Strategic Report

> **"We now have over 70 mainline locomotives at Globaltrans and I'm one of the 145 engine drivers. The Group has significantly increased its in-house locomotive crew capability in recent years, with the establishment of the BTS locomotive solutions subsidiary. The advantage this gives us is that we can use our locomotives to run "block trains" where all the cargo on board - mainly oil products and oil - is shipped from the same loading point to the same destination. This is a more effective and efficient transportation solution for both our customers and Globaltrans.**

Anatoly Buevskiy
Locomotive engine driver

Chairman's Statement

"It was a year of rapid recovery for Globaltrans and for the Russian rail freight sector. The strength of the global economic rebound created overwhelming demand for freight logistics, driving overall Russian freight rail turnover to an all-time high.

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

In such volatile markets, the robustness of Globaltrans balanced business model focused exclusively on bulk cargoes and oil products and oil, was again evident. The business was quick to benefit from the industry's rapid resurgence in the second half of the year.

Globaltrans delivered strong financial results and met its operational and strategic goals in 2021. Our full year results were strong thanks to an impressive second half performance that compensated for a weak first half. Adjusted Revenue of RUB 58.5 billion, Adjusted EBITDA of RUB 29.0 billion and a Profit for the year of RUB 15.1 billion were all ahead of the previous year. Free cash flow generation remained robust, with the Group's Free Cash Flow up 7% year on year to RUB 16.1 billion, our cost control was exemplary and we achieved further deleveraging with Net Debt to Adjusted EBITDA at 0.6x.

Our operational wins included the successful renewal of two major service contracts and the expansion of our Leased-in Fleet to meet growing customer demand. Despite operational pressures caused by volatility in demand and ongoing rail network expansion projects, we maintained consistently high levels of efficiency. By doing so, we reinforced our reputation as one of the industry's most efficient operators.

The pandemic has profoundly impacted global logistics, generating debate about the need for greater supply chain resilience. The discussion is especially relevant for our industry, as rail dominates the movement of goods in Russia. Large industrial customers need reliable, 24-hour freight logistics solutions to support their operations. Increasingly, it is evident that only by outsourcing a significant proportion of their transport needs to large efficient operators like Globaltrans that can guarantee the service levels they require.

RUB 29.0 bln ▲8%
Adjusted EBITDA in 2021

RUB 15.1 bln ▲24%
Profit for the year in 2021

Chairman's Statement

The pandemic experience is likely to accelerate matters even further, and it is pleasing to report that we maintained close relationships with our client base over 2021. We signed critical service contract extensions with two longstanding clients, Rosneft and Metalloinvest. At the same time, we leveraged the flexibility provided by the Leased-in Fleet to meet the growing demand seen in the second half of 2021. Dynamic fleet management is a central pillar of our business model, meaning we can respond quickly to demand shifts whilst maintaining the optimal fleet balance between owned and leased-in assets and between universal gondola cars and tank cars.

In 2020, the Group completed a secondary listing of its GDRs on the Moscow Exchange (MOEX). The listing has enabled the Board to meet its objectives of widening share ownership, improving liquidity of the GDRs, and raising the Group's profile with retail investors. Over the first year of MOEX listing, the combined average daily liquidity of the Company's GDRs across both its trading venues increased four-fold[1].

THE BOARD

Good governance is essential to the long-term success of Globaltrans, and as chair, I am fortunate to call upon an experienced and high-quality group of directors. The Board intensified its engagement in several critical governance areas past year.

The Board worked closely with the leadership team to develop a post-pandemic strategy and plan. We also paid close attention to the immediate wellbeing of our employees and customers, ensuring the Group continued to protect and support them fully during the period.

RUB 16.1 bln ▲7%

Free Cash Flow in 2021

RESPONSIBLE BUSINESS

As a publicly listed company, our job is to deliver long-term value to our shareholders via competitive returns on their capital. For these returns to be sustainable and grow over time, we must act responsibly, consistent with society's broader interests.

Recognising the importance of sustainability for our stakeholders, the Board approved the establishment of a new ESG Committee of the Board in January 2021, chaired by Elia Nicolaou, a Non-executive Director. The committee's goal is to monitor the development of the Group's sustainability strategy and oversee our Environment, Social and Governance (ESG) programme and related activities. The committee's oversight has already yielded results in the form of improved ESG disclosures, leading to better ESG ratings for Globaltrans and positive stakeholder feedback.

Given the persistent challenges posed by COVID-19, the Board focused on the social aspects of our ESG activities in 2021. Over the past year, the health and mental wellbeing of our colleagues across the Group has remained a key area of focus for the Board.

The environment, particularly the theme of climate change, was the other key sustainability focus.

As rail is one of the greenest modes of transportation, our industry plays an important role in tackling climate change. As a business, we are committed to the environmentally responsible transport of freight and reducing our carbon footprint. The Board supports the need for our industry to become even more ecologically mindful and invest in cleaner supply chains by adopting technology and green energy.

INDUSTRY DYNAMICS

In my statement last year, I reflected on how the pandemic had highlighted the importance of the freight rail industry to Russia's economy. I noted that the industry had exhibited remarkable resilience and adaptability during the pandemic. This was again the case in 2021 as the impact of lockdowns on industrial production collided with a resurgence in demand, causing worldwide disruption to supply chains.

While this spurred strong demand for bulk commodities, which led to surging freight rail volumes, it also put additional pressure on the rail system. The resulting bottlenecks have exacerbated existing congestion issues caused by the large-scale modernisation of our rail infrastructure in the Russian Far East. However, I would like to stress that Globaltrans performed well even with these industry-wide challenges.

[1] Source: Moscow Exchange; London Stock Exchange; Company's estimations; Information for the first nine months of 2021; and comparing to the same period of the previous year.

Chairman’s Statement

DIVIDENDS

We have a strong track record of generating sustainable returns for our shareholders. Our dividend policy rewards investors with regular returns of excess capital if not required to support business growth.

The combination of stronger-than-anticipated markets and solid free cash flows meant the Group’s capacity to pay dividends was greater than we had forecasted at the start of the year. The Group has already paid an above-target interim 2021 dividend to shareholders of RUB 4.0 billion or RUB 22.50 per share/GDR but has had to temporarily suspend the anticipated final 2021 dividend due to both technical limitations regarding upstreaming cash to the Cyprus holding company and the objective of establishing liquidity buffers, in response to the unprecedented environment in early 2022.

In addition, at the AGM in April 2022, shareholders approved a new buyback programme for up to 10% of the Company’s share capital[1]. As of the date of this report the Group held in treasury 0.24% of its share capital.

SUMMARY

Globaltrans delivered a strong financial and operational performance in 2021. Our colleagues across the business again showed great fortitude and resilience throughout the year, and, on behalf of the Board, I would like to thank them for all they have done to help deliver this result.

While the long-term outlook for the freight railway industry remains positive, the near term outlook is challenging and dependent on further geopolitical and macroeconomic developments. Globaltrans has a proven business model, robust finances, experienced management, and a strong client base. Therefore, the Group is well placed to meet future challenges.

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

1 The new programme is for the Company's GDRs listed on the Main Market of the London Stock Exchange and the Moscow Exchange and is executed under the authority that was granted by shareholders at the AGM held on 26 April 2022. This authority lasts for a period of twelve months from that date and permits the Company to repurchase a total number of GDRs not to exceed 10% of the Company’s share capital (including GDRs already held by the Company). The actual number of GDRs repurchased by the Company will depend on market conditions.

OUR APPROACH TO DIVIDENDS

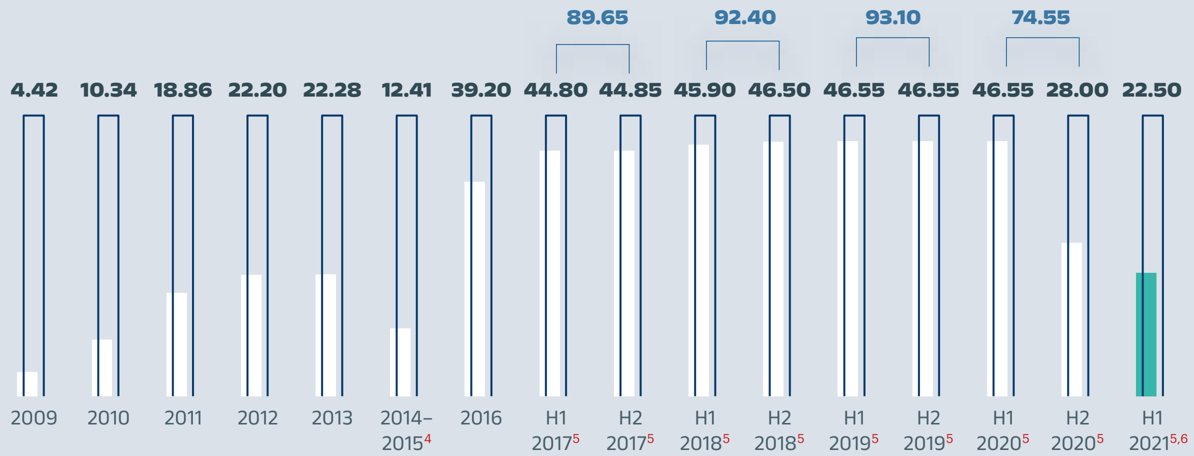
The Group’s Dividend Policy strikes a balance between investing in business expansion and delivering returns to shareholders.

- Focusing on maximising shareholder value, the policy boosts pay-outs during low investment cycles and limits them in periods when sizeable expansion opportunities meeting Globaltrans’ strict return criteria are identified.
- Clear formula linking dividends to Attributable Free Cash Flow and Leverage Ratio[2] provides flexibility and transparency in capital allocation.

Leverage Ratio (Net Debt to Adjusted EBITDA)	Dividends as a % of Attributable Free Cash Flow
Less than 1.0x	Not less than 50%
From 1.0x to 2.0x	Not less than 30%
2.0x or higher	0% or more

To view the Dividend Policy, please visit our corporate website www.globaltrans.com

Our Approach to Dividends, RUB per share/GDR[3]



2 The Board of Directors of Globaltrans reserves the right to recommend to the General Meeting of shareholders dividends in the amount calculated on a reasonable basis other than described in this Annual Report in its sole discretion. For more details please see the Dividend Policy as adopted by the Board on 31 March 2017 and amended on 24 August 2018, which is available at www.globaltrans.com.

3 Prior to 2016, dividends on Globaltrans' shares/GDRs were declared and paid in US dollars, thus the amounts in Russian roubles are presented for information purposes only and calculated at the Central Bank of Russia’s official exchange rate for the Russian rouble as of the date of the General Meeting that approved the respective dividend. From 2016, dividends on Globaltrans shares/GDRs are declared in Russian roubles and paid in US dollars.

4 The dividend declared in 2016 related to both the 2014 and 2015 financial years.

5 Including regular and special dividends.

6 Final 2021 dividends were temporarily suspended in April 2022 due to both technical limitations regarding upstreaming cash to the Cyprus holding company and the objective of establishing liquidity buffers.

Our Strategy

VISION

Our vision is to maintain our position as a leading freight rail group and to be the partner of choice for blue-chip industrial customers by continually developing our business to ensure we meet customers' changing needs.

Our shared principles

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

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

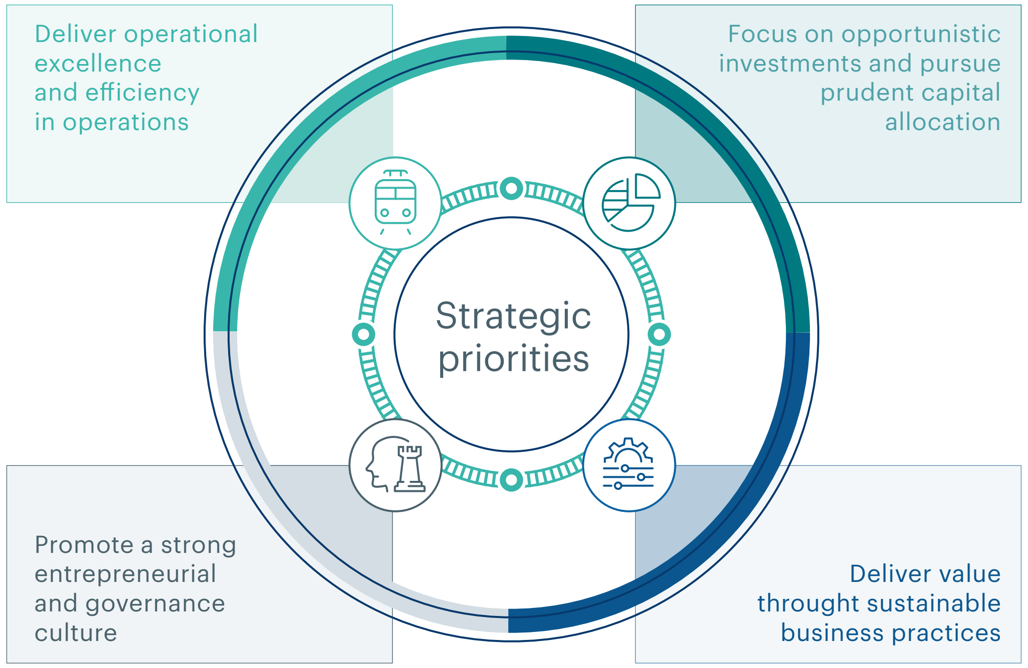
Uphold good governance: we aim to pursue a course that benefits all stakeholders.

