Globaltrans
Russia's Leading Private Freight Rail Group

For immediate release **2 September 2019**

Globaltrans Investment PLC

Interim 2019 Results and Approval of Interim and Special Interim Dividends

Globaltrans Investment PLC (the "Company" and together with its consolidated subsidiaries "Globaltrans" or the "Group"), (LSE ticker: GLTR) today announces its financial and operational results for the six months ended 30 June 2019 along with the approval of interim and special interim dividends.

In this announcement, the Group has used certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures") as supplemental measures of the Group's operating performance. The management believes that these non-GAAP measures provide valuable information to readers, because they enable them to focus more directly on the underlying day-to-day performance of the Group's business. The Company also reports certain operational information to illustrate the changes in the Group's operational and financial performance during the reporting periods. Certain financial information which is derived from the management accounts is marked in this announcement with an asterisk {}. Information (non-GAAP financial and operating measures) requiring additional explanation or defining is marked with initial capital letters and the explanations or definitions are provided at the end of this announcement. Reconciliations of the non-GAAP measures to the closest EU IFRS measures are included in the body of this announcement. The presentational currency of the Group's financial results is the Russian rouble ("RUB").*

KEY HIGHLIGHTS

- Strong performance: solid pricing and efficient cost control lead to better margins, higher revenues and profits;
- Adjusted EBITDA growth of 22% year on year outpaced Adjusted Revenue growth of 14% as Adjusted EBITDA Margin rose to 59%;
- Continued solid cash generation from operations - up 18% year on year;
- Leverage maintained at a low level with Net Debt to Adjusted EBITDA at 0.53x (twelve months to 30 June 2019);
- Attractive interim 2019 and special interim dividends approved totalling RUB 8.3 billion or RUB 46.55 per share/GDR;
- Strong final 2019 dividend of about RUB 8.3 billion targeted – would result in total 2019 dividend (including interim, final and special) of about RUB 16.6 billion exceeding that of 2018.

Commenting on Globaltrans' interim 2019 results, CEO Valery Shpakov said: "We gained further momentum in the first half of 2019 and delivered strong results. By leveraging our powerful operational model and high quality of service we were able to efficiently deploy all our newly acquired fleet and outperform the Russian market in terms of volumes. The new long-term contracts we signed last year are proceeding well and performing in line with our expectations, delivering value to our clients whilst driving our revenues. Importantly, we successfully accommodated the volatility in our clients' logistics, and not only maintained operational excellence but also increased profitability.

Our key financial metrics continued to grow which, combined with our low level of leverage, enabled the Group to deliver the attractive dividend we had targeted. We will maintain our focus on generating strong returns for our shareholders building on the solid foundations provided by our robust cash generation, discretionary expansion CAPEX and moderate maintenance requirements. Despite some bulk segment volatility, the second half started well for us, benefitting both from our long-term contracts and our exposure to the rail tank car segment. Together, these put us in a secure position to target a strong total dividend for the full year, exceeding the level of 2018."

FINANCIAL AND OPERATIONAL PERFORMANCE

Strong financial results, further margin expansion and continued low leverage.

- Total revenue increased 9% year on year to RUB 47.2 billion;
- Adjusted Revenue was up 14% year on year to RUB 34.4 billion supported by the strong performance of the gondola and rail tank car sectors;
- Total Operating Cash Costs rose 5% year on year reflecting cost inflation and higher Empty Runs;
- Operating profit increased 23% year on year to RUB 16.7 billion;
- Adjusted EBITDA Margin expanded to 59% (H1 2018: 55%) with Adjusted EBITDA up 22% year on year to RUB 20.2 billion;
- Profit for the period rose 22% year on year to RUB 12.0 billion;
- Cash generated from operations (after "Changes in working capital") increased 18% year on year to RUB 19.4 billion;
- Free Cash Flow remained robust at RUB 7.9 billion while Total CAPEX rose (RUB 7.3 billion, up 91% year on year) reflecting the fact that the majority of the Group's planned annual expansion investments were undertaken during the first six months of 2019;
- Leverage continued to be held at a low level with Net Debt to Adjusted EBITDA at 0.53x for the twelve months to 30 June 2019 (2018 end: 0.56x);
- Net Debt rose 5% to RUB 19.6 billion compared to the end of 2018. Nearly 100% of debt is denominated in RUB, the Company's functional currency.

Attractive interim 2019 dividend delivered as targeted reflecting solid cash generation, low leverage and intention to maintain an efficient capital structure.

- The Board approved interim and special interim dividends for the first half of 2019 of a combined RUB 8.3 billion or RUB 46.55 per share/GDR;
- Total interim 2019 dividend equal to 120% of the Group's Attributable Free Cash Flow for the first six months of 2019 (RUB 7.0 billion);
- The record date is set as 9 September 2019 with GDRs marked as ex-dividend on 6 September 2019;
- The dividend will be paid in US dollars in the total amount of approximately 69.74086 US cents per one ordinary share/GDR not later than 20 September 2019 with conversion executed at the Central Bank of Russia's official exchange rate for the Russian rouble as of 30 August 2019 (1 USD: 66.7471 RUB). Holders of GDRs will receive the dividend approximately three business days after the payment date.

Market outperformance in volumes, net revenue growth and strong pricing with volatility in client logistics successfully and profitably accommodated.

- Market outperformance in Transportation Volumes[1] (up 3.6% year on year compared to the overall Russian market decline of 1.6%).
    - o Volumes grew in non-oil (up 3% year on year) and oil products and oil (up 4% year on year) segments;
    - o Freight Rail Turnover decreased 5% year on year mainly reflecting an 8% year-on-year decline in Average Distance of Loaded Trip on the back of changed client logistics;
    - o Average Number of Loaded Trips per Railcar decreased 4% year on year principally as a result of changed client logistics and a reduction in average speeds on the Russian Railways ("RZD") rail network, caused for the most part by ongoing major rail infrastructure modernisation projects.
- Successful partnerships enabled a 14% year-on-year increase in Net Revenue from Operation of Rolling Stock.

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[1] *Excluding Engaged Fleet.*

- Net Revenue from the new five-year contracts signed with TMK and ChelPipe Group in 2018 almost doubled year on year;
- 60% of Net Revenue from Operation of Rolling Stock was contributed by long-term contracts (Rosneft, Metalloinvest, MMK, TMK and ChelPipe), compared to 55% in the same period in the previous year.

