lease as the main business activities of the Group. The entire balance of goodwill of the Group was allocated to Russian gondola cars/operator's services cash generating unit, which is included in the gondola cars/operator's services segment.

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.

As a result of the impairment assessment, an impairment charge of RUB 5,828,085 thousand was recognised during the year ended 31 December 2014 against the carrying amount of goodwill, following which, the entire amount of goodwill of the Group was impaired in full as of 31 December 2014. The impairment arose as a result of the general deterioration of the general industry market conditions, which resulted into a significant decrease in the revenue from the Russian gondola cars/operator's services cash generating unit and a reduction in the margins achieved.

The recoverable amount of this group of cash generating units as of 31 December 2014 was determined based on value-in-use calculations and was estimated at RUB 50,851,000 thousand.

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13. INTANGIBLE ASSETS CONTINUED

These calculations were based on 7-year post-tax cash flow projections and all the assumptions in relation to growth rates were determined by reference to management's past experience and industry forecasts. Cash flows beyond the seven-year period were extrapolated using the estimated growth rates stated below. A 7-year period has been used in the value-in-use calculations in view of current volatile market and industry conditions. The growth rate did not exceed the long-term average growth rate for the operator's business in which the CGU operates.

For projections prepared for the Russian gondola cars/operator's services cash generating unit, terminal growth rate of 4.1% and discount rate of 17% for years 2015 and 2016 and 15.75% thereafter had been applied.

The terminal growth rate used was consistent with the forecasts included in industry reports. The discount rate used was post-tax and reflected specific risks relating to the relevant CGU.

The key assumptions were transportation volumes and prices per trip. The projected volumes reflected past experience and management's estimates. The transportation prices were estimated in accordance with the past performance of the Group and management's expectations of market developments.

If the terminal growth rate had been 0.25% lower than management's estimates at 31 December 2014, the recoverable amount would decrease by approximately RUB 546,000 thousand, resulting into additional impairment in the remaining assets of the Russian gondola cars/operator's services cash generating unit in the corresponding amount.

If the discount rate had been 0.25% higher than management's estimates, the recoverable amount would decrease by approximately RUB 636,000 thousand, resulting into additional impairment in the remaining assets of the Russian gondola cars/operator's services cash generating unit in the corresponding amount.

If the railway transportation growth rate had been 1% lower than management's estimate, the recoverable amount would decrease by approximately RUB 1,660,000 thousand resulting into additional impairment in the remaining assets of the Russian gondola cars/operator's services cash generating unit in the corresponding amount.

14. INVESTMENTS

14.1 Investment in associate

Set out below is the associate of the Group as at 31 December 2015 and 31 December 2014. The associate has share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also the associate's principal place of business.

	2015 RUB '000	2014 RUB '000
At beginning of year	**110,182**	83,228
Share of loss after tax	**(53,739)**	(12,164)
Currency translation difference	**9,054**	39,118
At end of year	**65,497**	110,182

Nature of investment in associate during 2015 and 2014:

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

The fair value of the Group's share in the investment in associate based on the closing price quoted on Riga Stock Exchange as at 31 December 2015 is RUB 50,446 thousand (31 December 2014: RUB 43,259 thousand). However, the market for these shares is not considered as active.

14.2 Principal subsidiaries

The Group had the following subsidiaries at 31 December 2015 and 31 December 2014:

Name	Place of business/ country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non-controlling interest (%)	
			2015	2014	2015	2014	2015	2014
New Forwarding Company, AOO	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
GTI Management OOO[8]	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
Steeltrans OOO[9]	Russia	Railway transportation	**–**	100	**–**	100	**–**	–
Amalfico Holdings Limited[10]	Cyprus	Intermediary holding company	**–**	100	**–**	100	**–**	–
Ural Wagonrepair Company ZAO[11]	Russia	Repair and maintenance of rolling stock	**100**	3	**100**	100	**–**	–
Ukrainian New Forwarding Company OOO	Ukraine	Railway transportation	**100**	100	**100**	100	**–**	–
BaltTransServis OOO[12]	Russia	Railway transportation	**60**	60	**60**	60	**40**	40
RemTransServis OOO[13]	Russia	Repair and maintenance of rolling stock	**–**	–	**59,4**	59,4	**40,6**	40,6
SyntezRail LLC[14]	Russia	Railway transportation	**–**	–	**60**	100	**40**	–
SyntezRail Ltd[14]	Cyprus	Intermediary holding company	**60**	100	**60**	100	**40**	–
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	**65,25**	65,25	**65,25**	65,25	**34,75**	34,75
Ekolinja Oy[15]	Finland	Operating sub–lease of rolling stock	**–**	–	**65,25**	65,25	**34,75**	34,75
Spacecom Trans AS	Estonia	Operating lease of rolling stock	**65**	65	**65**	65	**35**	35

8 GTI Management OOO was formed during the year ended 31 December 2014 as a result of a merger of the 100% subsidiaries of the Group, Sevtekhnotrans OOO and Ferrotrans OOO. No gains or losses were recognised with respect to this transaction.
9 During the year ended 31 December 2015, Steeltrans OOO was merged with New Forwarding Company, AO. No gains or losses were recognised with regards to this transaction.
10 Amalfico Holding Limited was liquidated in January 2015.
11 During 2014, the Company acquired the remaining 3% interest in Ural Wagonrepair Company ZAO (Note 16). As a result, as of 31 December 2014, the Company had a 3% direct ownership in the subsidiary with the remaining 97% held by Steeltrans OOO. During 2015, the Company acquired from Steeltrans OOO the 97% of Ural Wagonrepair Company ZAO, resulting in a 100% direct ownership for the Company in the subsidiary.
12 BaltTransServis OOO was held through intermediate holding entities, Ingulana Holdings Limited and Ultracare Holdings Limited. A restructuring took place in 2014 following which BaltTransServis OOO is held directly by the Company. The two intermediate holding entities were disposed in December 2014. No gains or losses arose with regards to this transaction.
13 RemTransServis OOO is a 59,4% subsidiary of BaltTransServis OOO.
14 SyntezRail LLC and SyntezRail Ltd were incorporated in 2014 and started activity in December 2014. During 2015 the Group disposed 40% of its shareholding in SyntezRail Ltd and SyntezRail LLC to a third party (Note 16).
15 Ekolinja Oy is a 100% subsidiary of Spacecom AS.

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 2015 and 31 December 2014 comprised the following:

	2015 RUB '000	2014 RUB '000
BaltTransServis OOO (including RemTransServis OOO)	**2,243,717**	2,488,800
Spacecom AS (including Ekolinja Oy)	**3,801,476**	3,466,270
Spacecom Trans AS	**1,131,381**	972,245
SyntezRail LLC; SyntezRail Limited	**7,945**	–
Total	**7,184,519**	6,927,315

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14. INVESTMENTS CONTINUED

Significant restrictions

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

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. See Note 16 for transactions with non-controlling interests. The financial information of Spacecom AS (including Ekolinja Oy) and Spacecom Trans AS have been aggregated since both entities operate in the Estonian rail tank cars segment, have significant transactions between them, and management reviews their performance as a single operation. The financial information of BaltTransServis OOO includes RemTransservis OOO and in year 2014 also includes Ingulana Holdings Limited and Ultracare Holdings Limited.

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	
	2015 RUB '000	2014 RUB '000	2015 RUB '000	2014 RUB '000
Current				
Assets	**4,776,758**	5,229,373	**636,656**	793,142
Liabilities	**2,369,145**	2,349,694	**369,251**	546,069
Total current net assets	**2,407,613**	2,879,679	**267,405**	247,073
Non-current				
Assets	**4,765,595**	6,403,146	**14,184,860**	12,672,534
Liabilities	**1,563,915**	3,060,824	**358,002**	248,901
Total non-current net assets	**3,201,680**	3,342,322	**13,826,858**	12,423,633
Net assets	**5,609,293**	6,222,001	**14,094,263**	12,670,706

Summarised income statement

	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2015 RUB '000	2014 RUB '000	2015 RUB '000	2014 RUB '000
Revenue	**29,945,108**	28,718,637	**1,958,285**	2,750,692
Profit before income tax	**7,034,609**	5,514,998	**(31,111)**	662,690
Income tax expense	**(1,432,454)**	(1,118,942)	**(110,088)**	–
Post–tax profit from continuing operations	**5,602,155**	4,396,056	**(141,199)**	662,690
Post–tax profit from discontinued operations	**–**	–	**–**	–
Other comprehensive income	**–**	–	**2,234,149**	4,291,120
Total comprehensive income	**5,602,155**	4,396,056	**2,092,950**	4,953,810
Total comprehensive income allocated to non–controlling interests	**2,240,862**	1,758,422	**728,568**	1,733,834
Dividends paid to non–controlling interest	**(2,600,000)**	(2,306,714)	**(153,022)**	–

Summarised cash flow statements

	BaltTransServis OOO		Spacecom AS – Spacecom Trans AS	
	2015 RUB '000	2014 RUB '000	2015 RUB '000	2014 RUB '000
Cash flows from operating activities				
Cash generated from operations	**7,916,868**	5,993,996	**716,861**	1,312,729
Income tax paid	**(1,557,628)**	(1,070,331)	**(73,688)**	(20,290)
Net cash generated from operating activities	**6,359,240**	4,923,665	**643,173**	1,292,439
Net cash generated from/(used in) investing activities	**788,707**	(896,004)	**(134,940)**	1,464
Net cash generated used in financing activities	**(7,901,576)**	(3,263,296)	**(470,952)**	(1,455,899)
Net (decrease)/increase in cash and cash equivalents	**(753,629)**	764,365	**37,281**	(161,996)
Cash and cash equivalents at beginning of year	**2,413,621**	1,484,611	**41,849**	177,402
Exchange differences on cash and cash equivalents	**(58,851)**	164,645	**18,068**	26,367
Cash and cash equivalents at end of year	**1,601,141**	2,413,621	**97,198**	41,773

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

15. SHARE-BASED PAYMENTS

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

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

In accordance with the terms of the remuneration 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 has recognised an employee benefit expense and a corresponding share based payment liability of RUB 79,847 thousand in this respect for the year ended 31 December 2015. No share-based compensation was paid during the year ended 31 December 2015.

The share based payment liability as of 31 December 2015 was determined based on the assumption that all participants will remain with the Group and all KPIs will be met and that there will be no significant fluctuation in the fair value of the Company's GDRs during the vesting period. The significant inputs into the valuation were the weighted average fair value of the Company's GDRs of USD 4.55 and the weighted average USD/RUB exchange of 61.319. There were no changes in the number of instruments over the year ended 31 December 2015.

16. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interests in subsidiaries

On 27 February 2014, the Group acquired the remaining 3% in ZAO Ural Wagonrepair Company for a total consideration of RUB 2,433 thousand resulting in a 100% ownership in the subsidiary. The difference between the consideration paid and the carrying amount of the non-controlling interest, amounting to (RUB 20,169 thousand), was recognised as a charge in retained earnings.

(b) Disposal of interest in a subsidiary without loss of control

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

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17. FINANCIAL INSTRUMENTS BY CATEGORY

	2015		2014	
	Loans and receivables RUB '000	Total RUB '000	Loans and receivables RUB '000	Total RUB '000
Financial assets as per balance sheet				
Trade and other receivables	**2,639,945**	**2,639,945**	2,822,633	2,822,633
Cash and cash equivalents	**4,104,079**	**4,104,079**	4,647,787	4,647,787
Total	**6,744,024**	**6,744,024**	**7,470,420**	**7,470,420**

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

	2015		2014	
	Financial liabilities measured at amortised cost RUB '000	Total RUB '000	Financial liabilities measured at amortised cost RUB '000	Total RUB '000
Financial liabilities as per balance sheet				
Borrowings	**20,359,060**	**20,359,060**	28,306,138	28,306,138
Trade and other payables	**767,413**	**767,413**	798,154	798,154
Total	**21,126,473**	**21,126,473**	**29,104,292**	**29,104,292**

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

18. CREDIT QUALITY OF FINANCIAL ASSETS

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

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

	2015 RUB '000	2014 RUB '000
Trade and other receivables		
Counterparties with external credit rating		
Moody's[16](B1 – Ba2)	**27,108**	567,672
Fitch[17] (Ba1)	–	5,248
Fitch[17] (B- – BB+)	**209,344**	4,390
	236,452	577,310

	2015 RUB '000	2014 RUB '000
Counterparties without external credit rating		
Group 1	**1,292,352**	1,308,169
Group 2	**45,335**	52,669
	1,337,687	1,360,838
Total trade and other receivables	**1,574,139**	1,938,148

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.

16 International rating agency Moody's Investors Service.
17 International rating agency Fitch Rating.

Cash at bank and short-term bank deposits

	Rating	2015 RUB '000	2014 RUB '000
Moody's[16]	Aaa - A1	**169,998**	65,083
Moody's[16]	Baa1 - B3	**2,187,179**	4,377,087
Moody's[16]	Caa1 - Caa3	**20,496**	1,621
Standard & Poor's[18]	B - BBB+	**1,249,797**	194,998
Fitch[17]	BBB- BBB+	**472,421**	5,876
Other non-rated banks – satisfactory credit quality		**3,457**	1,915
Total cash at bank and bank deposits[19]		**4,103,348**	4,646,580

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

19. TRADE AND OTHER RECEIVABLES

	2015 RUB '000	2014 RUB '000
Trade receivables – third parties	**2,895,970**	3,033,978
Trade receivables – related parties (Note 30)	**7,611**	8,680
Less: Provision for impairment of trade receivables	**(367,909)**	(315,345)
Trade receivables – net	**2,535,672**	2,727,313
Other receivables	**79,752**	119,114
Other receivables – related parties (Note 30)	**–**	1,557
Less: Provision for impairment of other receivables	**(29,500)**	(45,476)
Other receivables – net	**50,252**	75,195
Loans receivables – third parties	**54,021**	20,125
Prepayments – related parties (Note 30)	**–**	50,054
Prepayments – third parties	**2,226,932**	3,066,889
VAT recoverable	**531,459**	794,127
	5,398,336	6,733,703

	2015 RUB '000	2014 RUB '000
Less non-current portion:		
Loans receivables – third parties	**49,087**	2,462
Prepayments for property, plant and equipment	**52,177**	29,771
Total non-current portion	**101,264**	32,233
Current portion	**5,297,072**	6,701,470

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

Receivables amounting to RUB 1,574,139 thousand as of 31 December 2015 were fully performing (2014: RUB 1,938,148 thousand).

Receivables of RUB 1,065,806 thousand as of 31 December 2015 were past due but not impaired (2014: RUB 884,485 thousand). These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

	2015 RUB '000	2014 RUB '000
Less than 1 month	**598,337**	362,682
From 1 to 3 months	**119,175**	271,689
From 3 to 6 month	**36,278**	129,031
From 6 months to 1 year	**258,851**	70,413
Over one year	**53,165**	50,670
	1,065,806	884,485

Notes to the Consolidated Financial Statements continued

19. TRADE AND OTHER RECEIVABLES CONTINUED

Trade receivables amounting to RUB 367,909 thousand as of 31 December 2015, were impaired and provided for in full (2014: RUB 315,345 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Other receivables amounting to RUB 29,500 thousand as of 31 December 2015, were impaired and provided for in full (2014: RUB 45,476 thousand). It was assessed that no portion of these receivables is expected to be recovered.

