Globaltrans Investment PLC

Consolidated Management report and consolidated financial statements for the year ended 31 December 2016

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Consolidated Management report and consolidated financial statements for the year ended 31 December 2016

Board of Directors and other officers

Board of Directors

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

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

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

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

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

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

Mr. Marios Tofaros
Non-executive Director

Mr. Sergey Tolmachev
Executive Director

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

Mr. Konstantin Shirokov
Executive Director

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

Mr. Michalakis Thomaides
Non-Executive Director

Ms. Melina Pyrgou
Non-executive Director

Ms Zarema Mamukaeva
Non-executive Director
Appointed on 28 April 2016
Alternate Director: Ms. Melina Pyrgou

Board support

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

Company Secretary

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

Assistant secretary: Mr. Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol, Cyprus

Consolidated Management Report

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2016. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

Globaltrans produced a solid overall financial performance in 2016. The recovery in gondola car segment translated into a strong set of results, despite the weaker market for oil product and oil transportation.

IFRS financial information

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

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

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

On 31 December 2016 the total debt of the Group was RUB 16,292,469 thousand and decreased by 20% as compared to end of 2015 which amounted to RUB 20,359,060 thousand. Total cash and cash equivalents on 31 December 2016 grew by 16% and amounted to RUB 4,773,414 thousand (31 December 2015: 4,104,079 thousand).

Non-IFRS financial information

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

Adjusted Revenue increased 5% year on year to RUB 44,248,568 thousand (2015: 42,175,762 thousand) supported by the strong performance of the gondola business. Total Operating Cash Costs were up 1% year on year to RUB 26,489,774 thousand (2015: 26,201,065 thousand).

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

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

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

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

Operational information

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

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

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

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

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

Definitions to Non-IFRS financial measures

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

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

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

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

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

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

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

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

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

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

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

Changes in group structure

There were no changes in the Group structure of the Company during the year ended 31 December 2016. For the principal subsidiaries of the Group, refer to Note 14.2 of the consolidated financial statements.

Principal risks and uncertainties

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

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

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

Strategic risks

The strategic risks faced by the Group that pose risks that influence the Group’s ability to achieve its strategy include the general economic situation and operating environment in Russia, Kazakhstan and Ukraine in which the Group operates; the regulatory risk relating to the operation of the Russian railway transportation market including railway tariff regulation and technical requirements for fleet maintenance; the highly competitive Russian rail transportation market with unregulated operators’ services tariffs; the oversupply of railcars on the market; the significant concentration of the Group’s customer base with the top 10 customers accounting for around 80% of the Group’s Net Revenue from the operation of rolling stock in 2016; the dependence on RZD to issue permits allowing the Group to operate locomotives; cost of borrowing and/or deterioration in market conditions with potential impacts on the profitability and payback period of investments; and reliance on RZD for issuing permits allowing the Group to operate locomotives and to approve is use of locomotives for particular routes.

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

The management of the Group constantly monitors the developments in the operating environment and regulatory regime of the railway transportation market in the countries in which the Group operates. The Group’s business model is to maintain a balanced fleet between universal gondola cars, adaptable to the demand for transportation of various bulk cargoes and rail tank cars, which are used for the transportation of oil products and oil. Further, the Group has long-term, established relationships with its key customers and their affiliates and suppliers and in some cases, the Group becomes an integrated part of its customers’ operations. Around 62% of the Group’s Net Revenue from the Operation of Rolling Stock in 2016 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. In addition, the Group’s marketing function regularly monitors competitors’ strategies, their use of technology, their price strategies and industry trends.

Operational risks

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

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

Compliance risks

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

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

Financial risks

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

Foreign exchange risk

Currently, the Group has a negligible share of borrowings and lease liabilities denominated in US dollars and does not have formal arrangements for hedging this foreign-exchange risk. The Group therefore has limited exposure to the effects of currency fluctuations between the US dollar and Russian rouble.

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

A large proportion of the Group's revenues and expenses are denominated and settled in Russian roubles. At present, the risks related to liabilities denominated in foreign currency are not material and are partly compensated by assets and income denominated in foreign currency. The Group has refinanced nearly all of its US dollar-denominated liabilities with long-term debt denominated in Russian roubles. As of 31 December 2016, almost 100% of the Group's debt was denominated in Russian roubles.

Had US Dollar exchange rate strengthened/weakened by 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2016, would have increased/decreased by RUB 301,930 thousand and equity would have increased/decreased by RUB 808,361 thousand. The impact on equity is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

Had US Dollar exchange rate strengthened/weakened by 30% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged and the equity of the Group for the year ended 31 December 2016, would have decreased/increased by RUB 808,361 thousand. This is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

Interest-rate risks

The Group's income and operating cash flows are exposed to changes in market interest rates. These arise mainly from floating rate lease liabilities and borrowings. An increase in market interest rates in Russia may negatively influence the Group's profits. As of 31 December 2016, the proportion of total debt with a fixed interest rate amounted almost to 100%.

The Group concludes long-term borrowing and finance lease contracts to finance purchases of rolling stock and acquisitions of subsidiaries. The Group borrows at current market interest rates and does not use any hedging instruments to manage interest-rate risk. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring that the Group has financial liabilities with both floating and fixed interest rates. As of 31 December 2016, the proportion of total debt with a fixed interest rate amounted to almost 100%.

Credit risk

Financial assets that potentially subject the Group to credit risk consist principally of trade and other receivables and cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including its affiliates and suppliers. Its top 10 clients accounted for 70% of the Group's trade and other receivables on 31 December 2016.

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

Liquidity risk

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

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

Contingencies

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

Future developments

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

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

Results

The Group's results for the year are set out on pages 25 and 26. The Board of Directors recommends the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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

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

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

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

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

The Company's dividend policy is based on a balance of long-term interests of the Group and its shareholders and respect for and strict observation of the shareholders' rights as provided by the applicable laws and regulations.
The enhanced dividend policy enables the Group to invest when it identifies value accretive growth opportunities and, when such opportunities are limited, to return a substantial portion of free cash flow to shareholders.

Depending on the actual Leverage Ratio[1] of the Group as at the end of each financial year and subject to applicable laws and regulations and the Articles of Association of Globaltrans, the Board[2] will recommend the payment of dividends in amounts not less than the following proportions of Attributable Free Cash Flow for such financial year:

Leverage Ratio	Dividends, % of Attributable Free Cash Flow[3]
Less than 1.0x	Not less than 50%
From 1.0x to 2.0x	Not less than 30%
2.0x or higher	0% or more

Notes: [1] Leverage Ratio (a non-IFRS financial measure) means the ratio of Net Debt on the last day of a particular financial year to Adjusted EBITDA in respect of that financial year
[2] The Board reserves the right to recommend to the general shareholder meeting the dividend for the financial year in the amount calculated on a reasonable basis other than that described above at its sole discretion. The factors that the Board should consider include but are not limited to: (i) the Group's needs for business development and strategy implementation purposes; (ii) financial resources for business expansion; (iii) any adverse changes in regulatory, economic and market environment; (iv) the ability of the Company and its subsidiaries to meet their obligations as they fall due; (v) the availability of distributable reserves at the Company and subsidiaries level and (vi) other factors considered by the Board of Directors as important in light of the current circumstances, including maintenance of the Company's credit ratings
[3] The Attributable Free Cash Flow (a non-GAAP financial measure) means Free Cash Flow less Adjusted profit attributable to non-controlling interests.