- Strong pricing maintained.
  - Further price increase achieved with Average Price per Trip up 10% year on year reflecting favourable gondola market conditions and relatively stable pricing in the rail tank car segment.
- Powerful and sizable operating platform enabled smooth and profitable adaptation to volatility in client logistics; operational excellence maintained.
  - Substantial shift in logistics patterns of long-term clients drove anticipated increase in Empty Runs with the growth in the respective Empty Run Costs reflected in the commercial arrangements across these clients' transportation portfolios;
  - As anticipated, the Empty Run Ratio for gondola cars increased to 43% (H1 2018: 37%) yet remained one of the lowest on the Russian market;
  - Total Empty Run Ratio (for all types of rolling stock) rose to 51% (H1 2018: 45%);
  - Share of Empty Run Kilometers paid by Globaltrans remained stable at 90% compared to 91% in the same period the previous year.
- Strong business platform with Total Fleet exceeding 70,000 units, share of Owned Fleet remained at 95%.
  - Ongoing moderate investments in 2019 with 1,034 units delivered in the reporting period, driving Owned Fleet to 66,304 units[2];
  - Leased-in Fleet increased 6% compared to the end of 2018 to 3,833 units (mostly rail tank cars);
  - Average Rolling Stock Operated was up 8% year on year to 56,780 units.

MARKET OVERVIEW

Solid demand and continued strong pricing in the first six months of 2019; industry fundamentals supported by more mature gondola market and continued expansion of Far Eastern railways.

- Overall Russia's freight rail turnover continued to grow in the first six months of 2019 (up 2.0% year on year) while volumes decreased 1.6% year on year.
- Bulk cargo volumes held relatively stable.
  - Moderate volume softening in June largely driven by weaker coal volumes, firmed up in July supported by RZD tariff incentives;
  - Net increase in overall gondola capacity was about 3% or 17,900 units[3] over the first six months of 2019;
  - Overall healthy pricing environment with modest pressure on spot market prices in July and August.
- Balanced supply and demand in oil products and oil segment with strong pricing.
  - Volumes in oil products and oil segment were down 2% year on year reflecting temporary decrease in May-June due to scheduled repair and maintenance works at some refineries. Volumes started to rebound in July;
  - Strong pricing continues supported by ongoing fleet scrappage with a net decrease in overall rail tank capacity of about 1% or 2,000 units.
- Competitive landscape in gondola market is now characterised by established professional players and captive operators.

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[2] *In the first six month of 2019 the Group took delivery of 1,034 units (including 492 specialised containers, 338 gondola cars, 200 flat cars and 4 locomotives) and disposed of 135 units.*

[3] *Estimated by the Company. Net change in Russia's overall fleet of respective rolling stock as of 30 June 2019 compared to the end of 2018.*

    - Top-10 players operate about 80% of Russia's overall gondola fleet;
    - Significant portion of largest operators either service clients on long-term contracts or are captive.
- Continued expansion of Russian rail network throughput capacity towards the East to improve industry fundamentals supporting coal export volumes to more favourable Asian markets.
    - First stage of expansion (2012-2020) is more than 80% completed with over 50 million tonnes of throughput capacity added, almost doubling the level of capacity compared to 2012. Remaining 10 million tonnes are expected to be added by the end of 2020;
    - Second stage (2020-2024) is expected to increase the throughput capacity by more than 60 million tonnes (an over 50% increase on 2020 levels).
- Average speeds on the RZD rail network remained under pressure, caused by ongoing major rail infrastructure modernisation projects.

MANAGEMENT PRIORITIES AND OUTLOOK

Strong business model supports pricing outlook with solid cash generation and moderate investments providing secure platform for strong final 2019 dividend target.

- About 70% of first half 2019 Net Revenue from Operation of Rolling Stock was generated either from long-term contracts or by the rail tank car business.
    - Efficient logistics and long-term contracts are expected to limit volatility in gondola pricing in the second half of 2019;
    - A constructive second-half 2019 pricing outlook in the rail tank car segment is underpinned by the Group's unique locomotive competences and a long-term contract.
- Cost efficiency remains a focus, taking into account ongoing cost pressures related to higher regulated RZD tariffs for the traction of empty railcars and increased costs for certain spare parts.
- Increased volatility in client logistics and certain temporary infrastructure constraints keep the emphasis on maintaining logistics efficiency.
- Majority of planned 2019 annual expansion CAPEX completed, maintenance CAPEX to stay moderate.
    - The majority of planned annual expansion investments already undertaken in the first six months of 2019 with 1,098 units purchased on a cash basis (including 8 locomotives)[4];
    - Maintenance CAPEX is expected to stay moderate at about RUB 6 billion in 2019 with annual fleet scrappage of about 200 units in the same period.
- Strong final 2019 dividend targeted, dividends remain a priority.
    - Strong final 2019 dividend (including final and special final) of about RUB 8.3 billion targeted, which would mean a total dividend in respect of the full year 2019 (including interim, final and special) of about RUB 16.6 billion, exceeding the level of 2018;
    - Solid cash generation, moderate maintenance CAPEX and discretionary expansion CAPEX provide a cushion for Globaltrans' ability to pay strong dividends.

DOWNLOADS

The disclosure materials along with the selection of historical operational and financial information are available on Globaltrans' corporate website (www.globaltrans.com).

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[4] In the first six months of 2019 the Group purchased on a cash basis 1,098 units, including 538 specialised containers, 338 gondola cars, 214 flat cars and 8 locomotives.

ANALYST AND INVESTOR CONFERENCE CALL

The release of the Group's financial and operational results will be accompanied by an analyst and investor conference call hosted by Valery Shpakov, CEO and Alexander Shenets, CFO.

Date: Monday, 2 September 2019

Time: 14.00 Moscow / 12.00 London / 07.00 New York (EDT)

To participate in the conference call please dial one of the following numbers and ask to be put through to the "Globaltrans" call:

UK toll free: 0808 109 0700

International: +44 20 3003 2666

As there will be simultaneous translation for the first part of the call (slide presentation), you should state whether you prefer to listen in English or Russian. During the Q&A session, all participants will hear both languages.

There will also be a webcast of the call available through the Globaltrans website (www.globaltrans.com). Please note that this will be a listen-only facility.

ENQUIRIES

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NOTES TO EDITORS

Globaltrans is a leading freight rail transportation group with operations in Russia, the CIS and the Baltic countries. The Group's main business is the provision of freight rail transportation services. Globaltrans provides services to more than 500 customers and its key customers include a number of prominent Russian industrial groups in the metals and mining and the oil products and oil sectors.

The Group had a Total Fleet of more than 70 thousand units at 30 June 2019. Universal gondola cars and rail tank cars constitute the backbone of the Group's fleet. About 95% of the Total Fleet is owned by the Group with an average age of 11 years.

In the first six months of 2019, the Group's Freight Rail Turnover (including Engaged Fleet) was 76.1 billion tonnes-km with the total revenue amounting to RUB 47.2 billion.

Globaltrans' global depositary receipts (ticker symbol: GLTR) have been listed on the Main Market of the London Stock Exchange since May 2008. Globaltrans was the first freight rail transportation group with operations in Russia to have an international listing.

