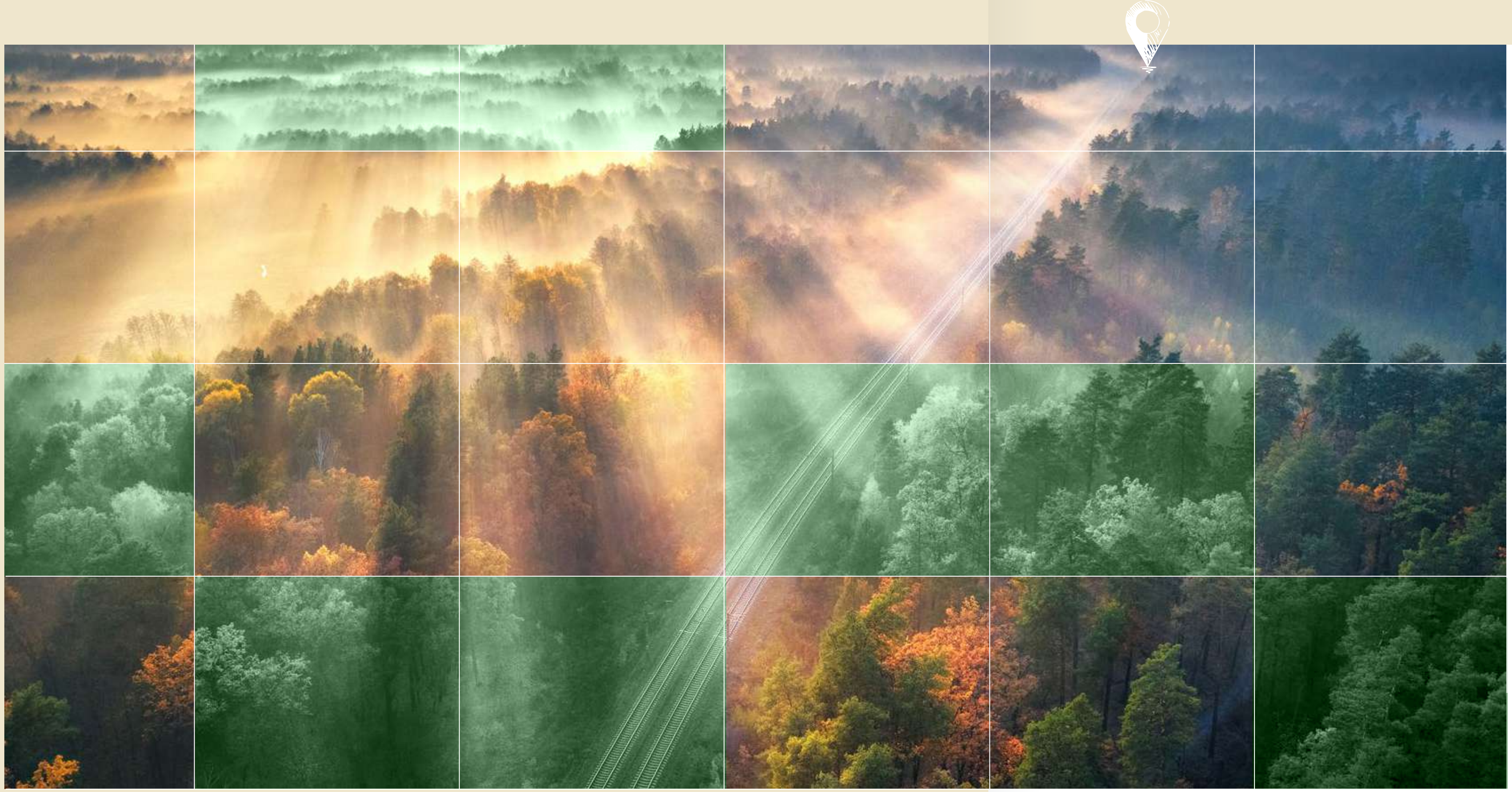
Strategic Report



DIRECTORS' RESPONSIBILITY

Each of the Directors confirms that, to the best of his or her knowledge, the Strategic Report presented on pages 18 to 83 of this Annual Report includes a fair review of the development and performance of the business and the position of Globaltrans Investment PLC and its subsidiary undertakings, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board,

Sergey Tolmachev
Director

Chairman's Statement

Sergey Maltsev
Chairman
Chief Strategy Officer
Co-founder and shareholder

RUB 13.3 bln
Total 2020 dividends, including interim, final and special

RUB 74.55
Total 2020 dividends per share/GDR

DEAR SHAREHOLDERS,

2020 was, by any definition, an exceptionally challenging year. We have long experience of successfully navigating through tough markets, and last year was no exception.

We again outperformed the industry, extended important service contracts, generated strong Free Cash Flow, and despite the unprecedented conditions delivered strong dividends as targeted and previously announced. Throughout this unprecedented period, the Group was sustained by the quality of its management, the resilience of its business model, and the strength of its people.

Inevitably, the abrupt changes in the trading environment as a result of the COVID-19 pandemic impacted our financial results. Nevertheless, it is reassuring that the Group was still able to deliver strong Free Cash Flow (up 14% year on year) and dividends in line with expectations by controlling costs and flexing expansion CAPEX. The Group's performance in a challenging year speaks to the underlying robustness of the business.

Operationally, our performance was strong, highlighting the professionalism of our team and the effectiveness of our business model. Once again outperforming the market in terms of freight rail turnover, we also were able to further develop our client partnerships.

We signed a new one-year contract with EVRAZ, one of the leading steel and coal producers, deepening that relationship, as well as agreeing separate important contract extensions with MMK and Metalloinvest, both longstanding customers of the Group. In April 2021, we were proud to extend our service contract with Rosneft, another key client, which is a testament to the high quality and reliability of our service.

The year also marked another important milestone in the Group's corporate development when Globaltrans became the first company in the freight rail sector to list its GDRs on the MOEX. The secondary listing on MOEX has raised the Group's profile and increased the availability of its GDRs. We expect the listing will further expand the Group's shareholder base, including among the growing base of retail investors in Russia. Since October's listing on MOEX, the combined average daily trading volumes in Globaltrans GDRs on LSE and MOEX have increased almost three-fold[1].

[1] Calculated as combined Average Daily Traded Volumes in US dollar terms (ADTV) on MOEX and LSE since secondary listing at MOEX comparing to ADTV at LSE for six months prior to the secondary listing.

Chairman's Statement

COVID-19 response

Our response to the evolving situation in 2020 as a result of the COVID-19 pandemic was an excellent demonstration of the Group's can-do culture. Despite the pandemic's disruptive impact on the economy, our teams kept operations running throughout, always with an unwavering focus on our clients and a commitment to supporting each other.

At the onset of the COVID-19 pandemic in February 2019, our priority was to protect the health and wellbeing of our employees and customers while seeking to ensure the continuity of operations. We resisted making COVID-related redundancies as we believed that by remaining fully staffed and operational we could better support our customers and communities through the period of the pandemic.

I want to express my thanks to our employees for their hard work, resilience and focus. The Board is very proud of how the whole team pulled together to deliver what was, in the circumstances, a positive set of results in 2020.

Board and governance

Good governance underpins successful business performance and never has that been truer than over the last twelve months. I am fortunate to lead an experienced and stable Board of Directors, whose diverse skills and experience complement the talents of the executive team. While COVID-19 was a true test of the Board's oversight skills, it also served to demonstrate the quality of our Board and executive team. Responding to the pandemic's spread, the Board moved quickly and decisively to maintain business operations, safeguard our employees and support our customers. These actions ensured that throughout the year Globaltrans continued operating and providing a full service to its customers.

We focused on maintaining transparency and keeping communication channels open during the pandemic. We successfully launched a new bilingual corporate website, containing a host of features, including intuitive navigation, increased functionality and an interactive centre. Our investor communications programme in 2020 was inevitably impacted by the various travel bans and stay-at-home orders. However, the team adapted quickly, reverting to online meetings with investors; in all, we conducted almost the same number of meetings with investors as the year before.

Sustainability

The COVID-19 pandemic has highlighted the attractions of rail as a sustainable, efficient mode of transport. I believe that this could spark a more permanent shift in the fortunes of the freight rail sector globally. Rail is a better, greener alternative to other modes of freight transport, especially road, and will be a key agent in the drive to decarbonise the global transport industry. As a freight rail operator, we recognise our responsibility to manage the impact our business has on the environment.

Companies increasingly need to align their business standards, culture and strategy with the social, economic and environmental needs of their stakeholders. As a responsible business, the Board and executives at Globaltrans are working to enshrine sustainable, responsible and ethical practices into everything we do. The Board established the ESG Committee in January 2021 to oversee the Group's environmental, social and governance strategy and activities, which will ensure we stay at the forefront of this important area.

Further details of the Group's progress in sustainable development are contained in our Integrated Sustainability Report.

Our industry

The COVID-19 pandemic has served to highlight some important trends and features of the industry.

First, it has reinforced the systemic importance of the freight rail industry in Russia, and its role as the logistical backbone of the country. It has shown that running trains efficiently and keeping supply chains open through both domestic and international corridors are essential to the economy and for the comfort of our society, especially when travel is restricted. The fact that the whole sector continued to operate largely uninterrupted through the crisis highlights the resilience of rail as a key mode of transport.

Second, it has highlighted the long-term growth trends in cross-border transported volumes and traffic, especially between Russia and Asian countries. It is interesting to note that despite the pandemic, freight rail turnover bounced back in the second half as the global economy began to reopen, with freight turnover actually surpassing the previous year's result.

At present, the Far Eastern rail infrastructure is operating right on the limits in terms of carrying capacity, which the government and JSC Russian Railways ("RZD") are racing to address with about 17% more throughput capacity delivered in 2018–2020 and an additional expansion of about 26% targeted by the end of 2024. These programmes provide a basis for increasing overall cargo volumes for the Russian freight rail sector, and, as I stated last year, the companies that will benefit most will be those like us that have the specialist expertise, customer relationships, fleet and finances to manage greater throughput volumes.

Third, it has underlined the importance of innovation, adaptability and customer focus, features that have their origin in the practices introduced by entrepreneurial commercial operators like Globaltrans when the industry deregulated in the early 2000s. The rail freight industry has demonstrated strong adaptation skills with many tasks being performed remotely, staff working from home, and physical interaction reduced to a minimum. Looking ahead, I would expect that the COVID-19 pandemic will lead to further process improvements and accelerate digitalisation, which can only improve the resilience and stability of the sector.

Dividends and share buyback

Having been through several economic cycles, we are determined to maintain our cost and capital discipline. In 2017, we reviewed the Group's capital allocation to ensure that we struck the right balance between supporting growth, maintaining appropriate leverage and returning excess capital to shareholders. This formula has served us well, providing a solid cushion from which to pay robust dividends. In a year that saw many companies cancel dividend payments to shareholders, Globaltrans once again announced target dividends, delivering on stated targets without compromising its business in any way.

The total dividends payable to shareholders in respect of 2020, including interim, final and special, amounted to RUB 13.3 billion (RUB 8.3 billion in respect of the first half 2020 and RUB 5.0 billion in respect of the second half 2020), or RUB 74.55 per share/GDR, equivalent to 99% of the Group's Attributable Free Cash Flow for the year.

Dividend distribution remains a priority for the Company in 2021. Our efficient business model, cost discipline and opportunistic CAPEX management are solid foundation for ongoing dividend payments throughout the cycle.

Chairman's Statement

The Board is targeting a minimum total interim dividend of RUB 3.0 billion (about RUB 16.78 per share/GDR) in respect of the first half of 2021 reflecting its conservative financial policies along with ongoing pricing pressure in the gondola segment.

Our share buyback programme for up to 5% of share capital which commenced in May 2020 is on track. As we made clear at that time, buying back shares is a secondary avenue for returning capital to shareholders and one we access at times of serious market dislocations, provided there is available excess liquidity. The Annual General Meeting of shareholders in April 2021 approved the renewal of the programme for an additional twelve months.

Summary

In 2020, the Group responded well to the unprecedented circumstances brought about by the COVID-19 pandemic. We ensured that our employees, clients and communities were properly supported without compromising the health and safety of our people. We acted quickly to switch to less affected cargoes and made a huge effort to ensure that we kept our operations running throughout the period. Our business model again proved itself in difficult markets, and we maintained our reputation as one of the most efficient rail operators in the industry, with the result that we outperformed the market and reinforced our market positions.

In the short-term, the outlook for markets is predicated on how quickly economies can rebound from COVID-19. As I said at the beginning, Globaltrans has core strengths that have enabled it to successfully navigate challenges and we are therefore well-placed to deliver another year of progress on our plans.

Sergey Maltsev
Chairman
Chief Strategy Officer
Co-founder and shareholder

Our Approach to Dividends

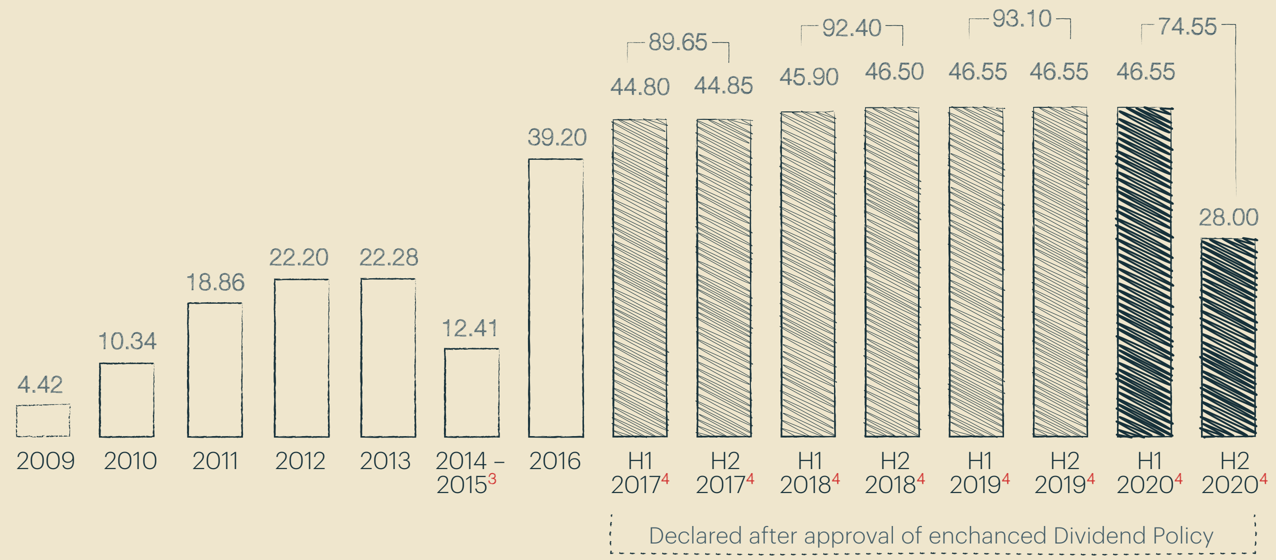
The Group's Dividend Policy strikes a balance between investing in business expansion and delivering returns to shareholders. This means:

- with a focus 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;
- having a clear formula linking dividends to Attributable Free Cash Flow and Leverage Ratio[1] providing flexibility and transparency in capital allocation.

Leverage Ratio	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

DIVIDEND HISTORY, RUB PER SHARE/GDR, IN RESPECT OF RELATED FINANCIAL YEAR/PERIOD[2]



1 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.

2 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.

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

4 Including regular and special dividends.

Our Strategy

Vision

Our vision is to maintain our position as a leading freight rail group with operations in Russia, Belarus, Ukraine, Kazakhstan and other countries and to be the partner of choice for blue-chip industrial customers by continually developing our service offering to ensure we meet customers' changing needs.

Strategic priorities

Our shared principles

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

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

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

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

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

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

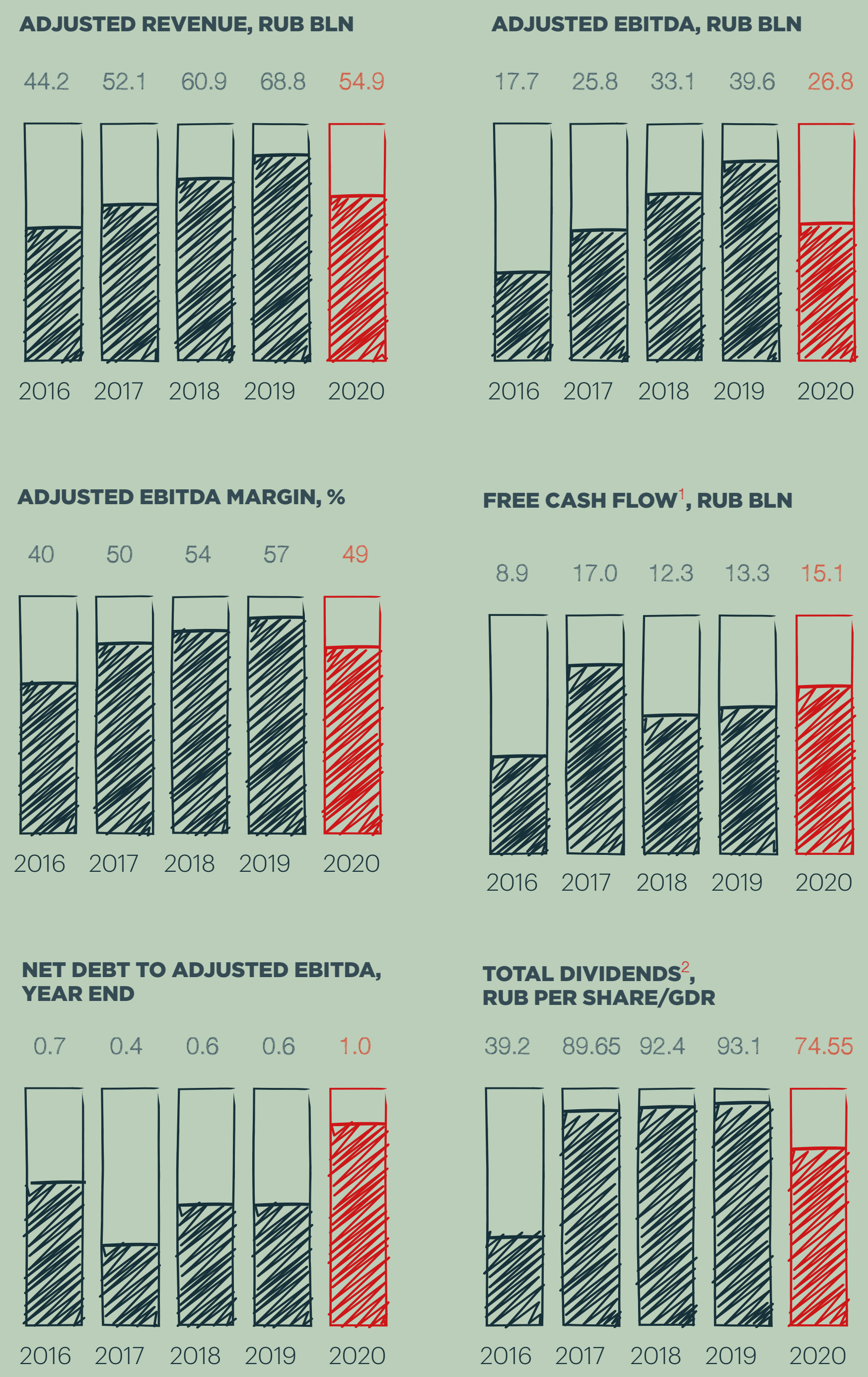
Strategy

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

Our entrepreneurial spirit, disciplined approach and focus on logistical efficiency and innovation are central to delivering this strategy. Along with our sizeable modern fleet and advanced logistical platform, they form our key competitive advantages. By focusing on long-term outsourcing partnerships, we can use our deep understanding of our clients' needs to improve our service quality whilst 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 such opportunities do not exist. We review both organic and non-organic prospects subject to our strict returns criteria. Maintaining a strong balance sheet is fundamental for us, ensuring we can seize the right opportunities and still remain flexible to any changes in the business or market environment.