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

	2015 RUB '000	2014 RUB '000
Currency:		
US dollar	**560,562**	538,690
Russian roubles	**4,752,259**	6,130,743
Ukrainian hryvnia	**15,999**	46,959
Euro	**18,656**	17,311
Other	**50,860**	–
	5,398,336	6,733,703

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

	2015			2014		
	Trade receivables RUB '000	Other receivables RUB '000	Total RUB '000	Trade receivables RUB '000	Other receivables RUB '000	Total RUB '000
At 1 January	**315,345**	**45,476**	**360,821**	376,126	41,806	417,932
Provision for receivables impairment (Note 6)	**71,952**	**31,707**	**103,659**	137,197	54,574	191,771
Bad debt written off	**(15,541)**	**(44,490)**	**(60,031)**	(179,647)	(53,841)	(233,488)
Unused amounts reversed (Note 6)	**(288)**	**(59)**	**(347)**	(2,741)	(11,511)	(14,252)
Unwind of discount	**–**	**–**	**–**	(12,505)	–	(12,505)
Currency translation differences	**(6,482)**	**41**	**(6,441)**	11,363	–	11,363
Other	**2,923**	**(3,175)**	**(252)**	(14,448)	14,448	–
At 31 December	**367,909**	**29,500**	**397,409**	315,345	45,476	360,821

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

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security for any receivables.

20. INVENTORIES

	2015 RUB '000	2014 RUB '000
Raw materials, spare parts and consumables	**722,381**	735,694
	722,381	735,694

All inventories are stated at cost.

21. CASH AND CASH EQUIVALENTS

	2015 RUB '000	2014 RUB '000
Cash at bank and in hand	**1,552,299**	2,858,277
Short term bank deposits	**2,551,780**	1,789,510
Total cash and cash equivalents	**4,104,079**	4,647,787

The effective interest rate on short-term deposits was 8.26% in 2015 (2014: 11.69%) and these deposits have a maturity of 1 to 44 days (2014: 1 to 12 days).

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

	2015 RUB '000	2014 RUB '000
Cash and cash equivalents	**4,104,079**	4,647,787
Total cash and cash equivalents	**4,104,079**	4,647,787

Cash and cash equivalents are denominated in the following currencies:

	2015 RUB '000	2014 RUB '000
Russian rouble	**3,179,710**	3,818,189
US dollar	**903,833**	810,402
Euro	**5,298**	16,859
Ukrainian hryvnia	**15,238**	2,337
Total cash and cash equivalents	**4,104,079**	4,647,787

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

22. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2014/31 December 2014/1 January 2015/31 December 2015	**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 2014/31 December 2014/1 January 2015/31 December 2015	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2015 was 233,918,128 shares with a par value of USD 0.10 per share (31 December 2014: 233,918,128 shares with a par value of USD 0.10 per share. All issued shares are fully paid.

23. DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2014 and 31 December 2015.

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

During the years ended 31 December 2015 and 2014, the Group declared and paid dividends in favour of non-controlling interests as detailed in the table below.

	2015 RUB '000	2014 RUB '000
Dividends declared to equity holders of the Company	–	3,981,615
Dividends paid to equity holders of the Company	–	3,983,892
Dividends declared to non-controlling interest	**2,753,022**	2,306,714
Dividends paid to non-controlling interest	**2,696,490**	2,306,714

Notes to the Consolidated Financial Statements continued

24. BORROWINGS

	2015 RUB '000	2014 RUB '000
Current		
Bank borrowings	**9,294,389**	7,296,288
Non-convertible unsecured bonds	**–**	10,772,293
Finance lease liabilities	**95**	187,642
Total current borrowings	**9,294,484**	18,256,223
Non-current		
Bank borrowings	**11,040,278**	10,031,715
Loans from third parties	**24,264**	18,104
Finance lease liabilities	**34**	96
Total non-current borrowings	**11,064,576**	10,049,915
Total borrowings	**20,359,060**	28,306,138
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**4,811,847**	6,722,324
Between 2 and 5 years	**6,252,695**	3,327,495
	11,064,542	10,049,819

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.

	2015 RUB '000	2014 RUB '000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	**97**	188,720
Later than 1 year and not later than 5 years	**34**	96
Future finance charges of finance leases	**(2)**	(1,078)
Present value of finance lease liabilities	**129**	187,738
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**95**	187,642
Later than 1 year and not later than 5 years	**34**	96
	129	187,738

Bank borrowings

Bank borrowings mature by 2020 and bear average interest of 11.98% per annum (2014: 10.59% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2015 and 31 December 2014.

The current and non-current bank borrowings amounting to RUB 8,921,923 thousand and RUB 10,209,509 thousand respectively (2014: RUB 7,296,288 thousand and RUB 10,031,715 thousand respectively) are secured by pledge of rolling stock with a carrying net book value of RUB 33,793,041 thousand (2014: RUB 26,140,205 thousand) (Note 12).

Non-convertible bonds

During 2010, AO New Forwarding Company (NFC) issued non-convertible Russian rouble-denominated bonds for a total amount of RUB 3 billion. The bonds carried coupon rate of 9.25%, were repayable over 20 quarterly periods and had an amortising structure with final maturity in July 2015.

Additionally, in March 2012, NFC issued 3-year Russian rouble-denominated exchange-traded bonds for a total amount of RUB 10 billion at a coupon rate of 10.00% per annum and maturity in March 2015. The bonds were traded on MICEX SE in Moscow.

During 2015 all bonds have been redeemed in full. The Company acted as the guarantor for both bond issues.

Loans from third parties

Loans from third parties are unsecured, bear interest at 10% p.a. and mature in October 2017.

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:

	2015 RUB '000	2014 RUB '000
6 months or less	**5,004,688**	15,186,222
6 to 12 months	**4,347,876**	3,884,093
1 to 5 years	**11,006,496**	9,235,823
	20,359,060	28,306,138

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

	Carrying amount		Fair value	
	2015 RUB '000	2014 RUB '000	2015 RUB '000	2014 RUB '000
Bank borrowings	**20,334,667**	17,328,003	**20,106,213**	14,910,427
Loans from third parties	**24,264**	18,104	**24,264**	14,727
Non-convertible unsecured bonds	**–**	10,772,293	**–**	10,434,340
Finance lease liabilities	**129**	187,738	**42**	187,738
	20,359,060	28,306,138	**20,130,519**	25,547,232

The fair value of non-convertible unsecured bonds was based on quoted market prices. Fair values of the remaining borrowings were determined using valuation techniques.

As at 31 December 2015 and 31 December 2014, the estimated fair value of fixed and floating interest rate instruments with stated maturity denominated in a currency other than the Russian rouble was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair value as at 31 December 2015 of fixed and floating interest rate instruments with stated maturity denominated in Russian rouble was estimated based on expected cash flows discounted using the rate of similar Russian rouble-denominated instruments entered into by the Group close to 31 December 2015. In the absence of similar Russian rouble-denominated instruments entered into by the Group close to 31 December 2014, due to the adverse fluctuation of interest rates, the fair value as at 31 December 2014 of fixed interest rate instruments with stated maturity denominated in Russian rouble was estimated based on expected cash flows discounted at an estimated rate of MosPrime[20] plus a margin. Such rate was management's best estimate of the interest rate it would achieve had it entered into a similar instrument as at the year end. The discount rates used ranged from 12.30% p.a. to 13.15 % p.a. (2014: 20.14% p.a. to 25.02% p.a.) depending on the length and currency of the liability.

The fair value measurement of the bank borrowings, loans from third parties and lease liabilities are within level 2 of the fair value hierarchy (2014: level 2 for US dollar-denominated; level 3 for Russian rouble-denominated debt).

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

The fair value of non-convertible bonds, which were listed on MICEX[21], was based on the latest quoted price for such bonds which was within level 1 of the fair value hierarchy.

20 MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian rouble deposits.
21 Moscow Interbank Currency Exchange.

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

	2015 RUB '000	2014 RUB '000
US dollar	**129**	592,156
Russian rouble	**20,358,931**	27,713,982
	20,359,060	28,306,138

Notes to the Consolidated Financial Statements continued

24. BORROWINGS CONTINUED

The Group has the following undrawn borrowing facilities:

	2015 RUB '000	2014 RUB '000
Floating rate:		
Expiring within one year	–	650,000
Expiring beyond one year	**1,000,000**	–
Fixed rate:		
Expiring within one year	**1,076,000**	650,000
Expiring beyond one year	**17,500,000**	20,602,000
	19,576,000	21,902,000

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

	2015 %	2014 %
Bank borrowings	**12.0**	10.6
Non-convertible unsecured bonds	–	9.96
Loans from third parties	**10.0**	10.0
Finance lease liabilities	**2.5**	2.3

25. DEFERRED INCOME TAX

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

	2015 RUB '000	2014 RUB '000
Deferred tax liabilities – net:		
– Deferred tax liability to be recovered after more than 12 months	**4,713,244**	5,306,502
– Deferred tax liability to be recovered within 12 months	**(257,496)**	(99,092)
Deferred tax liabilities	**4,455,748**	5,207,410

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

	2015 RUB '000	2014 RUB '000
Beginning of year	**5,207,410**	4,710,052
Income statement (credit)/charge (Note 10)	**(751,662)**	493,751
Currency translation differences	–	3,607
End of year	**4,455,748**	5,207,410

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 2014	**3,266,044**	**632,348**	**1,163,993**	**5,062,385**
Charged/(credited) to:				
Income statement (Note 10)	814,950	(158,999)	(275,528)	380,423
Currency translation differences	(2,165)	–	–	(2,165)
At 31 December 2014/1 January 2015	**4,078,829**	**473,349**	**888,465**	**5,440,643**
Charged/(credited) to:				
Income statement (Note 10)	**186,492**	**(244,777)**	**(414,933)**	**(473,218)**
Currency translation differences	**(2,657)**	–	–	**(2,657)**
At 31 December 2015	**4,262,664**	**228,572**	**473,532**	**4,964,768**

Deferred tax assets	Tax losses RUB '000	Lease liability RUB '000	Trade and other payables RUB '000	Borrowings RUB '000	Other assets/ liabilities RUB '000	Total RUB '000
At 1 January 2014	**–**	**(88,125)**	**(102,635)**	**(29,051)**	**(132,522)**	**(352,333)**
Charged/(credited) to:						
Income statement (Note 10)	–	41,483	20,743	29,051	22,051	113,328
Currency translation differences	–	–	–	–	5,772	5,772
At 31 December 2014/1 January 2015	**–**	**(46,642)**	**(81,892)**	**–**	**(104,699)**	**(233,233)**
Charged/(credited) to:						
Income statement (Note 10)	**(134,373)**	**33,628**	**(31,688)**	**(105,471)**	**(40,540)**	**(278,444)**
Currency translation differences	**–**	**–**	**–**	**–**	**2,657**	**2,657**
At 31 December 2015	**(134,373)**	**(13,014)**	**(113,580)**	**(105,471)**	**(142,582)**	**(509,020)**

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 381,385 thousand for tax losses amounting to RUB 3,579,829 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 (2014: RUB 2,486,791).

Deferred income tax liabilities of RUB 3,531,476 thousand (2014: RUB 3,312,499 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 28,382,638 thousand as at 31 December 2015 (2014: RUB 23,736,246 thousand).

26. TRADE AND OTHER PAYABLES

	2015 RUB '000	2014 RUB '000
Current		
Trade payables to third parties	**691,211**	704,703
Trade payables to related parties (Note 30)	**–**	10,796
Other payables to third parties	**575,113**	674,914
Accrued expenses	**134,584**	256,579
Accrued key management compensation, including share based payment (Note 30)	**442,778**	276,390
Advances from customers for transportation services	**1,743,476**	3,317,004
Advances from related parties for sale of rail cars (Note 30)	**–**	5,260
Dividends payable to non-controlling interest	**56,532**	–
	3,643,694	5,245,646

	2015 RUB '000	2014 RUB '000
Non-current		
Other payables to third parties	**–**	13,278
Accrued key management compensation, including share based payment (Note 30)	**61,053**	–
	61,053	13,278

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

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

27. EARNINGS PER SHARE

Basic and diluted

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

	2015	2014
Profit/(loss) attributable to equity holders of the company (RUB thousand)	**1,982,956**	(1,415,739)
Weighted average number of ordinary shares in issue (thousand)	**178,741**	178,741
Basic and diluted earnings/(losses) per share (expressed in RUB per share) attributable to the equity holders of the Company during the year	**11.09**	(7.92)

Notes to the Consolidated Financial Statements continued

28. CONTINGENCIES

Operating environment

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

Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2015 the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). 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 believes that its pricing policy used in 2014 and 2015 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 are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate.

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

Estonia

Estonia represents a well-developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

Ukraine

The recent political and economic instability in Ukraine has continued in 2015 and has led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies.

As at the date of this report the official exchange rate of hryvnia against US dollar was UAH 26.44 per USD 1, compared with UAH 24.00 per USD 1 as at 31 December 2015 (31 December 2014: UAH 15.77 per USD 1). To constrain further devaluation of hryvnia the National Bank of Ukraine has imposed a number of restrictions on operations with foreign currency including: a temporary ban on payment of dividends in foreign currency; a temporary ban on early repayment of debts to non-residents; mandatory sale of 75% of revenue in foreign currency and other restrictions on cash and non-cash operations. The central bank of Ukraine prolonged these restrictions several times during 2015 and the current restrictions are effective until 8 June 2016.

Devaluation of the national currency created pressure on consumer price index. The official inflation rate in Ukraine for 2015 reached 43.3%.

On 11 March 2015, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) programme for Ukraine exceeding USD 17 billion. During 2015, Ukraine obtained first and second tranches in accordance with the programme in the amount of USD 5 billion and USD 1.7 billion, respectively. In October 2015, Ukraine reached an agreement with the majority of its creditors for restructuring of part of the national external debt in the amount of USD 15 billion. The restructuring pushes out maturities of restructured debt to 2019-2027, fixing annual interest rate at the level of 7.75% and includes exchange of 20% of the debt into GDP warrants at par value of USD 2.9 billion. There remains a significant portion of debt for which a restructuring has not been agreed to.

After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved. Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms, and other economic, legal and political factors.

The banking system is fragile due to its: weak level of capital; its weakening asset quality caused by the economic situation; currency depreciation; and other factors.

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 2015 and 31 December 2014 (Note 24).

Indemnification received in relation to financial guarantee

During the year 2014, the Group received an indemnification of RUB 78,400 thousand in relation to a financial guarantee contract entered into by Steeltrans OOO, a subsidiary of the Group, before its acquisition by the Group in 2013. Steeltrans OOO was a guarantor in two lease agreements entered into by a third party who defaulted on its payments. The default of the lessee in the arrangement and the requirement for the Group to compensate the lessor formed a breach of the warranties entered into in the share purchase agreement for Steeltrans OOO. As a result, the Group was compensated by the amount of RUB 78.400 thousand from the previous shareholder of Steeltrans OOO. The guarantee was settled in full as of 31 December 2014 and no loss arose for the Group.

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 year ended 31 December 2015, the Company's subsidiaries were involved as a claimants and defendants in a number of court proceedings.

Federal Antimonopoly Service of the Russian Federation case

In March 2013 the Federal Antimonopoly Service of the Russian Federation (FAS Russia) initiated a legal proceeding suggesting a possible violation of the Federal Law "On protection of competition" by OJSC "Russian Railways" and several other railway-operator companies, including the Company's subsidiaries OAO New Forwarding Company and OOO Ferrotrans (merged with Sevtekhnotrans OOO into GTI Management OOO during 2014). The defendants were accused on establishment of cartel agreement and coordination of economic activity through the creation of a pool of the largest railway-operator companies operating in Kemerovo region. Several court hearings have been held in 2013, 2014 and 2015. In December 2013, FAS Russia claimed penalties from OAO New Forwarding Company and OOO Ferrotrans as administrative fines in the total amount of RUB 130,926 thousand. These administrative fines include an amount of RUB 57,892 thousand which has been charged to OOO Ferrotrans for which the Group is indemnified from Metalloinvest Group (the previous owner of the subsidiary).

In June 2015, the Moscow arbitrary court denied the legal proceeding initiated by FAS Russia. This was confirmed by higher instance Arbitrary Court in September 2015 and in December 2015. FAS Russia has sent an appeal, which is currently in process.