To learn more about Globaltrans, please visit www.globaltrans.com

RESULTS IN DETAIL

The following tables provide the Group's key financial and operational information for the six months ended 30 June 2019 and 2018.

EU IFRS financial information

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Revenue	43,433	**47,245**	9%
Total cost of sales, selling and marketing costs and administrative expenses	(29,902)	**(30,542)**	2%
Operating profit	13,555	**16,721**	23%
Finance costs - net	(607)	**(1,164)**	92%
Profit before income tax	12,948	**15,556**	20%
Income tax expense	(3,117)	**(3,563)**	14%
Profit for the period	9,831	**11,993**	22%
Profit attributable to:			
Owners of the Company	8,812	**11,089**	26%
Non-controlling interests	1,019	**904**	-11%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RUB per share)	49.30	**62.04**	26%

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Cash generated from operations	16,430	**19,424**	18%
Tax paid	(3,340)	**(3,155)**	-6%
Net cash from operating activities	13,090	**16,270**	24%
Net cash used in investing activities	(2,736)	**(6,663)**	144%
Net cash used in financing activities	(9,200)	**(6,741)**	-27%

Non-GAAP financial information

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Adjusted Revenue	30,108	**34,370**	14%
Including			
Net Revenue from Operation of Rolling Stock	28,420*	**32,434***	14%
Operating leasing of rolling stock	682	**866**	27%
Net Revenue from Engaged Fleet	259*	**82***	-68%
Other revenue	747	**989**	32%
Total Operating Cash Costs	13,571	**14,231**	5%
Including			
Empty Run Cost	6,416*	**7,194***	12%
Repairs and maintenance	1,871	**2,125**	14%
Employee benefit expense	1,918	**2,024**	6%
Fuel and spare parts - locomotives	967	**897**	-7%
Adjusted EBITDA	16,516	**20,202**	22%
Adjusted EBITDA Margin, %	55%	**59%**	-
Total CAPEX	3,836	**7,310**	91%
Free Cash Flow	8,560	**7,863**	-8%
Attributable Free Cash Flow	7,541	**6,959**	-8%

Debt profile

	As of 31 December 2018 RUB mln	As of 30 June 2019 RUB mln	Change %
Total debt	25,729	**29,347**	14%
Cash and cash equivalents	7,130	**9,737**	37%
Net Debt	18,599	**19,610**	5%
Net Debt to LTM Adjusted EBITDA (x)	0.56	**0.53**	-

Operational information

	H1 2018	H1 2019	Change, %
Freight Rail Turnover, billion tonnes-km (excl. Engaged Fleet)	74.2	**70.5**	-5%
Transportation Volume, million tonnes (excl. Engaged Fleet)	44.2	**45.7**	4%
Average Price per Trip, RUB	41,567	**45,825**	10%
Average Rolling Stock Operated, units	52,490	**56,780**	8%
Average Distance of Loaded Trip, km	1,672	**1,531**	-8%
Average Number of Loaded Trips per Railcar	13.0	**12.5**	-4%
Total Empty Run Ratio (for all types of rolling stock), %	45%	**51%**	-
Empty Run Ratio for gondola cars, %	37%	**43%**	-
Share of Empty Run Kilometres paid by Globaltrans, %	91%	**90%**	-
Total Fleet, units (at period end), including:	65,923	**70,137**	6%
Owned Fleet, units (at period end)	62,846	**66,304**	6%
Leased-in Fleet, units (at period end)	3,077	**3,833**	25%
Leased-out Fleet, units (at period end)	7,993	**7,360**	-8%
Average age of Owned Fleet, years (at period end)	11.0	**11.2**	-
Total number of employees (at period end)	1,569	**1,597**	2%

Revenue

The Group's Total revenue climbed 9% year on year to RUB 47,245 million in the first six months of 2019, largely as a result of a 14% year-on-year rise in Adjusted Revenue. Net Revenue from Operation of Rolling Stock (a key component of Adjusted Revenue) increased 14% year on year due to the continued strong market environment in the reporting period.

The following table provides details of Total revenue, broken down by revenue-generating activity, for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Railway transportation – operators services (tariff borne by the Group)[5]	24,297	24,990	3%
Railway transportation – operators services (tariff borne by the client)	17,707	20,401	15%
Operating leasing of rolling stock	682	866	27%
Other	747	989	32%
Total revenue	**43,433**	**47,245**	**9%**

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

[5] Includes "Infrastructure and locomotive tariffs: loaded trips" for H1 2019 of RUB 11,211 million (H1 2018: RUB 11,333 million) and "Services provided by other transportation organisations" of RUB 1,663 million (H1 2018: RUB 1,993 million).

Cost of sales. The net result of Engaged Fleet operations is reflected as Net Revenue from Engaged Fleet and is included in Adjusted Revenue.

In the first six months of 2019, the Group's Adjusted Revenue grew 14% year on year to RUB 34,370 million, arising primarily from the 14% year-on-year increase in Net Revenue from Operation of Rolling Stock supported by a strong performance in both the gondola and rail tank car segments.

The following table provides details of Adjusted Revenue for the six months ended 30 June 2019 and 2018 and its reconciliation to Total revenue.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Total revenue	43,433	47,245	9%
Minus "pass through" items			
Infrastructure and locomotive tariffs: loaded trips	11,333	11,211	-1%
Services provided by other transportation organisations	1,993	1,663	-17%
Adjusted Revenue	**30,108**	**34,370**	**14%**

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

The following table provides a breakdown of the components of Adjusted Revenue for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Net Revenue from Operation of Rolling Stock	28,420*	32,434*	14%
Operating leasing of rolling stock	682	866	27%
Net Revenue from Engaged Fleet	259*	82*	-68%
Other	747	989	32%
Adjusted Revenue	**30,108**	**34,370**	**14%**

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure, derived from management accounts, describing the net revenue generated from freight rail transportation and is defined as "Total revenue – operator's services"[6] less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisations" and Net Revenue from Engaged Fleet.

Net Revenue from Operation of Rolling Stock contributed 94% of the Group's Adjusted Revenue in the first six months of 2019.

The following table provides Net Revenue from Operation of Rolling Stock for the six months ended 30 June 2019 and 2018, and its reconciliation to Total revenue – operator's services.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Total revenue – operator's services[6]	42,004	45,390	8%
Minus			
Infrastructure and locomotive tariffs: loaded trips	11,333	11,211	-1%
Services provided by other transportation organisations	1,993	1,663	-17%
Net Revenue from Engaged Fleet	259*	82*	-68%
Net Revenue from Operation of Rolling Stock	**28,420***	**32,434***	**14%**

The Group's Net Revenue from Operation of Rolling Stock in the first six months of 2019 rose 14% year on year to RUB 32,434 million*, with a solid performance across the key business segments of rail transportation in gondola and rail tank cars.