Historical key financial results



Source: Rosstat

[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.

CEO Review

Valery Shpakov
Chief Executive Officer

DEAR SHAREHOLDERS,

The spread of the COVID-19 virus disrupted economic activity across Russia. Our industry did not escape the impact of this although it was very much a year of two halves for freight rail transportation.

In the first half of 2020, demand slumped as the sector suffered the full economic impact of COVID-19; in the second half, our markets recovered and overall freight rail turnover returned to pre-COVID levels.

Globaltrans again delivered a resilient business performance even at this exceptionally challenging time. We outperformed the market in freight rail turnover, secured further new contracts and extensions of existing contracts, and invested in the growing specialised container transportation segment. Although our financial results were inevitably impacted by the weak market conditions, our focus on cost control and expansion CAPEX flexibility resulted in the Group delivering increased Free Cash Flow and solid dividends for shareholders as targeted and announced beforehand.

I am very proud of the spirit, commitment and agility shown by our workforce in responding to what has been a very demanding environment over the past year.

Managing COVID-19 risks

At the outset of the pandemic, we identified the key priority areas we needed to focus on: safeguarding the health and safety of our employees, supporting our customers, and ensuring the business stayed fully operational. All subsequent management decisions were made with these priorities firmly in mind.

Safety is management's top priority and in the heightened risk environment we were operating in last year, it took on even greater urgency. We quickly instituted additional precautions to protect the health and wellbeing of our employees and engaged with them to ensure appropriate measures were being taken. We made sure we were operating within the rules and guidelines set out by the government such as introducing distance working where it was feasible to do so. We also introduced a raft of practical measures to safeguard our employees and customers, including:

- the transfer of a large number of employees to remote working;
- rigorous cleaning schedules at all our workplaces;
- measures to minimise contact between staff and enforce social distancing;
- additional protective equipment and clothing for those that needed it;
- information on government guidelines.

Highlights

In 2020, we once again outperformed the market. By leveraging our operating platform to efficiently switch between cargoes depending on demand, the Group's Freight Rail Turnover grew 2.2% year on year, despite the market suffering a 2.2% decline.

In the context of the challenging economic climate stemming from the COVID-19 pandemic, our financial results were inevitably impacted. The Group's Adjusted Revenue was down 20% year on year to RUB 54.9 billion, largely reflecting weaker pricing conditions in the gondola segment. Adjusted EBITDA at RUB 26.8 billion was down 32% compared to the record result set in 2019 of RUB 39.6 billion. Our Adjusted EBITDA Margin held up well at a robust 49%, down from 57% in the prior year. Management's efforts to optimise costs proved successful, and despite ongoing inflationary pressures, we reduced Total Operating Cash Costs by 1% year on year. Excluding regulated RZD Empty-Run regulatory tariffs the year-on-year decline in Total Operating Cash Costs was 9%.

The Group produced strong Free Cash Flow[1] generation of RUB 15.1 billion, up 14% on the previous year. The financial impact of weaker markets on operating activities was more than offset by an 83% year-on-year targeted cut in expansion CAPEX, the release of working capital and a decline in Tax paid.

The Group continued to benefit from a strong balance sheet and low leverage. The year-end Net Debt to Adjusted EBITDA ratio stood at 1.01 times up from 0.6 times at the end of the prior year. We managed to significantly improve the financing terms with the average weighted interest rate down to 6.9% compared to 8.1% at the end of the previous year.

Our markets

Market conditions for the freight rail industry fluctuated considerably over the course of 2020. In the first half of the year, the industry suffered as economies locked down as a result of the COVID-19 pandemic before staging a comeback in the second half as economies began to reopen with pent-up global demand for industrial commodities driving a recovery in cargo volume dynamics.

Overall freight rail turnover for the industry in 2020 dropped 2.2% year on year, although again with a very clear split in performance between the two halves of the year. Freight rail turnover was down 5.3% year on year in the first half as a result of the COVID-19 pandemic followed by a 1% year-on-year increase in the second half stimulated by greater export activity and currency weakness.

Overall freight transportation volumes for the year ended down 2.7% year on year. The first half saw a fall in volumes of 4.5% year on year, with downward pressure experienced in all key cargo segments, except construction materials. Cargo volume dynamics gradually improved over the second half with overall freight volumes down only 0.9% year on year.

[1] Free Cash Flow is net of principal elements of lease payments for leases with financial institutions presented for both years (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 years for comparison purposes.

CEO Review

The non-oil (bulk) cargo segment fared better than the overall market with the overall volumes in the segment decreasing 1.1% year on year. The performance was uneven across the individual transport segments. Weakness in coal and metallurgical cargoes, down 4.8% and 3.5% year on year respectively, was partially offset by strength in construction materials where volumes grew by a healthy 4.2% year on year[1].

The oil products and oil segment was particularly affected by the COVID-19 pandemic and the resultant international and domestic travel restrictions and lockdowns. Due to these constraints, fuel consumption fell significantly, a situation further exacerbated by the OPEC+ agreement on oil production cuts. Overall freight rail volumes in the segment fell 10% year on year.

Market pricing revealed a mixed segmental picture. The pricing pressure in the gondola segment we experienced in the latter part of 2019 continued, the result of an ongoing oversupply of gondolas combined with lower demand. In contrast, the rail tank segment experienced relatively stable railcar operator rates despite weak demand.

Operational performance

It was clear that the sector would not be immune to the unprecedented trading conditions of 2020, and so management's focus was on the things we could control, namely operational efficiency, superior client service, and cost discipline.

In the rail logistics industry, operational efficiency is a source of competitive advantage, and even more so in periods of market stress. Globaltrans' operating model gives us an edge in such times as we can adapt our logistics to respond to rapid changes in routes and cargo flows and flex our gondola fleet to capture demand changes in freight segments. We took full advantage of this important capability in 2020.

As I mentioned earlier, despite the volatile conditions, we delivered 2.2% year-on-year growth in Freight Rail Turnover while the overall market declined by that same amount in 2020. In non-oil bulk cargo operations, our Freight Rail Turnover increased 4.9% year on year, benefitting from the efficiency with which we were able to migrate railcars between different cargoes.

In the tank car segment, our operations were affected by those trends described above that severely impacted demand across the industry – global lockdowns, reduced fuel consumption in Russia, and the OPEC+ agreement on crude oil productions cuts. This was reflected in the 13.3% year-on-year decline in the Group's Freight Rail Turnover in this segment.

The Group's Average Price per Trip, a key metric, suffered due to weak pricing in the gondola segment, partially offset by more stable pricing dynamics for tank car operators in the oil products and oil segment. As a result, Average Price per Trip declined 19% year on year.

In a challenging environment, we managed the logistical test of adapting to the changes in cargo patterns. Whilst not immune from the headwinds created by the volatile conditions, we managed to restrict the increase in our gondola Empty Run Ratio, an important indicator of our operating efficiency, which rose to 45% from 42%. This remains among the lowest in the industry. The Total Empty Run Ratio for all types of railcars also increased to 51% compared to 49% in the previous year.

[1] Metallurgical cargoes including ferrous metals, scrap metal and irone ore; coal including coke; construction materials including cement.

As one of the leaders in the provision of freight logistics, we maintained a high level of client retention in 2020. We signed a new one-year deal with EVRAZ, significantly expanding our cooperation with them. We also extended our service contracts with MMK for a further two years until September 2024, and with Metalloinvest for an additional one year until the end of December 2021. Our success in retaining key clients continued into 2021 with a new service contract signed with Rosneft for five years until the end of March 2026. Long-term service contracts provide for better volume visibility and lower pricing volatility and enable logistical efficiencies. Our strong portfolio of service contracts with five leading businesses accounted for about 64% of the Group's Net Revenue from Operation of Rolling Stock in 2020, helping to underpin the Group's business model.

Capital expenditure

Given the market volatility and pricing pressures we observed coming into 2020, we had already signalled that our plans envisaged only a modest level of expansion CAPEX for the year. Due to the specifics of our business model, which includes ownership of long-life assets, we have discretion over our expansion CAPEX and can adjust it in light of market conditions.

In light of the economic impact of the COVID-19 pandemic, we confined expansion CAPEX to targeted investments into the growing niche segment for the rail transportation of petrochemicals and high-grade steel in specialised containers. To support our developing business in this segment, we acquired 300 flat cars in 2020 taking our expansion CAPEX for the year to RUB 1.1 billion*, down 83% year on year. Consequently, our Total CAPEX fell 49% year on year to RUB 6.9 billion[2] in 2020 and consisted primarily of maintenance CAPEX.

Outlook

How the freight rail sector performs over the next year will largely depend on how quickly the economy can recover from the pandemic. The introduction of mass vaccination programmes alongside the gradual easing of lockdowns provide grounds for optimism in this regard.

The pricing environment remains mixed with some further weakness in gondolas rates at the beginning of the year compared to the second half of 2020 and with the rail tank segment experiencing relatively steady pricing. The issue of gondola oversupply is likely to continue to weigh on the industry. In light of this, we anticipate maintaining our freeze on expansion investment this year. Total CAPEX is expected to mostly include maintenance and to remain in the range of RUB 6-7 billion in 2021, which will support the Group's Free Cash Flow generation.

2021 has started well helped by a recovery in global demand for both energy and basic materials, which has driven increased freight volumes. Recent rail freight statistics support this view with average daily overall Russian freight turnover in the first quarter of 2021 ahead 3.1% year on year[3].

We have a flexible business model, well-balanced portfolio of assets, strong management, and a consistent focus on efficiency and cost control. These factors, together with almost entirely discretionary expansion CAPEX mid-term, are expected to support our ability to deliver strong dividends.

As is evident from our 2020 performance, Globaltrans is well positioned to benefit from a sustained recovery in our markets and we remain cautiously optimistic about our prospects for 2021.

Valery Shpakov
Chief Executive Officer

[2] Total CAPEX is net of principal elements of lease payments for leases with financial institutions presented for both years (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 years for comparison purposes.

[3] Estimated by the Company. Average daily overall freight rail turnover better illustrates the market trends taking into account higher base in February 2020 due to a leap year.

Market Review

Market rebound in the second half of 2020 after spread of COVID-19 affected demand in the first half of the year

- Overall freight rail turnover and volumes in Russia decreased 2.2% and 2.7% year on year in 2020 respectively.
- Noticeable split in freight rail turnover performance between the two halves with a first-half decline of 5.3% year on year followed by an export-driven recovery with second-half turnover rising 1% year on year.

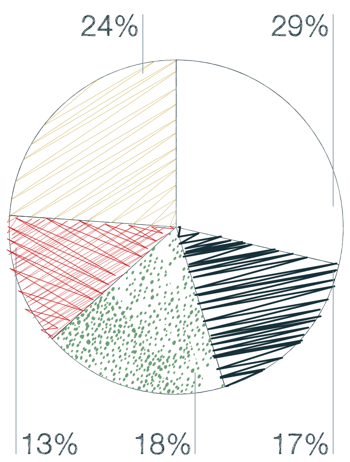
Non-oil (bulk) cargo volumes fared better than the overall market

- Non-oil (bulk) cargo volumes fell 1.1% year on year in 2020 compared to an overall market decline of 2.7% year on year. Decline in coal and metallurgical cargo volumes were partially mitigated by a rise in construction cargo volumes.
- Gondola segment rates remained under pressure throughout 2020.

Oil products and oil segment under significant pressure due to COVID-19 and OPEC+

- Overall freight rail volumes declined 10% year on year in 2020 as lockdowns due to COVID-19 affected fuel consumption while OPEC+ agreement cut crude oil production.
- Relatively stable railcar operator rates in the tank car segment.

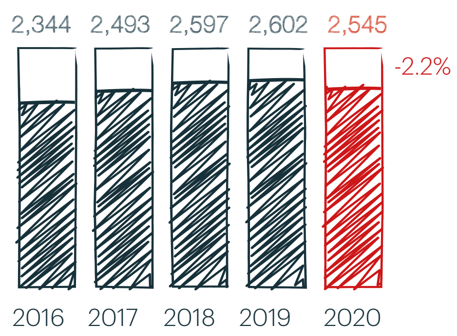
BREAKDOWN OF RUSSIA'S FREIGHT RAIL TRANSPORTATION VOLUMES BY CARGO TYPE, 2020



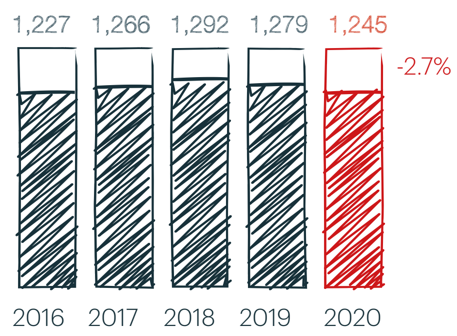
Coal (incl. coke)
Oil products and oil
Metallurgical cargoes (incl. ferrous metals, scrap metal, ores)
Construction materials (incl. cement)
Other

Source: Rosstat

RUSSIA'S FREIGHT RAIL TURNOVER, 2016–2020 (BLN TONNES-KM)

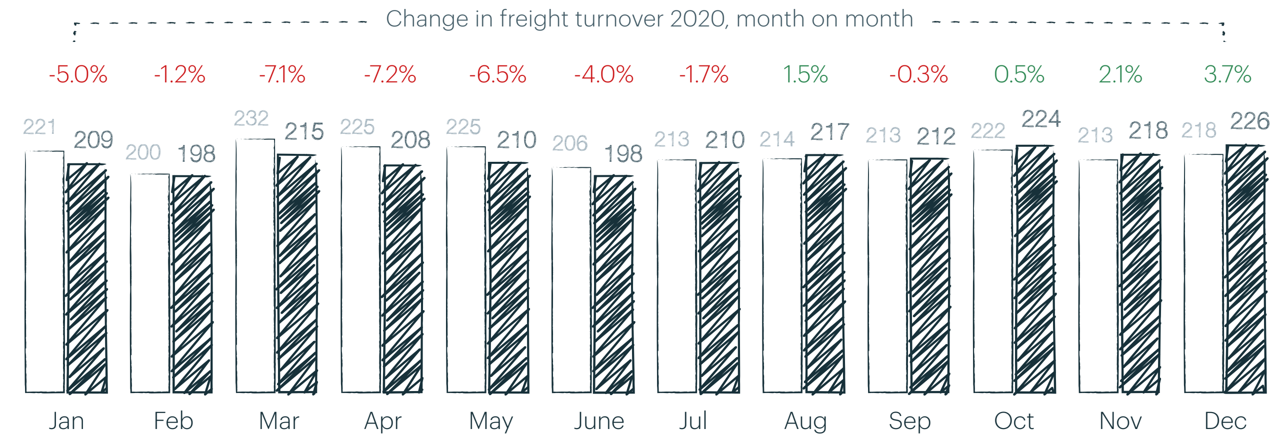


RUSSIA'S FREIGHT RAIL TRANSPORTATION VOLUMES, 2016–2020 (MLN TONNES)



-2.2%
year-on-year decline
in overall freight rail turnover in Russia

RUSSIA'S MONTHLY FREIGHT RAIL TURNOVER, 2019–2020 (BLN TONNES-KM)



Source: Rosstat, Globaltrans

1.2 mln
units
railcar fleet in Russia

577 ths
units
gondola cars in Russia

249 ths
units
tank cars in Russia

Market Review

The market in 2020

It was an unprecedented year with the impact of the COVID-19 pandemic triggering the biggest global economic contraction in decades.

The Russian economy suffered its largest decline since 2009, as gross domestic product (GDP) shrank 3% year on year in 2020. Industrial production in Russia also declined with a decrease of 2.9% year on year in 2020 following year-on-year growth of 3.4% in 2019. The fall in industrial output reflected a steep drop in the performance of the extractive industries, down 7%, which was partially offset by a 0.3% year-on-year rise in manufacturing output.

The underperformance of the extractive industries sector was mostly attributable to a drop in crude oil production as a consequence of the OPEC+ decision in 2020 to substantively curb output. The quarterly rate of decline in industrial production improved steadily as the year progressed, having touched a low point in 2Q 2020 when it dropped 6.7% year on year. In 3Q 2020, industrial production was 4.8% lower year on year, before ending the year down just 2.5% year on year in 4Q 2020. In December, industrial production rebounded and was broadly in line with the level achieved in the prior year period.