The decision to pay the final dividend and the amount of the total dividend in respect of each financial year shall be approved by the general meeting of shareholders upon the recommendation of the Board based on the audited stand-alone financial statements of the Company, the Company's retained earnings and the consolidated financial statements of the Group for that financial year. The Board will recommend to the General Meeting to approve the final dividend and the final decision regarding declaration or distribution of dividends, if any, shall be taken by the General Meeting at its sole discretion.

Share capital

As at 31 December 2016 the issued share capital of the Company which remains unchanged from the prior year, comprised 178,740,916 ordinary shares with a par value of US$0.10 per share.

Research and development activities

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

Events after the balance sheet date

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

Branches

The Group operates through branches and representative offices, maintaining eleven branches and ten representative offices during 2016 (eleven branches and eleven representative offices during 2015).

Treasury shares

In 2016 the Company did not own or acquire either directly or through a person in his own name, but on Company's behalf any of its own shares.

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2017, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

Corporate governance

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

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

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

The role of the Board of Directors

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

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

Members of the Board of Directors

As at 31 December 2016 and at the date of this report, the Board comprises 14 members (2015: 13 members), 11 (2015: 10 members) of whom are non-executive directors (including the Chairman). Four of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Company, and they are able to exercise objective judgment on corporate affairs independently from management.

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

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

The total gross remuneration of the members of the Board of Directors incurred by the Group in 2016 amounted to RUB 131,382 thousand (2015: RUB 229,823 thousand).

Board performance

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

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

The Board Committees

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

Audit Committee

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

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

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

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

Nomination Committee

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

Remuneration Committee

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

Board and Management Remuneration

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

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

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 28 April 2016.

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

Regulations with regards to the amendment of the article of association

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

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

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

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

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

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

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

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

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

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

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

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

The issued share capital of the Company consists of 178,740,916 ordinary shares with a nominal value of USD 0.10 each, a certain portion of which is held in the form of Global Depositary Receipts (GDRs). The GDRs represent one ordinary share each and are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The free float of Globaltrans amounts to approximately 59%[1] of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of the Company.

The shareholder structure of the Company is as follows:

Shareholder structure	
Maple Valley Investments[2]	11.5%
Onyx Investments[2]	11.5%
Marigold Investments[2]	11.5%
Litten Investments[3]	6.3%
Controlled by Directors and management of Globaltrans	0.2%
Free float[1]	59%

(1) For these purposes, the free float consists of the ordinary shares and GDRs held by investors not affiliated or associated with Globaltrans.
(2) Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, a leading container and oil products terminal operator servicing Russia's 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.

Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its Group companies, both direct and indirect, of those who were Directors of the Company as at 31 December 2016 and 31 December 2015 are shown below:

Name	Type of holding	2016	2015
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	11,318,909	11,318,909
Johann Franz Durrer	Holding of GDRs	160,606	160,606

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

The Company does not have any titles with special rights.

Any restrictions in exercising of voting rights of shares

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

By Order of the Board

....
Sergey Tolmachev
Director

Limassol, 31 March 2017

Directors' responsibility

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

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

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 25 to 84) give a true and fair view of the financial position of Globaltrans Investment PLC (the Company") and its subsidiaries (together with the Company, the "Group") as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113.

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

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

By order of the Board

....
Sergey Tolmachev
Director

Independent auditor's report

To the Members of Globaltrans Investment Plc

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Globaltrans Investment Plc (hereinafter "the Company") and its subsidiaries (together with the Company hereinafter "the Group") give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

What we have audited

We have audited the consolidated financial statements which comprise:

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

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers Ltd, City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus
P O Box 53034, CY-3300 Limassol, Cyprus
T: +357 25 - 555 000, F:+357 - 25 555 001, www.pwc.com.cy

Our audit approach

Overview

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

Overall group materiality: RUR 422,500 thousands, which represents 5% of profit before tax

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

We have identified the following as key audit matters:

- Change in the Group's accounting policy for capitalisation of periodical capital repair costs of rolling stock;
- Assessment of impairment of rolling stock; and
- Assessment of impairment/reversal of impairment of customer relationships.

Materiality

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

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

Overall group materiality	RUR 422,500 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark, because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5%, which in our experience is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee that we would report to them individual misstatements identified during our audit above RUR 21,125 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our group audit scope

Globaltrans Investment Plc is the parent of a group of companies. The financial information of this Group is included in the consolidated financial statements of Globaltrans Investment Plc.

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

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

In establishing the overall approach to the group audit, we determined the scope of work that needed to be performed for each reporting unit and whether this would be performed by us, as the group engagement team, or component auditors from other PwC network firms, operating under our instructions. Accordingly, out of the Group's 10 components, we performed an audit of the complete financial information of the parent entity and 6 components, in 4 countries, which were assessed as significant components due to their individual financial significance to the Group. For 2 components, assessed as significant because of the size or risk characteristics of specific financial statements lines, audit work over the specific financial statement lines was performed. For the remaining non-significant components we performed analytical procedures.

Where the work was performed by component auditors, we as group auditors determined the level of involvement we needed to have in the audit work at those components to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Change in the Group's accounting policy for capitalisation of periodical capital repair costs of rolling stock	
The Group's accounting policy for property, plant and equipment, as documented in Note 2 to the consolidated financial statements, is to capitalise the cost of major repairs when it is probable that future economic benefits will flow to the Group and their cost can be reliably measured. Historically, the Group's accounting policy was to expense all repair and maintenance costs relating to periodical repairs of its rolling stock as incurred and not consider any of these repairs as major periodic capital repairs that would warrant capitalisation as part of the cost of the relevant rolling stock. The Board of Directors reconsidered the nature, size and impact of each type of repair of rolling stock on the rolling stock's estimated future economic benefits and concluded that only costs of capital repairs, being repair and maintenance costs relating to periodical capital repairs of	We evaluated and challenged the Board of Directors' judgments around the application of the relevant accounting requirements and the process and methodology used in determining whether any types of repairs performed by the Group on its rolling stock constitute major repairs, and if so, which types are these. We involved PwC accounting technical experts to assist us in this process. In particular, we challenged the Board of Directors, and the external appraisers appointed by the Board of Directors to consult on this matter, as to which repairs should be capitalised and which ones should be expensed, considering the specific requirements of the relevant accounting standard, notably IAS 16. We involved PwC valuation experts to assist us in this process.

locomotives and other rolling stock and periodical middle repairs of locomotives, constitute major repairs that result in enhancement of the economic benefits of the rolling stock and as such they should be capitalised with all other types of repair costs being expenses.

Following this assessment, the Board of Directors proceeded to change its approach to capitalise all such major repairs and has accounted for this as a change in accounting policy, resulting into a restatement of comparatives.

We focused on this area due to the fact that:

- the Board of Directors exercised significant judgment in assessing whether any, and if so which, types of repairs performed by the Group on its rolling stock constitute major repairs meeting the criteria for capitalisation, as set out in the accounting standards;
- complex and subjective estimates and judgments were made by the Board of Directors in estimating the impact of the change in accounting policy on the comparatives; and
- the impact of the change in accounting policy was material to warrant a restatement of the comparatives.

Note 2 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments Note 5 Segmental information and Note 12 Property, plant and equipment, to the consolidated financial statements, provide detailed information on this change in accounting policy.