Management believes that the Group has not executed any actions resulting in violation of antimonopoly legislation. As at 31 December 2014, the Group has made a provision of RUB 5,482 thousand against the potential fines stipulated by the Russian Legislation should the offence be proved in Court and as at 31 December 2015 the Group has reversed the provision.

Notes to the Consolidated Financial Statements continued

28. CONTINGENCIES CONTINUED

Georgian Railways case

As at 31 December 2015, the Group has outstanding receivable amounting to EUR 3,231 thousand (RUB 257,501 thousand) from Georgian Railway relating to invoices issued prior to 1 April 2015. The Georgian Railways dispute the tariffs applied in computing the outstanding balance and thus has 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 of RUB 257,501 thousand as well as additional penalties and interest. Whereas the Group has not recognised any penalties or interest income on this receivable balance, management considers that the receivable amount remains recoverable as at 31 December 2015 and thus no provision has been recognised in this respect.

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

The Group issued additional invoices of EUR 1,555 thousand (RUB 105,127 thousand) to Georgian Railways in the intervening period during 2015 that the rail cars remained in Georgia. The revenue arising from these invoices has not been recognised as it is not probable that future economic benefits will flow to the Group. Furthermore, Georgian Railways have issued invoices amounting to EUR 5,669 thousand (RUB 451,103 thousand) claiming compensation for storage costs incurred during the period the rail cars remained in Georgia. Management considers that there is no legal basis for the issuance of these invoices from Georgian Railways. No legal claims have been initiated by Georgian Railways in this respect. Management cannot estimate with sufficient certainty what the outcome of the above case will be since the court case is still in its early stages.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2015 and 2014 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

29. COMMITMENTS

(a) Capital commitments

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

	2015 RUB '000	2014 RUB '000
Property, plant and equipment	**124,739**	2,103

(b) Operating lease commitments – Group as lessee

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

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

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

	2015 RUB '000	2014 RUB '000
Not later than 1 year	**425,896**	628,870
Later than 1 year not later than 5 years	**3,030**	16,495
	428,926	645,365

(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:

	2015 RUB '000	2014 RUB '000
Not later than 1 year	**443,403**	916,399
Later than 1 year not later than 5 years	**51,141**	–
	494,544	916,399

Contingent-based rents recognised in the income statement were RUB Nil for the year ended 31 December 2015 (2014: RUB Nil).

30. RELATED PARTY TRANSACTIONS

Marigold Investments, Onyx Investments and Maple Valley Investments, are Company's shareholders with a direct shareholding as at 31 December 2014 and as at 31 December 2015 of 11.5% each.

As at 31 December 2014, Litten Investments Limited and Goldriver Resources Limited, both controlled by members of key management of the Group have a shareholding in the Company of 6.3% and 4.5% respectively through ordinary shares and GDRs. As from November 2015, Goldriver Resources Limited is not a related party to the Group. As of 31 December 2015, Litten Investment Limited, controlled by a member of key management of the Group has a shareholding in the Company of 6.3%.

As at 31 December 2015, 59% (31 December 2014: 54.5%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated or associated with the Company and therefore includes ordinary shares and GDRs held by Goldriver Resources Limited. The remaining 0.2% (31 December 2014: 0.2%) of the shares of the Company are controlled by Directors and key management of the Company.

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

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2015 RUB '000	2014 RUB '000
Sales of services:		
Associate	**1,326**	–
Other related parties:		
Entities under significant influence of members of key management	**519**	921
	1,845	921

(b) Purchases of goods and services

	2015 RUB '000	2014 RUB '000
Purchases of services:		
Other related parties		
Entities under significant influence of members of key management	**209,022**	241,909
	209,022	241,909

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

	2015 RUB '000	2014 RUB '000
Additions:		
Entities under significant influence of members of key management	**22,329**	7,751
	22,329	7,751

Profit on disposal of property, plant and equipment:		
Entities under significant influence of members of key management	**1,199**	1,318
	1,199	1,318

Notes to the Consolidated Financial Statements continued

30. RELATED PARTY TRANSACTIONS CONTINUED

(d) Key management compensation

	2015 RUB '000	2014 RUB '000
Key management salaries and other short term employee benefits[22]	**956,041**	669,363
Share based compensation (Note 15)	**79,847**	–
	1,035,888	669,363

22 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 229,823 thousand (2014: RUB 116,172 thousand).

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

	2015 RUB '000	2014 RUB '000
Trade receivable from related parties (Note 19):		
Associate	**7,611**	8,075
Other related parties		
Entities under significant influence of members of key management	–	605
	7,611	8,680
Other receivables from related parties(Note 19):		
Other related parties		
Entities under significant influence of members of key management	–	1,557
	–	1,557
Prepayments to related parties (Note 19):		
Other related parties		
Entities under significant influence of members of key management	–	50,054
	–	50,054

	2015 RUB '000	2014 RUB '000
Trade payables to related parties (Note 26):		
Other related parties		
Entities under significant influence of members of key management	–	10,796
	–	10,796
Advances from related parties (Note 26):		
Other related parties		
Entities under significant influence of members of key management	–	5,260
	–	5,260
Accrued key management remuneration (Note 26):		
Accrued salaries and other short term employee benefits	**423,984**	276,390
Share based payment liability (Note 15)	**79,847**	–
	503,831	276,390

(f) Operating lease commitments – Group as lessee

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

	2015 RUB '000	2014 RUB '000
Not later than 1 year	–	74,008
Later than 1 year and not later than 5 years	–	16,496
	–	90,504

Operating lease commitments with 'other related parties' were to entities under significant influence of members of key management.

31. EVENTS AFTER THE BALANCE SHEET DATE

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

Mr Valery Shpakov, who has been acting as interim CEO since 6 November 2015, was appointed as the new CEO of the Group on 30 March 2016.

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 page 59.

Directors' Report and Parent Company Financial Statements
For the Year Ended 31 December 2015

CONTENTS

NOTES TO THE FINANCIAL STATEMENTS

Board of Directors and Other Officers

BOARD OF DIRECTORS

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

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

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

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

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

Mr Alexander Eliseev
Non-executive Director
Alternate Director: Ms Ekaterina Golubeva

Mr Marios Tofaros
Non-executive Director

Mr Sergey Tolmachev
Executive Director

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

Mr Konstantin Shirokov
Executive Director

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

Mr Michael Thomaides
Non-executive Director

Ms Melina Pyrgou
Non-executive Director

Mr Sergey Maltsev
Executive Director, Chief Executive Officer
Alternate Director: Mr. Artemis M. Thomaides (resigned 13 April 2015)
Resigned on 06 November 2015

Mr Andrey Gomon
Non-executive Director
Alternate Director: Ms. Melina Pyrgou
Resigned on 18 December 2015

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

Report of the Board of Directors

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2015. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

PRINCIPAL ACTIVITIES

The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

REVIEW OF DEVELOPMENTS, POSITION AND PERFORMANCE OF THE COMPANY'S BUSINESS

The net profit of the Company for the year ended 31 December 2015 was RUB 3,764,715 thousand (2014: RUB 4,079,667 thousand). On 31 December 2015, the total assets of the Company were RUB 47,198,924 thousand (2014: RUB 45,462,706 thousand) and the net assets were RUB 45,766,767 thousand (2014: RUB 42,002,052 thousand).

Globaltrans produced a solid overall financial performance in 2015. Nonetheless, the financial results of the subsidiaries of the Company were affected by the deteriorating economic conditions, intensified inflation as well as the mixed pricing environment.

The Company and its subsidiaries, together referred to as the "Group", were able to mitigate the worst effects of the sluggish market conditions, assisted by its long-term contracts and well-balanced fleet. Moreover, management continued to make disciplined decisions on capital allocation whilst actively pursuing cost improvement and productivity measures.

Taking into consideration the sluggish market conditions, management has assessed the recoverable amount of its investments in and loans to subsidiaries as described in Note 4. As a result of these impairment assessments, an impairment provision amounting to RUB 304,358 thousand was recognised in relation to loans granted to Ural Wagonrepair Company ZAO, a Russian subsidiary of the Company. At the same time, a reversal of provision for receivables impairment amounting to RUB 109,324 thousand was recognised in relation to loans granted to the Ukrainian subsidiary of the Company, Ukrainian New Forwarding Company OOO.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's financial risk management and critical accounting estimates and judgements are disclosed in Notes 3 and 4 to the financial statements.

The Company's contingencies are disclosed in Note 23 to the financial statements.

The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties faced by the Company.

FUTURE DEVELOPMENTS

Subject to the ongoing uncertainty of the Russian economy, the Board of Directors does not expect any significant changes in the activities of the Company for the foreseeable future.

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

RESULTS

The Company's results for the year are set out on pages 116 and 117. The Board of Directors recommends the payment of a dividend in relation to the year 2015 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 GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Company expects to pay dividends in US dollars. If dividends are not paid in US dollars, except as otherwise described under "Terms and Conditions of the GDRs – Conversion of Foreign Currency", they will be converted into US dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

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

No interim dividends were declared by the Board of Directors during the years ended 31 December 2014 and 31 December 2015.

On the date of this report, the Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2015 in the amount of 12.41 Russian roubles per ordinary share, amounting to a total dividend of RUB 2,218,175 thousand to be paid in US dollars at the rate as at the date of Annual General Meeting.

SHARE CAPITAL

As at 31 December 2015, the issued share capital of the Company comprised 178,740,916 ordinary shares with a par value of USD 0.10 per share. There were no changes in the share capital of the Company during the year ended 31 December 2015.

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 Company.

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 Company'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 2015, and at the date of this report, the Board comprises 13 members (2014: 15 members), 10 (2014: 10 members) of whom are non-executive directors (including the Chairman). Four of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Company, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2015 and at the date of this report are shown on pages 42 to 44. There were no significant changes in the assignment of responsibilities of the Board of Directors. The CEO of the Group, Mr Sergey Maltsev, resigned on 6 November 2015. Mr Valery Shpakov, who had been acting as interim CEO since 6 November 2015, was appointed as the new CEO of the Group on 30 March 2016.

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

The total gross remuneration of the members of the Board of Directors incurred by the Company in 2015 amounted to RUB 162,144 thousand (2013: RUB 14,263 thousand).

DIRECTORS' INTERESTS

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors of the Company as at 31 December 2015 and 31 December 2014 are shown below:

Name	Type of holding	2015	2014
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**11,318,909**	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	**n/a**	8,021,339
Johann Franz Durrer	Holding of GDRs	**160,606**	160,606

Total number of issued shares of the Company as at 31 December 2015 was 178,740,916 (31 December 2014: 178,740,916).

EVENTS AFTER THE BALANCE SHEET DATE

The events after the balance sheet date are disclosed in Note 24 to the parent company financial statements.

BOARD PERFORMANCE

The Board held 14 meetings in 2015. The Directors' attendance is presented in the table below.

	Eligible	Attended
Michael Zampelas	14	14
Johann Franz Durrer	14	14
John Carroll Colley	14	14
George Papaioannou	14	14
Alexander Eliseev	14	12
Sergey Maltsev	12	4
Andrey Gomon	14	12
Melina Pyrgou	14	12
Konstantin Shirokov	14	14
Alexander Storozhev	14	11
Marios Tofaros	14	10
Elia Nicolaou	14	11
Sergey Tolmachev	14	14
Alexander Tarasov	14	10
Michalakis Thomaides	14	10

Report of the Board of Directors continued

THE BOARD COMMITTEES

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

Audit Committee

The Audit Committee comprises three Directors, two of whom are independent, and meets at least four times each year. The Audit Committee is chaired by Mr. John Carroll Colley and is also attended by Mr. George Papaioannou and Ms. Elia 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 IAS. IAS is responsible for testing the systems of risk management, internal control and corporate governance of the Company and the Group.

Nomination Committee

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

Remuneration Committee

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

CORPORATE GOVERNANCE

Globaltrans' Board of Directors has 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/

BOARD AND MANAGEMENT REMUNERATION

Non-executive directors serve on the Board pursuant to 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 27 April 2015.

Refer to Note 22 of the parent company financial statements for details of remuneration paid by the Company to the members of the Board and other members of key management personnel.

BRANCHES

The Company did not operate through any branches during the year.

TREASURY SHARES

In 2015, the Company did not own or acquire either directly or through a person in his or her own name, but on the Company's behalf, any of its own shares.

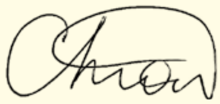
GOING CONCERN

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the parent company financial statements based on the fact that, after making enquiries and following a review of the Company's and Group's budget for 2016, including cash flows arising from expected dividend distributions from subsidiaries and cash flows arising from borrowing facilities from subsidiaries, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

AUDITORS

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

By Order of the Board



Sergey Tolmachev
Director
Limassol, 30 March 2016

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.

Each of the Directors confirms to the best of his or her knowledge that the financial statements (presented on pages 116 to 144) give a true and fair view of the financial position of the parent company Globaltrans Investment PLC as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

i. proper books of account have been kept by the Company;
ii. the Company's financial statements are in agreement with the books of account;
iii. the financial statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required; and
iv. the information given in the report of the Board of Directors is consistent with the financial statements.

By order of the Board

Sergey Tolmachev
Director
30 March 2016

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of parent company Globaltrans Investment Plc (the "Company"), which comprise the balance sheet as at 31 December 2015, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The 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 is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of parent company Globaltrans Investment Plc as at 31 December 2015, 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.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

OTHER MATTER

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 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 2015.

A. Loizou

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 30 March 2016

Income Statement
For the Year Ended 31 December 2015

	Note	2015 RUB '000	2014 RUB '000
Revenue	5	**4,243,124**	6,313,132
Selling and marketing costs		**(202,564)**	(1,875,167)
(including net impairment charge for loans receivable from related parties)		***(195,034)***	*(1,871,439)*
Administrative expenses		**(302,962)**	(113,073)
Provision for impairment of investments	14	**–**	(48,479)
Other income		**188,827**	–
Other gains	6	**19,477**	29,460
Operating profit		**3,945,902**	4,305,873
Finance costs	9	**(225,861)**	(356,873)
Net foreign exchange transaction gains on financing activities	9	**239,674**	270,167
Finance income/(costs) – net	9	**13,813**	(86,706)
Profit before tax		**3,959,715**	4,219,167
Income tax expense	10	**(195,000)**	(139,500)
Profit for the year		**3,764,715**	4,079,667

The notes on pages 121 to 144 are an integral part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2015

	2015 RUB '000	2014 RUB '000
Profit for the year	**3,764,715**	4,079,667
Other comprehensive income for the year, net of tax	**–**	–
Total comprehensive income for the year	**3,764,715**	4,079,667

The notes on pages 121 to 144 are an integral part of these financial statements.