Deliver excellence: we strive to excel in everything that we do.

Respect people: we respect the rights of all employees and invest in their training and development.

Protect our environment: we value our communities and the world around us and treat them with the respect and consideration they deserve.

Our shared principles



STRATEGY

Our strategy is to offer our industrial customers reliable and innovative transportation solutions aimed at ensuring the cost-effective and timely management of their cargoes. We invest opportunistically to grow our business, subject to strict returns criteria, and maintain a prudent balance sheet. Together these elements underpin our ability to create lasting value for our shareholders, employees and other stakeholders.

Our entrepreneurial spirit, disciplined approach and focus on efficiency and innovation are at the heart of this strategy. These, alongside our large fleet and advanced logistics platform, form our major competitive advantages. By focusing on long-term outsourcing partnerships, we can use our deep understanding of our clients' needs to improve our service quality while increasing our logistical efficiency.

We allocate our capital prudently, investing in attractive growth opportunities when they arise, and returning capital to shareholders at times when no such opportunities exist. We review organic and non-organic growth opportunities subject to our strict returns criteria. Maintaining a strong balance sheet is critical to us as it allows us to seize opportunities and remain flexible in the face of any change in the business environment or market.

HISTORICAL KEY FINANCIAL RESULTS

Adjusted Revenue, RUB bln

2021	58.5
2020	54.9
2019	68.8
2018	60.9
2017	52.1

Adjusted EBITDA, RUB bln

2021	29.0
2020	26.8
2019	39.6
2018	33.1
2017	25.8

Adjusted EBITDA Margin, %

2021	50
2020	49
2019	57
2018	54
2017	50

Free Cash Flow[1]**,** RUB bln

2021	16.1
2020	15.1
2019	13.3
2018	12.3
2017	17.0

Net Debt to Adjusted EBITDA at year-end

2021	0.6
2020	1.0
2019	0.6
2018	0.6
2017	0.4

Total dividends[2]**,** RUB per share/GDR

H1 2021	22.50[3]
2020	74.55
2019	93.10
2018	92.40
2017	89.65

1 Free Cash Flow is net of principal elements of lease payments for leases with financial institutions presented for both periods (2019 and 2020). During H1 2020 the entire financial lease portfolio was refinanced to bilateral loans, therefore principal elements of lease payments were eliminated from both periods for comparison purposes.

2 Total dividends (including interim, final and special) in respect of declared year.

3 Final 2021 dividends were temporarily suspended in April 2022 due to both technical limitations regarding upstreaming cash to the Cyprus holding company and the objective of establishing liquidity buffers.

CEO Review

Dear Shareholders,

Thanks to the underlying strengths of Globaltrans, we were able to deliver an excellent performance in 2021. We achieved strong financial results with another year of disciplined operational performance despite market volatility and the ongoing impact of COVID-19.

Valery Shpakov
Chief Executive Officer

In the reporting year, we generated good momentum focused on our core competencies of superior service, operational excellence, cost management, and prudent capital allocation. We deepened our customer engagement, secured important contract extensions with major customers, expanded our leased-in gondola fleet to satisfy strong demand for our services, maintained our efficiency, and optimised our portfolio by divesting non-core asset.

Results Highlights

From a results standpoint, 2021 was definitely a year of two halves.

The first half was impacted by sustained weakness in gondola market rates for most of the period. However, gondola rates staged a prolonged recovery between May and December, supported by buoyant demand in bulk cargoes. Consequently, Globaltrans' financial performance in the second half rebounded strongly with the result that FY2021 key financials were ahead of the previous year.

Adjusted Revenue increased 6% year on year to RUB 58.5 billion driven by improving gondola rates and a continued recovery in demand for bulk cargoes and oil products and oil.

Adjusted EBITDA rose 8% year on year to RUB 29.0 billion. Profit for the year increased 24% year on year to RUB 15.1 billion. The full-year Adjusted EBITDA Margin was 50% versus 49% in 2020. We kept tight control over our operating expenses and our Total Operating Cash Costs were held in check.

We delivered strong cash generation with Net cash from operating activities up 8% year on year to RUB 27.2 billion. Free Cash Flow also increased by 7% to RUB 16.1 billion. Capital expenditure rose 22% year on year to RUB 8.4 billion due to an increase in maintenance and expansion CAPEX.

Underpinned by a strong balance sheet and low leverage, the Group took the opportunity to purchase 381 new tank cars at the close of the year to support the recovery of demand in the oil products and oil sector. Net Debt fell sharply, down 32% year on year, to RUB 18.5 billion. As a result, the Group's Net Debt to Adjusted EBITDA ratio fell to 0.6x from 1.0x at the prior year end.

Industry Overview

The sector's performance in 2021 was exceptional, with Russia's freight rail turnover reaching an all-time high, primarily driven by strong export demand for industrial commodities combined with a concerted rebound in domestic demand.

Growth in freight rail turnover rebounded sharply from its pandemic lows, with overall turnover up 3.6% year on year. Before the 2020 pandemic, the industry had enjoyed a period of sustained growth in freight rail turnover, reaching a five-year peak in 2019. 2021 saw a resumption of growth, with total freight rail turnover 1.3% ahead of the 2019 result.

The total volume of rail freight moved in Russia increased 3.2% year on year. Results for the individual cargo categories were somewhat mixed, although the overall performance was very positive.

11%
Average Price per Trip growth in 2021, y-o-y

44%
Empty Run Ratio for gondola cars in 2021 (2020: 45%)

CEO Review

Overall bulk cargo volumes grew strongly, up 3.0% year on year and 1.8% ahead of pre-pandemic volumes of 2019. Coal and metallurgical cargoes contributed most, benefiting from booming export markets and strong prices. Coal (including coke) volumes rose 5.3% year on year, while metallurgical volumes (including ferrous metals, scrap metal and ores) grew 2.2% over the prior period. Volumes in construction materials (including cement) however fell 2.4% albeit from a high base of 2020, but were still ahead of the pre-pandemic level of 2019.

Freight volumes in the oil products and oil category also experienced solid growth, up 4.2% from the previous year, albeit 6.2% below pre-pandemic 2019 levels. After a sluggish first half, second-half volumes surged 8.9% year on year as global energy demand expanded rapidly as economies reopened.

In terms of freight rates, weak gondola market pricing in the first half gave way to a price recovery in the second half as demand for bulk commodities gathered pace. In the oil products and oil segment, rates remained solid through the COVID-19 crisis, despite weak demand dynamics lasting until the second half of 2021.

Our Performance

Our business model is designed to allow the Group to deliver consistent results through the business cycle by maintaining a balanced fleet split between gondola cars and tank cars whose markets tend to have different cyclicality patterns. Our ability to mitigate the impact of the changing market environment is further supported by how we flex the size of our Leased-in Fleet to match market demand, and actively manage our discretionary CAPEX to closely align it to market conditions.

Our service performance was generally excellent, highlighting Globaltrans' reputation for service quality and delivery. We signed two important contract renewals with major customers. Our contract with Metalloinvest was extended for another two years to the end of 2023, lifting our share of Metalloinvest's total contracted freight rail needs from 50% to 70%. We also extended our contract with Rosneft for an extra five years out to March 2026.

In 2021, long-term contracts covered 59% of the Group's Net Revenue from Operation of Rolling Stock. These contracts are important as they help underpin and derisk our revenues. They are also a source of valuable real-time data on our customers' logistics, helping to deliver faster, more effective cargo routings that minimise Empty Runs and improve operational efficiency.

Operations in the first half were affected by various factors, including weather-related delays, congestion at key gondola client facilities, and sluggish demand in the oil products and oil segment. The second half performance was much better, and the Group's Freight Rail Turnover was 8% up on the first half. However, 2021's performance lagged behind the overall market, falling 2% year on year.

Favourable pricing dynamics meant our Average Price Per Trip increased 11% year on year in 2021, supported by our superior service offering and logistics expertise.

Operational excellence is an area of relentless focus for us, as without it, we cannot deliver contract and revenue growth. Our team worked tirelessly to maintain efficient fleet operations, focusing on issues like utilisation rates, routing issues and changes to cargo patterns that impact fleet logistics. Their efforts contributed to a stable Total Empty Run Ratio (for all types of railcars) for 2021, unchanged at 51%.

Our gondola Empty Run Ratio remained at elevated levels as customer cargo flows were still impacted by the COVID-19 pandemic. However it still remains one of the lowest in the sector at 44%, down slightly from 45% in the prior year.

Capital Allocation

So that we can deliver sustainable through-cycle growth for shareholders, all investments must meet strict returns criteria. Our capital expenditure in 2021 was targeted primarily at necessary maintenance, with Total CAPEX for the year at RUB 8.4 billion.

We maintain a balanced approach to fleet investment, alternating between leasing-in units and rolling stock purchases, depending on market conditions. In 2021, we leased an additional 2.2 thousand gondolas to capture the high demand in the bulk cargo segment. As a result, the total leased-in gondola fleet increased to 5% of the total gondola fleet. To take advantage of the rapid recovery in the oil products and oil segment, we purchased 381 tank cars at the close of 2021 and an additional 119 units at the start of 2022.

Sustainability Focus

Being a responsible business is fundamental to how we deliver long-term success, so our focus on environmental, social and governance (ESG) issues is a vital part of our future growth strategy. The Board and leadership are aligned in our commitment to sustainable business development that creates value.

Last year the Board formalised our ESG agenda by creating a separate Board committee to monitor and oversee the Group's ESG activities. As CEO, I welcome this move to provide a focal point for our Group-wide ESG activities and help us improve our sustainability programmes. As the Chairman mentions in his report, as a direct result of dialogue with the committee, we upgraded our levels of ESG disclosures, resulting in an improvement in the Group's sustainability rating from one of the leading global ESG rating agencies, Sustainalytics.

My focus, and that of my team in 2021, was primarily on the social aspects of our ESG strategy, especially the health and wellbeing of our employees. COVID-19 continued to impact day-to-day operations, and as a leadership team, we focused on ensuring our employees had the right practical, emotional, and financial support to help them perform their jobs.

Safety is critical in our business and a top priority for the management team. There was a clear improvement in our safety performance in 2021, with zero fatalities and an improved Lost Time Injury Frequency Rate from 0.66 in 2020 to zero in 2021.

LTIFR[1] **zero**

(2020: 0.66)

[1] LTIFR (Lost Time Injury Frequency Rate) is the number of lost time injuries multiplied by 1,000,000, divided by the employee total hours worked in the reporting period.

CEO Review

Optimising Our Asset Base

We regularly review our business portfolio to focus on those businesses that have the most potential to deliver long-term sustainable growth.

In October 2021, we sold our 60% stake in SyntezRail, a standalone business within the Group, for a total cash consideration of RUB 1.1 billion. SyntezRail is a successful operator of specialised containers units with customers in the petrochemicals, metals and other industrial sectors. However, the Board concluded that SyntezRail had few synergies with our core business and that the potential for value growth was limited.

The transaction price represented a return on investment of 3.8 times and an EV/EBITDA multiple of about 6.8 times. Proceeds of the sale were used to strengthen the Group's balance sheet and improve its capacity to pay dividends.

Since the year end, we have acquired full control of BaltTransServis, a leading operator of rail tank cars used to transport oil products and oil. In February this year, we increased our stakeholding to 100% from 60% by acquiring the 40% minority stake for RUB 9.1 billion in cash implying 2021 P/E of about 4.5 times.

BaltTransServis has a strong market position, long-term service contracts with industry leaders, owns its locomotive fleet, and is cash generative. We believe BaltTransServis has great potential to create sustainable long-term value for our shareholders.

Summary

In 2021, we made good progress against our strategic goals. And while we face challenges ahead, on the evidence of our strong performance in 2021, I am confident that the business is well positioned to weather any difficulties. As a management team we are adept at managing through changing business cycles, and we have a tried and tested business model.

Valery Shpakov
Chief Executive Officer

PORTFOLIO OPTIMISATION TO INCREASE FOCUS ON CORE SEGMENTS

- **BaltTransServis stake acquisition – unique competencies and 100% consolidation**
  - Acquisition of the remaining 40% outstanding stake in BaltTransServis (bringing the Company's ownership to 100%), one of the leading Russian freight rail operators of tank cars, for RUB 9.1 billion in cash implying 2021 P/E of about 4.5 times.
  - BaltTransServis has a strong market position, long-term service contracts and unique competencies in operating its own locomotives with a total fleet of 13,136 units[1].
  - Provides increased focus on and exposure to an attractive oil products and oil segment and enables the consolidation of 100% of the Free Cash Flow of this cash generative business.
  - Globaltrans became the effective sole owner of BaltTransServis in February 2022 with closing completed in March 2022.
- **SyntezRail disposal – limited scope for value growth or synergies**
  - Sale of 60% stake in small non-core container operator SyntezRail completed in October 2021 for RUB 1.1 billion in cash, implying an EV/EBITDA multiple of about 6.8 times[2] and a return on invested capital of about 3.8 times.
  - Scope for synergies with core operations and potential for further value growth were both considered limited.

[1] Including 5,471 units leased in from other Group subsidiaries and 1,693 units leased in from third parties.
[2] Based on estimated financial results of SyntezRail for 2021, normalised assuming that all 500 new specialised containers delivered in 2021 were operational from 1 January 2021 and excluding the impact of IFRS 16.