The freight rail sector in Russia tends to track industrial production and the performance of the sector shows it was a year of two halves.

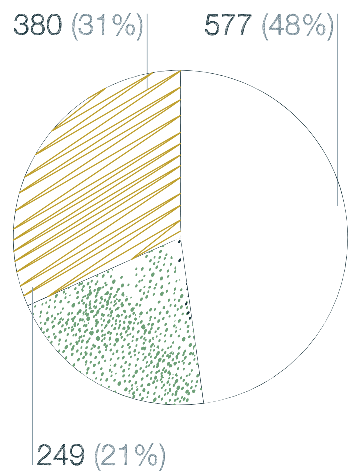
In the first six months of 2020, Russia's overall freight rail turnover and volumes fell 5.3% and 4.5% year on year respectively as the full force of the measures to combat the COVID-19 pandemic took effect. As restrictions eased and global industrial demand began to recover, the freight rail sector experienced a solid recovery with freight rail turnover increasing 1% year on year in the second half compared to the same period the previous year.

Rail maintained its position as the main mode of freight transport in Russia carrying 87% of overall Russian freight turnover (excluding pipeline traffic) in 2020, the same level as in 2019.

Weak economic conditions led rail companies to cut back investments with Russia's overall railcar fleet growing just 3%, or 36 thousand units to 1.2 million units by year end 2020. Gondola cars accounted for 48%, tank cars made up 21%, and other types, including flat cars and hopper cars, constituted 31% of the total fleet at the end of 2020.

Net additions of gondola cars declined significantly with 19 thousand units or 3% added (about 40% fewer than were added over 2019) with the overall size of the gondola fleet reaching 577 thousand units. In the tank car segment, net additions totalled 2 thousand units (or 0.8% compared to the end of 2019), taking the overall size of Russia's tank car fleet to 249 thousand units.

RUSSIA'S TOTAL RAILCAR FLEET BY CAR TYPE, AT YEAR-END 2020, THOUSAND UNITS



Gondola cars
Tank cars
Other railcars

Source: Globaltrans

Bulk (non-oil) segment

This segment delivered a relatively resilient performance given the challenging market, with volumes dipping 1.1% year on year in 2020. They recovered from a year-on-year 4% first-half decline to surpass the level set in the second half of the previous year by 1.7% with exports being the principal driver behind the recovery. The recovery was supported by a global revival in demand for key commodities, a weak Russian rouble and the reopening of many economies after lockdowns. Weak demand for coal and metallurgical cargoes was partially compensated by solid demand for construction materials. There was continued pressure in the pricing environment in the gondola segment in both leasing rates and operator pricing throughout 2020 on the back of an ongoing unfavourable supply and demand balance.

Coal (including coke): As the largest industrial cargo segment, coal contributed 29% of Russia's overall freight volumes in 2020. Overall coal volumes fell 4.8% year on year, under pressure from a combination of deteriorating demand and weak pricing conditions for thermal coal. In the first half, thermal coal volumes slumped 10.1% before staging a recovery in the second half on the back of increasing export demand and better pricing, with the result that second-half volumes were at the same level as for that period in 2019. In the coking coal segment conditions were less volatile with solid growth in the second half putting total annual volumes up 4% year on year in 2020.

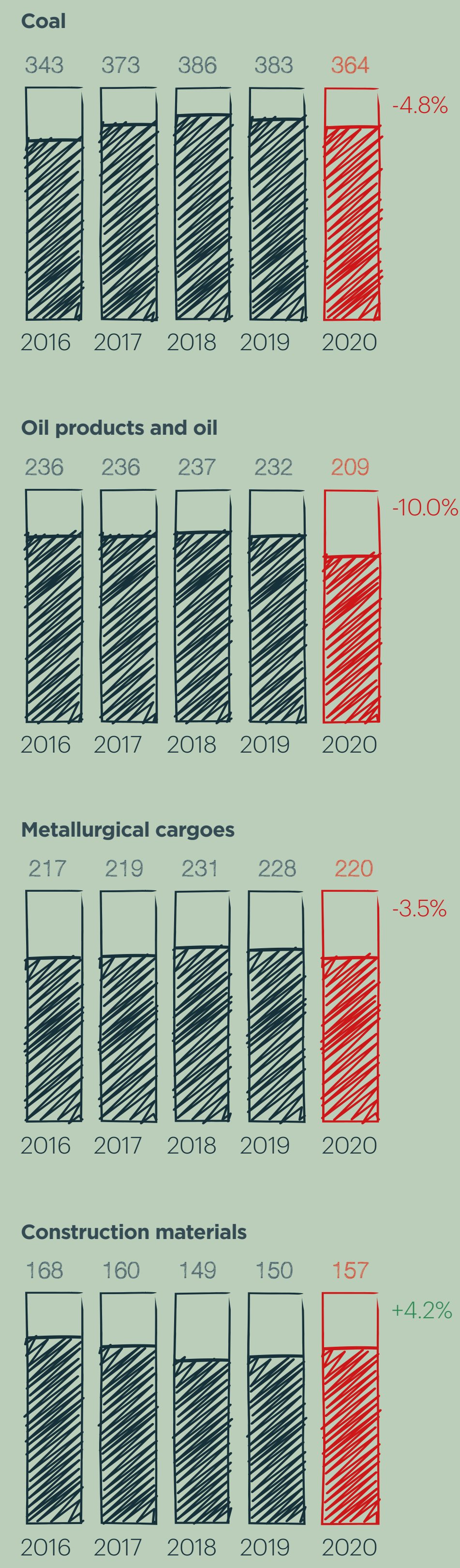
Metallurgical cargoes (including ferrous metals, scrap metal and ores): This segment represented 18% of Russian freight rail volumes in 2020. Total volumes were affected by weak economic activity across 2020, which resulted in freight rail volumes falling 3.5% year on year. As in other areas, this weakness peaked in the first half with volumes falling 4.4% year on year and while there was a modest recovery in the second half with volumes down 2.5% year on year it was insufficient to match the performance of the previous year. Volume trends varied across the individual segments: ferrous metals and scrap metal volumes dropped 10% and 2.7% respectively year on year, while in ores volumes were broadly unchanged year on year in 2020.

Construction materials (including cement): The segment performed strongly in 2020 supported by solid levels of construction activity, delivering a 4.2% year-on-year rise in volumes. This segment contributed 13% of the overall Russian freight rail volumes in 2020.

Oil products and oil segment

The oil products and oil transport segment experienced particularly difficult trading conditions, with overall freight volume ending 2020 down 10% year on year. The market came under significant pressure as the impact of the COVID-19 pandemic and the OPEC+ agreement combined to reduce both fuel consumption and output volumes. Despite weak demand, the pricing environment was generally supportive, and operators pricing stood broadly unchanged year on year although leasing rates did exhibit some pricing pressures.

RUSSIA'S FREIGHT RAIL TRANSPORTATION VOLUMES BY CARGO, 2016–2020 (MLN TONNES)



Source: Rosstat

Financial and Operational Review

"Our financial performance highlights the strength of our operating model. The Group continued to be highly cash generative and financially robust. We delivered a double-digit increase in free cash flow, maintained low leverage and as a result, we delivered strong cash dividends to our shareholders, consistent with our focus on long-term value creation."

Alexander Shenets
Chief Financial Officer

FINANCIAL RESULTS

Efficient cost control, increased Free Cash Flow and continued low leverage

- Total revenue was down 28% year on year to RUB 68.4 billion. Adjusted Revenue declined 20% year on year to RUB 54.9 billion with lower gondola segment net revenues partially offset by a less volatile tank car segment and growing revenues from specialised containers and railcar leasing businesses.
- Total Operating Cash Costs were reduced 1% year on year due to cost optimisation measures.
- Operating profit decreased 41% year on year to RUB 18.8 billion largely due to gondola segment pricing weakness.
- Adjusted EBITDA was 32% lower year on year at 26.8 billion while the Adjusted EBITDA Margin narrowed to 49% (2019: 57%).
- Profit for the year declined 46% year on year to RUB 12.2 billion.
- Free Cash Flow[1] increased 14% year on year to RUB 15.1 billion with the decline in Net cash from operating activities more than offset by an 83% year-on-year targeted cut in expansion CAPEX, release of working capital and lower Tax paid.
- Total CAPEX[1] was down 49% to RUB 6.9 billion and primarily consisted of maintenance expenses. The Group currently expects its Total CAPEX (including maintenance) to remain low in 2021 in the range of RUB 6–7 billion.
- Leverage continued to be held at a low level with a Net Debt to Adjusted EBITDA ratio of 1.01x at year end 2020 (at year-end 2019: 0.60x).

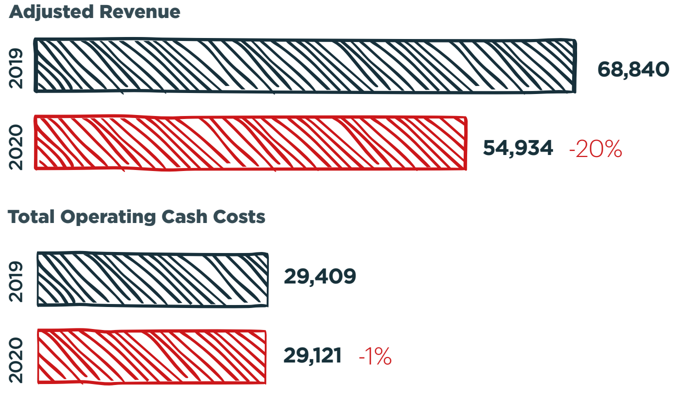
DIVIDENDS

Continued robust dividend payments as targeted and previously announced

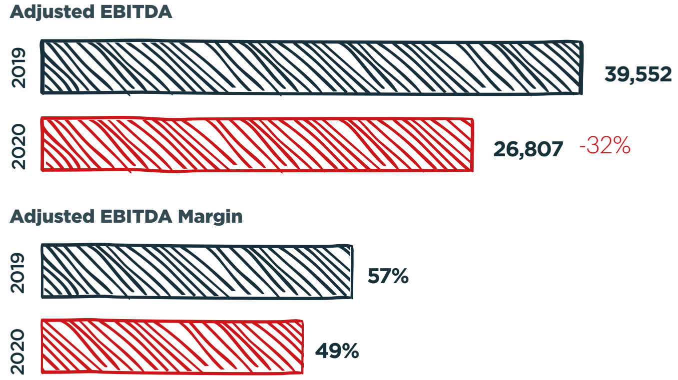
- Strong total FY2020 dividends of RUB 13.3 billion or RUB 74.55 per share/GDR delivered (including interim and final dividends), reflecting strong Free Cash Flow generation and low leverage. Total FY2020 dividends equate to 99% of the Group's Attributable Free Cash Flow for 2020.

[1] Free Cash Flow and Total CAPEX are net of principal elements of lease payments for leases with financial institutions presented for both years (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 years for comparison purposes.

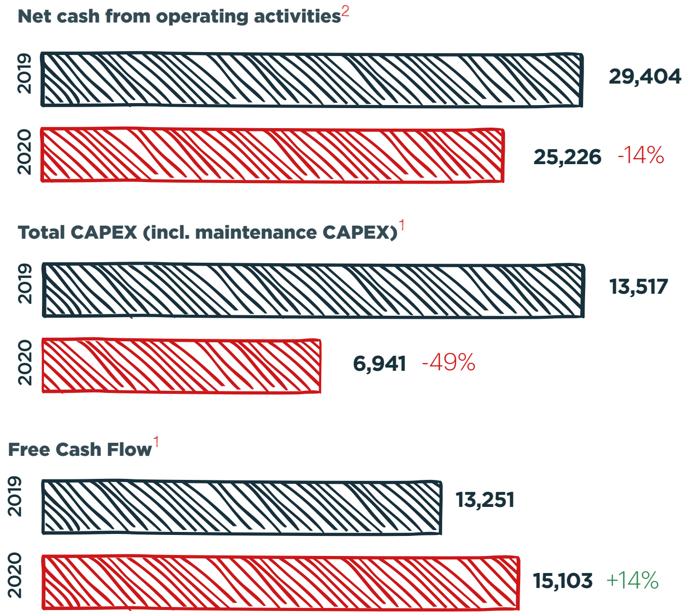
ADJUSTED REVENUE (RUB MLN) / TOTAL OPERATING COSTS (RUB MLN)



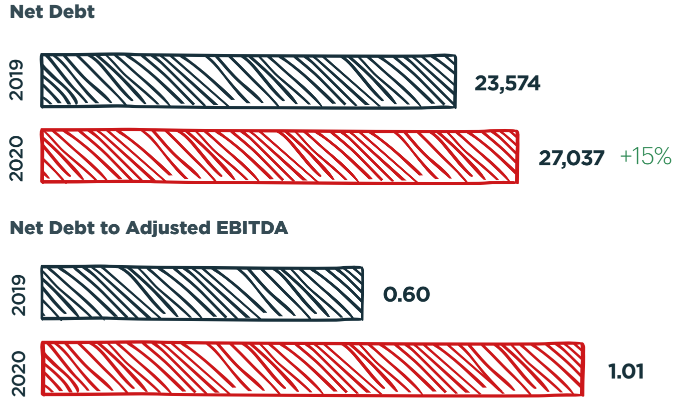
ADJUSTED EBITDA (RUB MLN) / ADJUSTED EBITDA MARGIN (%)



NET CASH FROM OPERATING ACTIVITIES (RUB MLN) / TOTAL CAPEX (RUB MLN) / FREE CASH FLOW (RUB MLN)



NET DEBT (RUB MLN) / NET DEBT TO ADJUSTED EBITDA



Source: Globaltrans

[2] After "Changes in working capital" and "Tax paid".

OPERATIONAL PERFORMANCE

Globaltrans outperformed the industry despite weak markets

- Solid Freight Rail Turnover growth achieved in 2020 of 2.2% year on year even as the overall market declined 2.2% year on year.
- Gondola operating model provides for flexibility and responsiveness to market changes enabling a 4.9% year-on-year rise in bulk cargoes Freight Rail Turnover due to efficient contracting and migration between freight segments.
- Tank car segment business volumes under pressure from unprecedented COVID-19 lockdowns reducing fuel consumption in Russia along with impact of crude oil production cuts agreed under OPEC+. Against this backdrop, the Group's Freight Rail Turnover in the oil products and oil segment declined 13.3% year on year.
- Challenging operational conditions in the tank car segment drove Average Number of Loaded Trips per Railcar down 5% year on year along with a 6% year-on-year rise in Average Distance of Loaded Trip.

Robust client retention, key service contracts extended

- Strong portfolio of service contracts with superior clients in metallurgical and oil products and oil segments, which contributed 64% of Net Revenue from Operation of Rolling Stock in 2020.
- Long-term service contracts provide for better volume visibility and lower pricing volatility and enable logistical efficiencies.
- Key service contracts successfully extended.
  - Rosneft — the service contract extended for a further five years until the end of March 2026[1].
  - MMK — the service contract extended for a further two years until the end of September 2024.
  - Metalloinvest — the service contract extended for one year until the end of 2021.

- Deepened relationships with other high-profile clients. Significant increase in business volumes with EVRAZ accompanied by parties entering into a one-year contract. Expanded relationships with clients in coal and construction segments including Kuzbasskaya Toplivnaya Company and National Non-Metallic Company.

Mixed pricing across segments

- Balanced fleet composition helped partially offset weak pricing in the gondola segment with solid pricing in tank cars. Average Price per Trip declined 19% year on year.

Flexible operating model enabled Group to maintain one of the sector's best Empty Run Ratios

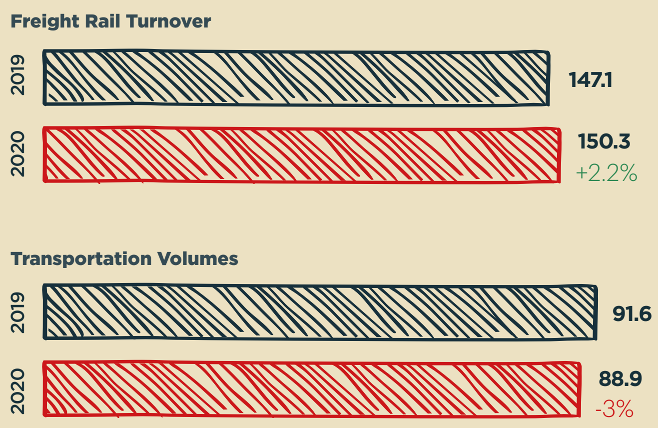
- Gondola Empty Run Ratio remained one of the lowest in the Russian market despite the substantial volatility in client cargo flows and routes driven by unprecedented COVID-19 lockdowns. Empty Run Ratio for gondola cars rose to 45%, compared to 42% in 2019.
- Total Empty Run Ratio (for all types of rolling stock) increased to 51%, compared to 49% in 2019.
- Share of Empty Run Kilometres paid by Globaltrans rose to 99% (2019: 89%) due to changed cargo mix and gondola segment headwinds.

Large diversified fleet with minimum scrappage requirements

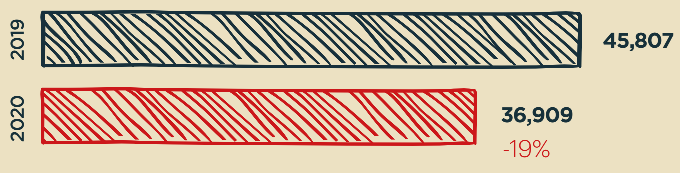
- Balanced fleet of 71,688 units[2], primarily universal gondola cars and tank cars strengthened by owned fleet of mainline locomotives.
- Moderate average age of 12.4 years as of the end of 2020 with limited need for scrappage in the mid-term.
- The Group's Average Rolling Stock Operated was up 1% year on year.

[1] As announced on 26 April 2021.
[2] Total Fleet as of 31 December 2020.