[6] 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)".

- Average Price per Trip increased 10% year on year to RUB 45,825 reflecting favourable conditions in the gondola market and a solid environment in the rail tank car segment;
- Average Rolling Stock Operated rose 8% year on year to 56,780 units due to the acquisition of fleet along with the transition of some leased-out rail tank cars into operation as well as an increased number of leased-in rail tank cars;
- Average Number of Loaded Trips per Railcar decreased 4% year on year principally as a result of changed client logistics and a reduction in average speeds on the RZD rail network, caused for the most part by ongoing major rail infrastructure modernisation projects.

Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock, which contributed 3% of the Group's Adjusted Revenue in the first six months of 2019, increased 27% year on year to RUB 866 million as rail tank car leasing rates increased.

Net Revenue from Engaged Fleet

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

In the first six months of 2019, Net Revenue from the Engaged Fleet, comprising less than 1% of the Group's Adjusted Revenue, fell 68% year on year to RUB 82 million* primarily driven by a decline in the number of Engaged Fleet operations in the rail tank car segment due to substitution by owned and leased-in units.

Other revenue

Other revenue (3% of the Group's Adjusted Revenue), which includes revenues from auxiliary services, rose 32% year on year to RUB 989 million reflecting an increase in revenue from the transportation of petrochemicals in tank containers on the back of fleet expansion.

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 six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	**H1 2019 RUB mln**	**Change %**
Cost of sales	27,747	28,670	3%
Selling and marketing costs	110	101	-8%
Administrative expenses	2,044	1,771	-13%
Total cost of sales, selling and marketing costs and administrative expenses	**29,902**	**30,542**	**2%**

In the first six months of 2019, the Group's Total cost of sales, selling and marketing costs and administrative expenses were RUB 30,542 million, an increase of 2% year on year, due to the factors described below.

- "Pass through" cost items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations") decreased 3% year on year to RUB 12,874 million;
- The Group's Total cost of sales, selling and marketing costs and administrative expenses adjusted for "pass-through" cost items rose 7% year on year to RUB 17,668 million in the first six months of 2019, which reflected:
    - o Continued efficient cost management with Total Operating Cash Costs up just 5% year on year to RUB 14,231 million despite continued cost pressures (largely stemming from an increase in regulated RZD infrastructure and locomotive traction tariff for empty trips, increased Empty Runs due to changed client

logistics and a rise in repairs and maintenance costs), which were partially offset by a decrease in Other Operating Cash Costs largely due to the cancellation of property tax on movable assets in Russia;

- Total Operating Non-Cash Costs rose 14% year on year to RUB 3,436 million principally reflecting an asset-expansion driven increase in the Depreciation of property, plant and equipment and the application of the IFRS 16 "Leases".

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:

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
"Pass through" cost items	**13,325**	**12,874**	**-3%**
Infrastructure and locomotive tariffs: loaded trips	*11,333*	*11,211*	*-1%*
Services provided by other transportation organisations	*1,993*	*1,663*	*-17%*
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**16,577**	**17,668**	**7%**
Total Operating Cash Costs	***13,571***	***14,231***	***5%***
Empty Run Costs	*6,416**	*7,194**	*12%*
Repairs and maintenance	*1,871*	*2,125*	*14%*
Employee benefit expense	*1,918*	*2,024*	*6%*
Fuel and spare parts - locomotives	*967*	*897*	*-7%*
Infrastructure and Locomotive Tariffs - Other Tariffs	*454**	*479**	*6%*
Expense relating to short-term leases - rolling stock (IFRS 16)	-	*457*	*NM*
Operating lease rentals - rolling stock	*459*	-	*NM*
Engagement of locomotive crews	*404*	*371*	*-8%*
Other Operating Cash Costs	*1,084*	*683*	*-37%*
Total Operating Non-Cash Costs	***3,005***	***3,436***	***14%***
Depreciation of property, plant and equipment	*2,438*	*2,754*	*13%*
Amortisation of intangible assets	*348*	*348*	*0%*
Loss on derecognition arising on capital repairs	*195*	*189*	*-3%*
Depreciation of right-of-use assets (IFRS 16)	-	*135*	*NM*
Net loss on sale of property, plant and equipment	*4*	*6*	*54%*
Impairment charge for receivables	*20*	*4*	*-81%*
Total cost of sales, selling and marketing costs and administrative expenses	**29,902**	**30,542**	**2%**

"Pass through" cost items

Infrastructure and locomotive tariffs: loaded trips

Infrastructure and locomotive tariffs: loaded trips is in principle a "pass through" cost item for the Group[7] and is reflected in equal amounts in both the Group's Total revenue and Cost of sales. This cost item decreased 1% year on year to RUB 11,211 million in the first six months of 2019 as an increase in regulated RZD tariffs was partially offset by a year-on-year reduction of the Group's Freight Rail Turnover in the reporting period.

Services provided by other transportation organisations

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

Services provided by other transportation organisations were down 17% year on year to RUB 1,663 million in the first six months of 2019 principally due to decreased volumes from the Engaged Fleet operations in the rail tank cars segment.

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

Total Operating Cash Costs

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

The Group's Total Operating Cash Costs grew 5% year on year to RUB 14,231 million in the first six months of 2019 due to a combination of factors described below.

The following table provides a breakdown of the Total Operating Cash Costs for the six months ended 30 June 2019 and 2018.

	H1 2019 % of total	**H1 2018 RUB mln**	**H1 2019 RUB mln**	**Change %**
Empty Run Costs	*51%*	6,416*	7,194*	12%
Repairs and maintenance	*15%*	1,871	2,125	14%
Employee benefit expense	*14%*	1,918	2,024	6%
Fuel and spare parts - locomotives	*6%*	967	897	-7%
Infrastructure and Locomotive Tariffs - Other Tariffs	*3%*	454*	479*	6%
Expense relating to short-term leases - rolling stock (IFRS 16)	*3%*	-	457	NM
Operating lease rentals - rolling stock	-	459	-	NM
Engagement of locomotive crews	*3%*	404	371	-8%
Other Operating Cash Costs	*5%*	1,084	683	-37%
Total Operating Cash Costs	***100%***	**13,571**	**14,231**	**5%**

Empty Run Costs

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

Empty Run Costs accounted for 51% of the Group's Total Operating Cash Costs in the first six months of 2019. This cost item rose 12% year on year to RUB 7,194 million* in the first six months of 2019 due to a combination of the following factors:

- Increased regulated RZD tariffs for the traction of empty railcars (up 9.8% year on year for gondola cars and 3.6% year on year for all other types of rolling stock);
- As anticipated, the Empty Run Ratio for gondola cars increased to 43% (H1 2018: 37%) contributing to a Total Empty Run Ratio (for all types of rolling stock) of 51% (H1 2018: 45%);
- Share of Empty Run Kilometres paid by Globaltrans remained relatively stable at 90% (H1 2018: 91%).