Market Review

Russian freight rail turnover hit an all-time high in 2021 after a strong recovery

- Demand quickly recovered in 2021 with overall Russian freight rail turnover up 3.6% year on year, 1.3% above the pre-pandemic level of 2019.
- Bulk (non-oil) cargoes powered a rebound in overall volumes which rose 3.0% year on year and 1.8% compared to the pre-pandemic 2019 level, supported by robust global demand and growing domestic demand.
- The recovery in the oil products and oil segment accelerated in the second half of 2021, driving a year-on-year rise in volumes of 4.2%, although this remained 6.2% below the result for pre-pandemic 2019.

3.6%

Russia's freight rail turnover growth in 2021, y-o-y

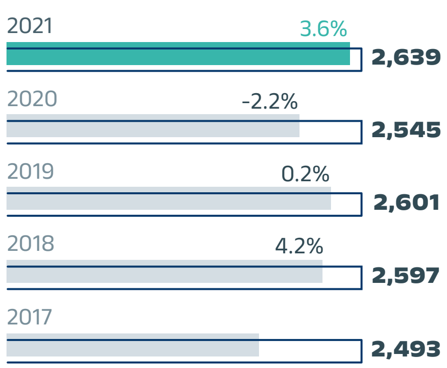
Recovery in gondola rates in the second half of 2021

- Gondola market rates recovered in the second half of 2021, after remaining weak for most of the first half, supported by strong bulk cargo demand.
- Tank car market rates were robust throughout 2021.

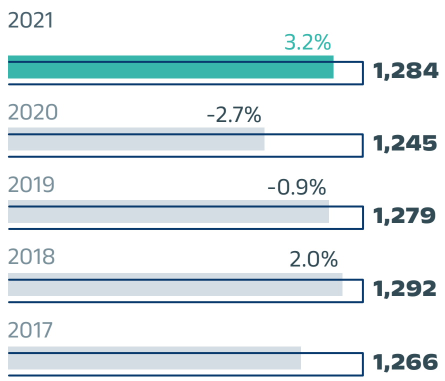
Fundamentals of the freight rail network remain solid

- One of the most eco-friendly means of freight transportation.
- Dominates the freight transport sector, accounting for about 87% of overall Russian freight turnover in 2021 (excluding pipeline traffic).
- Ongoing expansion of the rail infrastructure in Russia supports increasing export cargo flows.

Russia's freight rail turnover, bln tonnes-km[1]

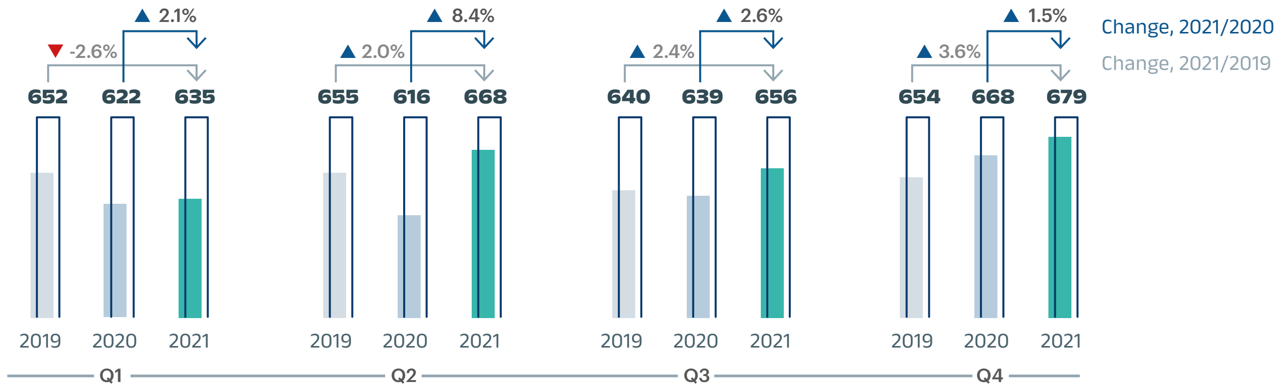


Russia's freight rail transportation volumes, mln tonnes[1]

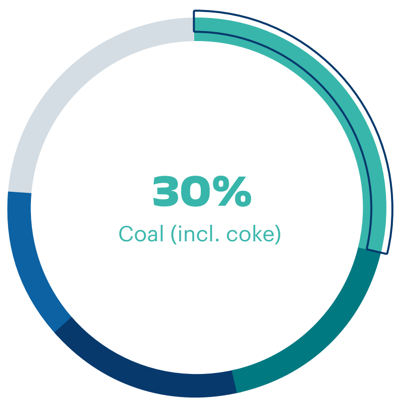


Russia's freight rail turnover, bln tonnes-km

Change in freight turnover 2019–2021, quarter on quarter

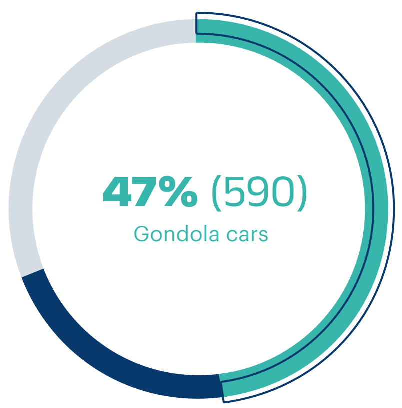


Russia's freight rail transportation volumes by cargo type in 2021[1]



17% Oil products and oil
18% Metallurgical cargoes (incl. ferrous metals, scrap metal, ores)
12% Construction materials (incl. cement)
24% Other

Russia's total railcar fleet by car type at year-end 2021, ths units[2]



20% (252) Tank cars
32% (400) Other railcars

[1] **Source:** Rosstat, Globaltrans
[2] **Source:** Globaltrans

Market Review

The market in 2021

It was a successful year for the freight rail industry, which rapidly recovered from the 2020 pandemic lows fueled by strong exports and rising demand. The Russian economy continued to strengthen with gross domestic product (GDP) rising 4.7% year on year. The freight rail sector in Russia tends to track industrial production, which increased 5.3% year on year. The extractive industries sector index rose 4.8% year on year, with a notable increase in coal extraction which climbed 7.6%. The manufacturing index was up 5.0% year on year.

With the benefit of a strong economic backdrop and favourable logistics, overall Russian freight rail turnover (measured in tonnes-km) increased 3.6% year on year to reach an all-time high, surpassing the pre-pandemic peak of 2019 by 1.3%. The total volume of freight transported in Russia (measured in tonnes) increased 3.2% year on year and was slightly above the level achieved in 2019 (up 0.4%).

Rail maintained its position as the primary mode of freight transport in Russia, carrying about 87% of overall Russian freight turnover in 2021 (excluding pipeline traffic).

Addressing congestion on the Far Eastern rail network is a top priority for the government and Russian Railways (RZD), which plans to increase the Far Eastern rail network's capacity by 26% by the end of 2024. This expansion builds on the 2018–2020 phase that increased throughput capacity on this part of the network by about 17% and further underpins the strong rail industry fundamentals.

Russia's total railcar fleet increased overall in line with the previous year's rate of 3%, or about 38 thousand units, rising to 1.242 million units by the end of 2021. Gondola cars accounted for 47% of the total fleet as of year-end 2021 while tank cars made up 20%, and other types, including flat cars and hopper cars, constituted 32%.

Net additions to the total gondola fleet declined about 20% year on year, with about 15 thousand units or 3% added to take the overall size of the fleet to 590 thousand units as of the end of 2021. In the tank car segment, net additions of about 3 thousand units (a 1% increase compared to the end of 2020), with the overall size of Russia's tank car fleet (including oil and oil products tanks) rising to 252 thousand units.

BULK (NON-OIL) CARGO SEGMENT

This segment delivered a strong performance in 2021 with overall volumes up 3.0% year on year, 1.8% ahead of the 2019 level. The continued recovery largely stemmed from strong global demand for bulk commodities and a rebound in the Russian economy. Coal and metallurgical cargoes were the main drivers of the segment's performance, with construction materials decreasing only slightly after producing robust results in 2020.

The pricing environment in the gondola segment recovered in the second half of the year, following weakness for most of the first half, due to an improving supply and demand balance.

Coal (including coke): Coal accounted for 30% of Russia's total freight volumes in 2021, remaining the largest industrial cargo segment. Overall coal volumes rose 5.3% year on year, exceeding the 2019 performance by 0.3%, driven by robust export demand for thermal coal and strong pricing. In the coking coal segment, conditions remained favourable with volumes growing in 2021, up 7.5% over the previous year and 11.8% compared to 2019.

Metallurgical cargoes (including ferrous metals, ores and scrap metal): This segment represented 18% of overall Russian freight rail volumes in 2021. The total segment volumes increased 2.2% over the previous year, reflecting higher global demand and increased domestic economic activity, but yet remained 1.3% below 2019 levels.

Volume trends varied from segment to segment: ferrous metals volumes rose 4.3% year on year but remained 6.1% below 2019 levels; iron ore volumes continued to show resilience, up 0.2% year on year and only 0.2% below 2019 levels; scrap metal volumes were more robust, up 14.4% year on year and 11.3% compared to 2019.

Construction materials (including cement): This segment posted a good performance in 2021. Although volumes were down 2.4% year on year following a strong performance in 2020, they were 1.8% ahead of 2019, supported by solid construction activity levels. This segment contributed 12% of the overall Russian freight rail volumes in 2021.

OIL PRODUCTS AND OIL CARGO SEGMENT

In 2021 the oil products and oil transport segment continued its recovery from the difficult trading conditions of 2020, stemming from COVID-19 containment measures and OPEC+ production limits. A strong resurgence in global demand accelerated the segment's recovery in the second half of 2021. Overall volumes increased 4.2% year on year in 2021, but were 6.2% below 2019 volumes. The pricing environment for this segment was generally robust throughout 2021.

+26%

Planned increase in the capacity of the Far Eastern railway network by the end of 2024

Russia's freight rail transportation volumes by type of cargo, 2017–2021[1], mln tonnes

Coal

2021	5.3%	384
2020	-4.8%	364
2019	-0.9%	383
2018	3.6%	386
2017		373

Oil products and oil

2021	4.2%	218
2020	-10.0%	209
2019	-1.9%	232
2018	0.4%	237
2017		236

Metallurgical cargoes

2021	2.2%	225
2020	-3.5%	220
2019	-1.0%	228
2018	5.1%	231
2017		219

Construction materials

2021	-2.4%	153
2020	4.2%	157
2019	0.9%	150
2018	-6.8%	149
2017		160

Source: Rosstat, Globaltrans

1 Metallurgical cargoes including ferrous metals, scrap metal and ores; coal including coke; construction materials including cement.

Financial and Operational Review

Globaltrans delivered excellent results in 2021 converting a favourable market environment into a strong financial performance. Our robust financial position was made even stronger as we further reduced our Net Debt, all of which is in the local currency with fixed interest rates. I believe we are well positioned to weather what lies ahead.

Alexander Shenets
Chief Financial Officer

FINANCIAL RESULTS

Increased profitability as costs controlled; strong Free Cash Flow supported successful deleveraging

- Adjusted Revenue rose 6% year on year to RUB 58.5 billion on the back of the recovery in gondola rates in H2 2021 coupled with continued robust pricing in the tank car segment.
- Total Operating Cash Costs were held in check contributing to an increase in the Adjusted EBITDA Margin to 50% in 2021 compared to 49% in 2020.
- Adjusted EBITDA rose 8% year on year to RUB 29.0 billion.
- Strong Free Cash Flow increased 7% year on year to RUB 16.1 billion despite a 22% increase in Total CAPEX to RUB 8.4 billion following purchases of tank cars and increased maintenance CAPEX.
- Net Debt reduced 32% in 2021 to RUB 18.5 billion compared to the end of 2020; leverage was at a low level with Net Debt to Adjusted EBITDA at 0.6x compared to 1.0x at end 2020.
- All the Group's debt has fixed interest rates and is denominated in roubles.

DIVIDENDS

Robust above-target interim 2021 dividends delivered; final 2021 dividend on hold

- Improving dividend capacity over H1 2021 with gondola prices recovering enabled payment of above-target Interim 2021 dividends (regular and special) of RUB 4.0 billion or RUB 22.50 per share/GDR[1] in September 2021.
- Final dividends for 2021 temporarily suspended in April 2022 due to both technical limitations regarding upstreaming cash to the Cyprus holding company and the objective of establishing liquidity buffers.

OPERATIONAL PERFORMANCE

Freight Rail Turnover growth resumed and gondola rates recovered amid growing demand for Globaltrans' services

- The Group's Freight Rail Turnover (excluding Engaged Fleet) returned to growth in H2 2021, rising 8% on H1 2021, but could not fully compensate for the weather-related delays, congestion at key client facilities and sluggish demand in the oil products and oil segment seen in H1 2021 with full-year Freight Rail Turnover 2% lower year on year[2].
- Average Price per Trip rose 11% year on year in 2021 reflecting a recovery in gondola market rates in H2 2021 with continued solid pricing in the oil products and oil segment.
- Growing demand for Globaltrans' services drove the increase in the number of leased-in gondola cars with 2.2 thousand units added and underpinned the purchase of 381 tank cars, with 197 delivered in 2021. The remainder was delivered in March 2022 along with an additional 119 tanks cars acquired in early 2022.
- Gondola Empty Run Ratio further improved to 44% (2020: 45%) – one of the lowest in the Russian market - reflecting continued adjustments to cargo and client mix due to the ongoing impact of the COVID-19 pandemic.
- Total Empty Run Ratio (for all types of rolling stock) was unchanged year on year at 51%.
- Total Fleet declined 4% or 2,582 units to 69,106 units as of the end of 2021 largely reflecting the sale of the specialised container operator SyntezRail in October 2021. The average age of the Group's Owned Fleet was 13.8 years as of the end of 2021.