Balance Sheet
At 31 December 2015

	Note	31 December 2015 RUB '000	31 December 2014 RUB '000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	**45,240,258**	45,240,297
Property, plant and equipment	13	**9,070**	1,818
Loans and other receivables	17	**1,460,286**	27,207
Total non-current assets		**46,709,614**	45,269,322
Current assets			
Loans and other receivables	17	**197,284**	8,602
Income tax assets		**13,649**	11,704
Cash and cash equivalents	18	**278,377**	173,078
Total current assets		**489,310**	193,384
Total assets		**47,198,924**	45,462,706
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	**516,957**	516,957
Share premium	19	**27,929,478**	27,929,478
Capital contribution		**2,694,851**	2,694,851
Retained earnings		**14,625,481**	10,860,766
Total equity		**45,766,767**	42,002,052
Non-current liabilities			
Borrowings	20	**1,406,128**	3,364,076
Total non-current liabilities		**1,406,128**	3,364,076
Current liabilities			
Borrowings	20	**6,778**	70,943
Payables and accrued expenses	21	**19,251**	25,635
Total current liabilities		**26,029**	96,578
Total liabilities		**1,432,157**	3,460,654
Total equity and liabilities		**47,198,924**	45,462,706

On 30 March 2016, the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Tolmachev
Director

Konstantin Shirokov
Director

The notes on pages 121 to 144 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2015

	Note	Share capital RUB '000	Share premium RUB '000	Capital contribution RUB '000	Retained earnings RUB '000	Total RUB '000
Balance at 1 January 2014		**516,957**	**27,929,478**	**2,694,851**	**10,762,714**	**41,904,000**
Comprehensive income						
Profit for the year		–	–	–	4,079,667	4,079,667
Total comprehensive income for 2014		–	–	–	4,079,667	4,079,667
Transactions with owners						
Dividend relating to 2013	12	–	–	–	(3,981,615)	(3,981,615)
Total distributions to owners of the Company		–	–	–	(3,981,615)	(3,981,615)
Total transactions with owners		–	–	–	(3,981,615)	(3,981,615)
Balance at 31 December 2014/1 January 2015		**516,957**	**27,929,478**	**2,694,851**	**10,860,766**	**42,002,052**
Comprehensive income						
Profit for the year		–	–	–	3,764,715	3,764,715
Total comprehensive income for 2015		–	–	–	3,764,715	3,764,715
Balance at 31 December 2015		**516,957**	**27,929,478**	**2,694,851**	**14,625,481**	**45,766,767**

The notes on pages 121 to 144 are an integral part of these financial statements.

Cash Flow Statement
For the Year Ended 31 December 2015

	Note	2015 RUB '000	2014 RUB '000
Cash flows from operating activities			
Profit before tax		**3,959,715**	4,219,167
Adjustments for:			
Depreciation of property, plant and equipment	13	**1,558**	880
Gain on sale of property, plant and equipment	7	**–**	(56)
Profit on sale of subsidiaries	6	**(159)**	–
Interest income not received		**(32,401)**	(62,759)
Interest expense	9	**208,918**	403,972
Loss/(gain) on extinguishment of financial liabilities	9	**16,943**	(47,099)
Net impairment loss of loans receivables	7	**195,034**	1,871,439
Impairment loss of investments	14	**–**	48,479
Net foreign exchange transaction losses on financing activities		**(185,366)**	(270,167)
Amortisation of financial guarantees	6	**(13,786)**	(27,572)
Dividend income		**(114,134)**	–
Operating cash flows before working capital changes		**4,036,322**	6,136,284
Changes in working capital:			
Other receivables		**5,022**	(5,042)
Payables and accrued expenses		**5,460**	(3,294)
Net cash generated from operations		**4,046,807**	6,127,948
Tax paid		**(195,000)**	(143,467)
Net cash generated from operating activities		**3,851,804**	5,984,481
Cash flows from investing activities			
Acquisition of subsidiaries	14	**(1)**	(7,527)
Disposal of subsidiaries	14	**201**	–
Indemnity received for financial guarantee	14	**–**	78,400
Purchases of property, plant and equipment	13	**(8,810)**	(655)
Proceeds from sale of property plant and equipment	13	**–**	207
Loans granted to related parties	22	**(2,401,050)**	(28,050)
Loan repayments received from related parties	22	**801,936**	28,215
Net cash (used in)/from investing activities		**(1,607,724)**	70,590
Cash flows from financing activities			
Repayment of borrowings – related parties	22	**(2,007,866)**	(1,490,224)
Interest paid – related parties		**(274,214)**	(473,572)
Dividends paid to Company's shareholders	12	**–**	(3,983,892)
Net cash used in financing activities		**(2,282,080)**	(5,947,688)
Net (decrease)/increase in cash and cash equivalents		**(38,000)**	107,383
Exchange gains on cash and cash equivalents		**144,509**	48,521
Cash and cash equivalents at beginning of year		**171,868**	15,964
Cash and cash equivalents at end of year	18	**278,377**	171,868

The notes on pages 121 to 144 are an integral part of these financial statements.

Notes to the Financial Statements

1. GENERAL INFORMATION

Country of incorporation

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

Approval of the financial statements

These financial statements were authorised for issue by the Board of Directors of the Company on 30 March 2016.

Global Depositary Receipts

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

Principal activities

The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

Consolidated financial statements

The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group). The consolidated financial statements can be obtained from the Company's website at www.globaltrans.com.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2015 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2015 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

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

New standards, interpretations and amendments to published standards

(a) *The Company has adopted the following new standards, amendments and interpretations as of 1 January 2015*:

- IFRIC 21 – Levies. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Company was not materially impacted by the application of this interpretation.

(b) *Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, that are expected to have an impact on the Company's financial statements and which the Company has not early adopted. Items marked with * have not been endorsed by the European Union (EU); the Company will only be able to apply new IFRS and IFRICs when endorsed by the EU.*

- **IFRS 9 "Financial Instruments: Classification and Measurement" *(issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).** Key features of the new standard are:
  - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Notes to the Financial Statements continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

- **Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 February 2015)**. The improvements consist of changes to seven standards of which only the following are considered to potentially have an impact in the separate financial statements of the Company. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Company is currently assessing the impact of the amendments on its financial statements.

- **Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016)**. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Company is currently assessing the impact of the amendments on its separate financial statements.

- **Disclosure Initiative Amendments to IAS 1 (issued in December 2015 and effective for annual periods on or after 1 January 2016)**. The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Company is currently assessing the impact of the amendments on its financial statements.

- **IFRS 16 "Leases" * (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019)**. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

- **Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 * (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017)**. The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Company is currently assessing the impact of the amendments on its financial statements.

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

Revenue recognition

Revenues earned by the Company are recognised on the following basis:

(a) Dividend income

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

(b) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian rouble. The financial statements are also presented in Russian roubles ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

(b) Transactions and balances

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

Up to 2014, the Company presented foreign exchange gains and losses that related to financial liabilities in the income statement within 'Finance costs' and foreign exchange gains and losses that related to cash and cash equivalents, loans and dividends receivable in the income statement within 'Finance income'. Management has considered this presentation and has decided to reflect the net foreign exchange differences arising from financial liabilities, cash and cash equivalents, loans and dividends receivable on the face of the income statement in the line "net foreign transaction gains on financing activities", with the appropriate disclosure of the split presented in the note "finance income/(costs) – net". The comparatives have also been amended to reflect this presentation.

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

Employee benefits

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

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

Termination benefits

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

Current and deferred income tax

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

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

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

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

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

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

Dividend distribution

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

Notes to the Financial Statements continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Operating leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Property, plant and equipment

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

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

	Number of years
Motor vehicles	3-5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

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

Investments in subsidiary undertakings

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

In cases of acquisitions of subsidiaries from entities under common control or subsidiaries of the Company, the cost of acquisition is determined to be the fair value of the investment acquired as opposed to the transaction price. Any differences between the transaction price and the fair value of the investment acquired reflect notional contributions/distributions from entities under common control or subsidiaries and are recognised as such, i.e. directly in equity in cases of transactions with common control entities and as an additional contribution to or distribution from the subsidiary transferring the investment to the Company.

Group reorganisations resulting into an exchange of non-financial assets and where the future cash inflows before and after the reorganisation do not change as a result of the reorganisation are considered to lack commercial substance and no gains or losses are recognised relating to such restructurings.

Indemnification assets received for contingent liabilities of the investments in subsidiaries that existed at the time of acquisition of such subsidiaries are recognised against the cost of the relevant investment.

Deferred consideration

Deferred consideration arises when settlement of all or any part of the cost of an acquisition is deferred. Deferred consideration is stated at fair value at the date of acquisition, which is determined by discounting the amounts due to present value using market interest rates at the date of initial recognition. Interest is accrued on the fair value of deferred consideration at the original effective interest rate and is recognised in finance costs.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts, including costs or fees incurred for the modification, is recognised in profit or loss within finance costs. When the terms of the existing financial liability are not substantially modified, the existing liability is not derecognised and the gain/loss arising on the modification, including costs or fees incurred for the modification is recognised in profit or loss within finance costs.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Financial assets

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

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

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

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

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

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

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 Financial Statements continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Borrowings

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

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

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

Financial guarantees

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

Fair values of financial guarantees issued in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investment in the respective subsidiary in the financial statements of the Company.

Trade and other payables

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

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

Cash and cash equivalents

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

Transactions with equity owners/subsidiaries

The Company enters into transactions with its shareholders and subsidiaries. When consistent with the nature of the transaction, the Company's accounting policy is to recognise (a) any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contribution or the payment of dividends; and (b) any losses with subsidiaries as cost of investment in subsidiaries. Similar transactions with non-equity holders, or subsidiaries, are recognised through the income statement in accordance with IAS 39, Financial Instruments Recognition and Measurement.

Cash flow statement

Cash flows arising from dividend income and interest income on loans granted to related parties which form part of the revenue of the Company are reported as part of operating activities in the cash flow statement. Interest income received on other balances which form part of the Company's finance income are reported within cash flows from investing activities in the cash flow statement. Interest expense arising from deferred consideration for acquisition in subsidiaries is recognised within financing activities. Principal payments of deferred consideration are recognised as acquisition of subsidiaries within cash flows from investing activities.

Comparatives

Up to 2014, the Company presented foreign exchange gains and losses that related to financial liabilities in the income statement within 'Finance costs' and foreign exchange gains and losses that related to cash and cash equivalents, loans and dividends receivable in the income statement within 'Finance income'. Management has considered this presentation and has decided to reflect the net foreign exchange differences arising from financial liabilities, cash and cash equivalents, loans and dividends receivable on the face of the income statement in the line "net foreign transaction gains on financing activities", with the appropriate disclosure of the split presented in the note "finance income/(costs) – net". The comparatives have also been amended to reflect this presentation.

The impact of this reclassification on the profit or loss financial statement lines for the year ended 31 December 2014 is summarised in the table below:

	As previously stated RUB '000	Reclassification RUB '000	As restated RUB '000
Finance costs	(910,480)	553,607	(356,873)
Finance income	823,774	(823,774)	–
Net foreign exchange transaction losses on financing activities	–	270,167	270,167
Finance income/(costs) – net	(86,706)	–	(86,706)

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

Market risk

(a) Foreign exchange risk

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

From the beginning of 2014, there has been increased volatility in currency markets and the Russian rouble has depreciated significantly against some major currencies, especially in the last quarter of 2014. As of end of December 2015, the Russian rouble has depreciated against the US dollar from 56.2584 as of 31 December 2014 to 72.8827 Russian roubles (29.6% devaluation).

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

The carrying amounts of monetary assets and liabilities denominated in US dollars as at 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB '000	2014 RUB '000
Assets	**765,692**	178,650
Liabilities	–	780,125

Had the US dollar exchange rate strengthened/weakened by 30% against the Russian rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2015 would have increased/decreased by RUB 200,994 thousand (2014: 70% change, effect RUB (367,140) 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 2015 and US dollar-denominated loans receivable, cash and cash equivalents and borrowings as of 31 December 2014.

During the year ended 31 December 2014, Company has impaired fully loans receivable from its subsidiary, Ukrainian New Forwarding Company OOO, in the amount of RUB 2,177,628 thousand which were denominated in US dollars, therefore, although the Company is subject to foreign exchange risk in relation to these loans, yet, any foreign exchange difference arising on these loans as a result of fluctuations in the Russian rouble to US dollar exchange rate would trigger an opposite and equivalent adjustment to the impairment for these loans and therefore would not have an impact on the profit or loss of the Company.

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

(b) Cash flow and fair value interest rate risk

The Company holds interest bearing financial instruments at both fixed and floating rates interest rates.

Financial assets and liabilities issued at fixed rates expose the Company to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2015 and 31 December 2014 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 2015 and 31 December 2014, the Company did not have any floating interest rate borrowings or receivables, therefore was not exposed to cash flow interest rate risk.

(c) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of loans and other receivables (Note 17), cash and cash equivalents (Note 18) and financial guarantees (Note 22).

Taking into consideration the current weak market environment in the Russian Federation and the ongoing economic uncertainties in Ukraine, management has assessed the recoverable amount of its investments in and loans to subsidiaries as described in Note 4. As a result of these impairment assessments, an impairment provision amounting to RUB 304,358 thousand was recognised in relation to loan granted to Ural Wagonrepair Company ZAO, a Russian subsidiary of the Company during the year ended 31 December 2015.

During 2014, following the difficult economic situation in Ukraine, management has assessed that the entire balance of the loans outstanding from Ukrainian New Forwarding Company (UNFC), a Ukrainian subsidiary of the Company, was fully impaired and provided for them in full as of 31 December 2014, raising an impairment provision of RUB 1,871,439 thousand for the year ended 31 December 2014.

The majority of bank balances are held with independently rated parties with a minimum rating of 'Caa2'. This enables the Company to reduce its credit risk significantly.

Other than as explained above, as of 31 December 2015 and 31 December 2014, there were no other loans and other receivables or cash and cash equivalents that were past due or impaired.

The Company has issued financial guarantees on the borrowings of its subsidiaries (Note 22). As a result, the Company is exposed to credit risk arising from potential risk of default of the Company's subsidiaries on their external debt. As of 31 December 2015 and 31 December 2014, none of the Company's subsidiaries had defaulted on or breached any covenants on their borrowings.

Notes to the Financial Statements continued

3. FINANCIAL RISK MANAGEMENT CONTINUED

(d) Liquidity risk

As at 31 December 2015, the Company has an excess of current assets over current liabilities of RUB 463,281 thousand (2014: excess of current assets over current liabilities of RUB 96,806 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 2015 and 31 December 2014. The amounts in the table are contractual undiscounted cash flows. Non-interest bearing trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month RUB '000	Between one month and three months RUB '000	Between three and six months RUB '000	Between 6 months to 1 year RUB '000	Over 1 year RUB '000	Total RUB '000
As of 31 December 2015						
Trade and other payables[1]	–	16,769	–	–	–	**16,769**
Borrowings	–	–	–	152,313	1,697,196	**1,849,509**
Financial guarantee contracts[2]	15,170,857	241,737	–	–	–	**15,412,594**
	15,170,857	258,506	–	152,313	1,697,196	**17,278,872**
As of 31 December 2014						
Trade and other payables[1]	11,849	–	–	–	–	**11,849**
Borrowings	1,210	–	–	368,631	4,277,715	**4,647,556**
Financial guarantee contracts[2]	12,392,657	11,607,908	104,528	–	–	**24,105,093**
	12,405,716	11,607,908	104,528	368,631	4,277,715	**28,764,498**

1 Trade and other payables exclude statutory liabilities as the analysis is provided for financial liabilities only.
2 The maximum possible amount of obligation under financial guarantee contracts is disclosed at the earliest time it may be called.

(e) Capital risk management

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

For defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalisation ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

Total capitalisation is calculated as the sum of the total borrowings and net assets at the date of calculation. The management does not currently have any specific target on the rate of borrowings to total capitalisation.

The rate of borrowings to total capitalisation as at 31 December 2015 and 31 December 2014 are as follows:

	2015 RUB '000	2014 RUB '000
Total borrowings	**1,412,906**	3,435,019
Total capitalisation	**47,179,673**	45,437,071
Total borrowings to total capitalisation ratio (percentage)	**2.99%**	7.56%

(f) Fair value estimation

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

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

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one measurements are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy.

If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using discounted cash flow valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Refer to Note 17.

The fair value as at 31 December 2015 of fixed interest rate instruments with stated maturity with subsidiary entities was estimated based on expected cash flows discounted using the rate of similar instruments, denominated in the same currency, entered into by the subsidiaries of the Company on their bank borrowings close to the year-end. In the absence of similar instruments entered into by a subsidiary of the Company with non-related parties close to the year-end, due to the adverse fluctuation of interest rates, the estimated fair value was estimated based on expected cash flows discounted at an estimated rate that reflects management's best estimate of the current interest rate of new instruments, denominated in a similar currency and with similar credit risk and remaining maturity.