We further evaluated the accounting policy and the treatment followed for capital repairs upon initial recognition of rolling stock and the judgments made by the Board of Directors in determining the carrying amount of the repaired rolling stock that was attributable to the previous periodic capital repair and/or significant component replaced that was derecognised upon a capital repair.

We tested the underlying calculations prepared by the Board of Directors for the purpose of quantifying the impact of the change in accounting policy on the comparative period.

In particular, we:

- verified the accuracy and completeness of the inputs included in the calculation; and
- tested the source and rationale of adjustments made in the calculation.

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

Assessment of impairment of rolling stock	
Based on the requirements of the applicable standards and in line with its accounting policy for impairment of non-financial assets, as documented in Note 2 to the consolidated financial statements, the Board of Directors assessed whether there were any indications of impairment of the Group's rolling stock as of 31 December 2016. The analysis did not show impairment indicators for the Group's cash generating units ("CGUs"), except for the Estonian rail tank cars/operating leasing CGU, the Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs and the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs, for which the Group performed an impairment assessment. As a result, the Group recognised an impairment loss amounting to RUB 228,408 thousand in respect of the rolling stock within the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs. We focused our audit effort on the Board of Directors' assessment of impairment indicators for the Russian gondola cars/operator's services CGU, due to: • the size of the CGU's rolling stock balance, of RUB 42,952,605 thousand as at 31 December 2016; • the fact that the prior year's impairment model prepared as of 31 December 2015 for this CGU was sensitive to changes to key assumptions; and • the fact that the current year's assessment of whether there were any indicators of impairment as of 31 December 2016 involved certain assumptions and judgments that were considered to be key estimates and judgements. These include the discount rate, EBITDA growth margin and tariffs per trip.	We evaluated and challenged the analysis of indicators for impairment performed by Board of Directors with respect to the Russian gondola cars/operator's services CGU. In particular: • We challenged the Board of Directors' assessment of changes in macroeconomic and industry assumptions, such as inflation and interest rates, by comparing them to publicly available information; • We challenged the Board of Directors' assessment of changes in market interest rates that are likely to affect the discount rate applied in prior year's impairment model, by calculating the weighted average cost of capital of the Group, with the involvement of PwC valuation experts; • We assessed whether there were any indicators of physical or technological obsolescence of the rolling stock within the CGU during the year ended 31 December 2016 by tracing the rolling stock held by the CGU to the railway tracking system, reviewing the average ageing of the rolling stock and by reviewing changes in market prices for the rolling stock, by reference to publicly available quoted prices; • We compared current year's actual results with the figures for the same period included in the impairment model prepared as of 31 December 2015 to assess whether the actual performance indicated deterioration in the recoverable amount of the CGU; • We obtained the Board of Director's budget for the CGU for the year ending 31 December 2017 and assessed whether expected cash flows in this budget are comparable with those

In addition, we focused our audit effort on the Board of Directors' assessment of the recoverable amount of the Estonian rail tank cars/operating leasing CGU, due to:

- the size of the CGU's rolling stock balance, of RUB 10,419,689 thousand as at 31 December 2016;
- the fact that the prior year's impairment model prepared as of 31 December 2015 for this CGU was sensitive to changes to key assumptions; and
- the fact that certain assumptions made by the Board of Directors in the determination of the CGU's recoverable amount were considered key estimates. These include the selling price and adjustments thereon, used in the level 3 fair value less costs to sell calculation.

Note 2 Significant Accounting Policies, Note 4 Critical Accounting Estimates and Judgments and Note 12 Property, plant and equipment, to the consolidated financial statements, provide detailed information on the provision for impairment of the Group's rolling stock.

included in prior year's impairment model for year 2017; and

- We assessed the impact of the above assumptions and forecasts made by the Board of Directors, on the recoverable amount of the CGU.

For the Estonian rail tank cars/operating leasing CGU, we evaluated the valuation methodology and calculations used by the Board of Directors in determining the CGU's recoverable amount, including the underlying inputs and assumptions used.

In particular, we examined the valuation technique applied by the Board of Directors as to whether this incorporated all factors, inputs, estimates and assumptions that market participants would consider in setting a price for the specific rolling stock in the CGU.

We further compared the prices included in the model to publicly available quoted prices.

We lastly evaluated the adequacy of the disclosures made in Note 4 of the consolidated financial statements by reference to the requirements of IAS 36 'Impairment of assets' and IAS 1 'Presentation of financial statements.'

Assessment of impairment/reversal of impairment of customer relationships

The Group balance sheet includes intangible assets of RUB 1,533,435 thousand as of 31 December 2016, of which RUB 1,390,175 thousand relate to customer relationship with MMK Group, allocated to the Russian gondola cars/operator's services CGU.

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

We evaluated and challenged the analysis of indicators for impairment/reversal of impairment performed by Board of Directors.

In particular:

- We challenged the Board of Directors' assessment of changes in macroeconomic and industry assumptions, such as inflation rates and market interest rates in Russia, by comparing them to publicly available information;

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

Other information

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

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

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

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

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Report on other legal and regulatory requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.

- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Consolidated Management Report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, and the information given therein is consistent with the consolidated financial statements.
- In our opinion and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Consolidated Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the Consolidated Management Report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 31 March 2017

Consolidated income statement

for the year ended 31 December 2016

	Note	2016 RUB'000	As restated* 2015 RUB'000
Revenue	5	69,487,991	68,199,831
Cost of sales	6	(54,905,940)	(54,227,504)
Gross profit		14,582,051	13,972,327
Selling and marketing costs	6	(234,773)	(295,076)
Administrative expenses	6	(3,639,328)	(4,240,445)
Impairment of intangible assets	13	-	(996,160)
Other income		-	230,727
Other gains – net	7	116,328	85,717
Operating profit		10,824,278	8,757,090
Finance income	9	258,803	259,900
Finance costs	9	(2,280,202)	(2,996,197)
Net foreign exchange transaction losses on financing activities	9	(291,068)	(209,129)
Finance costs – net	9	(2,312,467)	(2,945,426)
Share of loss of associate	14	(60,831)	(53,739)
Profit before income tax		8,450,980	5,757,925
Income tax expense	10	(2,336,068)	(1,289,743)
Profit for the year		6,114,912	4,468,182
Profit attributable to:			
Owners of the Company		4,472,817	2,103,633
Non-controlling interest		1,642,095	2,364,549
		6,114,912	4,468,182
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	27	25.02	11.77

* Refer to Note 2 for details regarding the restatement

The notes on pages 31 to 84 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2016

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

* Refer to Note 2 for details regarding the restatement

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

The notes on pages 31 to 84 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated balance sheet

at 31 December 2016

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

* Refer to Note 2 for details regarding the restatement

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

By order of the Board

....
Sergey Tolmachev, Director

....
Konstantin Shirokov, Director

The notes on pages 31 to 84 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