Repairs and maintenance

Repairs and maintenance costs, which comprised 15% of the Group's Total Operating Cash Costs in the first six months of 2019, increased 14% year on year to RUB 2,125 million mainly reflecting the increase in the cost of both certain spare parts and repair works along with a rise in the number of mileage-based depot repairs.

Employee benefit expense

Employee benefit expense, comprising 14% of the Group's Total Operating Cash Costs, increased 6% year on year to RUB 2,024 million in the first six months of 2019, reflecting a combination of inflation driven growth in wages and salaries and a related increase in social insurance costs.

Fuel and spare parts - locomotives

Fuel and spare parts - locomotives expenses, which accounted for 6% of the Group's Total Operating Cash Costs, were RUB 897 million in the first six months of 2019, down 7% year on year compared to the same period the previous year. The decline largely reflects a combination of changed client logistics and inflationary growth in the cost of fuel.

Infrastructure and Locomotive Tariffs - Other Tariffs

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

Infrastructure and Locomotive Tariffs - Other Tariffs, representing 3% of the Group's Total Operating Cash Costs, were RUB 479 million* in the first six months of 2019, an increase of 6% year on year, mainly reflecting an increase in regulated RZD tariffs and a rise in costs related to the relocation of rolling stock to and from maintenance.

Expense relating to short-term leases - rolling stock / Operating lease rentals - rolling stock

From 1 January 2019 the Group adopted IFRS 16 "Leases", which resulted in changes in the Group's accounting for leases.

Under IFRS 16, the Group accounts for short-term leases (with a term of twelve months or less) and leases of low value assets by recognising the lease payments as an expense on a straight-line basis. In the first six months of 2019 Expense relating to short-term leases - rolling stock (largely leased-in rail tank cars) amounted to RUB 457 million, comprising 3% of the Group's Total Operating Cash Costs. In the same period the previous year the costs related to the short-term leases of rolling stock were included in Operating lease rentals - rolling stock and amounted to RUB 459 million.

The Group's non-cancellable lease contracts with terms exceeding twelve months (largely related to the leasing of offices and certain specialised rolling stock) are recognised as both right-of-use-assets and corresponding lease liabilities on the balance sheet and depreciated over the term of lease period. Please refer to the Group's consolidated interim financial information (unaudited) for the six months ended 30 June 2019 for more details on the adoption of IFRS 16.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD (3% of the Group's Total Operating Cash Costs) decreased 8% year on year to RUB 371 million in the first six months of 2019, largely due to changed client logistics.

Other Operating Cash Costs

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

The following table provides a breakdown of the Other Operating Cash Costs for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	**H1 2019 RUB mln**	**Change %**
Expense relating to short-term leases - office (IFRS 16)	-	80	NM
Legal, consulting and other professional fees	35	25	-29%
Auditors' remuneration	25	21	-13%
Advertising and promotion	18	17	-9%
Communication costs	16	16	0%
Taxes (other than income tax and value added taxes)	349	12	-97%
Information services	12	10	-17%
Rental of tank-containers	24	-	NM
Operating lease rentals - office	94	-	NM
Other expenses	510	502	-2%
Other Operating Cash Costs	**1,084**	**683**	**-37%**

Other Operating Cash Costs, which comprised 5% of the Group's Total Operating Cash Costs, were down 37% to RUB 683 million in the first six months of 2019 compared to the same period the previous year. The decline largely reflected a decrease in Taxes (other than income tax and value added taxes) due to the cancellation of property tax on movable assets in Russia.

Total Operating Non-Cash Costs

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

The following table provides a breakdown of the Total Operating Non-Cash Costs for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Depreciation of property, plant and equipment	2,438	2,754	13%
Amortisation of intangible assets	348	348	0%
Loss on derecognition arising on capital repairs[8]	195	189	-3%
Depreciation of right-of-use assets (IFRS 16)	-	135	NM
Net loss on sale of property, plant and equipment	4	6	54%
Impairment charge for receivables	20	4	-81%
Total Operating Non-Cash Costs	**3,005**	**3,436**	**14%**

Total Operating Non-Cash Costs rose 14% year on year to RUB 3,436 million in the first six months of 2019, largely due to a 13% year-on-year increase in the Depreciation of property, plant and equipment on the back of the growth in the Group's Owned Fleet and the application of the IFRS 16 "Leases".

Adjusted EBITDA (non-GAAP financial measure)

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

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

The Group's Adjusted EBITDA in the first six months of 2019 reached RUB 20,202 million, 22% higher than for the same period in the previous year.

The Adjusted EBITDA Margin expanded to 59% in the first half of 2019 from 55% in the same period the previous year on the back of a 14% year-on-year increase in Adjusted Revenue and a 5% year-on-year rise in Total Operating Cash Costs.

The following table provides details on Adjusted EBITDA for the six months ended 30 June 2019 and 2018, and its reconciliation to EBITDA and Profit for the period.

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

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Profit for the period	**9,831**	**11,993**	**22%**
Plus (Minus)			
Income tax expense	3,117	3,563	14%
Finance costs - net	607	1,164	92%
Net foreign exchange transaction losses on financing activities	(25)	(276)	NM
Amortisation of intangible assets	348	348	0%
Depreciation of right-of-use assets (IFRS 16)	-	135	NM
Depreciation of property, plant and equipment	2,438	2,754	13%
EBITDA	**16,316**	**19,681**	**21%**
Minus (Plus)			
Loss on derecognition arising on capital repairs	(195)	(189)	-3%
Net foreign exchange transaction losses on financing activities	(25)	(276)	NM
Other gains/(losses) - net	24	(49)	NM
Net loss on sale of property, plant and equipment	(4)	(6)	54%
Adjusted EBITDA	**16,516**	**20,202**	**22%**

Finance income and costs

The following table provides a breakdown of Finance income and costs for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Interest expense:			
Bank borrowings	(630)	(692)	10%
Non-convertible bond	(130)	(337)	159%
Other interest expense	-	(6)	NM
Total interest expense calculated using the effective interest rate method	(761)	(1,035)	36%
Leases with financial institutions (2018: Finance leases)	(11)	(87)	697%
Lease liabilities (IFRS 16)	-	(50)	NM
Total interest expense	(772)	(1,172)	52%
Other finance costs	(11)	(45)	300%
Total finance costs	**(783)**	**(1,217)**	**55%**
Interest income:			
Bank balances	98	58	-40%
Short term deposits	77	251	226%
Loans to third parties	1	0.4	-52%
Total interest income calculated using the effective interest rate method	176	310	76%
Finance leases	25	19	-23%
Total finance income	**200**	**329**	**64%**
Net foreign exchange transaction (losses)/gains on borrowings and other liabilities	(58)	43	NM
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	33	(320)	NM
Net foreign exchange transaction losses on financing activities	**(25)**	**(276)**	**NM**
Net finance costs	**(607)**	**(1,164)**	**92%**

Finance costs

Total finance costs rose 55% year on year to RUB 1,217 million in the first six months of 2019 following an increase in the Group’s total borrowings, a year-on-year increase in the weighted average effective interest rate and the application of the IFRS 16 “Leases”.