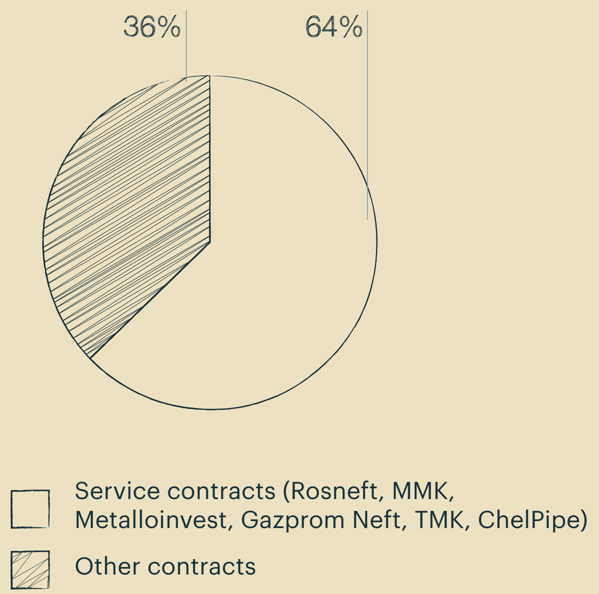
FREIGHT RAIL TURNOVER (BLN TONNES-KM) / TRANSPORTATION VOLUMES (MLN TONNES)



AVERAGE PRICE PER TRIP (RUB)

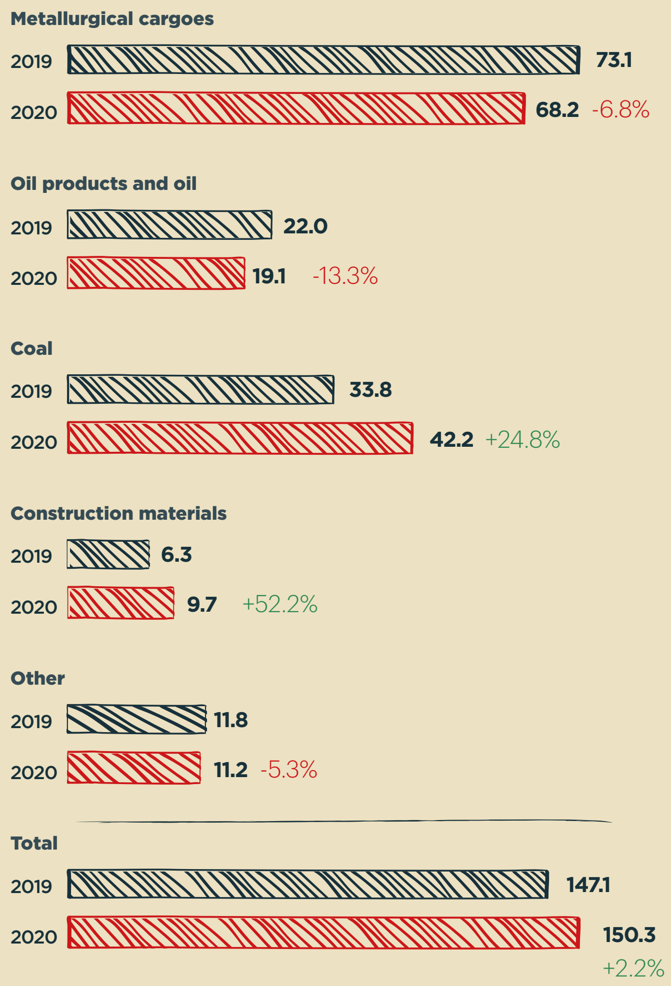


NET REVENUE FROM OPERATION OF ROLLING STOCK BY KEY CONTRACT



Source: Globaltrans

FREIGHT RAIL TURNOVER BY KEY CARGO (BLN TONNES-KM)[3]



KEY EMPTY RUN METRICS

	2019	2020
Empty Run Ratio for gondola cars	42%	45%
Total Empty Run Ratio (for all types of rolling stock)	49%	51%
Share of Empty Run Kilometres paid by Globaltrans	89%	99%

[3] Metallurgical cargoes including ferrous metals, scrap metal and iron ore; coal including coke; construction materials including cement.

RESULTS IN DETAIL

The following tables provide the Group's key financial and operational information for the years ended 31 December 2020 and 2019.

EU IFRS financial information

	2019, RUB mln	2020, RUB mln	Change, %
Revenue	94,994	**68,367**	-28%
Total cost of sales, selling and marketing costs and administrative expenses	(62,908)	**(50,664)**	-19%
Operating profit	32,120	**18,811**	-41%
Finance costs - net	(2,375)	**(2,100)**	-12%
Profit before income tax	29,745	**16,712**	-44%
Income tax expense	(7,091)	**(4,525)**	-36%
Profit for the year	22,653	**12,187**	-46%
Profit attributable to:			
Owners of the Company	20,808	**10,587**	-49%
Non-controlling interests	1,846	**1,600**	-13%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RUB per share)	116.41	**59.24**	-49%

	2019, RUB mln	2020, RUB mln	Change, %
Cash generated from operations (after changes in working capital)	35,422	**28,278**	-20%
Tax paid	(6,018)	**(3,052)**	-49%
Net cash from operating activities	29,404	**25,226**	-14%
Net cash used in investing activities	(12,765)	**(6,528)**	-49%
Net cash used in financing activities	(16,939)	**(20,357)**	20%

Non-IFRS financial information

	2019, RUB mln	2020, RUB mln	Change, %
Adjusted Revenue	68,840	**54,934**	-20%
Including			
Net Revenue from Operation of Rolling Stock	64,994*	**50,527***	-22%
Operating lease of rolling stock	1,634	**1,932**	18%
Net Revenue from Specialised Container Transportation	1,623*	**1,923***	18%
Total Operating Cash Costs	29,409	**29,121**	-1%
Including			
Empty Run Cost	14,752*	**15,799***	7%
Repairs and maintenance	4,403	**4,261**	-3%
Employee benefit expense	4,483	**4,154**	-7%
Fuel and spare parts - locomotives	1,914	**1,630**	-15%
Adjusted EBITDA	39,552	**26,807**	-32%
Adjusted EBITDA Margin, %	57%	**49%**	-
Total CAPEX (including maintenance CAPEX)[1]	13,517	**6,941**	-49%
Free Cash Flow[1]	13,251	**15,103**	14%
Attributable Free Cash Flow[1]	11,405	**13,503**	18%

Debt profile

	As of 31 December 2019, RUB mln	As of 31 December 2020, RUB mln	Change, %
Total debt	30,095	**32,015**	6%
Cash and cash equivalents	6,522	**4,978**	-24%
Net Debt	23,574	**27,037**	15%
Net Debt to Adjusted EBITDA (x)	0.60	**1,01**	-

[1] Free Cash Flow, Total CAPEX and Attributable Free Cash Flow are presented net of principal elements of lease payments for leases with financial institutions for both years (2019 and 2020). During the first half of 2020 the entire financial lease portfolio was refinanced to bilateral loans, therefore principal elements of lease payments were eliminated from both years for comparison purposes.

Operational information

	2019	2020	Change, %
Freight Rail Turnover, billion tonnes-km (excluding Engaged Fleet)	147.1	**150.3**	2.2%
Transportation Volume, million tonnes (excluding Engaged Fleet)	91.6	**88.9**	-3.0%
Average Price per Trip, RUB	45,807	**36,909**	-19%
Average Rolling Stock Operated, units	56,845	**57,484**	1%
Average Distance of Loaded Trip, km	1,591	**1,681**	6%
Average Number of Loaded Trips per Railcar	25.0	**23.8**	-5%
Total Empty Run Ratio (for all types of rolling stock), %	49%	**51%**	-
Empty Run Ratio for gondola cars, %	42%	**45%**	-
Share of Empty Run Kilometres paid by Globaltrans, %	89%	**99%**	-
Total Fleet, units (at year-end), including:	70,720	**71,688**	1%
Owned Fleet, units (at year-end)	67,669	**67,762**	0%
Leased-in Fleet, units (at year-end)	3,051	**3,926**	29%
Leased-out Fleet, units (at year-end)	6,842	**7,032**	3%
Average age of Owned Fleet, years (at year-end)	11.5	**12.4**	-
Total number of employees (at year-end)	1,640	**1,697**	3%

Revenue

The Group's Total revenue was 28% lower year on year at RUB 68,367 million in 2020 reflecting a 20% year-on-year decline in Adjusted Revenue and a 49% year-on-year decrease in the "pass through" cost items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations". Net Revenue from Operation of Rolling Stock (a key component of Adjusted Revenue) declined 22% year on year and was partially offset by higher revenues from niche segments for the rail transportation of specialised containers and leasing of rolling stock.

The following table provides details of Total revenue, broken down by revenue-generating activity, for the years ended 31 December 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Railway transportation – operators services (tariff borne by the Group)[1]	49,141	**27,197**	-45%
Railway transportation – operators services (tariff borne by the client)	42,018	**36,671**	-13%
Revenue from specialised container transportation	1,815	**2,168**	19%
Operating lease of rolling stock	1,634	**1,932**	18%
Other	386	**400**	4%
Total revenue	**94,994**	**68,367**	**-28%**

[1] Includes "Infrastructure and locomotive tariffs: loaded trips" for 2020 of RUB 10,957 million (2019: RUB 22,020 million) and "Services provided by other transportation organisations" of RUB 2,476 million (2019: RUB 4,134 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 20% year-on-year decline in the Group's Adjusted Revenue to RUB 54,934 million in 2020 was primarily due to the decrease in Net Revenue from Operation of Rolling Stock, down 22%, which was partially offset by an 18% year-on-year increase in both Net Revenue from Specialised Container Transportation and Revenue from operating leasing of rolling stock.

The following table provides details of Adjusted Revenue for the years ended 31 December 2020 and 2019 and its reconciliation to Total revenue.

	2019, RUB mln	2020, RUB mln	Change, %
Total revenue	94,994	**68,367**	-28%
Minus "pass through" items			
Infrastructure and locomotive tariffs: loaded trips	22,020	**10,957**	-50%
Services provided by other transportation organisations	4,134	**2,476**	-40%
Adjusted Revenue	**68,840**	**54,934**	**-20%**

The principal components of Adjusted Revenue include: (i) Net Revenue from Operation of Rolling Stock, (ii) Net Revenue from Specialised Container Transportation, (iii) Revenue from operating leasing of rolling stock, (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 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Net Revenue from Operation of Rolling Stock	64,994*	**50,527***	-22%
Operating leasing of rolling stock	1,634	**1,932**	18%
Net Revenue from Specialised Container Transportation	1,623*	**1,923***	18%
Net Revenue from Engaged Fleet	202*	**152***	-25%
Other	386	**400**	4%
Adjusted Revenue	**68,840**	**54,934**	**-20%**

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 contributed 92% of the Group's Adjusted Revenue in 2020 and was 22% lower year on year at RUB 50,527 million* primarily reflecting weak pricing conditions in the gondola segment.

- Average Price per Trip declined 19% year on year to RUB 36,909 with solid pricing in tank cars partially compensating for continued weak pricing in the gondola segment.
- Average Rolling Stock Operated increased 1% year on year to 57,484 units.
- Average Number of Loaded Trips per Railcar decreased 5% year on year mainly reflecting changed logistics and volatility in demand for rail transportation specifically in the tank car segment.

Revenue from operating leasing of rolling stock

Revenue from operating leasing of rolling stock, which contributed 4% of the Group's Adjusted Revenue in 2020, increased 18% year on year to RUB 1,932 million as a result of the more favourable pricing terms achieved in the tank car leasing segment compared to the previous year.

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 increased 18% year on year to RUB 1,923 million* in 2020 benefitting from fleet expansion, solid demand, stable pricing and the launch of high grade steel transportation. This revenue contributed 4% of the Group's Adjusted Revenue in the reporting year. The Group's total fleet employed in this segment was 5,046 units at 31 December 2020 including specialised containers and flat cars. This business segment is mostly focused on the rail transportation of petrochemicals and high grade steel and has SayanskKhimPlast, NLMK, EVRAZ, Bashkir Soda Company and KuibyshevAzot among its key clients.

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 comprised less than 1% of the Group's Adjusted Revenue, declined 25% year on year in 2020 to RUB 152 million*, largely reflecting a decline in the number of Engaged Fleet operations.

Other revenue

Other revenue (1% of the Group's Adjusted Revenue), which includes the revenues generated by the Group's auxiliary business activities such as freight forwarding, repair and maintenance services provided to third parties, and other, increased 4% year on year to RUB 400 million in 2020.

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 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Cost of sales	58,833	**47,066**	-20%
Selling and marketing costs	216	**205**	-5%
Administrative expenses	3,859	**3,394**	-12%
Total cost of sales, selling and marketing costs and administrative expenses	**62,908**	**50,664**	**-19%**

In 2020, the Group's Total cost of sales, selling and marketing costs and administrative expenses were reduced 19% year on year to RUB 50,664 million, primarily due to the factors described below.

- "Pass through" cost items (a combination of "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations") were 49% lower year on year at RUB 13,434 million mainly as a result of changes 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 increased 1% year on year to RUB 37,231 million in 2020, which reflected:
  - A 1% year-on-year decline in the Group's Total Operating Cash Costs to RUB 29,121 million in 2020.
    - *Efficient cost optimisation measures that enabled the Group to achieve a 9% year-on-year reduction in Total Operating Cash Costs excluding Empty Run Costs.*
    - *An increase in the regulated RZD infrastructure and locomotive traction tariffs for empty trips, higher Group's Freight Rail Turnover and a rise in Empty Runs on the back of the challenging industry environment drove a 7% year-on-year increase in Empty Run Costs.*
  - A 10% year-on-year rise in Total Operating Non-Cash Costs to RUB 8,109 million, due in large part to an increase in the Depreciation of property, plant and equipment on the back of asset expansion, principally in 2019.

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:

	2019	2020	Change, %
"Pass through" cost items	26,154	**13,434**	-49%
Infrastructure and locomotive tariffs: loaded trips	22,020	**10,957**	-50%
Services provided by other transportation organisations	4,134	**2,476**	-40%
Total cost of sales, selling and marketing costs and administrative expenses (adjusted for "pass through" cost items)	**36,754**	**37,231**	**1%**
Total Operating Cash Costs	**29,409**	**29,121**	**-1%**
Empty Run Costs	14,752*	**15,799***	7%
Repairs and maintenance	4,403	**4,261**	-3%
Employee benefit expense	4,483	**4,154**	-7%
Fuel and spare parts – locomotives	1,914	**1,630**	-15%
Infrastructure and Locomotive Tariffs - Other Tariffs	987*	**998***	1%
Expense relating to short-term leases - rolling stock	722	**824**	14%
Engagement of locomotive crews	775	**421**	-46%
Other Operating Cash Costs	1,372	**1,034**	-25%
Total Operating Non-Cash Costs	7,345	**8,109**	10%
Depreciation of property, plant and equipment	5,795	**6,969**	20%
Depreciation of right-of-use assets	424	**655**	54%
Loss on derecognition arising on capital repairs	472	**420**	-11%
Amortisation of intangible assets	697	**60**	-91%
Net impairment losses on trade and other receivables	13	**6**	-57%
Net loss on sale of property, plant and equipment	10	**0.3**	-97%
Reversal of impairment of property, plant and equipment	(65)	**-**	NM
Total cost of sales, selling and marketing costs and administrative expenses	**62,908**	**50,664**	**-19%**

"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. In 2020, this cost item fell 50% year on year to RUB 10,957 million primarily reflecting the change in the proportion of clients that pay infrastructure and locomotive tariffs: loaded trips through the Group.

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 40% year on year to RUB 2,476 million in 2020 principally due to the decreased costs associated with the engagement of third-party fleet.

[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.

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.

Efficient cost optimisation measures facilitated a 1% year-on-year reduction in the Group's Total Operating Cash Costs to RUB 29,121 million in 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 2020 and 2019.

	2020, % of total	2019, RUB mln	2020, RUB mln	Change, %
Empty Run Costs	**54%**	14,752*	15,799*	7%
Repairs and maintenance	**15%**	4,403	4,261	-3%
Employee benefit expense	**14%**	4,483	4,154	-7%
Fuel and spare parts - locomotives	**6%**	1,914	1,630	-15%
Infrastructure and Locomotive Tariffs - Other Tariffs	**3%**	987*	998*	1%
Expense relating to short-term leases - rolling stock	**3%**	722	824	14%
Engagement of locomotive crews	**1%**	**775**	**421**	**-46%**

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 accounted for 54% of the Group's Total Operating Cash Costs in 2020. This cost item rose 7% year on year to RUB 15,799 million* in 2020 due to a combination of the following factors:

- A 2.2% year-on-year increase in the Group's Freight Rail Turnover.
- A 3.5% year-on-year rise in regulated RZD tariffs for the traction of empty railcars.
- A higher Total Empty Run Ratio (for all types of rolling stock) at 51% (2019: 49%) on the back of substantial volatility in client cargo flows and routes due to the unprecedented COVID-19 lockdowns.
- A rise in Share of Empty Run Kilometers paid by Globaltrans to 99% (2019: 89%) largely due to changes in the cargo mix and gondola segment headwinds.

Repairs and maintenance

Repairs and maintenance costs, which comprised 15% of the Group's Total Operating Cash Costs in 2020, decreased 3% year on year to RUB 4,261 million largely reflecting the decrease in the number of depot, wheel pairs and locomotive repairs and prices for certain spare parts and repair works.

Employee benefit expense

Employee benefit expense, comprising 14% of the Group's Total Operating Cash Costs, fell 7% year on year to RUB 4,154 million in 2020. A 6% year-on-year increase in average headcount due to the move to utilising in-house locomotive crews and inflation-driven growth in wages and salaries were more than offset by a reduction in bonuses.

Fuel and spare parts - locomotives

Fuel and spare parts - locomotives expenses, which accounted for 6% of the Group's Total Operating Cash Costs, were down 15% year on year at RUB 1,630 million in 2020 reflecting lower fuel consumption as a result of volume volatility in the oil products and oil segment.

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 including empty run costs attributable to the specialised container transportation business.