In the absence of similar instruments entered into by the subsidiaries of the Company with non-related parties close to 31 December 2014, due to the adverse fluctuation of interest rates, the estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at an estimated rate of MosPrime[3] plus a margin. Such rate was management's best estimate of the interest rate it would receive for new instruments with similar credit risk and remaining maturity.

The discount rate used for US dollar-denominated loans to related parties as at 31 December 2015 was 8% (31 December 2014: no significant US dollar-denominated loans to related parties). The discount rates used for Russian rouble-denominated loans to related parties as at 31 December 2015 ranged between 12.3% and 17.7% (31 December 2014: a rate of 21.31% based on 6-month MOSPRIME + 2.99% p.a.). The fair value measurements of loans to related parties as at 31 December 2015 and 31 December 2014 are within level 3 of the fair value hierarchy. Refer to Note 17.

The fair value of financial assets payable 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 2015, the fair value of fixed interest rate instruments with stated maturity denominated in Russian roubles was estimated based on expected cash flows discounted using the rate of similar Russian rouble-denominated instruments entered into by the subsidiaries of the Company on their bank borrowings close to 31 December 2015.

As at 31 December 2014, the estimated fair value of fixed interest rate instruments with stated maturity denominated in a currency other than the Russian rouble was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

In the absence of similar Russian rouble-denominated instruments entered into by any of the subsidiaries of the Company close to 31 December 2014, due to the adverse fluctuation of interest rates, the fair value as at 31 December 2014 of fixed interest rate instruments with stated maturity denominated in Russian roubles was estimated based on expected cash flows discounted at an estimated rate of MosPrime[3] plus a margin. Such rate was management's best estimate of the interest rate it would achieve had it entered into a similar instrument as at the year end.

The discount rate used for Russian rouble-denominated borrowings from related parties as at 31 December 2015 was used was 12.30% (2014: 26.48% to 27.26%) depending on the term of the facility (Note 20). The discount rate used for US dollar-denominated borrowings as at 31 December 2014 was 3.95%. There were no US dollar-denominated borrowings as at 31 December 2015. The fair value measurements of liabilities as at 31 December 2015 and 31 December 2014 are within level 3 of the fair value hierarchy.

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

3 MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian rouble deposits.

Notes to the Financial Statements continued

4. CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENTS

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

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

(a) Critical accounting estimates

1. Fair value of guarantees issued

Management estimated the fair value of the free of charge guarantees issued by the Company to secure the liabilities of its subsidiaries based on the best estimate of expenditure required to settle the obligation.

The fair values on initial recognition of guarantees issued by the Company for unsecured obligations of its subsidiaries in accordance with loan agreements with financial institutions were estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries, and loss given default, as estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the guarantees. Management estimated the fair value of these guarantees at RUB Nil, since the distressed sale value of net assets of the subsidiaries exceeded the amount of their obligation and thus, in case of default, the Company will be able to recover its losses under the issued guarantee from the respective subsidiaries in full.

The fair values on initial recognition of the financial guarantees issued by the Company for the obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary have been estimated at RUB Nil, since, in case of default, the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

At the end of each reporting period, the Company assesses whether any provision is needed for the guarantees in issue as of that date. As of 31 December 2015 and 31 December 2014, management has reviewed the financial condition and performance of its subsidiaries and their ability to service the loans which are being guaranteed by the Company and has assessed that no need for provisioning arises in relation to any of the guarantees issued by the Company.

2. Assessment of recoverability of investment in subsidiaries

At each balance sheet date, the Company reviews its investments in subsidiaries for any indication of impairment in accordance with the accounting policy stated in Note 2.

Russian subsidiaries

As of 31 December 2015, the management considered the deterioration in the general market and industry conditions in the Russian Federation and has performed impairment assessment in relation to its investments in subsidiaries operating in this market, namely New Forwarding Company AO and GTI Management OOO.

In view of the fact that the activities of New Forwarding Company AO and GTI Management OOO involve significant intra-group transactions of rolling stock leases and there is also ongoing restructuring of activities between these group entities, management has assessed that allocation of value between New Forwarding Company AO and GTI Management OOO would not be possible on a non-arbitrary basis. Therefore, management has assessed impairment on a combined basis, rather than on a legal entity basis, which is consistent with how the operations of these two entities are monitored by management for the purposes of the consolidated financial statements.

The equity value of New Forwarding Company AO and GTI Management OOO was determined based on their enterprise value after deducting their net debt. The enterprise value of these subsidiaries has been estimated based on (i) value in use calculations for the purposes of estimating the enterprise value of the Russian gondola cars/operator's services segment and (ii) fair value less costs to sell and value in use calculations on a case by case basis for the remaining types of rolling stock held by these subsidiaries.

Based on the assessment performed, the equity value of New Forwarding Company AO and GTI Management OOO exceeds the carrying amount of the investments in subsidiaries in the Company's separate financial statements. Management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of these subsidiaries is based would not cause their combined carrying amounts to exceed their combined recoverable amounts.

Further, the Company has assessed whether there were any impairment indicators in relation to the Russian subsidiary operating in the tank cars segment, namely BaltTransServis OOO. Based on the financial performance of this entity, management has concluded that no impairment indicators arise in respect of this investment.

3. Impairment assessment of loans receivable from subsidiaries

Taking into consideration the current weak market environment in the Russian Federation and the ongoing economic uncertainties in Ukraine, management has assessed the recoverable amount of its loans to subsidiaries.

Loan granted to Ural Wagonrepair Company ZAO

As a result of impairment assessment performed regarding the loan granted to Ural Wagonrepair Company ZAO, a Russian subsidiary of the Company, during 2015, an impairment provision amounting to RUB 304,358 thousand was recognised in relation to this loan.

The recoverable amount of the loan was determined based on the present value of the expected cash flows to be received from the loan, discounted at the original effective interest rate. The cash flow projections have been determined by reference to management's estimates which are based on historical financial performance of the subsidiary, as adjusted to take into consideration the impact of prevailing industry and market conditions.

If the present value of the projected cash flows had been 10% higher/lower than management's estimate at 31 December 2015, the recoverable amount would increase/decrease, resulting in a lower/an additional impairment loss of RUB 44,483 thousand in relation to this loan receivable.

Loans granted to Ukrainian New Forwarding Company OOO
As at 31 December 2014, the Company's Ukrainian subsidiary, namely Ukrainian New Forwarding Company OOO (UNFC), had borrowings from the European Bank for Reconstruction and Development, (EBRD) for which the Company acted as a guarantor. Based on impairment assessment performed as of that date, and in view of the volatile economic environment in Ukraine and the external indebtedness of UNFC, management concluded that the Company would not be able to recover material amounts from its loans to UNFC in the foreseeable future and proceeded to impair the loans in full, in the amount of RUB 2,177,628 thousand with the impairment charge for the year 2014 being RUB 1,871,439 thousand.

During the year ended 31 December 2015, the Company provided a new loan to UNFC to repay the loan from EBRD in full. Management has considered the fair value of the loan to UNFC on initial recognition and has assessed that no fair value losses arise on initial recognition of this loan based on the discounted projected cash flows of UNFC, discounted at a market interest rate prevailing at the date of initial recognition.

The cash flow projections have been determined by reference to management's estimates which are based on historical financial performance of the subsidiary, as adjusted to take into consideration the impact of prevailing industry and market conditions. These calculations require the use of estimates and are sensitive to changes in the underlying variables and assumptions used in the determination of the recoverable amount of this loan receivable. The main assumption is the market interest rate prevailing for similar loans on the initial recognition of this loan, which was estimated at 8% p.a.

If the discount rate had been 1% higher than management's estimate at 31 December 2015 the recoverable amount would decrease, resulting in a fair value loss of RUB 6.589 thousand recognised on initial recognition of the loan receivable from the subsidiary.

In the period subsequent to the repayment of the EBRD loan by the Company, the subsidiary made repayments to the Company under the loan agreements the carrying amount of which had been fully impaired in 2014, resulting into a reversal of impairment amounting to RUB 109,324 thousand recognised during the year 2015.

Based on impairment assessment performed by management as of 31 December 2015, management concluded that no additional impairment provisions/reversal of impairment provisions are considered necessary in respect of this loan. In addition, in view of the ongoing uncertainty in Ukraine, management did not recognise any additional reversals of impairment under the previous loans to the subsidiary, as it did not expect that the Company would recover in the foreseeable future any amount over the carrying amount of the loans as at the year end.

4. Income taxes
Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Critical judgements in the application of the Company's accounting policies

Initial recognition of related party transactions
In the normal course of business, the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 22.

5. REVENUE

	2015 RUB '000	2014 RUB '000
Interest on loans to related parties (Note 22)	**89,902**	62,870
Dividend income (Note 22)	**4,153,222**	6,250,262
Total	**4,243,124**	6,313,132

6. OTHER GAINS

	2015 RUB '000	2014 RUB '000
Net foreign exchange transaction gains on non-financing activities (Note 11)	**5,532**	1,888
Profit from sale of subsidiaries (Note 14)	**159**	–
Amortisation of financial guarantees (Note 22)	**13,786**	27,572
Other gains	**19,477**	29,460

Notes to the Financial Statements continued

7. EXPENSES BY NATURE

	2015 RUB '000	2014 RUB '000
Statutory auditor's remuneration for audit services	**27,137**	19,607
Audit fees charged by the Company's statutory auditor – prior year	–	(5,732)
Advertising and marketing expenses	**7,530**	3,728
Office rent	**3,391**	1,890
Depreciation of property, plant and equipment (Note 13)	**1,558**	880
Net impairment charge for loans receivable from related parties (Note 17)	**195,034**	1,871,439
Employee benefit expense (Note 8)	**154,978**	10,283
Legal, consulting and other professional services[4]	**46,160**	30,370
Bank charges	**2,613**	1,489
Non-executive directors' fees (Note 22)	**21,427**	14,263
Travel expenses	**22,072**	22,765
Profit on sale of property, plant and equipment (Note 13)	–	(56)
Stock exchange and financial regulator fees	**3,111**	2,450
Taxes other than on income	**10,194**	7,290
Other expenses	**10,321**	7,574
Total selling and marketing costs and administrative expenses	**505,526**	1,988,240

4 Includes RUB 627 thousand for the year 2015 (RUB 153 thousand for the year 2014) in fees paid to the Company's statutory auditor for tax consultancy services.

8. EMPLOYEE BENEFIT EXPENSE

	2015 RUB '000	2014 RUB '000
Wages and salaries	**65,993**	9,162
Termination benefit	**86,487**	
Social security costs	**2,498**	1,121
Total employee benefit expense	**154,978**	10,283

9. FINANCE INCOME/(COSTS) – NET

	2015 RUB '000	2014 RUB '000
Included in finance costs:		
Interest expense on borrowings from related parties (Note 22)	**(208,918)**	(397,533)
Interest expense on payables to related parties (Note 22)	–	(6,439)
Total interest expense	**(208,918)**	(403,972)
(Loss)/gain from extinguishment of financial liabilities (Note 22)	**(16,943)**	47,099
Total finance costs	**(225,861)**	(356,873)
Net foreign exchange transaction gains on cash and cash equivalents, loans and dividends receivable	**274,990**	823,774
Net foreign exchange transaction (losses)/gains on borrowings and other financial liabilities	**(35,316)**	(553,607)
Net foreign exchange transactions gains from financing activities (Note 11)	**239,674**	270,167
Finance income/(costs) – net	**13,813**	(86,706)

10. INCOME TAX EXPENSE

	2015 RUB '000	2014 RUB '000
Current tax:		
Withholding tax on dividends receivable	**195,000**	139,500
Total tax expense	**195,000**	139,500

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

	2015 RUB '000	2014 RUB '000
Profit before tax	**3,959,715**	4,219,167
Tax calculated at the applicable tax rate	**494,964**	527,396
Tax effect of expenses not deductible for tax purposes	**29,921**	251,146
Tax effect of allowances and income not subject to tax	**(520,896)**	(798,455)
Foreign withholding tax on dividends receivable	**195,000**	139,500
Tax effect of utilisation of tax losses for which deferred tax not was previously recognised	**(3,990)**	–
Tax effect of tax losses for which no deferred tax was recognised	**–**	19,913
Tax charge	**195,000**	139,500

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 2015, the Company has tax losses carried forward amounting RUB 1,461,026 thousand (2014: RUB 1,248,936 thousand) for which no deferred tax was recognised as profits for future periods against which these losses can be utilised cannot be estimated with sufficient reliability.

11. NET FOREIGN EXCHANGE GAINS

	2015 RUB '000	2014 RUB '000
Finance income/(costs) – net (Note 9)	**239,674**	270,167
Other gains (Note 6)	**5,532**	1,888
Total foreign exchange gains	**245,206**	272,055

12. DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2014 and 31 December 2015.

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

During the years ended 31 December 2015 and 31 December 2014, the Company declared and paid as detailed in the table below.

	2015 RUB '000	2014 RUB '000
Dividends declared	**–**	3,981,615
Dividends paid	**–**	3,983,892

Notes to the Financial Statements continued

13. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles RUB '000	Total RUB '000
At 1 January 2014		
Cost	2,751	2,751
Accumulated depreciation	(557)	(557)
Net book amount	**2,194**	**2,194**
Year ended 31 December 2014		
Additions	655	655
Disposals	(151)	(151)
Depreciation charge (Note 7)	(880)	(880)
Closing net book amount	**1,818**	**1,818**
At 31 December 2014/1 January 2015		
Cost	**2,710**	**2,710**
Accumulated depreciation	**(892)**	**(892)**
Net book amount	**1,818**	**1,818**
Year ended 31 December 2015		
Additions	**8,810**	**8,810**
Depreciation charge (Note 7)	**(1,558)**	**(1,558)**
Closing net book amount	**9,070**	**9,070**
At 31 December 2015		
Cost	**11,520**	**11,520**
Accumulated depreciation	**(2,450)**	**(2,450)**
Net book amount	**9,070**	**9,070**

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

	2015 RUB '000	2014 RUB '000
Net book amount	–	151
Gain on sale of property, plant and equipment (Note 7)	–	56
Consideration from sale of property, plant and equipment	–	207

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

	2015 RUB '000	2014 RUB '000
Consideration received from sale of property, plant and equipment	–	207

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2015 RUB '000	2014 RUB '000
At beginning of year	**45,240,297**	45,364,649
Contribution into the capital of subsidiary	–	97
Additions	**1**	2,430
Disposals	**(40)**	–
Indemnification received	–	(78,400)
Impairment of investments	–	(48,479)
At end of year	**45,240,258**	45,240,297

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 (%)	
			2015	2014	2015	2014	2015	2014
New Forwarding Company O O	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
GTI Management OOO[5]	Russia	Railway transportation	**100**	100	**100**	100	**–**	–
Steeltrans OOO[6]	Russia	Railway transportation	**–**	100	**–**	100	**–**	–
Amalfico Holdings Limited[7]	Cyprus	Intermediary holding company	**–**	100	**–**	100	**–**	–
Ural Wagonrepair Company ZAO[8]	Russia	Repair and maintenance of rolling stock	**100**	3	**100**	100	**–**	–
Ukrainian New Forwarding Company OOO	Ukraine	Railway transportation	**100**	100	**100**	100	**–**	–
BaltTransServis OOO[9]	Russia	Railway transportation	**60**	60	**60**	60	**40**	40
RemTransServis OOO	Russia	Repair and maintenance of rolling stock	**–**	–	**59.4**	59.4	**40.6**	40.6
SyntezRail LLC[11]	Russia	Railway transportation	**–**	–	**60**	100	**–**	–
SyntezRail Ltd[11]	Cyprus	Intermediary holding company	**60**	100	**60**	100	**–**	–
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[10]	Finland	Operating sub-lease of rolling stock	**–**	–	**65.25**	65.25	**34.75**	34.75
Spacecom Trans AS	Estonia	Operating lease of rolling stock	**65**	65	**65**	65	**35**	35

5 GTI Management OOO was formed during the year ended 31 December 2014 as a result of a merger of the 100% subsidiaries of the Company, Sevtekhnotrans OOO and Ferrotrans OOO. No gains or losses were recognised with respect to this transaction.