Finance income

In the first six months of 2019, the Group’s Total finance income was up 64% year on year to RUB 329 million, primarily due to an increase in the amount of short-term deposits.

Net foreign exchange transaction losses on financing activities

In the first six months of 2019 the Group had Net foreign exchange transaction losses on financing activities in the amount of RUB 276 million compared to RUB 25 million in the same period previous year mainly due to foreign exchange volatility on the available cash and cash equivalents denominated in foreign currency.

Profit before income tax

The Group reported Profit before income tax of RUB 15,556 million in the first six months of 2019, an increase of 20% compared to the same period the previous year, reflecting:

- A 23% year-on-year rise in the Group's Operating profit to RUB 16,721 million, largely as a result of the factors described above;
- Partially offset by a 92% year-on-year increase in Net finance costs to RUB 1,164 million.

Income tax expense

Income tax expense rose 14% year on year to RUB 3,563 million in the first six months of 2019 with the 20% year-on-year increase in the Group's Profit before income tax partially offset by a decline in the estimated weighted average annual income tax rate for the first half of 2019.

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate used for the first six months of 2019 was 22.90% (H1 2018: 24.07%). The decrease in the weighted average annual income tax rate mainly reflected a reduction in Estonian tax incurred upon payment of dividends by one of the Estonian subsidiaries of the Company during the first six months of the previous year and the smaller provision for withholding tax for the intra-group dividends.

Profit for the year

The Group's Profit for the period rose 22% year on year to RUB 11,993 million reflecting the factors described above.

Profit for the period attributable to the owners of the Company rose 26% year on year to RUB 11,089 million benefitting from the positive contribution from the wholly-owned gondola business which delivered a strong performance.

LIQUIDITY AND CAPITAL RESOURCES

In the first six months of 2019, the Group's capital expenditure consisted primarily of maintenance CAPEX (including capital repairs) and the selective acquisition of rolling stock, specialised containers and locomotives.

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 2018, and proceeds from borrowings and bond issues.

The Group manages its liquidity based on expected cash flows. As at 30 June 2019, the Group had Net Working Capital of RUB 2,910 million*. Given its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to operate successfully.

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	H1 2019 RUB mln
Cash flows from operating activities	16,540	20,160
Changes in working capital:		
Inventories	187	55
Trade receivables	83	(174)
Other assets	293	309
Other receivables	(32)	(20)
Trade and other payables	(640)	(299)
Contract liabilities	(1)	(607)
Cash generated from operations	16,430	19,424
Tax paid	(3,340)	(3,155)
Net cash from operating activities	**13,090**	**16,270**
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,992)	(7,065)
Proceeds from disposal of property plant and equipment	38	27
Loan repayments received from third parties	3	3
Interest received	200	322
Receipts from finance lease receivable	15	51
Net cash used in investing activities	**(2,736)**	**(6,663)**
Cash flows from financing activities		
Net cash inflows from borrowings and financial leases:	431	3,453
Proceeds from bank borrowings	*5,011*	*4,426*
Proceeds from issue of non-convertible unsecured bonds	*5,000*	*5,000*
Repayments of borrowings	*(8,735)*	*(5,728)*
Principal elements of lease payments for leases with financial institutions (2018: Finance lease principal payments)	*(844)*	*(244)*
Interest paid on bank borrowings and non-convertible unsecured bonds	(689)	(863)
Interest paid on leases with financial institutions (2018: Interest paid on finance leases)	(5)	(88)
Interest paid on lease liabilities (IFRS 16)	-	(44)
Principal elements of lease payments (IFRS 16)	-	(102)
Dividends paid to owners of the Company	(8,017)	(8,311)
Dividends paid to non-controlling interests in subsidiaries	(921)	(680)
Payments from non-controlling interests for share capital increase of subsidiary	-	200
Payments to non-controlling interests	-	(305)
Net cash used in financing activities	**(9,200)**	**(6,741)**
Net increase in cash and cash equivalents	**1,154**	**2,866**
Effect of exchange rate changes on cash and cash equivalents	76	(259)
Cash and cash equivalents at beginning of the period	4,966	7,130
Cash and cash equivalents at end of the period	**6,197**	**9,737**

Net cash from operating activities

Net cash from operating activities rose 24% year on year to RUB 16,270 million, impacted by the 18% year-on-year increase in Cash generated from operations (after "Changes in working capital") and a 6% year-on-year decline in Tax paid as the increase in taxable profits was offset by a decline in the estimated weighted average annual income tax rate for the first half of 2019.

Net cash used in investing activities

Net cash used in investing activities increased 144% year on year to RUB 6,663 million. This resulted from the higher capital expenditure in the reporting period due to the majority of the planned annual expansion investments being undertaken in the first six months of 2019.

Purchases of property, plant and equipment (on a cash basis) rose 136% to RUB 7,065 million as the Group purchased 1,098 units in the first six months of 2019 (including 8 locomotives)[9] compared to 690 units in the same period the previous year.

[9] In the first six months of 2019 the Group purchased on a cash basis 1,098 units, including 538 specialised containers, 338 gondola cars, 214 flat cars and 8 locomotives.

Net cash used in financing activities

Net cash used in financing activities was RUB 6,741 million in the first six months of 2019, a reduction of 27% compared to the same period the previous year. This was due to a combination of the following factors:

- Net cash inflows from borrowings and finance leases[10] were RUB 3,453 million (compared to RUB 431 million in the same period the previous year) in order to finance the greater capital expenditures in the reporting period. The principal elements of lease payments (related to a capital expenditure financed with a finance lease) of RUB 244 million were booked in the first half of 2019 compared to RUB 844 million in the same period the previous year;
- Interest paid (including "Interest paid on bank borrowings and non-convertible unsecured bonds" and "Interest paid on leases with financial institutions") rose 37% year on year to RUB 951 million in the first six months of 2019 due to the increase in the Group's total borrowings along with the higher weighted average effective interest rate;
- The increase in Dividends paid to owners of the Company to RUB 8,311 million compared to RUB 8,017 million in the first six months of the previous year reflecting the continued strong business performance;
- Dividends paid to non-controlling interests in subsidiaries declined to RUB 680 million in the first six months of 2019 compared to RUB 921 million in the same period the previous year.