Robust client retention with successful key contract extensions in 2021

- Strong portfolio of service contracts contributed 59% of Net Revenue from Operation of Rolling Stock in 2021.
- These long-term service contracts provide for better volume visibility and lower pricing volatility and enable logistical efficiencies.
- Two key service contracts were successfully extended in 2021:
  - Rosneft for 5 years to the end of March 2026.
  - Metalloinvest for 2 years to the end of 2023 with serviced volumes increased to approximately 70% of Metalloinvest's freight rail needs from 50% previously.

Adjusted Revenue, RUB mln

2021	58.5	▲ 6%
2020	54.9	

Adjusted EBITDA, RUB mln

2021	29.0	▲ 8%
2020	26.8	

Net Debt, RUB mln

2021	18.5	▼ 32%
2020	27.0	

Net cash from operating activities, RUB mln

2021	27.2	▲ 8%
2020	25.2	

Total Operating Cash Costs, RUB mln

2021	29.8	▲ 2%
2020	29.1	

Adjusted EBITDA Margin, %

2021	50
2020	49

Net Debt to Adjusted EBITDA at year-end

2021	0.6
2020	1.0

Total CAPEX, RUB mln

2021	8.4	▲ 22%
2020	6.9	

Free Cash Flow, RUB mln

2021	16.1	▲ 7%
2020	15.1	

1 Global Depositary Receipt.
2 The Group's Transportation Volumes (excluding Engaged Fleet) decreased 4% y-o-y in 2021 and were up 1% in H2 2021 compared to H1 2021.

Financial and Operational Review

Results in Detail

The following tables provide the Group's key financial and operational information for the years ended 31 December 2021 and 2020.

EU IFRS financial information

	2020 RUB mln	2021 RUB mln	Change %
Revenue	68,367	**73,151**	7%
Total cost of sales, selling and marketing costs and administrative expenses	(50,664)	**(52,630)**	4%
Operating profit	18,811	**21,627**	15%
Finance costs - net	(2,100)	**(2,189)**	4%
Profit before income tax	16,712	**19,438**	16%
Income tax expense	(4,525)	**(4,338)**	–4%
Profit for the year	12,187	**15,100**	24%
Profit attributable to:			
Owners of the Company	10,587	**12,987**	23%
Non-controlling interests	1,600	**2,113**	32%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (RUB per share)	59.24	**72.69**	23%

	2020 RUB mln	2021 RUB mln	Change %
Cash generated from operations (after changes in working capital)	28,278	**30,058**	6%
Tax paid	(3,052)	**(2,808)**	–8%
Net cash from operating activities	25,226	**27,250**	8%
Net cash used in investing activities	(6,528)	**(6,854)**	5%
Net cash used in financing activities	(20,357)	**(12,517)**	–39%

Non-IFRS financial information

	2020 RUB mln	2021 RUB mln	Change %
Adjusted Revenue	54,934	**58,492**	6%
Including			
Net Revenue from Operation of Rolling Stock	50,527*	**54,319***	8%
Operating lease of rolling stock	1,932	**1,832**	–5%
Net Revenue from Specialised Container Transportation	1,923*	**1,643***	–15%
Total Operating Cash Costs	29,121	**29,751**	2%
Including			
Empty Run Cost	15,799*	**15,429***	-2%
Employee benefit expense	4,154	**5,491**	32%
Repairs and maintenance	4,261	**3,969**	-7%
Fuel and spare parts - locomotives	1,630	**1,972**	21%
Adjusted EBITDA	26,807	**29,044**	8%
Adjusted EBITDA Margin, %	49%	**50%**	
Total CAPEX (including maintenance CAPEX)	6,941	**8,439**	22%
Free Cash Flow	15,103	**16,131**	7%
Attributable Free Cash Flow	13,503	**14,018**	4%

Debt profile

	As of 31 December 2020 RUB mln	**As of 31 December 2021** **RUB mln**	Change %
Total debt	32,015	**31,318**	–2%
Cash and cash equivalents	4,978	**12,855**	158%
Net Debt	27,037	**18,464**	–32%
Net Debt to Adjusted EBITDA (x)	1.0	**0.6**	

Financial and Operational Review

Operational information

	2020	2021	Change, %
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	150.3	**146.8**	–2%
Transportation Volume, million tonnes (excluding Engaged Fleet)	88.9	**85.1**	–4%
Average Price per Trip, RUB	36,909	**41,075**	11%
Average Rolling Stock Operated, units	57,484	**57,347**	0%
Average Distance of Loaded Trip, km	1,681	**1,716**	2%
Average Number of Loaded Trips per Railcar	23.8	**23.1**	–3%
Total Empty Run Ratio (for all types of rolling stock), %	51%	**51%**	
Empty Run Ratio for gondola cars, %	45%	**44%**	
Share of Empty Run Kilometres paid by Globaltrans, %	99%	**99%**	
Total Fleet, units (at year end), including:	71,688	**69,106**	–4%
Owned Fleet, units (at year end)	67,762	**65,067**	–4%
Leased-in Fleet, units (at year end)	3,926	**4,039**	3%
Leased-out Fleet, units (at year end)	7,032	**8,458**	20%
Average age of Owned Fleet, years (at year end)	12.4	**13.8**	
Total number of employees (at year end)	1,697	**1,777**	5%

REVENUE

In 2021, the Group's Total revenue increased 7% year on year to RUB 73,151 million reflecting a 6% year-on-year rise in Adjusted Revenue and an 18% year-on-year increase in "pass through item "Infrastructure and locomotive tariffs: loaded trips". Net Revenue from Operation of Rolling Stock (a key component of Adjusted Revenue) benefited from improved pricing conditions in the gondola segment in the second half of 2021 and increased 8% year on year.

The following table provides details of Total revenue, broken down by revenue-generating activity, for the years ended 31 December 2021 and 2020.

	2020 RUB mln	2021 RUB mln	Change %
Railway transportation – operators services (tariff borne by the Group)[1]	27,197	**31,744**	17%
Railway transportation – operators services (tariff borne by the client)	36,671	**37,238**	2%
Operating lease of rolling stock	1,932	**1,832**	–5%
Revenue from specialised container transportation	2,168	**1,824**	–16%
Other	400	**514**	29%
Total revenue	68,367	**73,151**	7%

[1] Includes "Infrastructure and locomotive tariffs: loaded trips" for 2021 of RUB 12,964 million (2020: RUB 10,957 million) and "Services provided by other transportation organisations" of RUB 1,695 million (2020: RUB 2,476 million).

Adjusted Revenue

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

The Group's Adjusted Revenue was RUB 58,492 million up 6% year on year primarily as a result of the 8% year-on-year rise in Net Revenue from Operation of Rolling Stock.

The following table provides details of Adjusted Revenue for the years ended 31 December 2021 and 2020 and its reconciliation to Total revenue.

	2020 RUB mln	2021 RUB mln	Change %
Total revenue	68,367	**73,151**	7%
Minus "pass through" items			
Infrastructure and locomotive tariffs: loaded trips	10,957	**12,964**	18%
Services provided by other transportation organisations	2,476	**1,695**	–32%
Adjusted Revenue	54,934	**58,492**	6%

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

The following table provides a breakdown of the components of Adjusted Revenue for the years ended 31 December 2021 and 2020.

	2020 RUB mln	2021 RUB mln	Change %
Net Revenue from Operation of Rolling Stock	50,527*	**54,319***	8%
Operating leasing of rolling stock	1,932	**1,832**	–5%
Net Revenue from Specialised Container Transportation	1,923*	**1,643***	–15%
Net Revenue from Engaged Fleet	152*	**184***	21%
Other	400	**514**	29%
Adjusted Revenue	54,934	**58,492**	6%

Financial and Operational Review

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock is a non-IFRS financial measure, derived from management accounts, describing the net revenue generated from freight rail transportation services which is adjusted for respective "pass through" loaded railway tariffs charged by RZD (included in the EU IFRS line item "Infrastructure and locomotive tariffs: loaded trips").

The Group's Net Revenue from Operation of Rolling Stock, which accounted for 93% of the Group's Adjusted Revenue in 2021, increased 8% year on year to RUB 54,319 million*, principally due to the improved pricing conditions in the gondola segment in the second half of 2021.

- Average Price per Trip was RUB 41,075, an 11% year-on-year increase resulting from a recovery in gondola pricing and continued solid pricing in the tank cars segment.
- Average Rolling Stock Operated remained unchanged year on year at 57,347 units.
- Average Number of Loaded Trips per Railcar declined 3% year on year as weather related delays at the main export ports as well as congestion at key gondola client facilities impacted the gondola segment performance.

Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock contributed 3% of the Group's Adjusted Revenue in 2021 and was 5% lower year on year at RUB 1,832 million reflecting the decline in average leasing rates in the tank car segment.

Net Revenue from Specialised Container Transportation

Net Revenue from Specialised Container Transportation is a non-IFRS financial measure, derived from management accounts, that represents the revenue generated from the specialised container operations (included in the EU IFRS line item: "Revenue from specialised container transportation") less the respective "pass through" loaded railway tariffs charged by RZD (included in the EU IFRS line item "Infrastructure and locomotive tariffs: loaded trips").

Net Revenue from Specialised Container Transportation, which accounted for 3% of Adjusted Revenue in 2021, was down 15% year on year to RUB 1,643 million* in 2021 due the deconsolidation of this business segment reflecting the sale of SyntezRail from October 2021.

Net Revenue from Engaged Fleet

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

Net Revenue from Engaged Fleet, which contributed less than 1% of the Group's Adjusted Revenue in 2021, increased 21% year on year in 2021 to RUB 184 million*, largely reflecting a rise in the number of Engaged Fleet operations in the oil products and oil segment.

Other revenue

Other revenue, comprising 1% of the Group's Adjusted Revenue in 2021, includes revenues generated by the Group's auxiliary business activities such as freight forwarding, repair and maintenance services provided to third parties, and other. It increased 29% year on year to RUB 514 million in 2021 primarily due to higher revenues from repair and maintenance services.

COST OF SALES, SELLING AND MARKETING COSTS AND ADMINISTRATIVE EXPENSES

The following table provides a breakdown of Cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2021 and 2020.

	2020 RUB mln	**2021 RUB mln**	Change %
Cost of sales	47,066	**48,334**	3%
Selling and marketing costs	205	**249**	22%
Administrative expenses	3,394	**4,046**	19%
Total cost of sales, selling and marketing costs and administrative expenses	50,664	**52,630**	4%

A 4% year-on-year rise in the Group's Total cost of sales, selling and marketing costs and administrative expenses to RUB 52,630 million in 2021 was principally due to the following factors:

- "Pass through" cost items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations") increased to RUB 14,659 million up 9% year on year resulting mainly from an increase in the proportion of clients that pay Infrastructure and locomotive tariffs: loaded trips through the Group.
- The Group's Total cost of sales, selling and marketing costs and administrative expenses adjusted for "pass-through" cost items rose 2% year on year to RUB 37,971 million in 2021, due to:
  - Optimisation measures that helped the Company to hold Total Operating Cash Costs relatively steady, increasing just 2% year on year to RUB 29,751 million in 2021. Reductions in Empty Run Costs, Repairs and maintenance, Engagement of locomotive crews and Expense relating to short-term leases (rolling stock) were more than offset by year-on-year increases in Employee benefit expense, Fuel and spare parts - locomotives expenses and Infrastructure and Locomotive Tariffs - Other Tariffs.
  - Total Operating Non-Cash Costs increased 1% year on year to RUB 8,221 million as a 5% year-on-year decrease in the Depreciation of property, plant and equipment and a 99% year-on-year decline in the Amortisation of intangible assets were more than offset by a 72% rise in the Depreciation of right-of-use assets as the Group increased the number of leased-in gondola cars.

Financial and Operational Review

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

	2020 RUB mln	2021 RUB mln	Change %
"Pass through" cost items	13,434	**14,659**	9%
Infrastructure and locomotive tariffs: loaded trips	10,957	**12,964**	18%
Services provided by other transportation organisations	2,476	**1,695**	–32%
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	37,231	**37,971**	2%
Total Operating Cash Costs	29,121	**29,751**	2%
Empty Run Costs	15,799*	**15,429***	–2%
Employee benefit expense	4,154	**5,491**	32%
Repairs and maintenance	4,261	**3,969**	–7%
Fuel and spare parts – locomotives	1,630	**1,972**	21%
Infrastructure and Locomotive Tariffs - Other Tariffs	998*	**1,219***	22%
Engagement of locomotive crews	421	**294**	–30%
Expense relating to short-term leases (rolling stock)	824	**274**	–67%
Other Operating Cash Costs	1,034	**1,103**	7%
Total Operating Non-Cash Costs	8,109	**8,221**	1%
Depreciation of property, plant and equipment	6,969	**6,643**	–5%
Depreciation of right-of-use assets	655	**1,127**	72%
Loss on derecognition arising on capital repairs	420	**484**	15%
Net impairment losses on trade and other receivables	6	**8**	40%
Amortisation of intangible assets	60	**0.7**	–99%
Net loss/(gain) on sale of property, plant and equipment	0.3	**(42)**	NM
Total cost of sales, selling and marketing costs and administrative expenses	50,664	**52,630**	4%

"Pass through" cost items

Infrastructure and locomotive tariffs: loaded trips

Infrastructure and locomotive tariffs: loaded trips is in principle a "pass through" cost item for the Group[1] and is reflected in equal amounts in both the Group's Total revenue and Cost of sales.