6 During the year ended 31 December 2015, Steeltrans OOO was merged with New Forwarding Company AO. No gains or losses were recognised with regards to this transaction.

7 Amalfico Holding Limited was liquidated in January 2015. No liquidation proceeds were received.

8 During 2014, the Company acquired the remaining 3% interest of Ural Wagonrepair Company ZAO. As a result, as of 31 December 2014, the Company had a 3% direct ownership and 97% indirect ownership in the subsidiary. During 2015, the Company acquired from Steeltrans OOO the 97% of Ural Wagonrepair Company ZAO for a nominal consideration of USD 1, which was estimated by management to equal the fair value of the additional interest acquired in the subsidiary as of that date. As a result, no gains or losses were recognised in respect of this transaction.

9 BaltTransServis OOO was held through intermediate holding entities, Ingulana Holdings Limited and Ultracare Holdings Limited. A restructuring took place in 2014 following which BaltTransServis OOO is held directly by the Company. The two intermediate holding entities were disposed in December 2014. No gains or losses arose in this respect.

10 Ekolinja Oy is a 100% subsidiary of Spacecom AS.

11 SyntezRail LLC and SyntezRail Ltd have been incorporated in 2014 and started activity in December 2014. During 2015, the Company disposed 40% of its shareholding in SyntezRail Ltd to a third party.

Acquisition of subsidiary during the year 2015

During 2015, the Company acquired from Steeltrans OOO 97% of Ural Wagonrepair Company ZAO for a nominal consideration of USD 1. In line with the Company's accounting policy for acquisition of subsidiaries from subsidiaries (Note 2), the shareholding acquired was recognised at fair value. Management assessed that the contractual consideration paid for the acquisition of the 97% interest in Ural Wagonrepair Company ZAO was equal to the fair value of the interest acquired as of that date. As a result, no gains or losses were recognised in respect of this transaction.

Partial disposal of investment in subsidiary during the year 2015

During 2015, the Company disposed 40% of its shareholding in SyntezRail Ltd to a third party for a total consideration of RUB 201 thousand, realising a gain on disposal of RUB 159 thousand (Note 6). As a result, the effective interest of the Company in SyntezRail LLC also reduced to 40%.

Acquisition of investment in subsidiary during the year 2014

During 2014, the Company acquired the remaining 3% interest of Ural Wagonrepair Company ZAO for a consideration of RUB 2,430 thousand. As a result, as of 31 December 2014, the Company had a 3% direct ownership and 97% indirect ownership in the subsidiary.

Indemnification received in relation to financial guarantee during the year 2014

During the year 2014, the Company received an indemnification of RUB 78,400 thousand in relation to a financial guarantee contract entered into by Steeltrans OOO, a subsidiary of the Company, before its acquisition by the Company in 2013. Steeltrans OOO was a guarantor in two lease agreements entered into by a third party who defaulted in its payments. The default of the lessee in the arrangement and the requirement for Steeltrans OOO to compensate the lessor formed a breach of the warranties entered into in the share purchase agreement for the acquisition of Steeltrans OOO by the Company. As a result, the Company was compensated by the amount of RUB 78,400 thousand from the previous shareholder of Steeltrans OOO. In these separate financial statements, the indemnification received was recognised as a reduction to the cost of the investment in Steeltrans OOO. The guarantee was settled in full by Steeltrans OOO as of 31 December 2014 and no loss arose.

Notes to the Financial Statements continued

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS CONTINUED

Impairment of investment in subsidiary during the year 2014

During 2014, in view of the continued political and economic uncertainty in Ukraine as explained in Note 23, management has assessed as to whether its 100% subsidiary in Ukraine, namely Ukrainian New Forwarding Company, (UNFC), has suffered any impairment. As a result of the impairment assessment performed by management, the entire carrying amount of the investment in UNFC was impaired in full, in the amount of RUB 48,479 thousand. The recoverable amount of this investment has been determined based on value-in-use calculations. These calculations require the use of estimates. In view of the significant indebtedness of UNFC as of 31 December 2014, including its debt towards the Company, management has assessed that it will not be able to recover any amounts from this investment and has impaired the carrying amount of the investment in full.

The following amounts are included in the statement of cash flows in relation to disposals/(acquisitions) of subsidiaries:

	2015 RUB '000	2014 RUB '000
Disposal of SyntezRail Limited	**201**	–
Acquisition of OOO Ferrotrans	**–**	(5,000)
Acquisition of Ural Wagonrepair Company ZAO	**(1)**	(2,430)
Contribution to the share capital of SyntezRail Ltd	**–**	(97)
Total cash inflow/(outflow) from/for the disposal/(acquisition) of subsidiaries	**200**	(7,527)

15. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied in the line items below:

31 December 2014	Loans and receivables RUB '000	Total RUB '000
Financial assets as per balance sheet		
Loans and other receivables[12]	32,833	**32,833**
Cash and cash equivalents	173,078	**173,078**
Total assets	205,911	**205,911**

	Financial liabilities measured at amortised cost RUB '000	Other financial liabilities RUB '000	Total RUB '000
Financial liabilities as per balance sheet			
Payables and accrued expenses	11,849	–	**11,849**
Borrowings	3,435,019	–	**3,435,019**
Financial guarantees[13]	–	13,786	**13,786**
Total liabilities	3,446,868	13,786	**3,460,654**

31 December 2015	Loans and receivables RUB '000	Total RUB '000
Financial assets as per balance sheet		
Loans and other receivables[12]	1,653,993	**1,653,993**
Cash and cash equivalents	278,377	**278,377**
Total assets	1,932,370	**1,932,370**

	Financial liabilities measured at amortised cost RUB '000	Other financial liabilities RUB '000	Total RUB '000
Financial liabilities as per balance sheet			
Payables and accrued expenses	16,769	–	**16,769**
Borrowings	1,412,906	–	**1,412,906**
Total liabilities	1,429,675	–	**1,429,906**

12 Loans and other receivables do not include taxes and prepayments.
13 Financial guarantees are carried at the higher of (a) the amount initially recognised less cumulative amortisation and (ii) the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

16. CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating if available or to historical information about counterparty default rates:

	2015 RUB '000	2014 RUB '000
Counterparties without external credit rating		
Group 1	**1,209,164**	27,207
Group 2	**–**	5,626
	1,209,164	32,833

Cash at bank and short-term bank deposits Agency	Rating	2015 RUB '000	2014 RUB '000
Moody's*	A1	**–**	17
Moody's*	Aa3	**72,879**	–
Moody's*	A2	**–**	26
Moody's*	Baa1	**–**	170,803
Moody's*	Baa2	**202,565**	
Moody's*	Ba1	**–**	611
Moody's*	Ba2	**597**	–
Moody's*	Caa2	**2,325**	–
Moody's*	Caa3	**–**	1,621
No rating – assessed of satisfactory credit quality		**11**	–
Total cash at bank and short-term bank deposits		**278,377**	173,078

* International rating agency Moody's Investors Service.

Group 1 – Related party loans with no default in the past.
Group 2 – Other receivables with no default in the past.

17. LOANS AND OTHER RECEIVABLES

	2015 RUB '000	2014 RUB '000
Loans to related parties (Note 22)	**4,561,437**	2,204,835
Less: Provision for impairment of loans to related parties	**(3,021,578)**	(2,177,628)
Loans to related parties – net (Note 22)	**1,539,859**	27,207
Dividends receivable (Note 22)	**114,134**	–
Other receivables – third parties	**–**	5,626
Prepayments – third parties	**3,577**	2,976
Total loans and other receivables	**1,657,570**	35,809
Less non-current portion:		
Loans to related parties (Note 22)	**1,460,286**	27,207
Non-current portion of loans to related parties – net (Note 22)	**1,460,286**	27,207
Total non-current portion	**1,460,286**	27,207
Current portion	**197,284**	8,602

The contractual average interest rate on loans receivable from related parties was 8.5% at 31 December 2015 (31 December 2014: 10%). Non-current receivables mature by 31 December 2018 (2014: 31 October 2017). The effective interest rate on loans receivables from related parties was 11.72% (2014: 9.14%).

The fair values of non-current loans are as follows:

	2015 RUB '000	2014 RUB '000
Financial assets		
Loans to related parties	**1,386,783**	18,961
Total financial assets	**1,386,783**	18,961

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

As at 31 December 2015, the fair values of US dollar-denominated loans to related parties are based on cash flows discounted using a rate 8% (31 December 2014: no significant US dollar-denominated loans to related parties). The discount rates used for Russian rouble-denominated loans to related parties as at 31 December 2015 ranged between 12.3% and 17.7% (31 December 2014: a rate of 21.31% based on 6-month MOSPRIME + 2.99% p.a.). The fair value measurements of loans to related parties as at 31 December 2015 and 31 December 2014 are within level 3 of the fair value hierarchy.

Notes to the Financial Statements continued

17. LOANS AND OTHER RECEIVABLES CONTINUED

The table below summarises the analysis of loans and other receivables under contractual terms of settlement at the balance sheet date for the year ended 31 December 2015 and 31 December 2014:

	Fully performing RUB '000	Past due RUB '000	Impaired RUB '000	Impairment provision RUB '000	Total RUB '000
As of 31 December 2015					
Loans receivable	1,095,030	–	3,466,407	(3,021,578)	**1,539,859**
Other receivables	114,134	–	–	–	**114,134**
	1,209,164	–	3,466,407	(3,021,578)	**1,653,993**
As of 31 December 2014					
Loans receivable	27,207	–	2,177,628	(2,177,628)	**27,207**
Other receivables	5,626	–	–	–	**5,626**
	32,833	–	2,177,628	(2,177,628)	**32,833**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Company does not hold any collateral as security for any receivables.

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

	2015			2014		
	Loans receivable RUB '000	Other receivables RUB '000	Total RUB '000	Loans receivable RUB '000	Other receivables RUB '000	Total RUB '000
At 1 January	**2,177,628**	**–**	**2,177,628**	177,512	–	177,512
Provision for receivables impairment (Note 7)	**304,358**	**–**	**304,358**	1,871,439	–	1,871,439
Reversal of provision for receivables impairment (Note 7)	**(109,324)**	**–**	**(109,324)**	–	–	–
Foreign exchange difference	**648,916**	**–**	**648,916**	130,476	–	130,476
Write-off	**–**	**–**	**–**	(1,799)	–	(1,799)
At 31 December	**3,021,578**	**–**	**3,021,578**	2,177,628	–	2,177,628

The creation and release of provision for impaired receivables have been included in "selling and marketing costs" in the income statement (Note 7). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

Impaired loans include loans to Ukrainian New Forwarding Company OOO and Ural Wagonrepair Company ZAO with a total gross carrying amount of RUB 3,021,578 thousand as of 31 December 2015 (RUB 2,177,628 thousand as of 31 December 2014). During the year 2015, the Company recognised a reversal of provision for impairment of the loans to Ukrainian New Forwarding Company OOO, amounting to RUB 109,324 thousand, due to repayments done by the subsidiary during the year that were fully provided for during 2014. Refer also to Note 4.

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

	2015 RUB '000	2014 RUB '000
US dollars	**498,691**	6,937
Russian roubles	**1,156,194**	28,361
Euro	**912**	511
Other	**1,773**	–
Total loans and other receivables	**1,657,570**	35,809

18. CASH AND CASH EQUIVALENTS

	2015 RUB '000	2014 RUB '000
Cash at bank	**278,377**	173,078
Total cash and cash equivalents	**278,377**	173,078

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

	2015 RUB '000	2014 RUB '000
Cash and cash equivalents	**278,377**	173,078
Bank overdrafts (Note 20)	**–**	(1,210)
	278,377	171,868

Cash and cash equivalents are denominated in the following currencies:

	2015 RUB '000	2014 RUB '000
US dollars	**267,001**	171,713
Russian roubles	**9,807**	590
Euro	**1,569**	775
Total cash and cash equivalents	**278,377**	173,078

19. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital USD '000	Share premium USD '000	Total USD '000
At 1 January 2014/31 December 2014/1 January 2015/31 December 2015	**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 2014/31 December 2014/1 January 2015/31 December 2015	**178,740,916**	**516,957**	**27,929,478**	**28,446,435**

The total authorised number of ordinary shares at 31 December 2015 was 233,918,128 shares with a par value of USD 0.10 per share (31 December 2014: 233,918,128 shares with a par value of USD 0.10 per share). All issued shares are fully paid.

20. BORROWINGS

	2015 RUB '000	2014 RUB '000
Current		
Bank overdrafts	–	1,210
Loans from related parties (Note 22)	**6,778**	69,733
Total current borrowings	**6,778**	70,943
Non-current		
Loans from related parties (Note 22)	**1,406,128**	3,364,076
Total non-current borrowings	**1,406,128**	3,364,076
Total borrowings	**1,412,906**	3,435,019
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 2 and 5 years	**1,406,128**	3,364,076
	1,406,128	3,364,076

On 26 May 2014, the Company has renegotiated the terms of its borrowings from Steeltrans OOO and GTI Management OOO, with principal value of RUB 3,183,596 thousand as of May 2014. The change in the terms resulted in the loans bearing fixed interest rates in the range of 9.5% to 10.35% when they previously were at floating rates of MosPrime + 3.3%. The change in the terms was considered substantial and as a result was accounted for as an extinguishment of the existing financial liabilities and recognition of new ones. As a result, the Company has recognised a gain on derecognition of financial liabilities of RUB 47,099 thousand (Note 9). This gain has been recognised in finance costs in accordance with the Company's accounting policy and in accordance with IAS39.

The Company has assessed that the change in the interest rates of the loans was not entered into by the Company in its capacity as equity owner of Steeltrans OOO and GTI Management OOO, but it was similar to a transaction with a third party, therefore, the gain has been recognised in finance costs. Had the transaction been considered as a transaction entered into by the Company in its capacity as equity owner, this gain would have been recognised in revenue as it would be similar to a dividend distribution by Steeltrans OOO and GTI Management OOO. Therefore, there would be no impact on the profit or loss of the Company.

During the year 2015, the Company fully repaid its borrowings from Steeltrans OOO, realising a loss of RUB 16,943 thousand, being the difference between the carrying amount and nominal amount of the loan as of the date of the repayment (Note 9).

As at 31 December 2015, rouble-denominated loans advanced from related parties bear fixed average interest at 10.35% p.a. (2014: 10.21% p.a.). As at 31 December 2014, US dollar-denominated loans advanced from related parties bear interest at 4% p.a. There were no US dollar-denominated borrowings as at 31 December 2015.

Notes to the Financial Statements continued

20. BORROWINGS CONTINUED

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:

	2015 RUB '000	2014 RUB '000
6 months or less	–	1,210
6 to 12 months	**6,778**	69,733
1 to 5 years	**1,406,128**	3,364,076
	1,412,906	3,435,019

All of the loans are unsecured.

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

	2015 %	2014 %
Loans from related parties	**10.35**	10.21

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

	Carrying amount		Fair value	
	2015 RUB '000	2014 RUB '000	2015 RUB '000	2014 RUB '000
Bank borrowings	–	1,210	–	1,210
Loans from related parties	**1,412,906**	3,433,809	**1,326,593**	2,243,763
	1,412,906	3,435,019	**1,326,593**	2,244,973

The fair value of borrowings and other liabilities were determined using valuation techniques.