Infrastructure and Locomotive Tariffs - Other Tariffs, representing 3% of the Group's Total Operating Cash Costs, were RUB 998 million* in 2020, up 1% year on year, impacted by the increase in regulated RZD tariffs and the higher costs of relocating rolling stock due to volatility in client demands and logistics.

Expense relating to short-term leases - rolling stock

In 2020, Expense relating to short-term leases - rolling stock, representing 3% of the Group's Total Operating Cash Costs, increased 14% year on year to RUB 824 million, largely reflecting the rise in the tank car leasing rates.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD in 2020 (1% of the Group's Total Operating Cash Costs) were 46% lower year on year at RUB 421 million following the decline in outsourcing hours for locomotive crews as the Group increased its usage of in-house crews.

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 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Expense relating to short-term leases - office	139	109	-21%
Legal, consulting and other professional fees	48	69	42%
Auditors' remuneration	55	55	1%
Advertising and promotion	39	35	-11%
Communication costs	35	26	-24%
Taxes (other than on income and value added taxes)	(9)	25	NM
Expense relating to short-term leases - tank containers	-	24	NM
Information services	19	16	-17%
Other expenses	1,046	675	-35%
Other Operating Cash Costs	**1,372**	**1,034**	**-25%**

Other Operating Cash Costs, which comprised 4% of the Group's Total Operating Cash Costs, dropped 25% to RUB 1,034 million in 2020 compared to the previous year, primarily as a result of cost optimisation measures.

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 year ended 31 December 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Depreciation of property, plant and equipment	5,795	6,969	20%
Depreciation of right-of-use assets	424	655	54%
Loss on derecognition arising on capital repairs[1]	472	420	-11%
Amortisation of intangible assets	697	60	-91%
Net impairment losses on trade and other receivables	13	6	-57%
Net loss on sale of property, plant and equipment	10	0.3	-97%
Reversal of impairment of property, plant and equipment	(65)	-	NM
Total Operating Non-Cash Costs	**7,345**	**8,109**	**10%**

Total Operating Non-Cash Costs increased 10% year on year to RUB 8,109 million in 2020, largely due to the following factors:

- A 20% year-on-year rise in Depreciation of property, plant and equipment on the back of asset expansion primarily during 2019.
- A 54% year-on-year rise in Depreciation of right-of-use assets on the back of a rise in the average number of rolling stock leased-in under contracts exceeding a twelve-month period.
- These were partially offset by a 91% year-on-year decline in Amortisation of intangible assets reflecting full amortisation of intangible assets linked to the service contract with MMK.

[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.

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 losses/(gains) - 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 Adjusted EBITDA fell 32% in 2020 to RUB 26,807 million from the previous year. The Adjusted EBITDA Margin narrowed to 49% in 2020 from 57% in 2019 following a 20% year-on-year decline in Adjusted Revenue partially offset by a 1% year-on-year decline in Total Operating Cash Costs.

The following table provides details on Adjusted EBITDA for the years ended 31 December 2020 and 2019, and its reconciliation to EBITDA and Profit for the year.

	2019, RUB mln	2020, RUB mln	Change, %
Profit for the year	**22,653**	**12,187**	**-46%**
Plus (Minus)			
Income tax expense	7,091	4,525	-36%
Finance costs - net	2,375	2,100	-12%
Net foreign exchange transaction (losses)/gains on financing activities	(380)	147	NM
Amortisation of intangible assets	697	60	-91%
Depreciation of right-of-use assets	424	655	54%
Depreciation of property, plant and equipment	5,795	6,969	20%
EBITDA	**38,656**	**26,642**	**-31%**
Minus (Plus)			
Loss on derecognition arising on capital repairs[1]	(472)	(420)	-11%
Net foreign exchange transaction (losses)/gains on financing activities	(380)	147	NM
Other (losses)/gains - net	(99)	108	NM
Net loss on sale of property, plant and equipment	(10)	(0.3)	-97%
Reversal of impairment of property, plant and equipment	65	-	NM
Adjusted EBITDA	**39,552**	**26,807**	**-32%**

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

Finance income and costs

The following table provides a breakdown of Finance income and costs for the year ended 31 December 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Interest expense:			
Bank borrowings	(1,456)	(1,482)	2%
Non-convertible bonds	(743)	(808)	9%
Interest expenses on loans	(5)	(5)	0%
Other interest expense	(9)	(2)	-79%
Total interest expense calculated using the effective interest rate method	(2,214)	(2,298)	4%
Leases with financial institutions	(165)	(74)	-55%
Other lease liabilities	(118)	(113)	-4%
Total interest expense	(2,497)	(2,485)	0%
Other finance costs	(32)	(25)	-22%
Total finance costs	**(2,529)**	**(2,510)**	**-1%**
Interest income:			
Bank balances	122	190	55%
Short term deposits	374	27	-93%
Loans to third parties	0.6	0.1	-81%
Total interest income calculated using the effective interest rate method	497	217	-56%
Finance leases-third parties	37	47	29%
Total finance income	**534**	**264**	**-51%**
Net foreign exchange transaction gains/(losses) on borrowings and other liabilities	207	(6)	NM
Net foreign exchange transaction (losses)/gains on cash and cash equivalents and other monetary assets	(587)	153	NM
Net foreign exchange transaction (losses)/gains on financing activities	**(380)**	**147**	**NM**
Net finance costs	**(2,375)**	**(2,100)**	**-12%**

Finance costs

Total finance costs remained stable, declining 1% year on year to RUB 2,510 million in 2020 with an increase in the Group's average level of total borrowings over the year offset by the significant improvement in the average weighted interest rate.

Finance income

In 2020, the Group's Total finance income fell 51% year on year to RUB 264 million, primarily due to the decline in short term deposits which was partially offset by an increase in bank balances.

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

In 2020 the Group had Net foreign exchange transaction gains on financing activities of RUB 147 million compared to Net foreign exchange transaction losses on financing activities of RUB 380 million in the previous year. 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 Profit before income tax of RUB 16,712 million in 2020, down 44% compared to the previous year, reflecting a 41% year-on-year decrease in the Group's Operating profit to RUB 18,811 million, primarily due to the factors described above, which was partially offset by a 12% year-on-year decrease in Net finance costs to RUB 2,100 million.

Income tax expense

Income tax expense declined 36% year on year to RUB 4,525 million in 2020 following a 44% year-on-year decrease in Profit before income tax.

The weighted average annual income tax rate for 2020 rose to 27.1% compared to 23.8% for 2019, which mainly reflects the increase in Estonian tax incurred due to a dividend payment by one of the Estonian subsidiaries of the Company in 2020 and a higher dividend withholding tax provision in relation to the intended dividend distribution of subsidiaries, including Estonian subsidiaries.

Profit for the year

The Group's Profit for the year was 46% lower year on year at RUB 12,187 million reflecting the factors described above.

Profit for the year attributable to the owners of the Company was down 49% year on year to RUB 10,587 million reflecting the factors described above.

Liquidity and capital resources

In 2020, the Group's capital expenditure consisted primarily of maintenance CAPEX (including capital repairs) and the selective acquisition of rolling stock.

The Group was able to meet its liquidity and capital expenditure needs comfortably 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 2020, the Group had Net Working Capital of RUB 3,810 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 2020 and 2019.

	2019, RUB mln	2020, RUB mln
Cash flows from operating activities	39,506	26,932
Changes in working capital:	(4,084)	1,346
Inventories	(394)	816
Trade receivables	(713)	(427)
Other assets	(1,299)	1,439
Other receivables	10	10
Trade and other payables	(270)	(208)
Contract liabilities	(1,418)	(283)
Cash generated from operations	35,422	28,278
Tax paid	(6,018)	(3,052)
Net cash from operating activities	**29,404**	**25,226**
Cash flows from investing activities		
Purchases of property, plant and equipment	(13,516)	(6,941)
Purchases of intangible assets	(1)	-
Proceeds from sale of property plant and equipment	92	67
Loan repayments received from third parties	3	4
Interest received	534	264
Receipts from finance lease receivable	124	78
Net cash used in investing activities	**(12,765)**	**(6,528)**
Cash flows from financing activities		
Net cash inflows from borrowings and financial leases:	4,183	1,946
Proceeds from bank borrowings	10,408	23,265
Proceeds from issue of non-convertible unsecured bonds	5,000	-
Repayments of borrowings	(10,737)	(19,603)
Principal elements of lease payments for leases with financial institutions	(489)	(1,716)
Purchase of treasury shares	-	(31)
Principal elements of lease payments for other lease liabilities	(340)	(672)
Interest paid on bank borrowings and non-convertible unsecured bonds	(2,018)	(2,315)
Interest paid on leases with financial institutions	(167)	(81)
Interest paid on other lease liabilities	(112)	(114)
Dividends paid to non-controlling interests in subsidiaries	(1,602)	(2,272)
Dividends paid to owners of the Company	(16,632)	(16,637)
Payments from non-controlling interests for share capital increase of subsidiary	200	-
Payments to non-controlling interest	(451)	(180)
Net cash used in financing activities	**(16,939)**	**(20,357)**
Net decrease in cash and cash equivalents	**(300)**	**(1,659)**
Exchange losses on cash and cash equivalents	(308)	116
Cash and cash equivalents at beginning of the year	7,130	6,522
Cash and cash equivalents at year end	**6,522**	**4,978**

Net cash from operating activities

A 14% year-on-year decline in Net cash from operating activities which fell to RUB 25,226 million was due to the following factors:

- Cash generated from operations (after “Changes in working capital”) decreased 20% year on year to RUB 28,278 million with a 32% year-on-year decline in Cash flows from operating activities partially offset by a release of working capital largely due to lower inventory levels and pre-payments for wheel pairs compared to the end of 2019.
- Tax paid was 49% lower year on year at RUB 3,052 million mainly as a result of the year-on-year decrease in taxable profits.

Net cash used in investing activities

Net cash used in investing activities declined 49% year on year to RUB 6,528 million reflecting a targeted decrease in the Group’s capital expenditure for expansion in 2020. Purchases of property, plant and equipment (on a cash basis; including maintenance CAPEX) were down 49% year on year to RUB 6,941 million resulting largely from an 83% year-on-year decline in expansion CAPEX.

Net cash used in financing activities

Net cash used in financing activities rose 20% year on year to RUB 20,357 million in 2020. This was due to a combination of the following factors:

- The Group completed a sizeable refinancing of its debt portfolio in 2020 in order to improve the average weighted interest rate which was brought down to 6.9% as of 31 December 2020 from 8.1% as of 31 December 2019.
- Net cash inflows from borrowings and finance leases[1] declined 53% year on year to RUB 1,946 million in 2020.
- Interest paid (including “Interest paid on bank borrowings and non-convertible unsecured bonds” and “Interest paid on leases with financial institutions”) rose 10% year-on-year to RUB 2,396 million in 2020 with the rise in the average level of the Group’s total borrowings over the year partially offset by the significant improvement in the average weighted interest rate.
- The amount of dividends paid to owners of the Company in 2020 (including combined fin al dividends for second half of 2019 and interim dividends for first half of 2020) remained stable year on year and amounted to RUB 16,637 million.
- Dividends paid to non-controlling interests in subsidiaries increased 42% year on year to RUB 2,272 million in 2020.

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

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” and “Interest paid on leases with financial institutions”.

The Group’s Free Cash Flow[2] increased 14% year on year to RUB 15,103 million in 2020, primarily as a result of the following factors:

- Cash generated from operations (after “Changes in working capital”) declined 20% or RUB 7,144 million year on year to RUB 28,278 million, which was more than offset by:
- a 49% or RUB 6,576 million year-on-year targeted reduction in Total CAPEX (including maintenance CAPEX)[2] to RUB 6,941 million; and a 49% or RUB 2,966 million year-on-year decrease in Tax paid to RUB 3,052 million as described above.

The following table sets out details on Free Cash Flow and Attributable Free Cash Flow for the years ended 31 December 2020 and 2019, and its reconciliation to Cash generated from operations.

	2019, RUB mln	2020, RUB mln	Change, %
Cash generated from operations (after “Changes in working capital”)	**35,422**	**28,278**	**-20%**
Total CAPEX (including maintenance CAPEX)[2]	(13,517)	(6,941)	-49%
Tax paid	(6,018)	(3,052)	-49%
Interest paid on bank borrowings and non-convertible unsecured bonds	(2,018)	(2,315)	15%
Principal elements of lease payments for other lease liabilities	(340)	(672)	98%
Interest paid on leases with financial institutions	(167)	(81)	-52%
Interest paid on other lease liabilities	(112)	(114)	2%
Free Cash Flow[2]	**13,251**	**15,103**	**14%**
Minus			
Adjusted Profit Attributable to Non-controlling Interests	1,846	1,600	-13%
Attributable Free Cash Flow[2]	**11,405**	**13,503**	**18%**

[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 both years (2019 and 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 from both years for comparison purposes.

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 2020, the Group's Total CAPEX (on a cash basis, including maintenance CAPEX)[1] decreased 49% to RUB 6,941 million[2] compared to 2019. The decline in capital expenditures was primarily due to the following factors:

- An 83% year-on-year targeted cut in expansion CAPEX[3] to RUB 1,139 million* on a cash basis, despite the delivery of 300 flat cars to support the growing niche business of freight rail transportation of specialised containers (for petrochemicals and high grade steel)[4].
- Maintenance CAPEX that was 16% lower year on year at RUB 5,803 million* reflecting the usage of wheel pairs stockpiled in 2019 at an advantageous price and a decline in the market cost of wheel pairs throughout 2020.

The following table sets out the principal components of the Group's Total CAPEX for the year ended 31 December 2020 and 2019.

	2019, RUB mln	2020, RUB mln	Change, %
Purchase of property, plant and equipment	13,516	6,941	-49%
Purchase of intangible assets	0.8	-	-100%
Total CAPEX[1]	**13,517**	**6,941**	**-49%**
Not included			
Principal elements of lease payments for leases with financial institutions	489	1,716	251%

Capital resources

As of 31 December 2020, the Group's financial indebtedness consisted of borrowings and non-convertible unsecured bonds for an aggregate principal amount of RUB 32,015 million (including accrued interest of RUB 353 million*).

Under IFRS 16, Other lease liabilities of RUB 1,405 million was recognised on the balance sheet as of 31 December 2020[5] which primarily related to the long-term leasing of offices and certain rolling stock.

The Group's Net Debt was RUB 27,037 million as of 31 December 2020, a 15% increase as compared to 31 December 2019.

[1] Total CAPEX 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] The Group's capital expenditure (including maintenance CAPEX) on an accrual basis was RUB 8,626 million in 2020 (2019: RUB 14,136 million). The difference between capital expenditure given on a cash basis and on an accrual basis is principally because of a time lag between prepayments for and delivery of rolling stock.

[3] Including "Purchases of intangible assets".

[4] In 2019 the Group took delivery of 2,502 units (including 1,154 specialised containers, 700 flat cars, 638 gondola cars and 10 locomotives).

[5] Not included in Total debt.

The following table sets out details on the Group's total debt, Net Debt and Net Debt to Adjusted EBITDA at 31 December 2020 and 31 December 2019, and the reconciliation of Net Debt to Total debt.

	As of 31 December 2019, RUB mln	As of 31 December 2020, RUB mln	Change, %
Total debt	30,095	32,015	6%
Minus			
Cash and cash equivalents	6,522	4,978	-24%
Net Debt	**23,574**	**27,037**	**15%**
Net Debt to Adjusted EBITDA	**0.60**	**1.01**	**-**

Rouble-denominated borrowings accounted for 100% of the Group's debt portfolio as of 31 December 2020. The Russian rouble is the functional currency of the Company.

The weighted average effective interest rate improved to 6.9% as of 31 December 2020 compared to 8.1% as of the end of 2019. The vast majority of the Group's debt had fixed interest rates as of the end of the reporting year.

The Group has a balanced maturity profile supported by the Group's robust cash flow generation, available cash and cash equivalents, as well as undrawn borrowing facilities of RUB 29,449 million as of 31 December 2020.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of RUB 353 million*) as of 31 December 2020.

	As of 31 December 2020, RUB mln
Q1 2021	2,458*
Q2 2021	2,525*
Q3 2021	4,002*
Q4 2021	1,946*
2022	11,555*
2023	6,732*
2024-25	2,797*
Total	**32,015**

Related party transactions

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[1], has a shareholding in the Company of 5.1% as at 31 December 2020 (31 December 2019: 5.1%).

Goldriver Resources Ltd, controlled by a member of key management personnel of the Group[2], has a shareholding in the Company of 4.0% as at 31 December 2020 (31 December 2019: 4.0%).

As at 31 December 2020, another 0.2% (2019: 0.2%) of the shares of the Company is controlled by Directors and key management of the Company.

[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.

The following transactions were carried out with related parties:

Key management compensation

	2019, RUB mln	2020, RUB mln
Key management salaries and other short-term employee benefits	1,418	1,139
Share based compensation	83	29
Total	**1,501**	**1,168**

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 433 million (2019: RUB 508 million) and analysed as follows:

	2019, RUB mln	2020, RUB mln
Non-executive directors' fees	21	26
Emoluments in their executive capacity	475	406
Share based compensation in their executive capacity	12	1
Total	**508**	**433**

Year-end balances arising from sale of shares/purchases of services

	2019, RUB mln	2020, RUB mln
Accrued key management remuneration – current:		
Accrued salaries and other short-term employee benefits	416	255
Share based payment liability	123	104
Total	**539**	**359**

	2019, RUB mln	2020, RUB mln
Accrued key management remuneration – non-current:		
Share based payment liability	82	-
Total	**82**	**-**

More information is available in Note 35 to the Group's Consolidated Management Report and Consolidated Financial Statements included into the Financial Statements section of this Annual Report.

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 and 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 review 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

1 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.

2 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.

3 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.

4 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.

5 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.

6 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.

7 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.

8 Clear and understandable

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

9 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.

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. 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.