The 18% year-on-year increase in this item in 2021 to RUB 12,964 million primarily reflected the higher proportion of clients that pay infrastructure and locomotive tariffs: loaded trips through the Group.

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

Services provided by other transportation organisations

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

Services provided by other transportation organisations fell 32% year on year to RUB 1,695 million in 2021 primarily due to a lower number of Engaged Fleet operations in the gondola segment.

Total Operating Cash Costs

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

Total Operating Cash Costs for 2021 of RUB 29,751 million were 2% higher compared to 2020 due to a combination of the factors described below.

The following table provides a breakdown of the Total Operating Cash Costs for the year ended 31 December 2021 and 2020.

	2021 % of total	2020 RUB mln	2021 RUB mln	Change %
Empty Run Costs	**52%**	15,799*	**15,429***	–2%
Employee benefit expense	**18%**	4,154	**5,491**	32%
Repairs and maintenance	**13%**	4,261	**3,969**	–7%
Fuel and spare parts - locomotives	**7%**	1,630	**1,972**	21%
Infrastructure and Locomotive Tariffs - Other Tariffs	**4%**	998*	**1,219***	22%
Engagement of locomotive crews	**1%**	421	**294**	–30%
Expense relating to short-term leases (rolling stock)	**1%**	824	**274**	–67%
Other Operating Cash Costs	**4%**	1,034	**1,103**	7%
Total Operating Cash Costs	**100%**	29,121	**29,751**	2%

Financial and Operational Review

Empty Run Costs

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

Empty Run Costs, which accounted for 52% of the Group's Total Operating Cash Costs in 2021, declined 2% year on year to RUB 15,429 million* due to:

- A 3.7% year-on-year increase in regulated RZD tariffs for the traction of empty railcars.
- A 2% year-on-year decrease in the Group's Freight Rail Turnover.
- A Total Empty Run Ratio (for all types of rolling stock) that was unchanged year on year at 51% with the Share of Empty Run Kilometers paid by Globaltrans also remaining broadly stable year on year at 99%.

Employee benefit expense

Employee benefit expense for 2021, which represented 18% of the Group's Total Operating Cash Costs, increased 32% year on year to RUB 5,491 million. This resulted from:

- Inflation driven growth in wages and salaries.
- A 5% year-on-year increase in the average headcount due to the continued shift to in-house locomotive crews.
- Increases in bonuses reflecting the strong 2021 business performance and an increase in reserves for the share price linked key management remuneration programme.

Repairs and maintenance

Repairs and maintenance costs, which comprised 13% of the Group's Total Operating Cash Costs in 2021, declined 7% year on year to RUB 3,969 million as lower prices for depot repairs and expenses for other spare parts and repair works were partially offset by the increase in depot repairs undertaken in the reporting year.

Fuel and spare parts - locomotives

Fuel and spare parts - locomotives expenses, which accounted for 7% of the Group's Total Operating Cash Costs in 2021, rose 21% year on year to RUB 1,972 million in 2021 reflecting an inflation-driven rise in the cost of fuel and certain spare parts along with greater usage of owned locomotives in light of the post-COVID recovery in the oil products and oil sector.

Infrastructure and Locomotive Tariffs - Other Tariffs

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

Infrastructure and Locomotive Tariffs - Other Tariffs represented 4% of the Group's Total Operating Cash Costs in 2021 and rose 22% year on year to RUB 1,219 million* in 2021, impacted by higher regulated RZD tariffs and increased costs for relocating rolling stock to and from maintenance.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD in 2021 (1% of the Group's Total Operating Cash Costs) declined 30% year on year to RUB 294 million due to the reduction in the amount of outsourcing of locomotive crews as the Group increased its use of in-house crews.

Expense relating to short-term leases (rolling stock)

In 2021, Expense relating to short-term leases (rolling stock), representing 1% of the Group's Total Operating Cash Costs, fell 67% year on year to RUB 274 million primarily due to the intentional decrease in the number of leased-in tank cars.

Other Operating Cash Costs

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

The following table provides a breakdown of the Other Operating Cash Costs for the years ended 31 December 2021 and 2020.

	2020 RUB mln	**2021 RUB mln**	Change %
Expense relating to short-term leases (office)	109	**99**	–10%
Legal, consulting and other professional fees	69	**74**	7%
Auditors' remuneration	55	**57**	3%
Advertising and promotion	35	**46**	32%
Taxes (other than on income and value added taxes)	25	**27**	11%
Communication costs	26	**25**	–4%
Expense relating to short-term leases (tank containers)	24	**23**	–1%
Information services	16	**16**	5%
Other expenses	675	**735**	9%
Other Operating Cash Costs	1,034	**1,103**	7%

Other Operating Cash Costs, which comprised 4% of the Group's Total Operating Cash Costs, climbed 7% year on year to RUB 1,103 million in 2021.

Financial and Operational Review

Total Operating Non-Cash Costs

Total Operating Non-Cash Costs (a non-IFRS financial measure) include the following cost items: "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Loss on derecognition arising on capital repairs", "Depreciation of right-of-use assets", "Net impairment losses on trade and other receivables", "Impairment/(reversal of impairment) of property, plant and equipment" and "Net (gain)/loss on sale of property, plant and equipment".

The following table provides a breakdown of the Total Operating Non-Cash Costs for the years ended 31 December 2021 and 2020.

	2020 RUB mln	**2021 RUB mln**	Change %
Depreciation of property, plant and equipment	6,969	**6,643**	-5%
Depreciation of right-of-use assets	655	**1,127**	72%
Loss on derecognition arising on capital repairs[1]	420	**484**	15%
Net impairment losses on trade and other receivables	6	**8**	40%
Amortisation of intangible assets	60	**0.7**	–99%
Net loss/(gain) on sale of property, plant and equipment	0.3	**(42)**	NM
Total Operating Non-Cash Costs	8,109	**8,221**	1%

A 1% year-on-year increase in Total Operating Non-Cash Costs to RUB 8,221 million in 2021 stemmed primarily from: a 72% year-on-year rise in Depreciation of right-of-use assets as the Group increased the number of leased-in gondola cars, a 5% year-on-year decline in Depreciation of property, plant and equipment and a 99% year-on-year decline in Amortisation of intangible assets reflecting the full amortisation of intangible assets linked to the service contract with MMK.

ADJUSTED EBITDA (NON-IFRS FINANCIAL MEASURE)

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

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

The Group's 2021 Adjusted EBITDA rose 8% year on year to RUB 29,044 million. The Adjusted EBITDA Margin widened to 50% in 2021 from 49% in 2020 reflecting the 6% year-on-year increase in Adjusted Revenue while Total Operating Cash Costs rose 2% year on year.

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

The following table provides details on Adjusted EBITDA for the years ended 31 December 2021 and 2020, and its reconciliation to EBITDA and Profit for the year.

	2020 RUB mln	**2021 RUB mln**	Change %
Profit for the year	12,187	**15,100**	24%
Plus (Minus)			
Income tax expense	4,525	**4,338**	–4%
Finance costs – net	2,100	**2,189**	4%
Net foreign exchange transaction gains/(losses) on financing activities	147	**(10)**	NM
Amortisation of intangible assets	60	**0.7**	–99%
Depreciation of right-of-use assets	655	**1,127**	72%
Depreciation of property, plant and equipment	6,969	**6,643**	–5%
EBITDA	26,642	**29,388**	10%
Minus (Plus)			
Loss on derecognition arising on capital repairs	(420)	**(484)**	15%
Net foreign exchange transaction gains/(losses) on financing activities	147	**(10)**	NM
Other gains – net	108	**796**	639%
Net (loss)/gain on sale of property, plant and equipment	(0.3)	**42**	NM
Adjusted EBITDA	**26,807**	**29,044**	**8%**

FINANCE INCOME AND COSTS

The following table provides a breakdown of Finance income and costs for the years ended 31 December 2021 and 2020.

	2020 RUB mln	**2021 RUB mln**	Change %
Interest expense:			
Bank borrowings	(1,482)	**(1,483)**	0%
Non-convertible bonds	(808)	**(772)**	–4%
Interest expenses on loans	(5)	—	–100%
Other interest expense	(2)	—	–100%
Total interest expense calculated using the effective interest rate method	(2,298)	**(2,255)**	-2%
Leases with financial institutions	(74)	—	–100%
Other lease liabilities	(113)	**(202)**	78%
Total interest expense	(2,485)	**(2,457)**	–1%
Other finance costs	(25)	**(50)**	96%
Total finance costs	(2,510)	**(2,507)**	0%

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(Continued from the previous page)

	2020 RUB mln	2021 RUB mln	Change %
Interest income:			
Bank balances	190	**209**	10%
Short term deposits	27	**72**	166%
Interest income on loans	0.1	**3**	NM
Total interest income calculated using the effective interest rate method	217	**284**	31%
Finance leases - related parties	—	**0.4**	NM
Finance leases - third parties	47	**42**	–12%
Total interest income	264	**326**	24%
Other finance income	—	**0.8**	NM
Total finance income	264	**327**	24%
Net foreign exchange transaction (losses)/gains on borrowings and other liabilities	(6)	**3**	NM
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	153	**(12)**	NM
Net foreign exchange transaction gains/(losses) on financing activities	147	**(10)**	NM
Net finance costs	(2,100)	**(2,189)**	4%

Finance costs

Total finance costs for 2021 remained unchanged year on year at RUB 2,507 million.

Finance income

In 2021, the Group's Total finance income increased 24% year on year to RUB 327 million primarily due to increases in short term deposits and bank balances along with the rise in deposit rates over the period.

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

The Group had Net foreign exchange transaction losses on financing activities of RUB 10 million in 2021 compared to Net foreign exchange transaction gains on financing activities of RUB 147 million in 2020. This resulted from foreign exchange volatility on the available cash and cash equivalents denominated in foreign currency.

PROFIT

Profit before income tax

The Group reported an increase of 16% in Profit before income tax to RUB 19,438 million in 2021 compared to 2020, reflecting in large part the 15% year-on-year increase in the Group's Operating profit to RUB 21,627 million, which was largely linked to the factors described above.

Income tax expense

Income tax expense fell 4% year on year to RUB 4,338 million in 2021 following a decline in the average tax rate to 22% in 2021 compared to 27% in 2020.

Profit for the year

The 24% year-on-year increase in the Group's Profit for the year to RUB 15,100 million reflected the factors described above.

Profit for the year attributable to the owners of the Company increased 23% year on year to RUB 12,987 million reflecting the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

In 2021, the Group's capital expenditure consisted principally of maintenance CAPEX (including capital repairs) and the selective acquisition of fleet.

The Group was able to meet its liquidity and capital expenditure needs through operating cash flow, available cash and cash equivalents and proceeds from borrowings.

The Group manages its liquidity based on expected cash flows. As at 31 December 2021, the Group had Net Working Capital of RUB 2,571 million*. Given its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to operate successfully.

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for the years ended 31 December 2021 and 2020.

	2020 RUB mln	2021 RUB mln
Cash flows from operating activities	*26,932*	***29,104***
Changes in working capital:	*1,346*	***954***
Inventories	*816*	***620***
Trade receivables	*(427)*	***(139)***
Other assets	*1,439*	***(488)***
Other receivables	*10*	***23***
Trade and other payables	*(208)*	***524***
Contract liabilities	*(283)*	***414***
Cash generated from operations	28,278	**30,058**
Tax paid	(3,052)	**(2,808)**
Net cash from operating activities	25,226	**27,250**

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(Continued from the previous page)

	2020 RUB mln	2021 RUB mln
Cash flows from investing activities		
Cash inflow from disposal of subsidiary undertakings - net of cash disposed of	—	**1,110**
Loans granted to third parties	—	**(75)**
Loan repayments received from third parties	4	**79**
Purchases of property, plant and equipment	(6,941)	**(8,439)**
Proceeds from sale of property plant and equipment	67	**78**
Interest received	264	**326**
Receipts from finance lease receivable	78	**108**
Other	—	**(41)**
Net cash used in investing activities	(6,528)	**(6,854)**
Cash flows from financing activities		
Net cash inflows from borrowings and financial leases[1]:	1,946	**1,521**
Proceeds from bank borrowings	23,265	**18,058**
Repayments of borrowings	(19,603)	**(15,287)**
Repayments of non-convertible unsecured bonds	—	**(1,250)**
Principal elements of lease payments for leases with financial institutions	(1,716)	**—**
Principal elements of lease payments for other lease liabilities	(672)	**(1,068)**
Interest paid on bank borrowings and non-convertible unsecured bonds	(2,315)	**(2,239)**
Interest paid on leases with financial institutions	(81)	**—**
Interest paid on lease liabilities	(114)	**(183)**
Dividends paid to the owners of the Company	(16,637)	**(9,023)**
Dividends paid to non-controlling interests in subsidiaries	(2,272)	**(1,225)**
Purchase of treasury shares	(31)	**—**
Prepayment for acquisition of non-controlling interest	—	**(300)**
Payments to non-controlling interest	(180)	**—**
Net cash used in financing activities	(20,357)	**(12,517)**
Net (decrease)/increase in cash and cash equivalents	(1,659)	**7,879**
Exchange gains/(losses) on cash and cash equivalents	116	**(3)**
Cash and cash equivalents at beginning of the year	6,522	**4,978**
Cash and cash equivalents at the end of the year	4,978	**12,855**

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

Net cash from operating activities

Net cash from operating activities rose 8% year on year to RUB 27,250 million due to:

- The increase in Cash generated from operations (after "Changes in working capital") which increased 6% year on year to RUB 30,058 million largely due to the 8% year-on-year increase in Cash flows from operating activities.
- Tax paid was 8% lower year on year at RUB 2,808 million primarily reflecting the decline in the average tax rate.