	Note	Attributable to the owners of the Company								
	Note	Share capital RUB'000	Share premium RUB'000	Common control transaction reserve RUB'000	Translation reserve RUB'000	Capital contribution RUB'000	Retained earnings RUB'000	Total RUB'000	Non-controlling interest RUB'000	Total RUB'000
Balance at 1 January 2015 – as previously reported		516,957	27,929,478	(10,429,876)	3,397,222	2,694,851	19,100,433	43,209,065	6,927,315	50,136,380
Prior year adjustment*	2	-	-	-	-	-	406,140	406,140	175,421	581,561
Balance at 1 January 2015 – as restated*		516,957	27,929,478	(10,429,876)	3,397,222	2,694,851	19,506,573	43,615,205	7,102,736	50,717,941
Comprehensive income										
Profit for the year		-	-	-	-	-	2,103,633	2,103,633	2,364,549	4,468,182
Other comprehensive income										
Currency translation differences		-	-	-	1,172,174	-	-	1,172,174	697,904	1,870,078
Total comprehensive income for 2015		-	-	-	1,172,174	-	2,103,633	3,275,807	3,062,453	6,338,260
Transactions with owners of the Company										
Dividends to non-controlling interests	23	-	-	-	-	-	-	-	(2,753,022)	(2,753,022)
Total contributions by and distributions to owners of the Company		-	-	-	-	-	-	-	(2,753,022)	(2,753,022)
Disposal of non-controlling interest	16	-	-	-	-	-	6,807	6,807	(6,609)	198
Total transactions with owners of the Company		-	-	-	-	-	6,807	6,807	(2,759,631)	(2,752,824)
Balance at 31 December 2015		516,957	27,929,478	(10,429,876)	4,569,396	2,694,851	21,617,013	46,897,819	7,405,558	54,303,377

* Refer to Note 2 for details regarding the restatement

Consolidated statement of changes in equity

for the year ended 31 December 2016

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

The notes on pages 31 to 84 these consolidated financial statements are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2016

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

* Refer to Note 2 for details regarding the restatement

Principal non-cash investing and financing transactions

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

The notes on pages 31 to 84 these consolidated financial statements are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information

Country of incorporation

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

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 31 March 2017.

Global Depositary Receipts

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

Principal activities

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

2. Basis of preparation and summary of significant accounting policies

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

Basis of preparation

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2016 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

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

- **Annual Improvements to IFRSs 2012 (issued on 12 December 2013 and effective for annual periods beginning on or after 1 February 2015).** The improvements consist of changes to seven standards, as detailed below:
    - o 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 was not materially impacted by the application of these amendments. The amendments to IFRS 8 did not result in additional segmental disclosures in the Group's consolidated financial statements as (1) no aggregation of operating segments has been performed for the purpose of the consolidated financial statements, and (2) the Group was already presenting a reconciliation of segment assets to its assets. Refer to Note 5.

- **Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).** In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group was not materially impacted by the application of this amendment.

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

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

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

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

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

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

    - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL). Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
    - Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
    - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
    - IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
    - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28* (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016. EU endorsement has been postponed; awaiting IASB developments)**. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

- **IFRS 16 "Leases" * (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)**. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

- **Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12* (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.

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

- **Amendments to IFRS 2, Share-based Payment * (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018)**. The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the new amendment on its financial statements.

- **Annual Improvements to IFRSs 2014-2016 cycle * (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).** The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group is currently assessing the impact of the amendments on its financial statements.

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

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

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

Basis of consolidation

(a) Subsidiaries

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

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

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

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

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

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

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

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

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

(b) Transactions with non-controlling interests

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

(c) Disposal of subsidiaries

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

(d) Associates

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

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

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

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

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

Segment reporting

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

Revenue recognition

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

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

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 recognizes revenue net of OAO "Russian railways" tariff.

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

(b) Revenues from leasing

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

(c) Revenues from sale of rail cars and locomotives

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

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

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

(d) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Dividend income

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Net foreign exchange differences arising from borrowings and other liabilities and from cash and cash equivalents and other monetary assets are presented on the face of the income statement in the line "net foreign transaction losses on financing activities", with the appropriate disclosure of the split between the two in the note "Finance income and costs".

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

(c) Group companies

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

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

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

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

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

Property, plant and equipment

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

Land is not depreciated.

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

	Number of years, range
Buildings	30
Rolling stock (except locomotives)	15-32
Locomotives	9-25
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10
Tank containers	20

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

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

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

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

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

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

Rolling stock repair and maintenance costs

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

During the year, the Group reconsidered the nature, size and impact of each type of repair of wagon on the wagon's estimated future economic benefits and concluded that repair and maintenance costs relating to periodical capital repairs of locomotives and other rolling stock and periodical middle repairs of locomotives constitute major repairs that result in enhancement of the economic benefits of the rolling stock and as such they should be capitalised.

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

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

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

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

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

The change in accounting policy is effective from 1 January 2016. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the change in accounting policy has been applied retrospectively and as a result the comparative financial information for the year ended 31 December 2015 has been restated. Further, in accordance with IAS1 "Presentation of Financial Statements", a balance sheet as at 1 January 2015 was presented in these consolidated financial statements.

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

Intangible assets

(a) Goodwill

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

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

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

(b) Customer relationships

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

(c) Computer software

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

Impairment of non-financial assets

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

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

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

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

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

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

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

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

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

Inventories

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

Cash and cash equivalents

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

Cash flow statement

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

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

Trade receivables

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

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

Share capital, share premium and treasury shares

Ordinary shares are classified as equity.

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

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

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

Capital contribution

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

Trade payables

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

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

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

Borrowing costs

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

Financial guarantees

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

Current and deferred income tax

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

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

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

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

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

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

Russian Value Added Tax (VAT)

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

Employee benefits

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

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

Termination benefits

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

Share based payment transactions

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

Dividend distribution

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

Prepayments

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

Comparatives

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

The change in accounting policy is effective from 1 January 2016. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the change in accounting policy has been applied retrospectively and as a result the comparative financial information for the year ended 31 December 2015 has been restated. Further, in accordance with IAS1 "Presentation of Financial Statements", a balance sheet as at 1 January 2015 was presented in these consolidated financial statements.

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

Consolidated Income statement For the twelve months ended 31 December 2015	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Cost of sales	54,427,692	(200,188)	54,227,504
Administrative expenses	4,248,125	(7,680)	4,240,445
Income tax expense	1,248,170	41,573	1,289,743
Profit attributable to:			
- owners of the Company	1,982,956	120,677	2,103,633
- non-controlling interests	2,318,931	45,618	2,364,549
Basic and diluted earnings per share			
(expressed in RUB per share)	11.09	0.68	11.77

Consolidated Statement of comprehensive income For the twelve months ended 31 December 2015	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Total comprehensive income attributable to:			
- owners of the Company	3,155,130	120,677	3,275,807
- non-controlling interests	3,016,835	45,618	3,062,453

Consolidated Balance sheet at 31 December 2015/ 1 January 2016	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Property, plant and equipment	69,288,960	934,816	70,223,776
Total assets	*82,135,629*	*934,816*	*83,070,445*
Deferred income tax liabilities	4,455,748	186,960	4,642,708
Total liabilities	*28,580,108*	*186,960*	*28,767,068*
Retained earnings	21,090,196	526,817	21,617,013
Non-controlling interests	7,184,519	221,039	7,405,558
Total equity	*53,555,521*	*747,856*	*54,303,377*

Consolidated Balance sheet at 1 January 2015	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated RUB'000
Property, plant and equipment	71,380,758	726,948	72,107,706
Total assets	*89,118,734*	*726,948*	*89,845,682*
Deferred income tax liabilities	5,207,410	145,387	5,352,797
Total liabilities	*38,982,354*	*145,387*	*39,127,741*
Retained earnings	19,100,433	406,140	19,506,573
Non-controlling interests	6,927,315	175,421	7,102,736
Total equity	*50,136,380*	*581,561*	*50,717,941*