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

Risk	Description	Controls and mitigating factors
General economic situation and operating environment	The Group and its subsidiaries operate mainly in Russia 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, negatively impacts 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 2021 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 Group 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 political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia, and by Russia on other countries, have had a negative impact on the Russian economy. The potential decrease in demand for 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, any deterioration in or threat to their financial condition and/or the temporary closure of certain markets may decrease demand for the Group's services and/or negatively impact the Group's logistics. In addition, the political instability in Ukraine could have a negative impact on the Group's business and assets in Ukraine and/or on the ability of the Group's customers to carry on business in Ukraine.	Mitigation methodology involves understanding the political and economic uncertainties of the operating environment and the risks faced in our business operations. The Group's compliance and legal teams constantly monitor changes in legislation and report them to the Group's management and Board of Directors while the finance and business teams monitor economic developments and do the same. The counterparties, banks and transactions of the Group are constantly reviewed by the Group's compliance and legal teams to ensure full compliance with all applicable legislation. Risk managers have direct access to the Group's key management. The Group maintains a balanced fleet as one of the cornerstones of its business model. A balanced fleet (between universal gondola cars, adaptable to the demand for the transportation of various bulk cargoes, and tank cars, which are used for the transportation of oil products and oil) enables the Group to adapt to market conditions and reduces its dependence on any one cargo flow. In addition, the Group has entered into long-term service contracts with several large clients. Management assesses the possible impairment of the Group's tangible and intangible assets by considering the current economic environment and outlook. Management believes that it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment. Management is closely monitoring the implications 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.

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

Risk	Description	Controls and mitigating factors
Regulatory risk and relations with government authorities and state-owned enterprises	The Group is subject to regulatory risks relating to the operation of the Russian railway transportation market and railway industry reform. Any changes to the regulatory environment of the Russian railway transportation market or in other markets where the Group operates, including, but not limited to, railway tariff regulations and technical requirements for fleet 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.	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.
Growth strategies	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, 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.	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, including by developing transportation of petrochemicals and other niche projects. Any valuation of an acquisition target is subject to review by external advisers, and fairness opinions are normally provided by reputable appraisal companies to the Group's Board of Directors when a transaction is considered.

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

Risk	Description	Controls and mitigating factors
Competition and customer concentration	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 behaviour 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 72% of the Group's Net Revenue from Operation of Rolling Stock in 2020. 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.	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 64% of the Group's Net Revenue from Operation of Rolling Stock in 2020 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 2020, the share of small and medium companies amounted to 28% of Net Revenue from Operation of Rolling Stock (2019: 26%). Furthermore, the Group's marketing function regularly monitors competitors' business strategies, their use of technology, their price strategies and industry trends.
Locomotive traction	The Group is dependent on RZD to issue permits allowing it to operate locomotives and to approve its use of locomotives for particular routes. If those routes are not in demand by the Group's clients, their utilisation could be lower. Furthermore, there is uncertainty about the prospects for, and the timing of, further deregulation of locomotive traction.	The Group has a competitive advantage in providing freight rail transportation services to some clients, as it operates its own locomotives for the traction of block trains dedicated to particular routes. By assembling full trains composed only of its own railcars, the Group increases the speed and reliability of transportation for its clients. The Group has established controls to obtain the timely renewal of locomotive operation 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	Global depositary receipts of Globaltrans have been listed on the Main Market of the London Stock Exchange since May 2008 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.	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

Risk	Description	Controls and mitigating factors
Infrastructure	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.	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	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.	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.
Employees	The Group's future success will partly depend on its ability to continue to attract, retain and motivate key employees and qualified personnel, in particular an experienced management team and logistics and railway experts. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.	Adequate remuneration packages, which are in line with or 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	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.	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.

OPERATIONAL: RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY

Risk	Description	Controls and mitigating factors
IT availability/ continuity	The Group uses specialised rail transport and logistics software to ensure the efficiency and effectiveness of its logistics, dispatching and rolling stock tracking services. These systems are either licensed to the Group and then customised to the Group's needs or delivered to the Group and maintained for its needs by third parties under service agreements. The Group may potentially 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, as a result of technological change 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.	Local IT specialists have introduced solutions to maintain the availability and proper licensing of IT services and ensure their recovery in case of disruption. The IT function and internal audit function monitor all IT-related activities and performance for compliance with IT policies and procedures.
Risks of terrorist attacks, natural disasters or other catastrophic events beyond the Group's control	The Group's business operations could be adversely affected or disrupted by terrorist attacks, natural disasters (such as earthquakes, floods, tsunamis, hurricanes, fires or typhoons) or other catastrophic or otherwise disruptive events – including changes to predominant natural weather, sea and climatic patterns, piracy, sabotage, insurrection, military conflict or war, riots or civil disturbance, radioactive or other material environmental contamination, an outbreak of a contagious disease or changes to sea levels – which may adversely affect global or regional trade volumes or customer demand for cargo transported to or from affected areas, or lead to denial of the use of any railway, port, airport, shipping service or other means of transport and disrupt customers' logistics chains. In addition, the Group may be exposed to extreme weather conditions such as severe cold periods and icy conditions that disrupt activities in ports that are destination points for customer cargoes. Furthermore, many of these events may not be covered by the Group's insurance or any applicable insurance may not adequately cover any resulting losses. The Group's rolling stock could be adversely affected by unlawful acts in Russia or neighbouring countries. The occurrence of any such events may reduce the Group's business volumes, cause idle time for its rolling stock or disruptions to its operations in part or 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.	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.

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

Risk	Description	Controls and mitigating factors
Pending and potential legal actions	The Group is involved in legal actions from time to time. Such actions may have an adverse effect on the Group. The ambiguity of the law in Russia and CIS countries creates regulatory uncertainty and could result in claims from government authorities not expected by the Group.	The Group runs its operations in compliance with tax, currency, labour, customs, antimonopoly and other applicable legislation and constantly monitors any changes in the regulatory environment. The Group monitors its compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to rigorous review by all of the Group functions concerned and to a formal approval process prior to execution.
ESG risks	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.	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	The Group functions in several jurisdictions, including Cyprus, Russia, Estonia, Finland and Ukraine. In addition, the Group has its GDRs listed on the London Stock Exchange 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.	The legal and compliance teams of the Group together with the external lawyers monitor the applicable requirements in each of jurisdiction in which it is active and stock exchange 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.

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

Risk	Description	Controls and mitigating factors
Fiscal risk	Local tax, currency and customs legislation, especially in Russia, other emerging markets and Cyprus, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation. 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.	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.
Impact of Brexit and Takeover regulations	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 will no longer exercise 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 Global Depositary Receipts are admitted to trading) will no longer be 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, will no longer apply to the Company.	The absence of Takeover regulations applicable to the Company will allow 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

Risk	Description	Controls and mitigating factors
Currency risks	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 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.	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 2020, all the Group's debt was denominated in Russian roubles.

FINANCIAL: RISKS THAT INFLUENCE THE GROUP'S FINANCIAL PERFORMANCE

Risk	Description	Controls and mitigating factors
Interest-rate risks	The Group's income and operating cash flows are exposed to changes in market interest rates. These arise mainly from floating rate lease liabilities and borrowings. An increase in market interest rates in Russia may negatively influence the Group's profits.	The Group 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 2020, all of the Group's debt was at fixed interest rates. Management also considers alternative means of financing.
Credit risk	Financial assets that potentially subject the Group to credit risk consist principally of trade receivables, cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including their affiliates and suppliers. Its top 10 clients accounted for around 70% of the Group's trade and other receivables as of 31 December 2020 and around 72% of the Group's Net Revenue from Operation of Rolling Stock in 2020.	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	The Group's business is capital-intensive. The political turmoil experienced within Ukraine and sanctions imposed by the United States and the European Union on Russia have had a negative impact on the Russian financial markets and have limited the Group's access to international sources of funding. Any lack of available funding and potential increases in market interest rates could have a negative impact on the Group's ability to obtain financing for the settlement of its liabilities or cash to meet its financial obligations.	The Group has a budgeting policy in place that allows the management to control current liquidity based on expected cash flows. These include, among other things, operating cash flows, capital expenditure needs, funds borrowed from financial institutions and funds raised from listed debt instruments.

Sustainability

OUR APPROACH

The Sustainability Report which is integrated into the 2020 Annual Report has been prepared in accordance with the sustainability reporting guidelines of the Global Reporting Initiative (GRI) and in line with the non-financial and diversity disclosure information contained in the EU's 2014/95/EU Directive.

The overall aim is to achieve high standards in the areas of balance, comparability, accuracy, timeliness, clarity and reliability, as defined by the GRI Standards. The structure and content of this Sustainability Report reflects the relevant GRI Reporting Principles.

The details within this Sustainability Report cover the key results and activities of Globaltrans Investment PLC and its subsidiaries in the field of sustainable development for the year ended 31 December 2020.

How it works:

Step 1. Identification of material topics

We identified material topics relevant to the Group's business operation by carefully reviewing and analysing global sustainability trends, our sustainability performance, internal regulations and non-financial reports issued by peers.

Step 2. Prioritisation of material topics

To develop a broader, deeper understanding of the materiality of the sustainability issues the Group faces, we sought input from a range of stakeholders (employees, shareholders, investors, clients, regulators and other authorities) on what mattered to them.

Step 3. Preparation of materiality matrix

We developed a materiality matrix to identify those topics that are deemed most important/significant to the Group's system of sustainability reporting. A validity check was also conducted on identified material topics to ensure that all of them are disclosed in the Annual Report.

Materiality matrix

Economic impact

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

Environmental impact

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

Social impact

9 Employee education and development
10 Employee motivation
11 Diversity and equal opportunity
12 Occupational health and safety

HIGHLIGHTS OF 2020

Successful protection of employee health & safety while ensuring business continuity and a high level of client service

- Effective digital transformation to remote working model
- Ensured continued motivation and positive engagement of staff throughout the pandemic
- No COVID-related redundancies

ESG management strengthened including the introduction of new policies

- An ESG Board Committee created
- Diversity and Inclusion, Freedom of Association, Human Rights, Supplier Code of Conduct, Environmental and Energy and ESG policies adopted

Improved ESG disclosure

- First-time disclosure of Group-wide water consumption[1]
- Introduction of Group-wide LTIFR measure of employee health & safety
- Website relaunched with a separate Sustainability section

[1] This excludes data from AS Spacecom and BaltTransServis (except for data from the BTS railcar repair depot in Ivanovo which is included).

STAKEHOLDER ENGAGEMENT

Effective stakeholder engagement is critical to the long-term success and sustained growth of any business. Globaltrans has always valued regular and high quality engagement with its stakeholders and is committed to engaging with them in an open and transparent manner in order to build strong and trusted relationships. Our goal is to keep our stakeholders up-to-date on developments and create a better understanding of our business, our strategy and our performance.

As part of our daily operations, we regularly engage with employees, customers, government and regulators and with our local communities while at Group level the emphasis is on maintaining an open dialogue with investors, shareholders, credit rating agencies, financial institutions and the media.

Although 2020 was an extremely difficult and unusual year, we were able to maintain a high degree of engagement with our stakeholders.

Although much of our communications became virtual as a result of the COVID-19 pandemic, it was more important than ever to keep these channels open. Globaltrans intensified its efforts to enhance communication around the impact of, and our response to, the COVID-19 pandemic that including with regard to the safety of our people, our business continuity and other ESG (environmental, social, and governance) issues. As is the case for many companies, business interactions, especially at Group level, have essentially become digital, including client communication, investor roadshows and conferences.

The corporate website remains the main source of information on the Company: results presentations, webcasts, current and historical financial information, news releases, market statistics, and other important data can be found there. Due to its importance to our communications strategy, the Globaltrans' website was revamped and relaunched in early 2020 to provide visitors with a better online experience. We have added a separate section on sustainability given our increasing commitment to this important issue.

Stakeholder engagement mechanisms

EMPLOYEES

Mechanisms of stakeholder engagement
- Intranet
- Labour-management consultations
- Staff surveys
- Corporate booklets, information boards
- Regular, direct communication between managers, teams and individuals
- Career development, training and performance reviews

Outcomes in 2020
- No COVID-related redundancies
- COVID-19 related measures to protect health and safety of employees implemented
- Employee development maintained at a high level with 21,226 hours of training
- Senior management and our HR team maintained close communications with employees throughout lockdown
- Provision of social benefits and guarantees, including medical insurance

SHAREHOLDERS AND INVESTORS

Mechanisms of stakeholder engagement
- Open, effective and transparent communication
- Investor Relations website
- Dedicated Investor Relations team
- Annual General Meetings
- Corporate reporting, webcasts
- Broker-hosted investor events and roadshows, conference calls and Company-initiated roadshows

Outcomes in 2020
- Information disclosure on a semi-annual basis
- Analyst and investor conference calls and webcasts
- Virtual non-deal roadshows: around 260 meetings held with international investors in 2020
- Series of investor webinars with Russian retail investors following secondary-listing on the Moscow Exchange on 28 October 2020
- Share buyback programme launched
- Regular dividend payments[1]
- Publication of the Annual Report and the integrated Sustainability Report

CUSTOMERS AND BUSINESS PARTNERS

Mechanisms of stakeholder engagement
- Regular meetings, presentations and formal consultations
- Customer analytics, customer evaluation system
- Industry conferences and forums
- Customer satisfaction surveys
- Transparent supply chain

Outcomes in 2020
- Strong portfolio of service contracts with superior clients in metallurgical and oil products and oil segments maintained contributing 64% of Net Revenue from Operation of Rolling Stock in 2020
- Successful service contract extensions with three major long-term customers: MMK, Metalloinvest and Rosneft[2]
- Deepening relationships with other high-profile clients — significantly increased business volumes with EVRAZ

[1] Total dividends in respect of 2020 amounted to RUB 13.3 billion (including interim, final and special dividends).

[2] As announced on 26 April 2021.

GOVERNMENT, REGULATORS AND PROFESSIONAL AUTHORITIES

Mechanisms of stakeholder engagement
- Regular communication with regulators/policy makers on issues affecting the freight rail transportation industry
- Industry and regulatory forums

Outcomes in 2020
- Participation in industry associations including the Council of Railway Operators and the Russian Union of Transport Workers
- All applicable guidelines to manage the impact of COVID-19 implemented

LOCAL COMMUNITIES

Mechanisms of stakeholder engagement
- Corporate philanthropy and charitable contributions
- Community investment

Outcomes in 2020
- Assistance given to support socioeconomic development of our communities
- Regular contributions to aid various charitable projects

MEDIA

Mechanisms of stakeholder engagement
- Communication with media representatives
- Transparent disclosure through various channels
- Dedicated Media section on corporate website
- Dedicated media relations contacts
- Press conferences and exhibitions

Outcomes in 2020
- Distribution of news and information announcements
- Providing access to results calls with CEO and CFO
- Responding to media queries
- Interviews with the top management, ad hoc comments on various industry issues and answers to journalists' questions

ETHICS AND BEHAVIOUR

At Globaltrans, we understand that our good name and reputation are of paramount importance, and could easily be lost by actual or suspected unethical behaviour. This is why we are committed to ensuring that in our business dealings, we behave openly and honestly and operate to the highest ethical and professional standards.

The way we conduct our business is guided by the Group's core values and principles that are formally enshrined in our **Code of Ethics and Conduct**. It sets out our ethical standards as an organisation and explains how we expect our people to act. The Code helps our employees to understand what is expected of them and our requirements regarding compliance withthe Group's policies and all relevant laws and regulations. The Code also describes the Group's principles with respect to confidential information, anti-bribery, conflicts of interest and reporting concerns.

All our employees are required to read and fully understand the Code and must sign an acknowledgement to this effect. We do not tolerate any violations of the Code.

- Tolerance
  Understanding and respecting diverse cultures and people with different views
- Impartiality
  Acting objectively and professionally
- Respect
  Acknowledging people's abilities, qualities and achievements and complying with all applicable labour laws
- Equality for all
  Creating opportunities and a working environment that excludes any form of discrimination
- Safety
  Complying with required rules to create a safe and healthy workplace

Globaltrans works closely with its suppliers and partners who play an integral part in delivering value-added solutions to its clients. The Group chooses to work with those who share its values and adhere to the same ethical standards.

In 2020 the Group formally adopted a **Supplier Code of Conduct**, based on the principles set out in the UN Global Compact, which describes what Globaltrans expects from its suppliers with regards to business ethics, human and labour rights, employee relations, health and safety and other related topics.

Globaltrans has consistently sought to deliver sustainable value to its stakeholders and embrace responsible business practices. With regard to managing ESG issues, we are continually improving our sustainability-related practices and policies and increasing transparency, recognising its long-term importance to our business. To strengthen this ongoing commitment, in January 2021 we established the **ESG Committee** that assists the Board in considering and overseeing environmental, social and governance issues relevant to the Group's business. The ESG Committee also oversees the development of the Group's sustainability approach and reviews and recommends ESG disclosures for Board approval. The ESG Committee consists of two Board members: Elia Nicolaou, Non-executive Director, who serves as the Chair, and John Carroll Colley, Independent Non-executive Director. This commitment at the highest level of the Group is further reinforced by the active participation of Valery Shpakov, CEO of Globaltrans, in all ESG-related processes and evaluations.

OUR RESPONSE TO THE COVID-19 PANDEMIC

Supporting our people

Globaltrans rose to the challenges presented by the COVID-19 pandemic, changing the way we carried out our daily work in order to keep our employees and other stakeholders safe while continuing to deliver best-in-class services for our customers.

As COVID-19 pandemic has shown us, businesses need to be well-prepared and willing to take swift, deliberate, and proactive measures to navigate successfully in the face of unprecedented change. As the safety of our people is a top priority, we moved swiftly to put in place measures to help minimise the risk from COVID-19 to our employees and their families. We shifted almost our entire office workforce to remote working, while those few office-based employees whose presence was deemed essential were allowed into the workplace and proper safety precautions were taken to protect them.

While the nature of the job meant that staff at our depots were required to be on-site more often, we tried to minimise their presence as much as possible and put in place safety protocols to protect them.

Business continuity

We understood that switching to remote working could affect the Group's operations, internal processes, and, above all, our people and clients. One of the key reasons that enabled us to transition smoothly and maintain service continuity was our state of readiness for digital transformation. As a result, we were able to move efficiently to remote working while ensuring that all our regular business processes were unaffected. Simultaneously, Globaltrans moved quickly to equip its employees with the right hardware and software and provide its customers with effective remote tools so that everyone stayed connected and engaged.