Free Cash Flow

Free Cash Flow (a non-GAAP financial measure) is calculated as "Cash generated from operations" (after "Changes in working capital") less "Tax paid", "Purchases of property, plant and equipment" (which includes maintenance CAPEX), "Purchases of intangible assets", "Acquisition of subsidiary undertakings - net of cash acquired", "Principal elements of lease payments for leases with financial institutions", "Principal elements of lease payments (IFRS 16)", "Interest paid on lease liabilities (IFRS 16)", "Interest paid on bank borrowings and non-convertible unsecured bonds" and "Interest paid on leases with financial institutions".

The business generated robust Free Cash Flow despite an increase in capital expenditures related to the majority of the planned annual expansion CAPEX being undertaken in the first six months of 2019. The Group's Free Cash Flow amounted to RUB 7,863 million, down 8% compared to the same period the previous year. This was mostly related to the following factors:

- Cash generated from operations (after "Changes in working capital") increased 18% or RUB 2,994 million to RUB 19,424 million but was more than offset by the combination of:
  - a 91% or RUB 3,473 million year-on-year increase in Total CAPEX (including "Purchase of property, plant and equipment" and "Principal elements of lease payments for leases with financial institutions") to RUB 7,310 million due to a greater portion of planned annual expansion CAPEX being completed in the first six months of 2019; and
  - a 37% or RUB 257 million year-on-year increase in Interest paid (including "Interest paid on bank borrowings and non-convertible unsecured bonds" and "Interest paid on leases with financial institutions") to RUB 951 million;
  - RUB 102 million of Principal elements of lease payments (IFRS 16) and RUB 44 million of Interest paid on lease liabilities (IFRS 16) booked in the first six months of 2019 due to the application of IFRS 16 "Leases".
- Tax paid reduced 6% or RUB 186 million year on year to RUB 3,155 million as described above.

The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for the six months ended 30 June 2019 and 2018, and its reconciliation to Cash generated from operations.

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[10] Net Cash inflows (outflows) from borrowings and financial leases (a non-GAAP financial measure) defined as the balance between the following line items: "Proceeds from bank borrowings", "Proceeds from issue of non-convertible unsecured bonds", "Repayments of borrowings" and "Principal elements of lease payments for leases with financial institutions".

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Cash generated from operations (after "Changes in working capital")	16,430	19,424	18%
Total CAPEX	(3,836)	(7,310)	91%
Purchases of property, plant and equipment	*(2,992)*	*(7,065)*	*136%*
Principal elements of lease payments for leases with financial institutions (2018: Finance lease principal payments)	*(844)*	*(244)*	*-71%*
Tax paid	(3,340)	(3,155)	-6%
Interest paid on bank borrowings and non-convertible unsecured bonds	(689)	(863)	25%
Interest paid on leases with financial institutions (2018: Interest paid on finance leases)	(5)	(88)	NM
Principal elements of lease payments (IFRS 16)	-	(102)	NM
Interest paid on lease liabilities (IFRS 16)	-	(44)	NM
Free Cash Flow	**8,560**	**7,863**	**-8%**
Minus			
Adjusted Profit Attributable to Non-controlling Interests	1,019	904	-11%
Attributable Free Cash Flow	**7,541**	**6,959**	**-8%**

Capital expenditure

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

The Group's Total CAPEX was RUB 7,310 million[11] in the first six months of 2019 compared to RUB 3,836 million in the same period the previous year.

This higher capital expenditure primarily reflects the fact that the majority of the planned annual expansion investments were undertaken in the first half with the Group purchasing (on a cash basis) 1,098 units, including 538 specialised containers, 338 gondola cars, 214 flat cars and 8 locomotives compared to 690 units in the same period the previous year.

The following table sets out the principal components of the Group's Total CAPEX for the six months ended 30 June 2019 and 2018.

	H1 2018 RUB mln	H1 2019 RUB mln	Change %
Purchase of property, plant and equipment	2,992	7,065	136%
Principal elements of lease payments for leases with financial institutions	844	244	-71%
Total CAPEX	**3,836**	**7,310**	**91%**

Capital resources

As of 30 June 2019, the Group's financial indebtedness consisted of bank borrowings, non-convertible unsecured bonds and finance lease liabilities for an aggregate principal amount of RUB 29,347 million (including accrued interest of RUB 377 million*).

Under IFRS 16, Lease liabilities of RUB 1,247 million were recognised on the balance sheet as of 30 June 2019[12] which largely related to the long-term leasing of offices and certain specialised rolling stock.

The Group's leverage was maintained at a low level with Net Debt to Adjusted EBITDA at 0.53x for the twelve months to 30 June 2019 (31 December 2018: 0.56x).

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[11] The Group's capital expenditure (including maintenance CAPEX) on an accrual basis was RUB 6,843 million in H1 2019 compared to RUB 5,562 million in the same period the previous year. The difference between capital expenditure given on a cash basis and on an accrual basis is principally because of a time lag between prepayments for and delivery of rolling stock and due to a part of the capital expenditure being financed with a finance lease.

[12] Not included in Total debt.

The Group’s Net Debt was RUB 19,610 million as of 30 June 2019, 5% higher than at the end of 2018.

The following table sets out details on the Group’s total debt, Net Debt and Net Debt to LTM Adjusted EBITDA at 30 June 2019 and 31 December 2018, and the reconciliation of Net Debt to Total debt.

	As of 31 December 2018 RUB mln	**As of 30 June 2019 RUB mln**	**Change %**
Total debt	25,729	29,347	14%
Minus			
Cash and cash equivalents	7,130	9,737	37%
Net Debt	**18,599**	**19,610**	**5%**
Net Debt to LTM Adjusted EBITDA	**0.56x**	**0.53x**	**-**

Rouble-denominated borrowings accounted for nearly 100% of the Group’s debt portfolio as of 30 June 2019. The Russian rouble is the functional currency of the Company.

The weighted average effective interest rate rose to 8.2% as of 30 June 2019 compared to 7.9% as of the end of 2018. The vast majority of the Group’s debt had fixed interest rates as of the end of the reporting period.

The Group has a balanced maturity profile, supported by the Group’s strong cash flow generation, available cash and cash equivalents, as well as undrawn borrowing facilities in the amount of RUB 9,577 million as of 30 June 2019.

The following table gives the maturity profile of the Group’s borrowings (including accrued interest of RUB 377 million*) as of 30 June 2019.

	As of 30 June 2019 RUB mln
Q3 2019	2,434*
Q4 2019	2,120*
Q1 2020	1,929*
Q2 2020	1,453*
H2 2020	2,897*
2021	6,778*
2022	5,556*
2023-2024	6,180*
Total	**29,347**

PRESENTATION OF INFORMATION

The information in this announcement is subject to verification, completion and change. Accordingly, no representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its shareholders, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this announcement. None of the Company nor any of its shareholders, directors, officers or any other person accepts any liability whatsoever for any loss howsoever arising from any use of the contents of this announcement or otherwise arising in connection therewith. This announcement does not constitute an offer or an advertisement of any securities in any jurisdiction.