Consolidated Cash flow statement For the twelve months ended 31 December 2015	As previously reported RUB'000	Impact of change in accounting policy RUB'000	As restated UB'000
Profit before tax	5,550,057	207,868	5,757,925
Depreciation of property, plant and equipment	4,878,797	137,129	5,015,926
Loss on derecognition arising on capital repairs	-	203,180	203,180
Net cash from operating activities	*14,357,106*	*548,177*	*14,905,283*
Purchases of property, plant and equipment	(1,458,987)	(*548,177*)	(2,007,164)
Net cash used in investing activities	*(1,177,034)*	*(548,177)*	*(1,725,211)*

3. Financial risk management

Financial risks factors

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

Market risk

(a) Foreign exchange risk

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

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

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

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

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

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

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

This is mainly due to foreign exchange gains and losses arising upon retranslation of loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Group entities with Russian Rouble being their functional currency. Profit was more sensitive to fluctuations of the exchange rate of Russian Rouble to US Dollar for the year ended 31 December 2016 compared to 2015 mainly due to the decrease of the proportion of US Dollar denominated payables as at the end of 2016 combined with changes in allocation of the US Dollar denominated assets between Group companies resulting in higher US Dollar denominated assets being held by Group companies with functional currency the Russian Rouble. The impact on equity is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

Had Euro exchange rate strengthened/weakened by 10% against the US Dollar and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2016, would have increased /decreased by RUB 22,779 thousand (2015: 10% change, effect RUB 11,221 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of payable balances and cash and cash equivalents and accounts receivable denominated in US Dollars for the Estonian subsidiaries of the Group. Profit was more sensitive to fluctuations of the exchange rate of US Dollar to Euro for the year ended 31 December 2016 compared to 2015 mainly due to increase of the proportion of US Dollar denominated cash and cash equivalents and accounts receivable as compared to US Dollar denominated payable balances, due to lower US Dollar denominated payable balances at the end of 2016.

Had US Dollar exchange rate strengthened/weakened by 30% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group would have remained unchanged (2015: 30% change, no effect on post-tax profit) and the equity of the Group for the year ended 31 December 2016, would have decreased/increased by RUB 808,361 thousand (2015: 30% change, effect RUB 973,544 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of intercompany loans being recognised as part of net investment in the foreign operation denominated in US Dollars for the Ukrainian subsidiary of the Group.

(b) Cash flow and fair value interest rate risk

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

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

As at 31 December 2016 and 31 December 2015, the Group did not have any material Russian Rouble and US Dollar lease and credit facilities at floating interest rates, therefore any reasonably possible change in market interest rates would not have any significant impact on the post-tax profit or equity of the Group.

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

(c) Credit risk

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

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

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

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2016 and 31 December 2015:

	Fully performing RUB'000	Past due RUB'000	Impaired RUB'000	Impairment provision RUB'000	Total RUB'000
As of 31 December 2016					
Trade receivables	1,403,084	739,322	438,831	(263,972)	2,317,265
Loans receivable	29,533	-	-	-	29,533
Other receivables	25,589	22,938	29,163	(29,163)	48,527
Finance lease receivables	213,085	-	-	-	213,085
	1,671,291	762,260	467,994	(293,135)	2,608,410
As of 31 December 2015					
Trade receivables	1,480,550	1,055,122	367,909	(367,909)	2,535,672
Loans receivable	54,021	-	-	-	54,021
Other receivables	39,568	10,684	29,500	(29,500)	50,252
	1,574,139	1,065,806	397,409	(397,409)	2,639,945

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

Liquidity risk

The Group has an excess of current assets over current liabilities of RUB 576,318 thousand as at 31 December 2016 (2015: excess of current liabilities over current assets RUB 2,735,771 thousand).

The Group has predictable cash flows which allow the Group to repay its liabilities when they fall due. The Group also has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to RUB 20,820,000 thousand as of 31 December 2016 (2015: RUB 19,576,000 thousand), together with long-term borrowings (Note 24) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2016 and 31 December 2015. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month RUB'000	Between one month and three months RUB'000	Between three and six months RUB'000	Between 6 months and less than one year RUB'000	Between 1 and 2 years RUB'000	Between 2 and 5 years RUB'000	Total RUB'000
31 December 2016							
Borrowings	1,577,686	970,977	1,792,827	3,627,582	5,638,144	5,241,740	18,848,956
Trade and other payables	617,672	13,946	11,967	20,048	-	-	663,633
	2,195,358	984,923	1,804,794	3,647,630	5,638,144	5,241,740	19,512,589

	Less than one month	Between one month and three months	Between three and six months	Between 6 months and less than one year	Between 1 and 2 years	Between 2 and 5 years	Total
31 December 2015							
Borrowings	1,401,966	1,474,411	3,021,186	5,301,266	5,879,524	7,035,751	24,114,104
Trade and other payables	675,707	17,225	62,800	11,681	-	-	767,413
	2,077,673	1,491,636	3,083,986	5,312,947	5,879,524	7,035,751	24,881,517

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

(d) Capital risk management

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

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

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

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

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

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

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to the Company and certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2016 and 2015. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(e) Fair value estimation

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

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

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

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

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

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

As at 31 December 2016 and 31 December 2015 there were no fixed or floating interest rate instruments with stated maturity denominated in a currency other than the Russian Rouble.

The fair value as at 31 December 2016 and 31 December 2015 of fixed and floating interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble denominated instruments entered into by the Group close to 31 December 2016 and 31 December 2015, respectively. The discount rate used was 10% p.a. (2015: 12.30% p.a. to 13.15% p.a.) depending on the length and currency of the liability (Note 24).

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

4. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

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

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

   The carrying amount of the Group's intangible assets as of 31 December 2016, includes a customer relationship with MMK Group with a carrying amount of RUB 1,390,175 thousand, as of that date. This customer relationship has been allocated to the Russian gondola cars/operator's services CGU.

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

   The Group assessed as of 31 December 2016 whether there were any indications of additional impairment/reversal of the previously recognised impairment for this customer relationship, in accordance with the accounting policy for impairment of non-current assets (Note 2).

   The Group's assessment did not reveal any indicators of additional impairment/reversal of the previously recognised impairment and, as a result, management did not estimate the recoverable amount of this customer relationship.

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

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

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

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

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

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

iii) Assessment of impairment of rolling stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iv) Useful lives of rolling stock

The estimation of the useful lives of items of rolling stock is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. The Group assesses the remaining useful lives of its rolling stock as of each balance sheet date taking into account with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Management has reassessed the useful economic life of the Group's rolling stock as of 31 December 2016 and has concluded that their remaining useful economic lives remain reasonable.

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

i) Revenue recognition

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

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

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

ii) Intention for the distribution of dividends by subsidiaries

Withholding tax at the rate of 5% is applied to the dividends distributed by the Russian subsidiaries of the Group to the Company. In case the dividends are distributed by the Estonian subsidiaries the tax of 20% will be applied to gross amount of such distributions. Recognition of the provisions for such taxes by the Group is based on the management's intention for future dividend distribution by each respective subsidiary. Deferred income tax liabilities of RUB 2,728,252 thousand (2015: RUB 3,531,476 thousand) have not been recognised for the withholding taxes that would be payable in case unremitted earnings of certain subsidiaries are distributed to the Company in the form of dividends as it is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled RUB 22,103,185 thousand as at 31 December 2016 (2015: RUB 28,382,638 thousand).

iii) Capitalisation of repair and maintenance costs

The Group capitalises repair and maintenance costs relating to major repairs of rolling stock within the carrying amount of the relevant item of rolling stock repaired only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, in accordance with the accounting policy for property, plant and equipment, as reassessed as of 1 January 2016 and as discussed in Note 2.