Net cash used in investing activities

Net cash used in investing activities increased 5% year on year to RUB 6,854 million largely reflecting:

- A 22% or RUB 1,498 million year-on-year increase in Purchases of property, plant and equipment (on a cash basis; including maintenance CAPEX) to RUB 8,439 million. This was primarily due to the acquisition of 381 tank cars in response to the accelerated post-COVID recovery in the oil products and oil segment in the second half of 2021 along with a rise in maintenance CAPEX.
- RUB 1,110 million of cash inflows from the sale of the Group's 60% stake in the non-core specialised container subsidiary SyntezRail in October 2021.

Net cash used in financing activities

The 39% year-on-year decline in Net cash used in financing activities which decreased to RUB 12,517 million in 2021, was due to the factors described below:

- The Group continued refinancing its debt portfolio in 2021 with repayments of borrowings largely matched by proceeds from borrowings. The net cash inflows from borrowings and financial leases declined 22% year on year to RUB 1,521 million in 2021.
- Interest paid (including "Interest paid on bank borrowings and non-convertible unsecured bonds" and "Interest paid on leases with financial institutions") was 7% lower year on year at RUB 2,239 million in 2021.
- Cash outflows in the amount of RUB 300 million related to the prepayment for the acquisition of the outstanding 40% stake in BaltTransServis.
- As per the announced targets, the amount of dividends paid to owners of the Company in 2021 (which includes total final dividends paid in respect of second half of 2020 and total interim dividends paid in respect of first half of 2021) declined 46% to RUB 9,023 million largely due to the weak pricing environment in the gondola segment which continued to the end of first half of 2021.
- Dividends paid to non-controlling interests in subsidiaries decreased 46% year on year to RUB 1,225 million in 2021 as Globaltrans upstreamed a lower amount of dividends year on year from its non-wholly owned subsidiaries.

Financial and Operational Review

Capital expenditure

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

In 2021 the Group's Total CAPEX (on a cash basis, including maintenance CAPEX) was 22% or RUB 1,498 million higher year on year at RUB 8,439 million, reflecting:
- A 14% or RUB 809 million year-on-year increase in Maintenance CAPEX to RUB 6,612 million* due to a larger number of capital repairs and higher wheel pairs costs.
- A 60% or RUB 689 million year-on-year increase in Expansion CAPEX (on a cash basis) to RUB 1,828 million[1] mainly consisting of the acquisition of 381 tank cars and 350 specialised containers (compared to the purchase of 300 flat cars and 151 specialised containers in the previous year).

The Group's capital expenditure (including maintenance CAPEX) on an accrual basis was RUB 7,994 million in 2021 (2020: RUB 8,626 million). The difference between capital expenditure given on a cash basis and on an accrual basis is principally because of a time lag between the prepayments for and the delivery of rolling stock.

The following table sets out the principal components of the Group's Total CAPEX for the years ended 31 December 2021 and 2020.

	2020 RUB mln	**2021** **RUB mln**	Change %
Purchase of property, plant and equipment	6,941	**8,439**	22%
Purchase of intangible assets	—	—	—
Total CAPEX	6,941	**8,439**	22%
Not included			
Principal elements of lease payments for leases with financial institutions[2]	1,716	—	–100%

Free Cash Flow

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

[1] Including "Purchases of intangible assets".

[2] Free Cash Flow, Attributable Free Cash Flow and Total CAPEX are presented net of principal elements of lease payments for leases with financial institutions for 2020. During the first six months of 2020 the entire financial lease portfolio was refinanced to bilateral loans, therefore principal elements of lease payments were eliminated.

Free Cash Flow increased 7% year on year or RUB 1,028 million to RUB 16,131 million in 2021, primarily due to:
- A 6% or RUB 1,779 million year-on-year increase in Cash generated from operations (after "Changes in working capital") to RUB 30,058 million.
- Total CAPEX (including maintenance CAPEX) of RUB 8,439 million which was 22% or RUB 1,498 million higher year on year.
- Lower Tax paid, down 8% or RUB 244 million year on year to RUB 2,808 million.
- A 59% or RUB 395 million year-on-year rise in Principal elements of lease payments for other lease liabilities which rose to RUB 1,068 million as the Group substantially increased the number of leased-in gondola fleet to meet the growing demand for its services.

The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for the years ended 31 December 2021 and 2020, and its reconciliation to Cash generated from operations.

	2020 RUB mln	**2021** **RUB mln**	Change %
Cash generated from operations (after "Changes in working capital")	28,278	**30,058**	6%
Total CAPEX (including maintenance CAPEX)	(6,941)	**(8,439)**	22%
Tax paid	(3,052)	**(2,808)**	–8%
Interest paid on bank borrowings and non-convertible unsecured bonds	(2,315)	**(2,239)**	–3%
Principal elements of lease payments for other lease liabilities	(672)	**(1,068)**	59%
Interest paid on leases with financial institutions	(81)	**—**	–100%
Interest paid on other lease liabilities	(114)	**(183)**	61%
Cash inflow from disposal of subsidiary undertakings - net of cash disposed of	—	**1,110**	NM
Prepayment for acquisition of non-controlling interest	—	**(300)**	NM
Free Cash Flow[2]	15,103	**16,131**	7%
Minus			
Adjusted Profit Attributable to Non-controlling Interests	1,600	**2,113**	32%
Attributable Free Cash Flow[2]	13,503	**14,018**	4%

Capital resources

As of 31 December 2021, the Group's financial indebtedness consisted of borrowings and non-convertible unsecured bonds for an aggregate principal amount of RUB 31,318 million (including accrued interest of RUB 398 million*), a decrease of 2% compared to the end of 2020.

Under IFRS 16, Other lease liabilities (not included in Total debt) of RUB 5,842 million were recognised on the balance sheet as of 31 December 2021 (31 December 2020: RUB 1,405 million) which was primarily related to the long-term leasing of certain fleet and offices. The increase largely reflects a significant rise in the number of leased-in gondola cars in response to strong demand for the Group's services in 2021.

The Group's Net Debt decreased 32% to RUB 18,464 million compared to 31 December 2020 with the Net Debt to Adjusted EBITDA ratio improving to 0.6x compared to 1.0x at the end of 2020.

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The following table sets out details on the Group's total debt, Net Debt and Net Debt to Adjusted EBITDA at 31 December 2021 and 2020, and the reconciliation of Net Debt to Total debt.

	As of 31 December 2020 RUB mln	As of 31 December 2021 RUB mln	Change %
Total debt	32,015	**31,318**	–2%
Minus			
Cash and cash equivalents	4,978	**12,855**	158%
Net Debt	27,037	**18,464**	–32%
Net Debt to Adjusted EBITDA	1.0	**0.6**	

Rouble-denominated borrowings accounted for 100% of the Group's debt portfolio as of 31 December 2021. The Russian rouble is the functional currency of the Company.

The weighted average effective interest rate rose to 7.5% as of 31 December 2021 (31 December 2020: 6.9%) reflecting a backdrop of higher rates across the financial markets in Russia. All of the Group's debt had fixed interest rates as of the end of 2021.

The Group has a balanced maturity profile supported by the Group's cash flow generation, available cash and cash equivalents, as well as undrawn borrowing facilities of RUB 42,888 million as of 31 December 2021.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of RUB 398 million*) as of 31 December 2021.

	As of 31 December 2021 RUB mln
Q1 2022	**3,318***
Q2 2022	**2,631***
Q3 2022	**5,473***
Q4 2022	**2,246***
2023	**11,189***
2024	**5,431***
2025	**1,031***
Total	**31,318**

RELATED PARTY TRANSACTIONS

The information below represents an extract from Note 35 to the Group's Consolidated Management Report and Consolidated Financial Statements which is included in full in the Financial Statements section of this Annual Report.

For the purposes of 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.

Litten Investments Ltd, controlled by a Director of the Company, has a shareholding in the Company of 5.1% as at 31 December 2021 (31 December 2020: 5.1%)[1]. Goldriver Resources Ltd, controlled by a Director of the Company, has a shareholding in the Company of 3.1% as at 31 December 2021 (31 December 2020: 4.0%)[2]. As at 31 December 2021, another 0.2% (2020: 0.2%) of the shares of the Company is controlled by Directors and key management of the Company.

The following transactions were carried out with related parties:

Key management compensation

	2020 RUB mln	2021 RUB mln
Key management salaries and other short-term employee benefits	1,139	**1,887**
Share based compensation (Note 21)[3]	29	**124**
	1,168	**2,011**

The key management compensation above includes directors' remuneration paid to the directors of the Company both by the Company and by subsidiaries of the Company in respect of services provided to such subsidiaries amounting to RUB 604 million (2020: RUB 433 million) and analysed as follows:

	2020 RUB mln	2021 RUB mln
Non-executive directors' fees	26	**26**
Emoluments in their executive capacity	406	**561**
Share based compensation in their executive capacity	1	**17**
	433	**604**

1 Beneficially owned by Alexander Eliseev, Non-executive Director and co-founder of Globaltrans.
2 Beneficially owned by Sergey Maltsev, Chairman of the Board of Directors, Chief Strategy Officer and co-founder of Globaltrans.
3 More information is available in the Group's Consolidated Management Report and Consolidated Financial Statements which is included in full in the Financial Statements section of this Annual Report.

Financial and Operational Review

Sale of goods and services

	2020 RUB mln	2021 RUB mln
Revenue from entity under control of member of key management:		
Operating lease of rolling stock	–	134
Other	–	0.1
	–	134

Other gains

	2020 RUB mln	2021 RUB mln
Other gains from entity under control of member of key management:		
Other gains	–	0.5
	–	0.5

Year-end balances arising from sales/purchases of goods or services

	2020 RUB mln	2021 RUB mln
Trade receivables from related parties - current (Note 22):		
Entity under control of member of key management	–	0.6
Other receivables from related parties – current (Note 22):		
Entity under control of member of key management	–	0.02
Key management remuneration – current (Note 31):		
Accrued salaries and other short-term employee benefits	255	919
Share based payment liability (Note 21)	104	124
	359	1,043

Interest income

	2020 RUB mln	2021 RUB mln
Finance leases (Note 23):		
Entity under control of members of key management	–	0.4
	–	0.4

Contract liabilities

	2020 RUB mln	2021 RUB mln
Contract liabilities relating to railway transportation contracts – current (Note 10):		
Entity under control of member of key management	–	1
Contract liabilities relating to railway transportation contracts – non-current (Note 10):		
Entity under control of member of key management	–	5

Finance leases

	2020 RUB mln	2021 RUB mln
Finance leases to related parties – current (Note 23):		
Entity under control of member of key management	–	9
Finance leases to related parties – non-current (Note 23):		
Entity under control of member of key management	–	12

Disposal of investment in subsidiary to member of key management

During the year 2021, the Company disposed of its 60% shareholding in SyntezRail Ltd (Note 20). Within this, 20% was sold to an entity controlled by a director of the Company for a consideration of RUB 376 million.

Operating lease commitments – Group as lessor

	2020 RUB mln	2021 RUB mln
Entity under control of member of key management		
Not later than 1 year	–	821
Later than 1 year and not later than 5 years	–	1,693
	–	2,514

Risk Management

Globaltrans faces a wide range of potential and current risks to its business. To identify, evaluate and mitigate these risks, the Group has established a system for monitoring and controlling uncertainties and risks that it faces. This system is overseen by a dedicated risk management function.

The Board of Directors has overall responsibility for the Group's risk management.

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

The oversight of risk management is delegated to the Audit Committee. In January 2021, the Board established the ESG Committee to analyse and oversee risks related to environmental, social and governance issues. In addition, the Board has delegated to the CEO the responsibility for the effective and efficient implementation and maintenance of the risk management system.

The Directors, through the Audit Committee, review the systems that have been established for this purpose and regularly evaluate their effectiveness. Appropriate actions are then taken to manage the risk to an acceptable level as defined by the Board.

Ultimately, risk management aims to establish and maintain a holistic view of risks across the enterprise, so capabilities and performance objectives are achieved via risk-informed resources and investment decisions.

Globaltrans bases its risk management activity on a series of well-defined risk management principles, derived from experience, best practice and in accordance with corporate governance principles. The Group's risk management principles consist of nine interdependent and interconnected components that aim to provide a holistic view of risk across the whole organisation.

Risk management principles

Enterprise-wide

Risks that the Group faces should be managed on an enterprise-wide basis as a continuous and developing process that runs throughout the Group's strategy and the implementation of that strategy.