As at 31 December 2015, the fair value of fixed interest rate instruments with stated maturity denominated in Russian roubles was estimated based on expected cash flows discounted using the rate of similar Russian rouble-denominated instruments entered into by the subsidiaries of the Company on their bank borrowings close to 31 December 2015. The discount rate used for Russian rouble-denominated borrowings from related parties as at 31 December 2015 was a level 3 discount rate of 12.30%

In the absence of similar Russian rouble-denominated instruments entered into by any of the subsidiaries of the Company close to 31 December 2014, due to the adverse fluctuation of interest rates, the fair value as at 31 December 2014 of fixed interest rate instruments with stated maturity denominated in Russian roubles was estimated based on expected cash flows discounted at an estimated rate of MosPrime[14] plus a margin. Such rate was management's best estimate of the interest rate it would achieve had it entered into a similar instrument as at the year end. The discount rates used for Russian rouble-denominated borrowings from related parties as at 31 December 2014 ranged between 26.48% and 27.26%, depending on the term of the facility and were level 3 interest rates.

As at 31 December 2014, the estimated fair value of fixed interest rate instruments with stated maturity denominated in a currency other than the Russian rouble was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rate used for US dollar-denominated borrowings was a level 3 rate of 3.95%.

14 MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian rouble deposits.

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

	2015 RUB '000	2014 RUB '000
US dollars	–	780,125
Russian roubles	**1,412,906**	2,653,684
Euro		1,210
Total borrowings	**1,412,906**	3,435,019

21. PAYABLES AND ACCRUED EXPENSES

	2015 RUB '000	2014 RUB '000
Current		
Provision for issued guarantees (Note 22)	–	13,786
Payables to related party (Note 22)	**2,795**	102
Other payables to third parties	**1,455**	524
VAT payable	**2,482**	–
Accrued expenses	**12,519**	11,223
Total current trade and other payables	**19,251**	25,635

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:

	2015 RUB '000	2014 RUB '000
Euro	**12,519**	11,223
Russian roubles	**6,732**	14,412
Total payables and accrued expenses	**19,251**	25,635

22. RELATED PARTY TRANSACTIONS

Marigold Investments, Onyx Investments and Maple Valley Investments, are Company's shareholders with a direct shareholding as at 31 December 2014 and as at 31 December 2015 of 11.5% each.

As at 31 December 2014, Litten Investments Limited and Goldriver Resources Limited, both controlled by members of key management of the Company, have a shareholding in the Company of 6.3% and 4.5% respectively, through ordinary shares and GDRs. As from November 2015, Goldriver Resources Limited is not a related party to the Group. As of 31 December 2015, Litten Investment Limited, controlled by a member of key management of the Company has a shareholding in the Company of 6.3%.

As at 31 December 2015, 59% (31 December 2014: 54.5%) of the shares represent the free market-float of Global Depository Receipts and ordinary shares held by investors not affiliated with the Company and therefore includes ordinary shares and GDRs held by Goldriver Resources Limited. The remaining 0.2% (31 December 2014: 0.2%) of the shares of the Company are controlled by Directors and key management of the Company.

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

The following transactions were carried out with related parties:

(a) Loans to related parties

	2015 RUB '000	2014 RUB '000
Loans to subsidiaries:		
At beginning of year	**27,207**	1,060,602
Loan advances	**2,401,050**	28,050
Interest charged (Note 5)	**89,902**	62,870
Loan repaid during the year	**(801,936)**	(28,215)
Interest repaid during the year	**(57,501)**	(111)
Impairment charge (Note 4)	**(304,358)**	(1,871,439)
Reversal of provision for impairment charge (Note 4)	**109,324**	–
Net foreign exchange	**76,171**	775,450
At end of year	**1,539,859**	27,207
Consists of:		
Non-current portion	**1,460,286**	27,207
Current portion	**79,573**	–
At end of year	**1,539,859**	27,207

Notes to the Financial Statements continued

22. RELATED PARTY TRANSACTIONS CONTINUED

	2015 RUB '000	2014 RUB '000
Loans to related parties – gross amount	**4,561,437**	2,204,835
Less: Provision for impairment of loans to related parties	**(3,021,578)**	(2,177,628)
Loans to related parties – net	**1,539,859**	27,207

The balances at 31 December 2015 carry a contractual rate of 8.5% (2014: 10.0%) per annum and are payable by December 2018 (31 December 2014: October 2017).

(b) Loans from related parties

	2015 RUB '000	2014 RUB '000
Loans from subsidiaries:		
At beginning of year	**3,433,809**	4,345,438
Interest charged (Note 9)	**208,918**	397,533
Interest repaid during the year	**(274,214)**	(323,171)
Loan repaid during the year	**(2,007,866)**	(1,490,224)
Fair value loss/(gain) from extinguishment of financial liabilities (Note 9)	**16,943**	(47,099)
Net foreign exchange difference	**35,316**	551,332
At end of year	**1,412,906**	3,433,809
Consists of:		
Non-current portion	**1,406,128**	3,364,076
Current portion	**6,778**	69,733
At end of year	**1,412,906**	3,433,809

As at 31 December 2015, loans from subsidiaries carry a weighted average interest rate of 10.35% (31 December 2014 10.21%) and are payable by December 2018.

During 2014, rouble-denominated loans of RUB 3,183,596 thousand were renegotiated and their interest rate, previously at MosPrime + 3.3% was fixed at 9.4% to 10.35%.

(c) Dividend income from related parties

	2015 RUB '000	2014 RUB '000
Dividend income from related parties:		
Subsidiaries	**4,153,222**	6,250,262
Total	**4,153,222**	6,250,262

(d) Year end balances with related parties

	2015 RUB '000	2014 RUB '000
Payables to related parties:		
Directors	**2,795**	102
Total payables to related parties (Note 21)	**2,795**	102
Payables to related parties:		
Current	**2,795**	102
Total payables to related parties (Note 21)	**2,795**	102
Receivables from related parties:		
Dividends receivable from subsidiary	**114,134**	–
Total receivables from related parties (Note 17)	**114,134**	–
Receivables from related parties:		
Current	**114,134**	–
Total receivables from related parties (Note 17)	**114,134**	–

(e) Interest income and finance costs

	2015 RUB '000	2014 RUB '000
Interest income:		
Subsidiaries	**89,902**	62,870
Total interest income	**89,902**	62,870
Interest expense:		
Subsidiaries – deferred consideration for the acquisition of subsidiary	–	(6,439)
Subsidiaries – borrowings	**(208,918)**	(397,533)
Total interest expense	**(208,918)**	(403,972)
Fair value (loss)/gain from extinguishment of financial liabilities	**(16,943)**	47,099
Total finance costs	**(225,861)**	(356,873)

(f) Directors' remuneration

	2015 RUB '000	2014 RUB '000
Directors' fees	**21,427**	14,263
Emoluments in their executive capacity	**140,717**	–
Total directors' remuneration	**162,144**	14,263

Key management compensation comprises solely directors' remuneration as stated above.

(g) 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 Group has guaranteed the following obligations:

	2015 RUB '000	2014 RUB '000
Subsidiaries[15]	**15,412,594**	24,105,093
Total guaranteed obligations	**15,412,594**	24,105,093

15 Represents the maximum amount of obligation under each contract, being the contractual undiscounted cash flows under the loan agreements as at 31 December 2015 and 2014.

During the years ended 31 December 2015 and 31 December 2014, the Company has acted as the guarantor for the obligation of its subsidiaries for unsecured non-convertible bonds issued by the subsidiaries and loan agreements entered into with financial institutions and third parties. The fair values of such guarantees are amortised through the income statement (2015: RUB 13,786 thousand; 2014: RUB 27,572 thousand). As at 31 December 2015, the unamortised balance of the guarantees is RUB NIL thousand (2014: RUB 13,786 thousand) and is included in payables and accrued expenses.

The fair values of guarantees issued by the Company for unsecured obligations of its subsidiaries in accordance with loan agreements with financial institutions were estimated using a probability adjusted discounted cash flow analysis, using probability of default, as implied by the market rate of the borrowings obtained by the subsidiaries, and loss given default, as estimated by considering the distressed value of the net assets of the subsidiaries which were not pledged at the time of the guarantees, since, in case of default, the Company will be able to recover its losses under the issued guarantee from the respective subsidiaries in full.

The fair values of guarantees issued by the Company for the unsecured bonds issued by the Company's subsidiary, were estimated using a probability adjusted discounted cash flow analysis, using probability of default as implied by the market price of the bonds and loss given default as estimated by considering the distressed value of net assets of the issuer of the bonds which were not pledged at the time of the issue of the bonds since in case of default, the Company will be able to recover its losses under the issued guarantee from the subsidiary in full.

(h) Impairment losses

	2015 RUB '000	2014 RUB '000
Impairment loss of loans to subsidiaries – net (Notes 4 and 17)	**(195,034)**	(1,871,438)
Provision for impairment of investments in subsidiaries (Notes 4 and 14)	–	(48,479)

Notes to the Financial Statements continued

23. CONTINGENCIES

Operating environment of the Company

The Company's subsidiaries operate in the Russian Federation, Estonia and Ukraine.

Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2015, the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Estonia

Estonia represents a well-developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

Ukraine

The recent political and economic instability in Ukraine has continued in 2015 and has led to a deterioration of state finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies.

As at the date of this report, the official exchange rate of the hryvnia against the US dollar was UAH 26.44 per USD 1, compared with UAH 24.00 per USD 1 as at 31 December 2015 (31 December 2014: UAH 15.77 per USD 1). To constrain further devaluation of hryvnia, the National Bank of Ukraine has imposed a number of restrictions on operations with foreign currency including: a temporary ban on payment of dividends in foreign currency; a temporary ban on early repayment of debts to non-residents; mandatory sale of 75% of revenue in foreign currency and other restrictions on cash and non-cash operations. The central bank of Ukraine prolonged these restrictions several times during 2015 and the current restrictions are effective until 8 June 2016.

Devaluation of the national currency created pressure on consumer price index. The official inflation rate in Ukraine for 2015 reached 43.3%.

On 11 March 2015, the IMF Executive Board approved a four-year Extended Fund Facility (EFF) programme for Ukraine exceeding USD 17 billion. During 2015, Ukraine obtained first and second tranches in accordance with the programme in the amount of USD 5 billion and USD 1.7 billion, respectively. In October 2015, Ukraine reached an agreement with the majority of its creditors for restructuring of part of the national external debt in the amount of USD 15 billion. The restructuring pushes out maturities of restructured debt to 2019-2027, fixing annual interest rate at the level of 7.75% and includes exchange of 20% of the debt into GDP warrants at par value of USD 2.9 billion. There remains a significant portion of debt for which a restructuring has not been agreed.

After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved. Further disbursements of IMF tranches depend on the implementation of Ukrainian government reforms, and other economic, legal and political factors.

The banking system is fragile due to its: weak level of capital; its weakening asset quality caused by the economic situation; currency depreciation; and other factors.

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.

Indemnification received in relation to financial guarantee

During the year 2014, the Company received an indemnification of RUB 78,400 thousand in relation to a financial guarantee contract entered into by Steeltrans OOO, a subsidiary of the Company, before its acquisition by the Company in 2013. Steeltrans OOO was a guarantor in two lease agreements entered into by a third party who defaulted in its payments. The default of the lessee in the arrangement and the requirement for Steeltrans OOO to compensate the lessor formed a breach of the warranties entered into in the share purchase agreement for the acquisition of Steeltrans OOO by the Company. As a result, the Company was compensated by the amount of RUB 78,400 thousand from the previous shareholder of Steeltrans OOO. The guarantee was settled in full as of 31 December 2014 and no loss arose for the Company.

24. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2015 in the amount of 12.41 Russian roubles per ordinary share, amounting to a total dividend of RUB 2,218,175 thousand to be paid in US dollars at the rate as at the date of the Annual General Meeting.

On 19 February 2016, the Company participated in the increase of share capital of its subsidiary BaltTransServis OOO for an amount of RUB 12,465 thousand. The proportion of shareholding in the subsidiary has not been changed as a result of the increase in share capital.

Mr Valery Shpakov, who had been acting as interim CEO since 6 November 2015, was appointed as the new CEO of the Group on 30 March 2016.

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

Independent Auditor's Report on page 115.

Selected Operational Information

Selected operational information for the year ended 31 December 2015

ROLLING STOCK FLEET

	As at 31 December 2015	As at 31 December 2014	Change	Change, %
Owned Fleet				
Gondola cars	**40,082**	40,019	63	0%
Rail tank cars	**18,573**	18,916	(343)	-2%
Locomotives	**75**	75	0	0%
Other railcars (including flat and hopper cars, etc.)	**1,451**	1,615	(164)	-10%
Total	**60,181**	**60,625**	**(444)**	**-1%**
Owned Fleet as % of Total Fleet	**89%**	92%	–	–
Leased-in Fleet				
Gondola cars	**2,602**	913	1,689	185%
Rail tank cars	**4,249**	4,483	(234)	-5%
Locomotives	**0**	0	0	NA
Other railcars	**317**	173	144	83%
Total	**7,168**	**5,569**	**1,599**	**29%**
Leased-in Fleet as % of Total Fleet	**11%**	8%	–	–
Total Fleet (Owned Fleet and Leased-in Fleet)	**67,349**	**66,194**	**1,155**	**2%**
Total Fleet by type of rolling stock, %				
Gondola cars	**63%**	62%	–	–
Rail tank cars	**34%**	35%	–	–
Locomotives	**0%**	0%	–	–
Other railcars (including flat and hopper cars, etc.)	**3%**	3%	–	–
Total	**100%**	**100%**	**–**	**–**
Leased-out Fleet				
Gondola cars	**296**	353	(57)	-16%
Rail tank cars	**9,161**	9,113	48	1%
Locomotives	**4**	3	1	33%
Other railcars (including flat and hopper cars, etc.)	**497**	713	(216)	-30%
Total	**9,958**	**10,182**	**(224)**	**-2%**
Leased-out Fleet as % of Total Fleet	**15%**	15%	–	–
Average age of Owned Fleet				
Gondola cars	**8.0**	7.1	–	–
Rail tank cars	**12.4**	11.4	–	–
Locomotives	**13.8**	12.8	–	–
Other railcars (including flat and hopper cars, etc.)	**15.4**	16.2	–	–
Total	**9.5**	**8.7**	**–**	**–**

Selected Operational Information continued

OPERATION OF ROLLING STOCK (INCLUDING ENGAGED FLEET)

	2015	2014	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**98.5**	**92.8**	**5.7**	**6%**
Ferrous metals	**36.6**	34.3	2.3	7%
Scrap metal	**3.3**	4.3	(1.0)	-23%
Iron ore	**58.7**	54.2	4.4	8%
Oil products and oil	**25.7**	**26.4**	**(0.7)**	**-3%**
Coal (including coke)	**26.2**	**22.5**	**3.7**	**16%**
Construction materials	**10.4**	**9.8**	**0.6**	**6%**
Crushed stone	**9.4**	8.7	0.7	8%
Cement	**0.4**	0.4	0.0	-12%
Other construction materials	**0.7**	0.7	(0.1)	-10%
Other	**7.7**	8.1	(0.5)	-6%
Total	**168.5**	**159.7**	**8.8**	**6%**

	2015	2014	Change	Change, %
Freight Rail Turnover by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and ores)	**58%**	58%	–	–
Oil products and oil	**15%**	17%	–	–
Coal (including coke)	**16%**	14%	–	–
Construction materials (including cement)	**6%**	6%	–	–
Other	**5%**	5%	–	–
Total	**100%**	**100%**	**–**	**–**

	2015	2014	Change	Change, %
Transportation Volume, million tonnes				
Metallurgical cargoes	**48.7**	**50.6**	**(1.9)**	**-4%**
Ferrous metals	**18.2**	18.4	(0.2)	-1%
Scrap metal	**3.2**	3.9	(0.7)	-17%
Iron ore	**27.3**	28.4	(1.0)	-4%
Oil products and oil	**22.5**	**23.5**	**(1.0)**	**-4%**
Coal (including coke)	**11.3**	**10.9**	**0.4**	**3%**
Construction materials	**11.7**	**10.6**	**1.1**	**10%**
Crushed stone	**10.5**	9.4	1.1	12%
Cement	**0.3**	0.3	0.0	6%
Other construction materials	**0.9**	0.9	0.0	-4%
Other	**7.1**	7.0	0.1	1%
Total	**101.3**	**102.7**	**(1.4)**	**-1%**