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

Based on the assessment performed, the Group concluded that repair and maintenance costs relating to periodical capital repairs of locomotives and other rolling stock and periodical middle repairs of locomotives constitute major repairs, as these result in enhancement of the economic benefits to be derived from the future use of the repaired rolling stock. On this basis, the cost of such repairs is capitalised within the carrying amount of the relevant item of rolling stock repaired and separately depreciated over the expected period until the next periodic capital repair or until the end of the useful economic life of the item of rolling stock, if earlier.

Other types of repairs of rolling stock, such as current repairs and depot repairs, continue to be viewed by the Group as routine repairs and maintenance and thus their cost is charged in the Group's income statement as and when incurred (Note 6).

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

Upon a periodic major capital repair, simultaneously with the capitalisation of the costs of the new periodic major capital repair, the carrying amount of the repaired rolling stock that is attributable to the previous periodic capital repair and/or significant component replaced, if any, is derecognised and debited in 'cost of sales' in the income statement as 'loss on derecognition arising on capital repairs'.

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

5. Segmental information

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

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

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

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

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

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

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

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

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

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

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

The Group does not have transactions between different business segments.

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

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

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

[(1)] Includes RUB 2,367,695 thousand of intangible assets representing customer relationships.

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

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

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

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

Geographic information
Revenues from external customers

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

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

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

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

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

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

Analysis of revenue by category:

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

Note: Revenue from railway transportation – operators services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2016 amounting to RUB 22,251,051 thousand (for the year ended 31 December 2015: RUB 23,325,581 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to RUB 2,988,372 thousand (2015: RUB 2,698,488 thousand).

6. Expenses by nature

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

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

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

Note: The auditors' remuneration stated above includes fees of RUB 17,646 thousand (2015: RUB 22,744 thousand) for statutory audit services and RUB 6,960 thousand (2015: RUB 4,393 thousand) for other assurance services charged by the Group's statutory audit firm. The rest of the auditors' remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company.

Legal, consulting and other professional fees include RUB 904 thousand for the year 2016 (RUB 627 thousand for the year 2015) in relation to fees paid to the Company's statutory auditor for tax consultancy services.

7. Other gains – net

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

8. Employee benefit expense

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

9. Finance income and costs

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

10. Income tax expense

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

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

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

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

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

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

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

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

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

For subsidiaries in Estonia, the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 20% of net dividend paid. During the year ended 31 December 2016, the Group incurred a charge of RUB 29,597 thousand (2015: RUB 110,088 thousand) as a result of distribution of dividends distributed by an Estonian subsidiary. This constituted a non-recurring distribution by an Estonian subsidiary of the Group for which no deferred tax liability had been recognised in the past. No provision has been made for any future distributions from Estonian subsidiaries as it is not considered probable that any future dividend distributions will be made by the Estonian subsidiaries out of their retained earnings as of 31 December 2016.

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

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

11. Net foreign exchange losses

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

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

12. Property, plant and equipment

	As restated				
	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2015					
Cost	93,979,617	314,076	204,501	838,921	95,337,115
Accumulated depreciation	(22,801,716)	(56,665)	(106,573)	(264,455)	(23,229,409)
Net book amount	71,177,901	257,411	97,928	574,466	72,107,706
Year ended 31 December 2015					
Opening net book amount	71,177,901	257,411	97,928	574,466	72,107,706
Additions	1,712,336	30,717	42,507	204,934	1,990,494
Disposals	(127,927)	-	(5,192)	(3,335)	(136,454)
Depreciation charge (Note 6)	(4,902,832)	(9,961)	(30,544)	(72,589)	(5,015,926)
Impairment charge (1)	(140,734)	-	-	-	(140,734)
Transfer to inventories	(162,095)	-	-	(45)	(162,140)
Derecognition arising on capital repairs	(203,180)	-	-	-	(203,180)
Currency translation differences	1,758,910	1,917	2,853	20,330	1,784,010
Closing net book amount	69,112,379	280,084	107,552	723,761	70,223,776
At 31 December 2015					
Cost	96,234,638	349,932	210,898	1,054,691	97,850,159
Accumulated depreciation	(27,122,259)	(69,848)	(103,346)	(330,930)	(27,626,383)
Net book amount	69,112,379	280,084	107,552	723,761	70,223,776

	Rolling stock RUB'000	Land and buildings RUB'000	Motor vehicles RUB'000	Other RUB'000	Total RUB'000
At 1 January 2016					
Cost	96,234,638	349,932	210,898	1,054,691	97,850,159
Accumulated depreciation	(27,122,259)	(69,848)	(103,346)	(330,930)	(27,626,383)
Net book amount	69,112,379	280,084	107,552	723,761	70,223,776
Year ended 31 December 2016					
Opening net book amount	69,112,379	280,084	107,552	723,761	70,223,776
Additions	4,089,167	11,308	16,565	804,781	4,921,821
Disposals	(452,373)	-	(2,706)	(1,825)	(456,904)
Depreciation charge (Note 6)	(4,818,726)	(11,424)	(30,924)	(97,099)	(4,958,173)
Impairment charge (Notes 4 and 6)	(228,408)	-	-	-	(228,408)
Transfer to inventories	(70,972)	-	-	(8)	(70,980)
Derecognition arising on capital repairs	(887,454)	-	-	-	(887,454)
Currency translation differences	(2,824,233)	(2,681)	(3,551)	(59,632)	(2,890,097)
Closing net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581
At 31 December 2016					
Cost	92,819,465	354,051	202,842	1,786,732	95,163,090
Accumulated depreciation	(28,900,085)	(76,764)	(115,906)	(416,754)	(29,509,509)
Net book amount	63,919,380	277,287	86,936	1,369,978	65,653,581

(1) Impairment assessment of rolling stock as of 31 December 2015

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

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

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

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

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

Russian gondola cars/operator's services CGU

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

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

The main assumptions were price per trip growth rate and as well as revenue and cost drivers which were projected on 2016 actual results. The projected volumes reflected past experience and management's estimates. The transportation prices were estimated in accordance with the past performance of the Group and management's expectations of market developments. The key assumptions thereon, were the estimated growth in the EBITDA margin as well as the discount rate.

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

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

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

Estonian rail tank cars/operating leasing CGU

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

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

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

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

Management assessed whether there were any indications of impairment of the Group's rolling stock as of 31 December 2016. The analysis did not show impairment indicators for the Group's CGUs, except for the Estonian rail tank cars/operating leasing CGU, the Ukrainian gondola cars/operator's services and Ukrainian gondola cars/operating leasing CGUs and the Russian skelp cars/operator's services and Russian skelp cars/operating leasing CGUs for which the Group performed an impairment assessment.