Systematic and structured

Risk management should involve recognised processes and activities in a systematic, methodical way that ensures the results of risk management activities are reliable, robust and comparable.

Based on top-down and bottom-up approach

Risk management should evaluate the potential upside and downside of all risks that could affect the Group. It should increase the probability of success and reduce both the probability of failure and the uncertainty of achieving the Group's overall objectives. Risk management activity should include the development and implementation of risk response actions to remove or mitigate all risks the Group faces, transfer them to a third party or accept them.

Forward-thinking approach

Risk management should be forward-thinking. It should involve identifying and preparing for what might happen rather than always managing retrospectively. Risk management should encourage the Group to manage proactively rather than reactively.

Integrated into the Group's business

Risk management should be embedded in all the Group's practices and business processes (including business and strategic planning, budgeting and decision-making) so that it is relevant, effective, efficient and sustained. All Group staff should be responsible and accountable for managing the risks in their activities.

Aligned with the Group's objectives

Risk management should be aligned with the Group's objectives and provide reasonable assurance regarding the achievement of those objectives.

Integrated into corporate culture

Risk management should be a part of the Group's corporate culture. All employees should be aware of the relevance of risk to the achievement of their objectives.

Clear and understandable

Risk management principles, methods and tools should be clear and easily understood by the Group's employees.

Evolving

The Group's risk management system should be continually evolving. The management of risk is an ongoing process and it is recognised that the level and extent of the risk management system will evolve as the Group evolves.

Risk Management

Principal risks and uncertainties

Globaltrans has grouped risks that it considers significant into key categories – strategic, operational, compliance and financial.

This list is not exhaustive, and the order of information does not reflect the probability of occurrence or the magnitude of any potential effect. The current geopolitical situation and conflict surrounding Russia and Ukraine creates additional risks, which may have significant impacts on the business of the Group and its business environment. Additional risks not currently known or that are currently considered immaterial could also have an impact on the Group's business, financial condition, operational results and prospects, as well as on the trading price of its Global Depositary Receipts ("GDRs"). We monitor and assess risks on an ongoing basis and we make efforts to control and mitigate such risks to the extent possible.

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

General economic situation and operating environment

Description

The Group and its subsidiaries operate mainly in Russia and other emerging markets. 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 another event in Russia or another relevant country (such as the recent conflict between Russia and Ukraine), may negatively impact the Group's business and growth prospects.

In addition to the human impact, the spread of Coronavirus (COVID-19) continues to affect global businesses and may lead to further and/or continued lockdowns, trade wars and turbulence in different currencies. The Group's outlook for 2022 may be further impacted by the Coronavirus outbreak, which continues to cause uncertainty. The freight rail market may experience reduced demand stemming from the effects of COVID-19. The Company cannot predict the full impact of COVID-19 on its markets, business or prospects although they may be materially adversely impacted by the rapidly evolving situation. Also, the appearance of new pandemics or other dangerous illnesses could seriously affect the global and local business environment and lead to negative consequences for the Group's business.

Significant levels of COVID-19 illness in the Group or its key clients could interfere with the stability of the Group's operations.

The sanctions imposed on Russian Central Bank, its restrictions for capital movements outside Russian Federation, sanctions imposed by the United States, the European Union and a number of other countries on the biggest Russian industrial groups may adversely affect the business environment in which the Group operates and the prospects of the Group and may result in long term disruption and economic downturn in Russia and/or the other countries to which the Group is directly or indirectly exposed. The restrictions on the export of certain Russian commodities or change in directions of supply for Russian commodities may have a negative impact on the freight rail transportation market and the Group's business.

The threat of sanctions against the Group's existing customers and the existing sanctions imposed, any deterioration in or threat to their financial condition and/or the temporary closure of certain markets (whether as a result of the current situation in Ukraine or otherwise) may decrease demand for the Group's services and/or negatively impact the Group's logistics.
In addition, the current situation in Ukraine could have a negative impact on the Group's business and assets in Ukraine and/or on the ability of the Group's customers to carry on business in Ukraine. Should further or intensified sanctions be imposed against companies who have businesses in, or are based in, Russia, there is a risk that some of the Group's railcars which were used to transport cargo from Russia into or through the territory of Ukraine (about 5% of the Group's Total Fleet) could be blocked in Ukraine.

Risk Management

General economic situation and operating environment (continued)

The restrictions on Russian-based companies' ability to transfer capital outside the Russian Federation currently impacts and may further impact the ability of the Company's subsidiaries to make payments to the Company or to make payments between the Company's bank accounts in Russia and abroad. At present, the Group is unable to upstream cash to the Company's bank accounts outside of Russia as a result of these restrictions. Further, the weakening of Russian Rouble against the US dollar and Euro and the accelerated inflation in Russian may have a negative impact on the Group's operating costs and costs of repairs. In addition, the Group may experience difficulties in making the payments due to potential refusal of certain banks to maintain the Group's bank accounts or to make payments from these accounts.

The situation in Russia and Ukraine and the resulting sanctions imposed on Russia by various countries around the world may have unforeseen, long term and far reaching consequences for the global economy, the Russian economy and the freight rail transportation industry in Russia. These consequences, including restrictions and limitations on the business activity of Russian companies (including access to funds located outside of Russia) and widespread and/or localised economic downturn and/or volatility, could have an adverse and unforeseen impact on the Group's business, operational results and financial effect on the Group's performance.

Controls and mitigating factors

Mitigation methodology involves understanding the political and economic uncertainties of the operating environment and the risks faced in our business operations. The Group's compliance and legal teams constantly monitor changes in legislation and report them to the Group's management and Board of Directors while the finance and business teams monitor economic developments and do the same. The counterparties, banks and transactions of the Group are constantly reviewed by the Group's compliance and legal teams to ensure full compliance with all applicable legislation. Risk managers have direct access to the Group's key management.

The Group maintains a balanced fleet as one of the cornerstones of its business model. A balanced fleet (between universal gondola cars, adaptable to the demand for the transportation of various bulk cargoes, and rail tank cars, which are used for the transportation of oil products and oil) enables the Group to adapt to market conditions and reduces its dependence on any one cargo flow.

In addition, the Group has entered into long-term service contracts with several large clients. Management assesses the possible impairment of the Group's tangible assets by considering the current economic environment and outlook.

Management believes that it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Management is closely monitoring the implications of recent sanctions imposed on the Russian Central Bank and various Russian businesses and individuals and of the global outbreak of COVID-19 and acts depending on the development of the situation. The Group constantly evaluates and implements options for distant work for its workforce to mitigate risks of spreading and catching COVID-19 illness.

Regulatory risk and relations with government authorities and state-owned enterprises

Description

The Group is subject to regulatory risks relating to the operation of the Russian railway transportation market and railway industry reform. Any changes to the regulatory environment of the Russian railway transportation market or in other markets where the Group operates, including, but not limited to, railway tariff regulations and technical requirements for fleet operation and maintenance, could negatively impact the Group's business, its profitability and prospects for further business growth. Government authorities have significant influence over the functioning of the Russian railway transportation market. Any deterioration in the Group's direct or indirect relationship with government authorities at either the local or federal level could result in greater government scrutiny of the Group's business and how it conducts its operations or less effective access to services dependent upon government authorities.

In addition, the Group relies on its relationship with and the services (including maintenance and repairs), infrastructure and information provided by RZD, an entity controlled by the state. While the Group has enjoyed a good relationship with RZD, there is no assurance it will always continue to do so in the future or that RZD will not increase its charges for such service provision and infrastructure use. Railway transportation regulations in countries bordering Russia may change, limiting the access of the Group's rolling stock to certain territories.

Controls and mitigating factors

The management of the Group regularly monitors changes to the regulatory regime of the railway transportation market in the countries in which it operates. The Group has a diversified portfolio of service providers (e.g. for rolling stock repair services), which allows it to use private repair depots (including three in-house repair facilities) to ensure less dependence on RZD-owned depots, obtain higher-quality service and minimise the costs of that service.

RZD remains the only provider of infrastructure and locomotive traction services, although the Group does operate its own locomotives in the form of block trains (cargo or client specific Group-operated block trains all going in the same direction) on some routes.

The Group also continues to monitor market liberalisation reforms to ensure that it can take advantage of any opportunities when they arise. The Group monitors Federal Antimonopoly Service ("FAS") initiatives regarding railway tariff regulation and also seeks to minimise its exposure to adverse changes in RZD's regulated tariffs for the usage of infrastructure and locomotive traction by providing that these changes are adequately passed on to the Group's customers where possible.

Risk Management

Regulatory risk, risks of banking system and risk of termination of listing of Company's GDRs on London Stock Exchange (LSE) and admission to trading

Description

Since late February 2022, the Russian economy and the Group's operating environment have been negatively impacted by the escalated military and political conflict between Russia and Ukraine and the associated international sanctions against a number of Russian institutions, companies, banks and individuals. These events have drastically changed the business environment of the Group and changed the regulation of business processes in a number of European countries, the US, Russian Federation and Ukraine.

On March 3, 2022, the London Stock Exchange suspended the trading of Company's GDRs and as at the date of publication this suspension is still in place. There is a risk that the admission of Company's GDRs to trading on the London Stock Exchange will be cancelled due to a potential change in the listing rules of LSE. In this case, the Company's GDRs may be converted into ordinary shares of the Company. The major clearing systems Euroclear and Clearstream have, as at the date of publication, suspended the instructions for transfers and settlements of accounts connected to Russian Federation. In addition, an increasing number of Russian banks have been banned from SWIFT, the global messaging system for financial transactions. The conversion between the Russian Rouble and other currencies is, as at the date of publication, not possible in most cases.

Controls and mitigating factors

Management is closely monitoring the situation with the assistance of legal and tax consultants and is ready to act depending on the developments.

Growth strategies

Description

Business growth can be constrained by an increase in prices for new rolling stock and spare parts, overproduction of rolling stock, partial scrappage of Group's rolling stock due to expiration of its useful life, sanctions imposed on Russian Federation and some Russian industrial groups, a limited supply of long-term funding, an increase in the cost of borrowing and/or adverse market conditions that can have a negative impact on the return on any investments. Although the Group takes a conservative approach to investments, any deterioration in the market environment may negatively impact the profitability and payback period of investments in rolling stock, thus limiting the Group's return on its investments and ability to expand its business. Alongside pursuing organic growth strategies, the Group has expanded its operations through acquisitions in the past and may pursue more in the future if appropriate opportunities arise. The pursuit of an acquisition strategy entails certain risks, including problems with integrating and managing such new acquisitions. The expiry of long-term service contracts with its key customers may also limit the Group's growth opportunities as these may result in volatility in logistics, a reduction in the Group's business volumes and/or profitability of its operations.

Controls and mitigating factors

Any acquisition of rolling stock is matched against projected demand for railway transportation and the economically viable expected payback period for such investments. The Group cooperates with numerous rolling stock producers in Russia and other CIS countries without placing too much reliance on any particular supplier.

The Group is also focused on the diversification of its business.

Any valuation of an acquisition target is subject to review by external advisers, and fairness opinions are normally provided by reputable appraisal companies to the Group's Board of Directors when a transaction is considered.

Competition and customer concentration

Description

The Russian freight rail transportation market is highly competitive in terms of unregulated operators' services tariffs. The ongoing market consolidation may lead to greater price competition. The risk of an irrational supply of railcars on the market by railcar producers and/or irrational behavior of competitors (including new market entrants) may place additional pressure on the profitability of railcar operations and thus negatively impact the Group. Competition between railway transportation and other means of transportation, including, but not limited to, oil product and oil transportation by pipeline, river and road, may negatively impact the Group's business volumes and profitability. The Group's customer base is characterised by significant concentration: the business is heavily dependent on a few large industrial groups and their suppliers, with its top 10 customers and their suppliers accounting for around 68% of the Group's Net Revenue from Operation of Rolling Stock in 2021. While the Group has long-term service contracts with several key customers, failure to extend and/or maintain the current service contracts or for such customers to no longer have the volume requirements they have had in the past may have a negative impact on the Group's operational results and financial performance.

Controls and mitigating factors

Globaltrans has significant competitive advantages that mitigate some of the risks of competition. These advantages include its strong reputation for high-quality service and reliability; its independent status; its long-term partnership with customers; its sophisticated operating capabilities; and its modern fleet. The Group has long-term, established relationships with its key customers and their affiliates and suppliers. In most cases, Globaltrans has become an integrated part of their operations. Around 59% of the Group's Net Revenue from Operation of Rolling Stock in 2021 was covered by long-term service contracts with several large clients. Such contracts provide additional stability and greater certainty regarding transport volumes for the Group. Globaltrans continues its focus on expanding business with small and medium companies to further diversify its customer base. In 2021, the share of small and medium companies amounted to 32% of Net Revenue from Operation of Rolling Stock (2020: 28%). Furthermore, the Group's marketing function regularly monitors competitors' business strategies, their use of technology, their price strategies and industry trends.

Risk Management

Locomotive traction

Description

The Group is dependent on RZD to issue permits allowing it to operate locomotives and to approve its use of locomotives for particular routes. If those routes are not in demand by the Group's clients, their utilisation could be lower. Furthermore, there is uncertainty about the prospects for, and the timing of, further deregulation of locomotive traction.