Maintaining clear communication is another critical element of successful remote working. We all had to find new ways to work together and each department within the Group had its own specific requirements. Our ability to keep in touch and respond quickly to the immediate needs of our employees and clients enabled us to remain fully operational during this challenging period. We provided daily communications with regular updates on the evolving COVID-19 pandemic, its impact on our business and our response.

The Group formally reinforced its ESG approach in January 2021 with the adoption of a specific **ESG Policy**. This policy defines the significance of ESG factors for the Group's business as well as our commitments to employees, investors and other stakeholders. It also clarifies the lines of responsibility and accountability for achieving these policy commitments.

Globaltrans has adopted a number of formal Group-wide policies which address Human Rights, Freedom of Association, Data protection, Diversity and Inclusion, and Supplier Conduct. These documents are continually reviewed and monitored to ensure their relevance and compliance with legal requirements.

The Group requires that all employees acknowledge their understanding and acceptance of the relevant policies. All the documents are publicly available and can be viewed on the Company's website.

We value people and respect their fundamental rights and freedoms. As an employer, business partner and member of the wider community, we have the power to do good. We are committed to supporting and abiding by human rights and labour practices throughout our business. In 2020, we introduced our **Human Rights Policy**, which sets out minimum requirements that all those working for and with Globaltrans must meet on all human rights issues. Our approach conforms to international human rights standards such as the UN Guiding Principles on Business and Human Rights. Our commitment to human rights is further made clear in our Code of Ethics and Conduct and our Supplier Code of Conduct and in our Diversity and Inclusion Policy. To promote acceptance of our human rights policies internally, in line with our values, and to ensure compliance, we regularly review human rights issues, conduct any required training, and integrate the results into our operations.

Globaltrans aspires to be a diverse and inclusive work environment in which our people can be themselves and feel at ease. Our **Diversity and Inclusion Policy** commits us to treating everyone with dignity and respect and to providing our people with equal opportunities regardless of ethnicity, gender, religious beliefs, nationality, age or any physical disability. Diversity and inclusion are prioritised and applied at the highest levels of the Group, including at Board level. The Board recognises that diversity can strengthen its performance and takes into account these aspects when making new appointments and considering the composition of the Board.

Globaltrans strives to promote a positive employment environment and ensure compliance with all applicable labour laws and regulations. We recognise the fundamental rights of Globaltrans employees to form and join workers' organisations and to engage in collective bargaining. Our formal **Freedom of Association Policy**, adopted in 2020, strengthens the Group's commitment. We respect the choices made by our employees in the matter and are committed to maintaining a regular and constructive dialogue with them and their designated representatives.

At Globaltrans, we have a zero-tolerance approach to bribery and corruption in all its forms and we are committed to acting ethically and with professionalism, fairness and integrity in all our business activities and relationships. Our **Anti-fraud Policy** is consistent with all applicable legislation, and defines the standards of acceptable behaviours to which all employees must adhere. It also provides guidance on how to avoid, recognise and tackle any such issues.

We have established rules and procedures for handling alleged violations, supervised by an internal team responsible for internal controls and investigations. Each employee is required to understand the types of violations that may occur within their area of responsibility and to closely monitor for any signs of potential non-compliance.

The Group's **Whistleblowing Policy** fosters a culture of honest behaviour and encourages the investigation and reporting of improper activities, including non-compliance with our Code of Ethics and Conduct. Employees are actively encouraged to speak up and to report any concerns that they may have with workplace issues. We provide confidential, safe and secure mechanisms for anonymous reporting of suspected violations of Group standards. And importantly, we ensure that whoever reports suspected breaches is protected and supported.

Executive management meets regularly to discuss, inter alia, anti-fraud and anti-corruption measures. During 2020, no instances of alleged fraud, bribery or corruption were reported within the Group.

We respect and protect the confidentiality and security of our stakeholders' personal information. We comply with the EU General Data Protection Regulation (GDPR) which was adopted in April 2016. Data privacy and security are of the utmost importance to the Group and we have a dedicated **Privacy Policy** which can be accessed on the Group's website.

Key ESG activities:

1 Corporate governance

The objective of corporate governance is to support the Board in its efforts to ensure effective, transparent and ethical oversight of the Group. Our governance framework is in line with the highest international standards supporting the Board to take decisions that are in the best long-term interests of the Group and its communities and that will create value for all its stakeholders.

2 Employees

Creating and sustaining a safe workplace is the key role of a responsible employer. Our goal is to enable people to work with dignity and respect, to provide opportunities for growth and development and to create a just and rewarding work culture. We also ensure that we operate in full compliance with all relevant employment legislation.

3 Environment

Focusing on employing more energy-efficient practices, reducing our carbon emissions and emphasising the importance of recycling are some of the ways in which we work to minimise the adverse impact of Globaltrans' activities on the environment.

4 Communities

We are very conscious of the role we can play in supporting our communities. We do this through the interactions of our employees, the opportunities our businesses create and the economic value generated by our Company. We also actively participate in community initiatives and provide direct support to important community causes through charitable giving.

Globaltrans continuously strives to improve the way it controls, manages and mitigates the impact of non-financial risks, which include strategic, operational and compliance risks. This is not just to satisfy regulatory obligations but also to meet the expectations of our stakeholders.

Further details on Globaltrans' **Risk Management** are set out on pages 56 to 65.

EMPLOYEES

The wellbeing, respect and commitment of our people are what define us. At Globaltrans, we do our utmost to be the type of company that people want to work for, where people know they can grow professionally and personally. We strive for an environment in which our employees are safe, healthy, engaged, valued and rewarded. As an employer, we have a responsibility to offer fair remuneration, to provide training opportunities for career development and to create a supportive and respectful workplace and culture.

We do our utmost to ensure the safety and well-being of all our employees wherever they work. The extraordinary challenges of the pandemic have reinforced our commitment to employee health and safety. We maintain well-run and safe workplaces and apply a zero-tolerance approach to all forms of hostility, harassment or unprofessional behaviour.

We want our people to feel supported and connected to our values and principles through the implementation of clear human resources policies and guidelines regarding human rights, health and safety, workplace relations, performance and development processes and non-discrimination. Our core policies and guidance include:

- Anti-fraud Policy;
- Code of Ethics and Conduct;
- Compensation and Benefits Policy;
- Diversity and Inclusion Policy;
- Freedom of Association Policy;
- Human Rights Policy;
- Internal Code of Labour Conduct;
- Job Descriptions;
- Regulations on Business Trips;
- Regulations on Contractual Work;
- Regulations on Protection of Personal Data of Employees.

Average employee headcount in 2020 increased 6% year on year to 1,664 (2019: 1,569) employees. Overall headcount at the end of the year rose 3% compared to 2019 to 1,697[1] (2019: 1,640). The increase in the headcount was mostly attributable to the shift to the in-house locomotive crews. BaltTransServis and New Forwarding Company continued to employ the most people within the Group.

Diversity

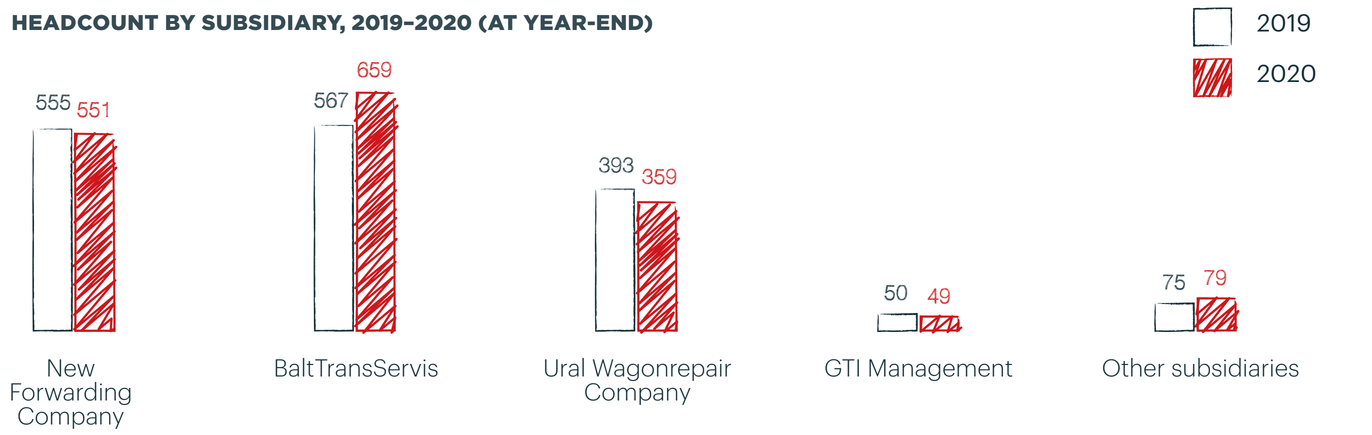
We value and appreciate the individuality of our employees and respect them for their performance, skills and contributions regardless of age, disability, ethnicity, nationality, gender, race, colour, religion or sexual orientation. We ensure that our employees are treated fairly and equally, creating a supportive and engaging work environment where people at all levels enjoy respect and have dignity. The Group has zero tolerance for any form of discrimination. Our approach to diversity is outlined in our Diversity and Inclusion Policy, the breaches of which are grounds for disciplinary action.

Globaltrans' commitment to diversity extends to all our business activities including hiring, employee retention, promotions, compensation and benefits, career development and training, work arrangements and Board appointments. The Group aims to offer equal pay opportunities for both women and men.

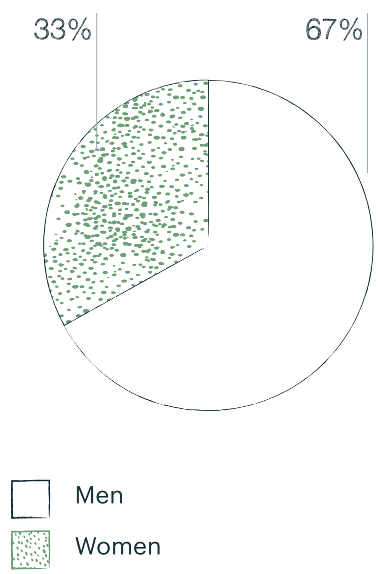
The freight rail transportation industry has traditionally been a male-dominated environment. We are gradually and successfully addressing this gender imbalance within our Group by focusing on attracting more women into the workforce. As at year-end 2020, women comprised 33% of our workforce. At Board level, women represented 13% of the Board of Directors (two Board members).

[1] The difference between the headcount and the average headcount is due to different calculation techniques. The headcount is presented as at the end of 2020, while the average headcount is calculated by summing up the number of employees on the list in each month of the reporting period and dividing this sum by the number of months.

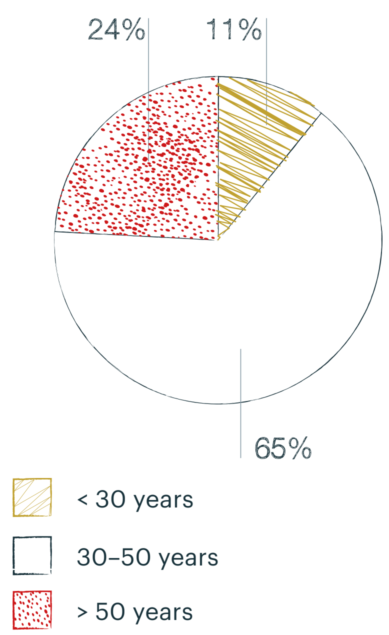
HEADCOUNT BY SUBSIDIARY, 2019–2020 (AT YEAR-END)



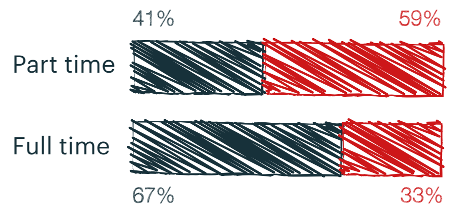
HEADCOUNT BY GENDER IN 2020 (AT YEAR-END)



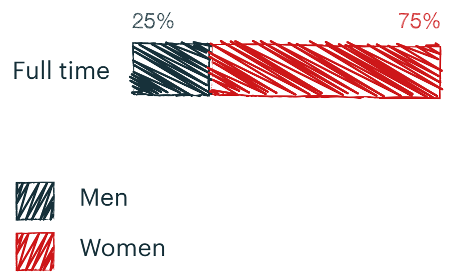
HEADCOUNT BY AGE IN 2020 (AT YEAR-END)



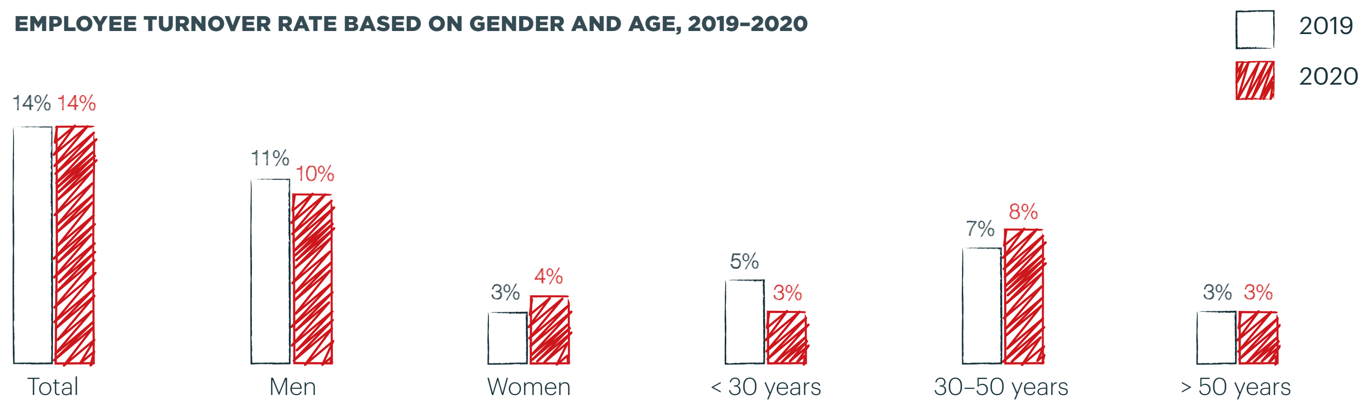
PERMANENT CONTRACT



TEMPORARY CONTRACT



EMPLOYEE TURNOVER RATE BASED ON GENDER AND AGE, 2019–2020



Training and education

We are committed to investing in talent development and education to sustain the success of our people and business. Providing opportunities for our employees to grow and remain competitive and effective in a rapidly-changing world is essential. At Globaltrans, we provide a range of learning and development programmes including training, workshops and seminars that are tailored to individual work requirements and current needs. In 2020, due to the coronavirus pandemic, we rapidly shifted to offering our employees more digital learning programmes. As a result, 71% of all training and development was carried out via distance learning compared to 25% in the previous year. Technology is a vital element in so many processes, and understanding it is arguably now a necessity, not an option. That is why we have been focusing on improving the digital literacy of all our employees. Along with equipping employees with the equipment and software tools needed to do their jobs efficiently, we have provided them with a variety of online resources including webinars, to support their development.

During 2020, 336 employees attended training programmes and despite the disruption caused by COVID-19 the Group still delivered a total of 21,226 hours of training and development (2019: 28,447). During the year, training was provided in various areas including accounting, business administration, environmental safety, information security, health and safety, financial management and marketing.

Motivation

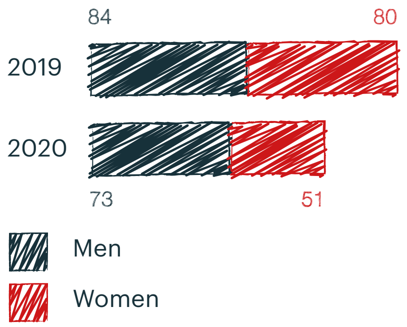
We recognise that one of our major strengths is our people and that nothing can be achieved without engaging them. Their success is our success. Therefore it is our responsibility to keep our people motivated about what they do and what they can achieve. We are committed to actively engaging with our colleagues and responding to their needs. We can best serve our people by listening carefully and being adaptive.

Our support for our employees is ongoing and essential, even more so during times of crisis. Through the COVID-19 pandemic, Globaltrans kept all its people employed and, importantly, maintained salaries at the pre-COVID level.

While managing a remote workforce, it is important to keep communication channels open. For this reason, throughout last year we focused on maintaining frequent dialogue with our workforce, providing regular updates and check-ins to ensure they had the right level of advice and support needed to adjust to the new working environment and to perform at the highest levels.

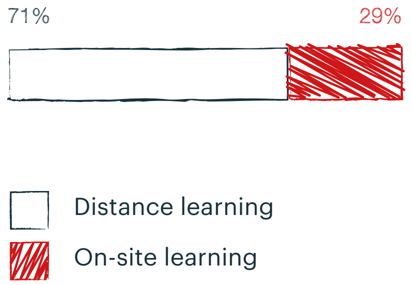
We strive to continuously improve working conditions for our people. We want them to work in a supportive and considerate environment, enjoy opportunities for career progression and receive competitive reward packages and benefits. Our staff reward packages include health insurance, childcare support, additional holidays as well as other benefits. Eligible employees can participate in the various incentive schemes that the Group operates. We are committed to maintaining a motivated and productive workforce that values being part of Globaltrans. We believe that our low staff turnover rate (14% overall: 10% for men and 4% for women) reflects this and is an important indicator of workforce stability and satisfaction.

AVERAGE TRAINING HOURS BY GENDER, 2019-2020



DISTRIBUTION OF TRAINING AMONG EMPLOYEES BY EMPLOYEE CATEGORY IN 2020

MAIN TYPES OF TRAINING FORMATS IN 2020



Corporate culture and internal communications

Interaction, collaboration and teamwork are essential parts of the Globaltrans culture. We strongly believe that they improve productivity, lead to proper and prudent business decisions, underpin a trusting and supportive work environment and enable us to deliver a better result in everything we do. We want every employee's voice to be heard and every idea to be shared openly. All employees are encouraged to raise any issues and concerns and to provide suggestions and feedback for improving the business. Our communication channels enable everyone to learn more about our performance, important events and projects and connect with senior management. To understand our employees' needs and improve their experience, we conduct various surveys and some Group subsidiaries have employee helplines.