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

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

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

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

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

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

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

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

	2016 RUB'000	2015 RUB'000
Rolling stock(1)	1,267,633	2,471,836
	1,267,633	2,471,836

(1) Property, plant and equipment that are leased under finance leases as at 31 December 2016 include rolling stock, with a net carrying amount of RUB 1,267,633 thousand (2015: RUB 2,163,158 thousand), pledged under finance leases that have been repaid by the Group as at 31 December 2016 and 31 December 2015. The relevant pledges on the rolling stock under these finance leases have not been released as of 31 December 2016, however the Group has the unilateral right to request for release of the pledged rolling stock with immediate effect.

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

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

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

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

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

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

13. Intangible assets

	Goodwill RUB'000	Computer software RUB'000	Customer relationships RUB'000	Total RUB'000
At 1 January 2015				
Cost	5,828,085	1,749	6,780,785	12,610,619
Accumulated amortisation and impairment	(5,828,085)	(1,433)	(2,338,705)	(8,168,223)
Net book amount	-	316	4,442,080	4,442,396
Year ended 31 December 2015				
Opening net book amount	-	316	4,442,080	4,442,396
Amortisation charge (Note 6)	-	(231)	(1,078,225)	(1,078,456)
Impairment charge (1)	-	-	(996,160)	(996,160)
Write-off	-	(39)	-	(39)
Closing net book amount	-	46	2,367,695	2,367,741
At 31 December 2015				
Cost	5,828,085	1,272	6,780,787	12,610,144
Accumulated amortisation and impairment	(5,828,085)	(1,226)	(4,413,092)	(10,242,403)
Net book amount	-	46	2,367,695	2,367,741
Year ended 31 December 2016				
Opening net book amount	-	46	2,367,695	2,367,741
Amortisation charge (Note 6)	-	(1,417)	(834,260)	(835,677)
Additions	-	9,500	-	9,500
Closing net book amount	-	8,129	1,533,435	1,541,564
At 31 December 2016				
Cost	5,828,085	10,772	6,780,787	12,619,644
Accumulated amortisation and impairment	(5,828,085)	(2,643)	(5,247,352)	(11,078,080)
Net book amount	-	8,129	1,533,435	1,541,564

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

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

Useful lives of customer relationships

The estimation of the useful lives of the customer relationships is a matter of judgment based on expectations of the duration of the relationship with the customers.

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

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

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

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 amortization of these intangibles with a shortened estimated useful life is appropriate.

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

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

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

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

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

The projections prepared were based on 6-year post-tax cash flow projections, being the period over which cash flows are expected from this customer relationship. A post-tax discount rate of 16.36% was applied for the years 2016 and 2017 and 15.00% for the years 2018 to 2021.

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

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

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

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

The Group assessed whether there were any indications of additional impairment/ reversal of impairment of the customer relationship with MMK Group as of 31 December 2016. The analysis did not reveal any indicators of impairment or reversal of impairment and as a result the Group did not estimate the recoverable amount of this customer relationship. Refer to Note 4 for more details in this respect.

14. Investments

14.1 Investment in associate

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

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

Nature of investment in associate during 2016 and 2015:

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

The fair value of the Group's share in the investment in associate based on the closing price quoted on Riga Stock Exchange as at 31 December 2016 is RUB 20,195 thousand (31 December 2015: RUB 50,446 thousand). However the market for these shares is not considered as active.

14.2 Principal subsidiaries

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

Name	Place of business/ country of incorporation	Principal activities	Proportion of ordinary shares held by the Company (%)		Proportion of ordinary shares held by the Group (%)		Proportion of ordinary shares held by non- controlling interest (%)	
			2016	2015	2016	2015	2016	2015
New Forwarding Company, AO	Russia	Railway transportation	100	100	100	100	-	-
GTI Management, OOO	Russia	Railway transportation	100	100	100	100	-	-
Ural Wagonrepair Company, ZAO	Russia	Repair and maintenance of rolling stock	100	100	100	100	-	-
Ukrainian New Forwarding Company OOO	Ukraine	Railway transportation	100	100	100	100	-	-
BaltTransServis, OOO	Russia	Railway transportation	60	60	60	60	40	40
RemTransServis, OOO[1]	Russia	Repair and maintenance of rolling stock	-	-	59,4	59,4	40,6	40,6
SyntezRail LLC[2]	Russia	Railway transportation	-	-	60	60	40	40
SyntezRail Ltd[2]	Cyprus	Intermediary holding company	60	60	60	60	40	40
Spacecom AS	Estonia	Operating lease of rolling stock and provision of forwarding services	65,25	65,25	65,25	65,25	34,75	34,75
Ekolinja Oy[3]	Finland	Operating sub-lease of rolling stock	-	-	65,25	65,25	34,75	34,75
Spacecom Trans AS	Estonia	Operating lease of rolling stock	65	65	65	65	35	35

1. RemTransServis, OOO is a 99% subsidiary of BalttransServis, OOO.
2. 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).
3. Ekolinja Oy is a 100% subsidiary of Spacecom AS.
4. During the year ended 31 December 2015, Steeltrans, OOO, a wholly owned subsidiary of the Company as of 31 December 2015, was merged with New Forwarding Company, AO. No gains or losses were recognised with regards to this transaction.

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

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

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

Significant restrictions

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

Summarised financial information of subsidiaries with material non-controlling interests

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

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

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

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

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

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

15. Share-based payments

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

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

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

The Group has recognised an employee benefit expense of RUB 77,985 thousand in this respect for the year ended 31 December 2016 (2015: RUB 79,847 thousand) and the Group's liability in respect of this amounted to US$145,745 as of 31 December 2016 (2015: RUB 79,847 thousand).

The share based payment liability as of 31 December 2016 was determined based on the assumption that all participants will remain with the Group and all KPIs will be met and that there will be no significant fluctuation in the fair value of the Company's GDRs during the vesting period. The significant inputs into the valuation were the weighted average fair value of the Company's GDRs of USD 4.36 (2015: USD 4.55) and the weighted average USD/RUB exchange of 66.833 (2015 USD 61.319). There were no changes in the number of instruments over the year ended 31 December 2016.

16. Transactions with non-controlling interests

Disposal of interest in a subsidiary without loss of control

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

17. Financial instruments by category

	2016		2015	
	Loans and receivables RUB'000	Total RUB'000	Loans and receivables RUB'000	Total RUB'000
Financial assets as per balance sheet				
Trade and other receivables	2,608,410	2,608,410	2,639,945	2,639,945
Cash and cash equivalents	4,773,414	4,773,414	4,104,079	4,104,079
Total	7,381,824	7,381,824	6,744,024	6,744,024

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

	2016		2015	
	Financial liabilities measured at amortised cost RUB'000	Total RUB'000	Financial liabilities measured at amortised cost RUB'000	Total RUB'000
Financial liabilities as per balance sheet				
Borrowings	16,292,469	16,292,469	20,359,060	20,359,060
Trade and other payables	663,633	663,633	767,413	767,413
Total	16,956,102	16,956,102	21,126,473	21,126,473

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

18. Credit quality of financial assets

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

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

	2016 RUB'000	2015 RUB'000
Trade and other receivables		
Counterparties with external credit rating		
Moody's[2](B1 - Ba2)	29,081	27,108
Fitch[4] (B- - BB+)	259,367	209,344
	288,448	236,452

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

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

Cash at bank and short-term bank deposits

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

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

19. Trade and other receivables

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

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

The finance lease receivables are scheduled as follows:

	Less than one year RUB'000	Between 1 to 5 years RUB'000	Over 5 years RUB'000	Total RUB'000
At 31 December 2016				
Minimum lease receivable	-	181,082	166,239	347,321
Less: Unearned finance income	-	(110,257)	(23,979)	(134,236)
Present value of minimum lease receivables	-	80,825	142,260	213,085

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

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

	2016 %	2015 %
Trade receivables – third parties	7	-
Loans receivables – third parties	12	12
Finance leases to third parties	12,12	-

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

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

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

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

Trade receivables amounting to RUB 224,621 thousand as of 31 December 2016, were impaired and fully provided for (2015: RUB 367,909 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

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

Other receivables amounting to RUB 29,163 thousand as of 31 December 2016, were impaired and provided for in full (2015: RUB 29,500 thousand). It was assessed that no portion of these receivables is expected to be recovered.