OPERATION OF ROLLING STOCK (EXCLUDING ENGAGED FLEET)

	2015	2014	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**79.1**	**73.6**	**5.6**	**8%**
Ferrous metals	**32.1**	28.8	3.3	11%
Scrap metal	**3.1**	3.7	(0.6)	-17%
Iron ore	**44.0**	41.1	2.9	7%
Oil products and oil	**25.3**	**25.3**	**0.0**	**0%**
Coal (including coke)	**24.4**	**19.1**	**5.3**	**28%**
Construction materials	**10.2**	**9.3**	**0.9**	**9%**
Crushed stone	**9.2**	8.3	0.9	11%
Cement	**0.4**	0.4	0.0	-6%
Other construction materials	**0.7**	0.7	0.0	-4%
Other	**7.5**	7.8	(0.4)	-5%
Total	**146.5**	**135.1**	**11.4**	**8%**
Transportation Volume, million tonnes				
Metallurgical cargoes	**39.2**	38.9	0.3	1%
Ferrous metals	**15.6**	14.6	1.0	7%
Scrap metal	**3.0**	3.4	(0.4)	-13%
Iron ore	**20.6**	20.9	(0.2)	-1%
Oil products and oil	**22.1**	**22.3**	**(0.2)**	**-1%**
Coal (including coke)	**10.4**	**9.1**	**1.2**	**13%**
Construction materials	**11.5**	**9.9**	**1.6**	**17%**
Crushed stone	**10.3**	8.8	1.5	17%
Cement	**0.3**	0.3	0.0	15%
Other construction materials	**0.9**	0.8	0.1	12%
Other	**6.9**	6.7	0.2	3%
Total	**90.1**	**86.9**	**3.2**	**4%**
Average Rolling Stock Operated, units				
Gondola cars	**40,286**	39,469	817	2%
Rail tank cars	**12,938**	13,393	(455)	-3%
Locomotives	**46**	46	1	1%
Other railcars (including flat and hopper cars, etc.)	**982**	905	77	8%
Total	**54,251**	**53,813**	**439**	**1%**
Average Number of Loaded Trips per Railcar				
Gondola cars	**24.7**	24.5	0.2	1%
Rail tank cars	**28.0**	27.3	0.7	2%
Other railcars (including flat and hopper cars, etc.)	**48.5**	39.7	8.7	22%
Total	**25.9**	**25.4**	**0.5**	**2%**
Average Distance of Loaded Trip, km				
Gondola cars	**1,828**	1,723	105	6%
Rail tank cars	**1,132**	1,124	8	1%
Other railcars (including flat and hopper cars, etc.)	**998**	1,153	(155)	-13%
Total	**1,620**	**1,547**	**72**	**5%**
Average Price per Trip, RUB	**27,462**	**26,804**	**657**	**2%**

Selected Operational Information continued

	2015	2014	Change	Change, %
Net Revenue from Operation of Rolling Stock by cargo type, RUB million				
Metallurgical cargoes	**10,511***	**11,680***	**(1,169)**	**-10%**
Ferrous metals	**5,776***	6,553*	(776)	-12%
Scrap metal	**483***	750*	(267)	-36%
Iron ore	**4,252***	4,378*	(125)	-3%
Oil products and oil	**21,263***	**19,091***	**2,172**	**11%**
Coal (including coke)	**3,006***	**2,755***	**251**	**9%**
Construction materials (including cement)	**1,844***	**1,522***	**322**	**21%**
Other	**1,944***	**1,612***	**331**	**21%**
Total	**38,568***	**36,661***	**1,907**	**5%**
Net Revenue from Operation of Rolling Stock by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and ores)	**27%**	32%	–	–
Oil products and oil	**55%**	52%	–	–
Coal (including coke)	**8%**	8%	–	–
Construction materials (including cement)	**5%**	4%	–	–
Other	**5%**	4%	–	–
Total	**100%**	**100%**	**–**	**–**
Net Revenue from Operation of Rolling Stock by largest clients (including their affiliates and suppliers), %				
Rosneft	**40%**	34%	–	–
MMK	**12%**	18%	–	–
Metalloinvest	**12%**	11%	–	–
Gazpromneft	**8%**	9%	–	–
Evraz	**4%**	4%	–	–
Sovfracht	**3%**	4%	–	–
TMK	**1%**	1%	–	–
Severstal	**1%**	1%	–	–
SUEK	**1%**	0%	–	–
UGMK-Trans	**2%**	1%	–	–
Other (including small and medium enterprises)	**17%**	16%	–	–
Empty Run Ratio, %				
Gondola cars	**39%**	38%	–	–
Rail tank cars and other railcars	**104%**	102%	–	–
Total Empty Run Ratio, %	**51%**	**51%**	**–**	**–**
Empty Run Costs, RUB million	**11,804***	**10,354***	**1,449**	**14%**
Share of Empty Run Kilometres Paid by Globaltrans, %	**88%**	**87%**	**–**	**–**

Engaged Fleet

	2015	2014	Change	Change, %
Net Revenue from Engaged Fleet, RUB million	**829***	**1,622***	**(793)**	**-49%**

Employees

	As at 31 December 2015	As at 31 December 2014	Change	Change, %
Employees by departments (simplified)				
Operations	**1,077**	1,052	25	2%
Administrative	**460**	523	(63)	-12%
Total	**1,537**	**1,575**	**(38)**	**-2%**

Ownership

SHARE CAPITAL

The issued share capital of Globaltrans consists of 178,740,916 ordinary shares with a nominal value of USD 0.10 each, a certain portion of which is held in the form of GDRs. The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The free float of Globaltrans amounts to approximately 59%[1] of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of Globaltrans.

SHAREHOLDER STRUCTURE

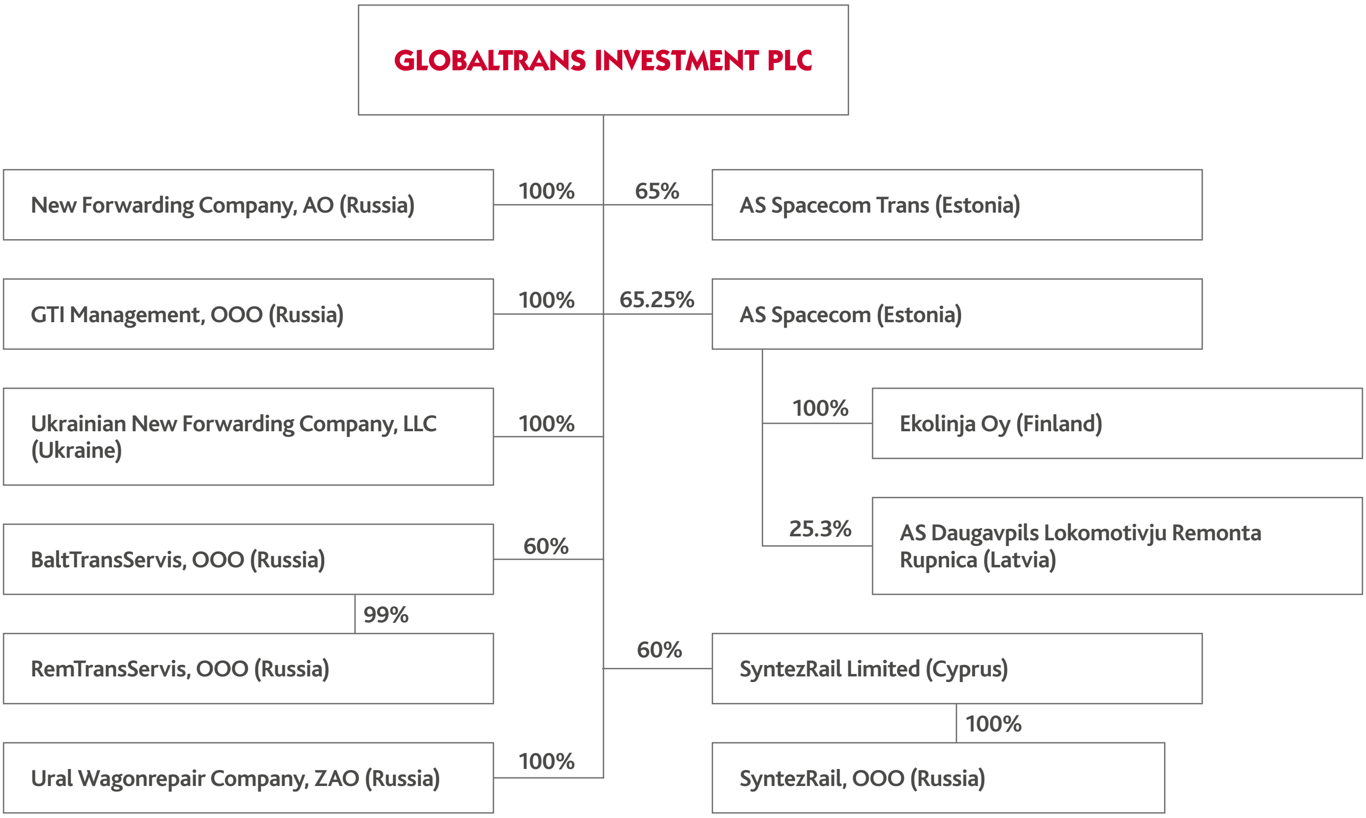
Maple Valley Investments[2]	11.5%
Onyx Investments[2]	11.5%
Marigold Investments[2]	11.5%
Litten Investments[3]	6.3%
Controlled by Directors and management of Globaltrans	0.2%
Free float[1]	59%

1 For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans and therefore includes ordinary shares and GDRs in which Sergey Maltsev, one of the co-founders, has an economic interest (4.5%).

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

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

Corporate Structure



Note: The Group's corporate structure as of the end of 2015.

Definitions

Terms that require definitions are marked with capital letters in this Annual Report and their definitions are provided here in alphabetical order:

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

Adjusted EBITDA Margin (a non-GAAP financial measure) is calculated as Adjusted EBITDA divided by Adjusted Revenue.

Adjusted Revenue (a non-GAAP financial measure) is calculated as "Total revenue" less the following "pass through" items "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations".

Average 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 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 or Engaged Fleet).

EBITDA (a non-GAAP financial measure) represents "Profit for the period" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction gains/(losses) on borrowings and other liabilities" and "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets"), "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment of property, plant and equipment" and "Impairment of intangible assets".

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

Empty Run or Empty Runs means movement of railcars without cargo for the whole or a substantial part of the journey.

Empty Run Costs (a non-GAAP financial measure meaning costs payable to RZD for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of "Cost of sales" reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased in or leased out and Engaged Fleet.

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 or Engaged Fleet).

Free Cash Flow (a non-GAAP financial measure) is calculated as "Net cash from operating activities" (after "Changes in working capital" and "Tax paid") less "Purchases of property, plant and equipment" (which includes maintenance CAPEX) 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 includes volumes transported by the Engaged Fleet, unless otherwise stated.

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

Leased-in Fleet is defined as rolling stock fleet leased-in under operating leases, including both railcars and locomotives.

Leased-out Fleet is defined as rolling stock fleet leased out to third parties under operating leases.

Market Share is calculated using the Group's own information as the numerator and information published by Rosstat as the denominator. The Group's Market Share is calculated as a percentage of the overall Russian freight rail transportation volume and includes volumes transported by Engaged Fleet.

Definitions continued

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

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

Net Revenue from Operation of Rolling Stock (a non-GAAP financial measure) is defined as the sum of "Revenue from railway transportation – operators' services (tariff borne by the Group)" and "Revenue from railway transportation – operators services (tariff borne by the client)" less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisation" and Net Revenue from Engaged Fleet.

Net Working Capital (a non-GAAP financial measure) is calculated as the sum of the current portions of "Inventories", "Current income tax assets", "Trade receivables – net", "Prepayments – third parties", "Prepayments – related parties", "Other receivables – net", and "VAT recoverable", less the sum of the current portions of "Trade payables to third parties", "Trade payables to related parties", "Advances from customers for transportation services", "Advances from related parties for sale of wagons", "Accrued expenses", "Other payables to third parties", "Other payables to related parties" and "Current tax liabilities".

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

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

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

Owned Fleet is defined as the rolling stock fleet owned and leased in under finance lease as at the end of the reporting period. It includes railcars and locomotives 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 or Engaged Fleet) in the relevant period.

Total Empty Run Ratio is calculated as total kilometres travelled empty divided by the total kilometres travelled loaded by the 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 or Engaged Fleet) in the relevant period.

Total Fleet is defined as the total rolling stock owned and leased in under finance and operating leases as at the end of period. It includes railcars and locomotives unless otherwise stated and excludes Engaged Fleet.

Transportation Volume is a measure of freight carriage activity over a particular period measuring weight of cargo carried in million tonnes. It includes volumes transported by Engaged Fleet, unless otherwise stated.

Presentation of Financial and Other Information

FINANCIAL INFORMATION

All financial information presented in this Annual Report is derived from the consolidated financial statements of Globaltrans Investment PLC (the "Company" or, together with its subsidiaries, "Globaltrans" or the "Group") and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS"). The Group's consolidated financial statements and the Parent Company financial statements for the year ended 31 December 2015 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 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.

The following non-GAAP measures have been used in this Annual Report as supplemental measures of the Group's operating performance: Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Revenue, EBITDA, Empty Run Costs, Free Cash Flow, Infrastructure and Locomotive Tariffs – Other Tariffs, Net Debt, Net Debt to Adjusted EBITDA ratio, Net Revenue from Engaged Fleet, Net Revenue from Operation of Rolling Stock, Net Working Capital, Total Operating Cash Costs, Total Operating Non-Cash Costs, Other Operating Cash Costs, etc. All non-GAAP financial information is calculated on the basis of EU IFRS financial statements and/or management accounts. Non-GAAP financial information requiring additional explanation or definitions is marked with capital letters and the definitions and explanations are provided in the Definitions section of this Annual Report.

Other companies in the freight rail transportation sector may calculate the above non-GAAP measures differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

OPERATIONAL AND MARKET INFORMATION

Globaltrans reports certain operational information to illustrate the changes in the Group's operational and financial performance during the reporting periods. This operational information is derived from management accounts. The Group's selected operational information for the year ended 31 December 2015 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 are marked with initial capital letters with definitions or explanations provided in the Definitions section of this Annual Report. Market Share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation (Rosstat) as the denominator. The Group's Market Share is calculated as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume transported by Engaged Fleet unless otherwise stated. The Group has obtained certain statistical, market and pricing information that is presented in this Annual Report on such topics as the Russian freight rail transportation market, the Russian economy in general and related subjects from the following third-party sources: Rosstat, OAO Russian Railways (RZD), Ministry of Economic Development of Russian Federation 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 is substantially less complete or researched than that of more developed countries. All non-GAAP financial and operational information presented in this Annual Report should be used only as an analytical tool and investors should not consider such information, in isolation or in any combination, as a substitute for analysis of the Group's consolidated financial statements reported under EU IFRS and included in the Financial Statements section of this Annual Report.

CAUTIONARY NOTE

This Annual Report including its appendices may contain forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward-looking statements by terms such as expect, believe, estimate, anticipate, intend, will, could, may, or might, the negative of such terms or other similar expressions. These forward-looking statements include matters that are not historical facts and statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Group operates. By their nature, forward-looking statements involve risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth, 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, 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, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, market change in the Russian freight rail market, as well as 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 into whose access it may come and any such responsibility or liability is expressly disclaimed.

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