To encourage a sense of community and promote better teamwork, we also regularly host sports, cultural and recreational events for our employees and their families.

We understand that with so many people working virtually, it takes extra effort to keep everyone feeling cared for, connected and engaged. To provide a platform for healthy debate and interaction, we communicate regularly with our employees via reports and updates, management calls, webinars, and formal and informal virtual meetings.

Health and safety

The safety and wellbeing of our people has always been Globaltrans' number one priority. It is paramount to our corporate culture and ultimately to the success of our business. The extraordinary events of 2020 with the spread of the COVID-19 pandemic, have resulted in a whole new level of concern for employee wellbeing in companies around the world. Globaltrans acted quickly to protect its employees, taking immediate action to improve health and safety measures throughout the Group. We swiftly adapted to the new work environment, strictly following the advice of government and medical organisations, and moving our office-based staff to remote working. For our on-site (repair depot) employees, we revised our work procedures to ensure their safety, implementing various precautions including workplace disinfection, shift rotations, social distancing and the use of masks, temperature scans and hand sanitisers.

As set out in our Code of Conduct and Human Rights Policy, we are committed to acting in a socially responsible manner that protects our people, suppliers and partners, all of whom we expect to share that commitment.

Globaltrans has health and safety procedures, practices and policies that comply with all applicable regulations, laws and other requirements. We strive to ensure that all levels of the Group conform to the rules. Our Group companies are implementing the following policies:

- Fire-safety Instructions;
- Instruction for Carrying Out Health and Safety Briefings;
- Instruction on Pre-medical First Aid;
- Occupational Safety Regulations;
- Workplace Safety Guidance for PC Users.

In our efforts to maintain a safe workplace, we actively promote a culture of a zero-harm and risk awareness among our people, and provide appropriate health and safety education, training, instruction and supervision. Safety is always a team effort. We encourage our employees to adopt good health and safety practices and to make the right decisions about their wellbeing on a daily basis.

We also perform regular spot-checks at our operations to ensure that they continue to meet high safety standards. In 2020, because of the pandemic and the move to remote working, we reduced the number of workplace safety checks to 341 visits (2019: 769 visits), focusing on providing online occupational health and safety training instead.

Our occupational health and safety performance has always been positive. The nature of our business means that our employees typically work in a low-risk environment. So it is with deep sadness and regret that the Group recorded its first-ever workforce fatality at one of its repair depots in 2020. The Group immediately investigated the incident and took corrective action, putting in place preventive training for its depot personnel. We investigate and analyse each incident and share the findings across the Group in order to prevent similar incidents at other locations. All incidents are reported and discussed at the Board level.

The Group remains committed to ensuring such incidents are eliminated and do not reoccur. To make our reporting processes more transparent, from now on we will implement the Lost Time Injury Frequency Rate (LTIFR), a leading benchmark for measuring safety and health performance. In 2020, the LTIFR[1] (per million hours worked) performance of the Group stood at 0.66.

In 2021, we will continue to put greater emphasis on safety, risk awareness and accountability in order to strengthen the safety culture of the Group.

[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.

ENVIRONMENT

Rail is considered to be one of the greenest modes of transport, with its limited impact on the natural world, mainly linked to lower greenhouse gas emissions. The Group is nonetheless committed to minimising its environmental footprint, recognising the importance that our stakeholders and the wider community attach to this issue as well as the Group's own responsibility to protect the environment for the benefit of everyone. To this end, we focus not only on controlling emissions but also on other areas such as energy efficiency, optimising water management and reducing paper consumption.

Globaltrans is fully compliant with all applicable environmental laws, industry regulations and requirements and we strive to continually improve our environmental performance over time to stay compliant. Our approach to the management of environmental factors is reinforced through the Group's formal ESG Policy and Environmental and Energy Policy, which set out our commitment to carry out our activities in an environmentally responsible way. We make sure that all of our employees understand and act in a manner that is consistent with our policies.

Guided by these policies, we are constantly monitoring and finding ways to improve our subsidiaries environmental management and reporting systems in order to better monitor, measure and assess the environmental aspects of our activities.

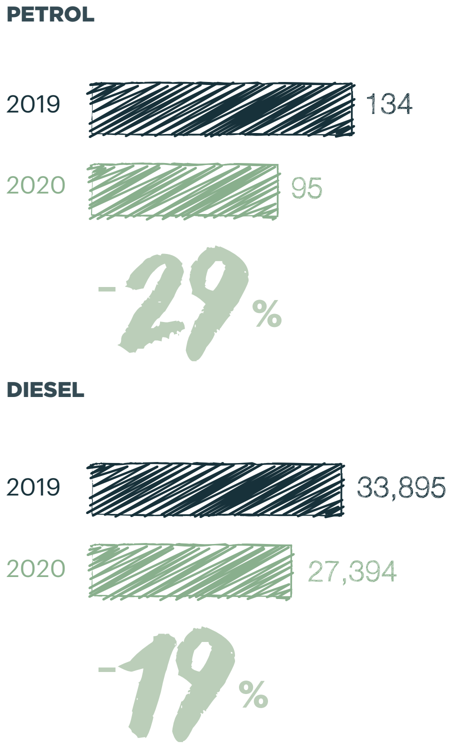
We also focus on raising our employees' and suppliers' awareness of the environment and improving transparency for our investors. To support this, we report the Group's performance on a number of environmental metrics consistent with external reporting frameworks such as the Global Reporting Initiative (GRI). Annual data and information on monitoring and progress are contained in our integrated sustainability reports that are publicly available on the Group's website.

The results for 2020 are set out below. There were no instances of non-compliance with environmental laws and regulations during the reporting period.

Energy usage

At Globaltrans, we are determined to use energy prudently and to be climate neutral. It is something that we are working towards promoting and improving at all levels of the Group. The Group's operations consume various forms of energy, including electricity, oil and gas, and we are constantly working on ways to improve the Group's energy efficiency and reduce our carbon footprint.

PETROL AND DIESEL CONSUMPTION PER EMPLOYEE, 2019–2020, LITRES



In 2020, we again decreased our energy consumption in three key areas as shown below. Various factors contributed to this, including the consolidation of a number of offices to a single office location, the impact of COVID-19 lockdowns on our operations and the move to remote working.

Use of water

As part of our commitment to conserve resources, we monitor water usage in an effort to optimise its use and consumption. While Globaltrans is not a significant water user, we recognise that it is a vital resource for society and are committed to acting responsibly. Our internal management systems and practices ensure transparency and effective governance of water use in our day-to-day work. Since 2018, we have been developing and improving our monitoring, collection and processing of water usage data across the Group's subsidiaries. We are now in a position to release our first annual figures for water consumption, which in 2020 totalled 16,627 m^3 [1].

While clearly the incidence of remote working due to the pandemic had a positive impact on the Group's annual water consumption, Globaltrans continues to seek opportunities to improve water use and adopt practices that would help its employees to manage and use water efficiently.

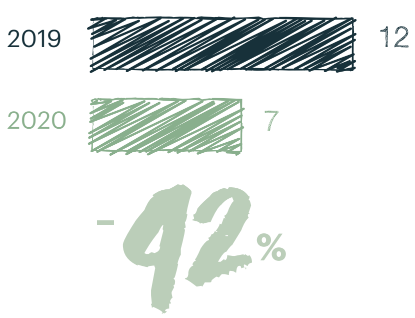
Paper recycling

The issue of office waste is something we are very familiar with since the Group consumes relatively large amounts of paper. Consequently, we actively promote the merits of a green workplace and encourage employees to reduce the frequency and volume of printing. We have been focused on digitising business processes and using electronic documentation for a number of years, but the events of 2020 have accelerated these trends. In 2020, we registered 42% reduction in paper consumption by employees, as the Group's office activities went essentially 'virtual'. We will continue to develop office waste recycling initiatives as we revert to a more normal working environment.

TOTAL CONSUMPTION OF ENERGY RESOURCES BY TYPE, 2019–2020

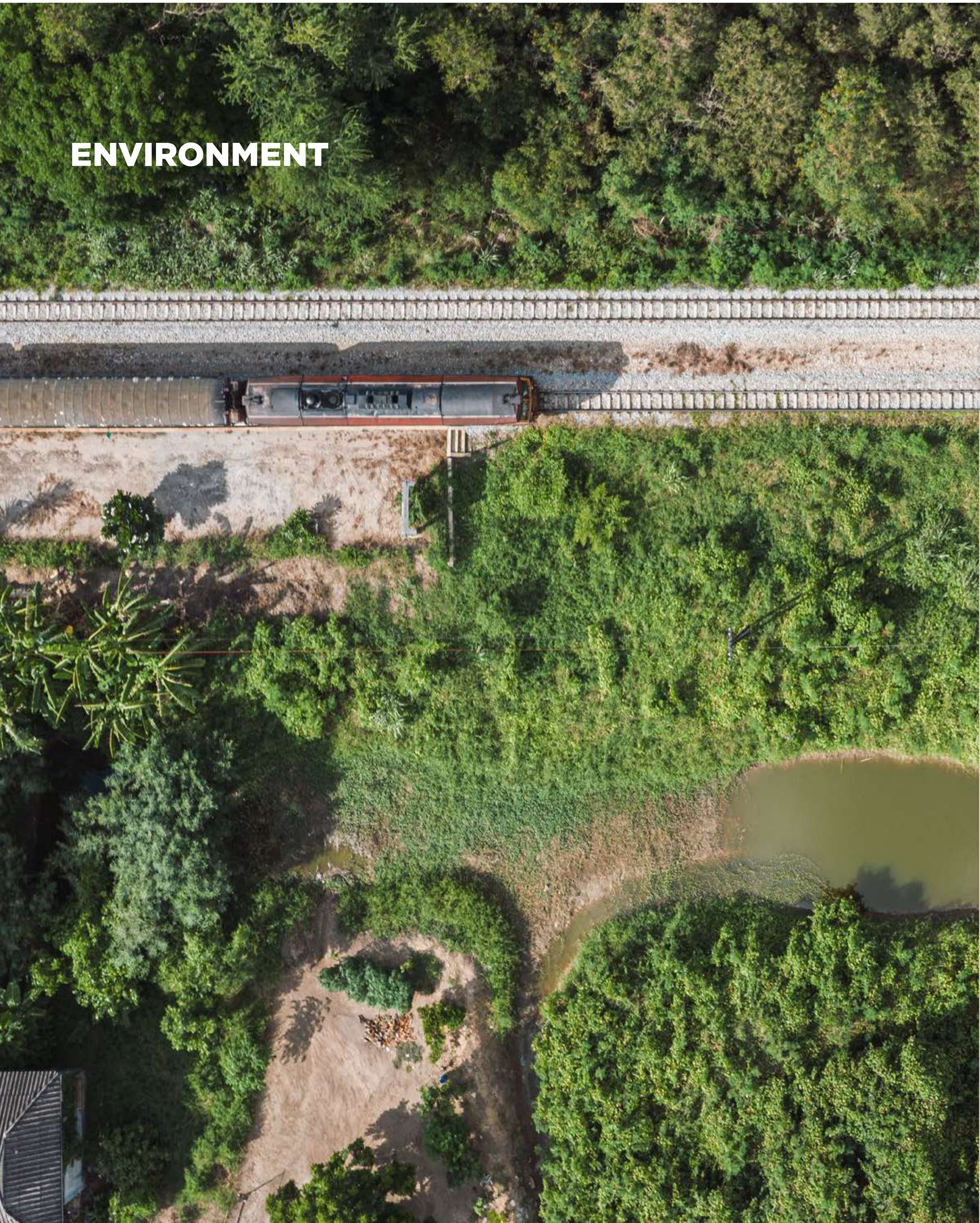
Energy type	2019	2020	Change
Electricity (KWh)	4,795,686	4,182,373	–13%
Diesel (litres)	53,184,738	45,584,067	–14%
Petroleum (litres)	210,715	158,816	–25%

PAPER CONSUMPTION (KG PER EMPLOYEE), 2019–2020

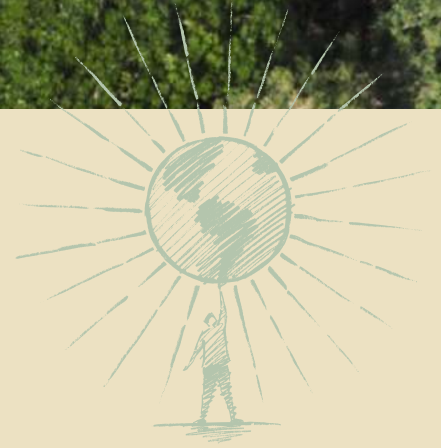


[1] This excludes data from AS Spacecom and BaltTransServis (except for data from the BTS railcar repair depot in Ivanovo which is included).

ENVIRONMENT



Greenhouse gas management



Globaltrans operates in one of the greenest and most eco-friendly industries based on its relatively low greenhouse gas (GHG) emissions. Rail remains the most fuel-efficient mode of transport, as just one litre of fuel is sufficient to transport one tonne of freight over a distance of approximately 200 kilometres. Nevertheless, we recognise that we can contribute to minimising emissions through efficient logistics and careful management of our assets. Since its creation, Globaltrans has focused on operational efficiency, in particular on reducing the number of empty railcars transported as part of the Group's logistics movements. This not only helps us achieve solid financial and business results but also helps improve our environmental performance. We have led the industry for many years in terms of efficiency, and we consistently deliver one of the lowest gondola Empty Run ratios in the sector, which speaks to our commitment.

In the freight rail transportation sector locomotives are the biggest contributors to GHG emissions. In Russia the vast majority of locomotive traction for loaded and empty trips, as well as the ownership of railway infrastructure itself belongs to RZD. Due to industry regulations, freight rail operators including Globaltrans have to outsource locomotive traction and infrastructure services from this provider.

Nevertheless, the Group has a competitive advantage, as it runs one of the largest privately-owned locomotive fleets in Russia and provides a unique service solution for its clients in the oil products and oil segment. We therefore measure, report and account for only those emissions (Scope 1) that are directly attributable to our fleet of 74 locomotives.

Operating a modern, well-maintained fleet also contributes to minimising our environmental footprint. In 2019, we further improved fleet efficiency with the purchase of 10 new, more energy-efficient and cleaner diesel locomotives. Since 2018 we have made significant progress in measuring, managing and disclosing GHG emission information in our operations, and this process is still ongoing. In 2020, due to a combination of reduced fuel consumption resulting from the impact of the COVID-19 pandemic and sustainability measures taken by the Group including the use of the new, cleaner locomotives, GHG emissions from the Group's locomotive fleet across all its subsidiaries were 138,198 tonnes of CO_2 equivalent[1], 14% lower than in 2019 (2019: 161,299 tonnes of CO_2 equivalent).

While we continue to promote the environmental benefits of rail, we are committed to continuously improving our energy efficiency and exploring appropriate options and proposals to reduce our GHG emissions.

[1] The Group's greenhouse gas emissions were calculated per IPCC Guidelines for National Greenhouse Gas Inventories (2006).

COMMUNITIES

Since its founding, Globaltrans has recognised the importance of having a direct positive impact on the communities where it operates. We strive to serve our communities responsibly as an organisation, an employer and a business partner. This sense of responsibility to our communities can also be seen in our legislative compliance, the transparency of our financial and non-financial reporting and our commitment to improving our environmental footprint.

Our solid financial performance, essential to our long-term business success and sustainability strategy, enables us to benefit society in a variety of ways. We contribute to Russia's economic and social development and add value through our business operations, direct and indirect employment, tax payments, social activities and charitable contributions.

The Group works closely with its communities, through its support for community groups and charities, the work of its volunteer staff, and through the provision of internships and educational support. We work with our local communities to identify how best to contribute whether through contributions of time, skills or financial assistance. By establishing internships and pro bono social programmes, we can help our employees add to their capabilities and contribute more to society. Our business success not only creates opportunities for current and prospective employees, but it also means we are making a direct financial contribution to the broader economy through local and national taxes, the payment of license and other fees and the use of third party services and suppliers.

We recognise the value that diversity and respect bring to any environment. We have created a fair, safe and respectful work environment so that our employees and those we work with can prosper. To contribute fully to the success of Globaltrans and society as a whole, people need to feel valued and supported. To that end, we provide health insurance, childcare support and part-time job options to improve the quality of life for our employees and their families. We encourage our businesses and people to extend their support beyond our operations by participating in community initiatives, charities and sports activities. We believe that this strengthens their sense of well-being while helping to instil our values of respect and cooperation more broadly. By improving the lives of those living in the communities where we operate and creating valuable opportunities, Globaltrans is making a positive difference to society as a whole. Also, we contribute directly to charitable efforts in our communities in the areas of health and well-being, sports, culture, education and in support for vulnerable groups like the disabled and elderly. Despite challenging economic environment in 2020, we ensured continued support for those organisations we have been working with for many years. One such example is the Life Line Fund which provides vital assistance to children facing life-threatening illnesses and which Globaltrans has supported since 2011.

We fundamentally believe that having valued, healthy, prosperous employees, families and communities sets the strongest foundations for their success, our success and that of our stakeholders.

The following table illustrates how our company creates financial value for its stakeholders.

DIRECT ECONOMIC VALUE GENERATED, DISTRIBUTED AND RETAINED[1]

	2020, RUB mln
Direct economic value generated[2]	**68,367**
Economic value distributed	**75,136**
Total cost of sales (excluding Employee benefit expense)	45,548
Total selling, marketing and administrative expenses (Community investments and excluding Employee benefit expense and Taxes (other than income tax and value added tax)	938
Employee benefit expense	4,154
Payments to the providers of capital[3]	21,419
Payments to the government[4]	3,077
Economic value retained	**(6,769)**

[1] Information in the table is derived from the Consolidated Management Report and Consolidated Financial Statements for the year ended 31 December 2020.

[2] Direct economic value generated includes "Revenue".

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

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