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

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

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

	2016			2015		
	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000	Trade receivables RUB'000	Other receivables RUB'000	Total RUB'000
At 1 January	367,909	29,500	397,409	315,345	45,476	360,821
Provision for receivables impairment (Note 6)	81,610	1,988	83,598	71,952	31,707	103,659
Bad debt written off	(130,085)	(2,813)	(132,898)	(15,541)	(44,490)	(60,031)
Unused amounts reversed (Note 6)	(1,397)	(7)	(1,404)	(288)	(59)	(347)
Currency translation	(52,765)	(80)	(52,845)	(6,482)	41	(6,441)
Other	(1,300)	575	(725)	2,923	(3,175)	(252)
At 31 December	263,972	29,163	293,135	367,909	29,500	397,409

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

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

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

20. Inventories

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

All inventories are stated at cost.

21. Cash and cash equivalents

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

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

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

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

Cash and cash equivalents are denominated in the following currencies:

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

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

22. Share capital and share premium

	Number of shares	Share capital USD'000	Share premium USD'000	Total USD'000
At 1 January 2015 /31 December 2015 / 1 January 2016 / 31 December 2016	178,740,916	17,875	949,471	967,346

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

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

23. Dividends

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

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

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

During the years ended 31 December 2016 and 2015, the Group declared and paid dividends in favour of the equity holders of the Company and the non-controlling interests as detailed in the table below.

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

24. Borrowings

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

Finance lease liabilities

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

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

Bank borrowings

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

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

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

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

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

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

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

The fair value as at 31 December 2016 and 31 December 2015 of fixed interest rate instruments with stated maturity denominated in Russian Rouble was estimated based on expected cash flows discounted using the rate of similar Russian Rouble denominated instruments entered into by the Group close to 31 December 2016 and 31 December 2015. The discount rates was 10% p.a (2015: 12.30% p.a to 13.15% p.a.) depending on the length and currency of the liability.

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

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

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

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

The Group has the following undrawn borrowing facilities:

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

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

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

25. Deferred income tax

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

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

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

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

Deferred tax assets	Tax losses RUB'000	Trade and other payables RUB'000	Lease liabilities and Borrowings RUB'000	Other assets/ liabilities RUB'000	Total RUB'000
At 1 January 2015	-	(81,892)	(46,642)	(104,699)	(233,233)
Charged/(credited) to:					
Income statement (Note 10)	(134,373)	(31,688)	(71,843)	(40,540)	(278,444)
Currency translation differences	-	-	-	2,657	2,657
At 31 December 2015 / 1 January 2016	(134,373)	(113,580)	(118,485)	(142,582)	(509,020)
Charged/(credited) to:					
Income statement (Note 10)	115,064	(14,920)	(369,307)	43,525	(225,638)
Currency translation differences	-	-	-	4,209	4,209
At 31 December 2016	(19,309)	(128,500)	(487,792)	(94,848)	(730,449)

Deferred tax assets are recognised for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred tax assets in the amount of RUR 475,220 thousand (2015: RUR 381,385 thousand) for tax losses amounting to RUR 2,994,373 thousand (2015: RUR 3,579,829) available to be carried forward as it is not probable that future taxable profits will be available against which these tax losses can be utilised.

Deferred income tax liabilities of RUB 2,728,252 thousand (2015: RUB 3,531,476 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled RUB 22,103,185 thousand as at 31 December 2016 (2015: RUB 28,382,638 thousand).

26. Trade and other payables

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

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

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

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

27. Earnings per share

Basic and diluted

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

	2016	As restated 2015
Profit attributable to equity holders of the company (RUB thousand)	4,472,817	2,103,633
Weighted average number of ordinary shares in issue (thousand)	178,741	178,741
Basic and diluted earnings per share (expressed in RUB per share) attributable to the equity holders of the Company during the year	25.02	11.77

28. Contingencies

Operating environment

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

Russian Federation.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation. Management believes that its pricing policy used in 2015 and 2016 and preceding years is arm's length and it has implemented internal controls to be in compliance with this transfer pricing legislation.

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

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

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

Estonia

Estonia represents a well-developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

Ukraine

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

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

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

The central bank of Ukraine prolonged these restrictions several times during 2015 – 2016 years and the current restrictions are effective until rescinded by the NBU (with minor exceptions, including mandatory conversion of foreign currency proceeds, which are set to expire on 16 June 2017). The IMF continued to support the Ukrainian government under the four-year Extended Fund Facility ("EFF") Programme approved in March 2015, providing the third tranche of approximately USD 1 billion in September 2016. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

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

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

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2016 and 31 December 2015 (Note 24).

Insurance policies

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

Environmental matters

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

Legal proceedings

During the years ended 31 December 2016 and 31 December 2015, the Company's subsidiaries were involved as a claimants and defendants in a number of court proceedings.

Georgian Railways case

As at 31 December 2016 the Group has outstanding receivable amounting to EUR 2,740 thousand/RUB 174,859 thousand (2015: EUR 3,231 thousand/RUB 257,501 thousand) from Georgian Railways relating to invoices issued for services rendered prior to 1 April 2015 amounting to EUR 3,231 thousand. The Georgian Railways dispute the tariffs applied in computing the outstanding balance and thus have not proceeded with the repayment of the amount which remains outstanding. The Group has initiated a claim to the Georgian Court demanding the repayment of the entire balance due as well as additional penalties and interest.

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

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

The Group issued additional invoices of EUR 1,555 thousand (RUB 99,266 thousand) to Georgian Railways in the intervening period during 2015 that the rail cars remained in Georgia. The revenue arising from these invoices has not been recognised as it is not probable that future economic benefits will flow to the Group.

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

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

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2016 and 2015 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

29. Commitments

(a) Capital commitments

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

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

(b) Operating lease commitments – Group as lessee

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

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

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

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

(c) Operating lease commitments – Group as lessor

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

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

Contingent-based rents recognised in the income statement were RUB Nil for the year ended 31 December 2016 (2015: RUB Nil).

30. Related party transactions

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

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

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

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

The following transactions were carried out with related parties:

(a) *Sales of goods and services*

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

(b) *Purchases of goods and services*

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

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

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

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

(d) *Key management compensation*

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

(1) 'key management salaries and other short term employee benefits' include directors' remuneration paid to the directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to RUB 131,382 thousand (2015: RUB 229,823 thousand).

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

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

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

(g) Operating lease commitments – Group as lessee

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

	2016 RUB'000	2015 RUB'000
Not later than 1 year	31,136	-
	31,136	-

Operating lease commitments – Group as lessor

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

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

31. Events after the balance sheet date

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

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

Independent Auditor's Report on pages 14 to 24.