The financial information presented in this announcement is derived from the condensed consolidated interim financial information (unaudited) of Globaltrans Investment PLC (“the Company” or, together with its consolidated subsidiaries, “Globaltrans” or “the Group”) as at and for the six months ended 30 June 2019 and 2018 and prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the consolidated Management report and consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the Cyprus Companies Law, Cap. 113.

The Group’s condensed consolidated interim financial information (unaudited) as at and for the six months ended 30 June 2019 and 2018 along with selected historical financial and operational information are available at Globaltrans’ corporate website (www.globaltrans.com).

The presentation currency of the Group's consolidated financial statements is the Russian rouble ("RUB").

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

The Company also reports certain operational information to illustrate the changes in the Group's operational and financial performance during the reporting periods.

Certain financial information which is derived from management accounts is marked in this announcement with an asterisk {*}.

Information (non-GAAP financial and operating measures) requiring additional explanation or defining is marked with initial capital letters and the explanations or definitions are provided at the end of this announcement. Reconciliations of the non-GAAP measures to the closest EU IFRS measures are included in the body of this announcement.

Rounding adjustments have been made in calculating some of the financial and operational information included in this announcement. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

The Group has obtained certain statistical, market and pricing information that is presented in this announcement on such topics as the Russian freight rail transportation market and related subjects from the following third-party sources: Federal State Statistics Service of Russian Federation ("Rosstat"), JSC Russian Railways ("RZD") and the Federal Antimonopoly Service ("FAS"). The Group has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third-party sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Group has not independently verified this third-party information. In addition, the official data published by Russian governmental agencies may be substantially less complete or researched than that of more developed countries.

All non-GAAP financial and operational information presented in this announcement 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 and condensed consolidated interim financial information reported under EU IFRS, which are available the Globaltrans' corporate website www.globaltrans.com.

DEFINITIONS

Terms that require definitions are marked with capital letters in this announcement and their definitions are provided below in alphabetical order:

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

Adjusted EBITDA Margin (a non-GAAP financial measure) is calculated as Adjusted EBITDA divided by Adjusted Revenue.

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

Adjusted Revenue (a non-GAAP financial measure) is calculated as "Total revenue" less the following "pass through" items "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations".

Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted Profit Attributable to Non-controlling Interests.

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

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

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

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

EBITDA (a non-GAAP financial measure) represents “Profit for the period” before “Income tax expense”, “Finance costs - net” (excluding “Net foreign exchange transaction (gains)/losses on financing activities”), “Depreciation of property, plant and equipment”, “Amortisation of intangible assets” and “Depreciation of right-of-use assets”.

Empty Run or Empty Runs means the movement of railcars without cargo for the whole or a substantial part of the journey.

Empty Run Costs (a non-GAAP financial measure meaning costs payable to RZD for forwarding empty railcars) is derived from management accounts and presented as part of the “Infrastructure and locomotive tariffs: empty run trips and other tariffs” component of “Cost of sales” reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased in or leased out, Engaged Fleet, flat cars and containers used in the container business segment.

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

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

Free Cash Flow (a non-GAAP financial measure) is calculated as “Cash generated from operations” (after “Changes in working capital”) less “Tax paid”, “Purchases of property, plant and equipment” (which includes maintenance CAPEX), “Purchases of intangible assets”, “Acquisition of subsidiary undertakings - net of cash acquired”, “Principal elements of lease payments for leases with financial institutions”, “Principal elements of lease payments (IFRS 16)”, “Interest paid on lease liabilities (IFRS 16)”, “Interest paid on bank borrowings and non-convertible unsecured bonds” and “Interest paid on leases with financial institutions”.

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

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

Leased-in Fleet is defined as fleet leased in under operating leases, including railcars, locomotives and containers.

Leased-out Fleet is defined as fleet leased out to third parties under operating leases (excluding flat cars and containers used in the container business segment).

Leverage Ratio or Net Debt to Adjusted EBITDA (a non-GAAP financial measure) is the ratio of Net Debt on the last day of a particular financial period to Adjusted EBITDA in respect of the twelve months to the end of that same period.

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

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

Net Revenue from Operation of Rolling Stock (a non-GAAP financial measure, derived from management accounts) is defined as the sum of “Revenue from railway transportation - operators services (tariff borne by the Group)” and “Revenue from railway transportation - operators services (tariff borne by the client)” less “Infrastructure and locomotive tariffs: loaded trips”, “Services provided by other transportation organisation” and Net Revenue from Engaged Fleet.

Net Working Capital (a non-GAAP financial measure) is calculated as the sum of the current portions of “Inventories”, “Current income tax assets”, “Trade receivables - net”, “Other receivables - net” (“Other receivables - third parties” and “Other receivables - related parties” net of “Provision for impairment of other receivables”), “Prepayments - third parties”, “Prepayments - related parties” and “VAT recoverable”, less the sum of the current portions of “Trade payables to third parties”, “Trade payables to related parties”, “Other payables to third parties”, “Other payables to related parties”, "Accrued expenses", “Accrued key management compensation, including share based payment”, “Contract liabilities” and “Current tax liabilities”.

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

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”, “Depreciation of right-of-use assets”, “Loss on derecognition arising on capital repairs”, “Impairment charge for receivables”, “Impairment of property, plant and equipment” and “Net (gain)/loss on sale of property, plant and equipment”.

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”, “Depreciation of right-of-use assets”, “Loss on derecognition arising on capital repairs”, “Impairment charge for receivables”, “Impairment of property, plant and equipment” and “Net (gain)/loss on sale of property, plant and equipment”.

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

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

Share of Empty Run Kilometres paid by Globaltrans is defined as the percentage of empty run kilometres paid by Globaltrans divided by the total amount of empty run kilometres incurred by the fleet operated by Globaltrans (not including relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, and rolling stock leased-out, Engaged Fleet, flat cars and containers used in the container business segment) in the relevant period.

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

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

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

LEGAL DISCLAIMER

Some of the information in this announcement may contain projections or other forward-looking statements regarding future events or the future financial performance of Globaltrans. You can identify forward-looking statements by terms such as 'expect', 'believe', 'anticipate', 'estimate', 'intend', 'will', 'could', 'may' or 'might', the negative of such terms or other similar expressions. Globaltrans wishes to caution you that these statements are only predictions and that actual events or results may differ materially. Globaltrans 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 projections or forward-looking statements of Globaltrans, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, rapid technological and market change in the industries Globaltrans operates in, as well as many other risks specifically related to Globaltrans and its operations.