Controls and mitigating factors

The Group has a competitive advantage in providing freight rail transportation services to some clients, as it operates its own locomotives for the traction of block trains dedicated to particular routes. By assembling full trains composed only of its own railcars, the Group increases the speed and reliability of transportation for its clients. The Group has established controls to obtain the timely renewal of locomotive operation licenses and the respective permits from RZD. The Group regularly monitors the progress of the reform relating to continued deregulation of locomotive traction. In addition, the Group's management actively participates in the development of the required regulation through various dedicated industrial organisations and partnerships.

Shareholder Activism

Description

GDRs of Globaltrans have been listed on the Main Market of the London Stock Exchange since May 2008 (although trading was suspended by London Stock Exchange on 3 March 2022) and on the Moscow Exchange since October 2020 with a free float of over 50%. Publicly traded companies are often subject to shareholder activism, and the Company's shareholders may seek to advocate for changes to corporate governance practices, social issues, or for certain corporate actions or reorganisations via media campaigns or other activities. Responding to these campaigns can be costly and time consuming and may have an adverse effect on the Group's reputation or ability to execute its business plan.

Controls and mitigating factors

The Group has an active shareholder engagement programme and seeks to maintain a constructive dialogue with the Company's major shareholders. Feedback from shareholders is provided to the Company's Board of Directors.

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY

Infrastructure

Description

The rail network and physical infrastructure in Russia, owned and operated by RZD, as well as the networks and infrastructure of other countries on which the Group depends to operate its rolling stock, like Kazakhstan, Ukraine and other neighbouring countries, largely date back to the Soviet era. In some cases, these rail networks have not been adequately maintained, which could negatively affect the condition of the Group's rolling stock, performance and business. In addition, the oversupply of rolling stock, inefficient logistics at local destinations as well as maintenance and modernisation of rail infrastructure undertaken from time to time by RZD could negatively impact the average speed of transportation and therefore affect the operational performance of railcars. RZD tariffs for the use of the railway network and the provision of locomotive services are regulated by the FAS and are in principle "pass-through" items for the Group and other private freight rail operators. Meanwhile, RZD tariffs for the traction of empty railcars are in most cases a direct cost to the Group and other private freight rail operators. Significant upward changes in the regulated tariffs, whether as a result of annual indexation or changes in the tariff-setting methodology, could have an adverse effect on the Group's business. The railway infrastructure in Ukraine may also be partially damaged/destroyed following the military and political conflict between Russia and Ukraine.

Controls and mitigating factors

With immaterial exceptions, all of the Group's rolling stock is insured against damage. Moreover, as a freight carrier on the railway network, RZD bears full responsibility for third-party losses caused by accidents on the network. The Group monitors its rolling stock through its dispatch centre on a 24/7 basis and plans its routes accordingly to optimise logistics and minimise the risks of disruption. The Group monitors FAS initiatives to detect possible changes in tariff-setting methodology and tries to reflect relevant changes in contracts with customers.

Operational performance

Description

Rising inflation in Russia and an increase in prices for spare parts and railcar repair works may increase the Group's costs and maintenance CAPEX, while the Group may have limited opportunities to increase tariffs to customers.

Controls and mitigating factors

Among the Group's key objectives are to increase operational efficiency and to focus on controlling and reducing costs. The Group seeks to diversify and control its supply chain to maintain cost efficiency.

Risk Management

Employees

Description

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

Controls and mitigating factors

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

Customer satisfaction

Description

Customers rely on the Group for the provision of high-quality freight rail transportation and other related services and expect the Group to be commercially responsive to their needs. These include the timely collection and delivery of cargo and availability of rolling stock, which is not always within the direct control of the Group because it is dependent upon RZD for locomotive traction and maintenance of infrastructure. Accordingly, timely delivery of cargo is highly dependent on a third party whose performance could be unsatisfactory to the Group's customers.

Controls and mitigating factors

The Group has a strong reputation for delivering good quality, reliable and flexible freight rail transportation services to its customers. Customer satisfaction is one of the key metrics that the Group's management monitors. Each customer is assigned an account manager responsible for the day-to-day relationship with that customer. Customer feedback is analysed and appropriate follow-up actions are taken. The Group has a track record of high customer retention and the majority of key customers stay with the Group for many years. In addition, the Group serves several key clients on a long-term basis and has recently added new contracts and extended others.

IT availability/continuity

Description

The Group uses specialised rail transport and logistics software to ensure the efficiency and effectiveness of its logistics, dispatching and rolling stock tracking services. These systems are either licensed to the Group and then customised to the Group's needs or delivered to the Group and maintained for its needs by third parties under service agreements.

Due to recent sanctions imposed by the US, European Union and a number of other countries, a number of IT solutions used by the Group will no longer be maintained by American and European Union suppliers. The Group may potentially face risks related to access privileges, audit trails, authentication, authorisation, backup procedures, business continuation, change management (software and hardware), data integrity, disaster recovery, infrastructure, information/data security and cyber-attacks. The Group may lose access to IT products if third party providers do not renew commitments under existing or expiring service agreements. Further systems and products that the Group uses could cease to be maintained by third party service providers, requiring the Group to adopt new systems or products.

Controls and mitigating factors

Local IT specialists have introduced solutions to maintain the availability and proper licensing of IT services and ensure their recovery in case of disruption. Where applicable, the Group is working to identify and engage alternative suppliers of IT solutions. The IT function and internal audit function monitor all IT-related activities and performance for compliance with IT policies and procedures.

Risks of terrorist attacks, natural disasters or other catastrophic events beyond the Group's control

Description

The Group's business operations could be adversely affected or disrupted by terrorist attacks, natural disasters (such as earthquakes, floods, tsunamis, hurricanes, fires or typhoons) or other catastrophic or otherwise disruptive events – including changes to predominant natural weather, sea and climatic patterns, piracy, sabotage, insurrection, military conflict or war, riots or civil disturbance, radioactive or other material environmental contamination, an outbreak of a contagious disease or changes to sea levels – which may adversely affect global or regional trade volumes or customer demand for cargo transported to or from affected areas, or lead to denial of the use of any railway, port, airport, shipping service or other means of transport and disrupt customers' logistics chains. In addition, the Group may be exposed to extreme weather conditions such as severe cold periods and icy conditions that disrupt activities in ports that are destination points for customer cargoes. Furthermore, many of these events may not be covered by the Group's insurance or any applicable insurance may not adequately cover any resulting losses.

The Group's rolling stock could be adversely affected by unlawful acts in Russia or neighbouring countries. The occurrence of any such events may reduce the Group's business volumes, cause idle time for its rolling stock or disruptions to its operations in part or whole, subject the Group to liability, impact its brand and reputation and otherwise hinder normal operations. This could have a material adverse effect on the Group's business, results of operations or financial condition.

Controls and mitigating factors

The Group's rolling stock is insured against damage, and the responsibility for third-party losses caused by accidents on the network lies with RZD. The Group consistently monitors any disruptive events and applies a business continuity policy to:

- Ensure the safety of employees and human life;
- Maintain continuity of time-critical services;
- Minimise disruptions to clients and partners;
- Minimise the operational, financial and reputational impact.

Risk Management

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

Pending and potential legal actions

Description

The Group is involved in legal actions from time to time. Such actions may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and could result in claims from government authorities not expected by the Group.

Controls and mitigating factors

The Group runs its operations in compliance with tax, currency, sanctions, labour, customs, antimonopoly and other applicable legislation and constantly monitors any changes in the regulatory environment. The Group monitors its compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to rigorous review by all of the Group functions concerned and to a formal approval process prior to execution.

ESG risks

Description

Environmental, social and governance (ESG) risks include those related to climate change impacts mitigation and adaptation, environmental management practices, environmental protection and duty of care, working and safety conditions, respect for human rights, gender equality, supporting a culture in which all relevant stakeholders are valued and respected, compliance with relevant laws and regulations and ensuring compliance with regulations governing the protection of human rights, operational and occupational health and safety, and ESG practices in the jurisdictions in which we operate.

More information on climate-related risks is available in the Sustainability section on pages 102-105

Controls and mitigating factors

Although rail is one of the greenest modes of transport, the Group is committed to the protection of the environment by seeking to reduce the environmental footprint of its business and develop a sustainable supply chain. The Group aims to ensure compliance with regulations governing the protection of human rights, operational and occupational health and safety, and ESG practices in the jurisdictions in which the Group operates. The Group promotes high ethical standards and respect for human rights.

In January 2021, the Group formally adopted an ESG policy and also established the ESG Committee of the Board of Directors. The main purpose of ESG Committee is to oversee the development and implementation of the corporate environmental and social responsibility initiatives of the Group, monitor and review activities, and make recommendations to the Board of Directors of the Company on actions needed to address any issues identified or to make improvements where desirable.

Compliance with regulations and sanctions

Description

The Group functions in several jurisdictions, including Cyprus, Russia, Estonia and Ukraine. In addition, the Group has its GDRs listed on the London Stock Exchange (although London Stock Exchange suspending trading of the Group's GDRs on 3 March 2022) and the Moscow Exchange. Thus, the Group is subject to the laws and regulations of those countries in which it is active, the regulations of stock exchanges on which its securities are traded and any applicable sanctions legislation, all of which may change from time to time. As a result of the situation in Ukraine, the United States, the European Union and a number of other countries have imposed heightened sanctions and restrictions on numerous Russian businesses, banks and individuals.

Controls and mitigating factors

The legal and compliance teams of the Group together with the external lawyers engaged by the Group monitor the applicable requirements in each of jurisdiction in which it is active and stock exchanges on which its securities are trading, including monitoring US personal and sectoral sanctions (SDN OFAC, SSI OFAC and CAATSA), and the appropriate controls are in place to ensure that all subsidiaries of the Group comply with applicable regulations.

Fiscal risk

Description

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.

Any increase in applicable tax rates, as well as introduction of new taxes in the countries where the Group is active, may reduce the profitability of the Group.

Controls and mitigating factors

The Group has controls in place, including highly qualified and experienced personnel, to monitor changes in legislation and determine the appropriate action needed to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group engages and cooperates with external consultants and law firms.

Risk Management

Impact of Brexit and Takeover regulations

Description

From 1 January 2021, as a result of the end of the transitional period following the United Kingdom's exit from the European Union, as a company organised under the laws of Cyprus, the Takeover Panel no longer exercises shared jurisdiction over transactions involving the Company which would otherwise be subject to the Takeover Code, including takeover bids, merger transactions, or schemes of arrangement resulting the change or consolidation of control over the Company. In addition, from 1 January 2021, the London Stock Exchange (where the Company's GDRs are admitted to trading) is no longer a regulated market as defined in Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments; as a result, the legislation in Cyprus regulating takeovers, including those requiring mandatory takeover offers in certain situations, no longer applies to the Company.

Controls and mitigating factors

The absence of Takeover regulations applicable to the Company allows existing significant shareholders, or persons acting in concert, to increase their holdings (or new significant shareholders, or persons acting in concert, to acquire more than 30% of the outstanding share capital of the Company) without being obliged to make a mandatory tender offer to other shareholders. The Group monitors developments in applicable regulations, making appropriate disclosures of any relevant new regulations and will make all required notifications of significant shareholdings (or changes in respect of such shareholdings) in the Company.

FINANCIAL: RISKS THAT INFLUENCE THE GROUP'S FINANCIAL PERFORMANCE

Currency risks

Description

Currently, the Group has neither borrowings nor lease liabilities denominated in US dollars and therefore does not have formal arrangements for hedging foreign exchange risk with the exception of hedging foreign currency risk associated with dividend payments that are considered highly probable and the associated dividend payable that are declared in Russian roubles and paid in US dollars until their settlement. The Group may however keep bank balances in US dollars and other currencies. The Group therefore has limited exposure to the effects of currency fluctuations on bank balances between the US dollar and the Russian rouble.

Controls and mitigating factors

A large proportion of the Group's revenues and expenses are denominated and settled in Russian roubles. At present, the risks related to liabilities denominated in foreign currency are not material and are partly compensated for by assets and income denominated in foreign currency. The Group has refinanced all of its liabilities denominated in US dollars with long-term debt denominated in Russian roubles. Since 2008, the Group has taken action to mitigate currency risks and adjusted the profile of the borrowings in its credit portfolio. As of 31 December 2021, all the Group's debt was denominated in Russian roubles.

Interest-rate risks

Description

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.

Controls and mitigating factors

The Group enters into long-term borrowing and leases with financial institutions to finance purchases of rolling stock and acquisitions of subsidiaries. The Group borrows at current market interest rates and does not use any hedging instruments to manage interest-rate risk. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring that the Group has financial liabilities with both floating and fixed interest rates as appropriate. As of 31 December 2021, all of the Group's debt was at fixed interest rates. Management also considers alternative means of financing.

Credit risk

Description

Financial assets that potentially subject the Group to credit risk consist principally of trade receivables, cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including their affiliates and suppliers. Its top 10 clients accounted for around 76% of the Group's trade and other receivables as of 31 December 2021 and around 68% of the Group's Net Revenue from Operation of Rolling Stock in 2021.

Controls and mitigating factors

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Substantially all of the Group's bank balances are held with reputable banks.

Liquidity risk

Description

The Group's business is capital-intensive. The current situation in Ukraine and the resulting increased and intensified sanctions imposed by the United States, the European Union and numerous other countries on Russia have had a negative impact on the Russian financial markets and have limited the Group's access to international sources of funding. Any lack of available funding and potential increases in market interest rates could have a negative impact on the Group's ability to obtain financing for the settlement of its liabilities or cash to meet its financial obligations.

Controls and mitigating factors

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