

OTHER SERVICES

Other services of the Company include the following: rolling stock and container fleet operation, terminal service, other freight forwarding, trucking.

Revenue from other services in 2020 increased by 9.3% to RUB 3,352 mln compared to RUB 3,067 mln in 2019. The key reason is growth of business volumes.

OTHER OPERATING INCOME

Other operating income in 2020 amounted to RUB 1,224 mln compared to RUB 1,161 mln in 2019 (5.4% increase). The changes in other operating income are linked with the growth of the Company's business volumes.

OPERATING EXPENSES

Breakdown of Operating Expenses

Item	2020			2019		
	RUB mln	share of operating expenses, %	share of revenue, %	RUB mln	share of operating expenses, %	share of revenue, %
Third-party charges related to principal activities	62,721	70.1	60.6	48,283	67.5	56.0
Freight and transportation services	7,994	8.9	7.7	6,202	8.7	7.2
Payroll and related charges	6,545	7.3	6.3	6,492	9.1	7.5
Depreciation and amortisation	4,569	5.1	4.4	3,473	4.9	4.0
Materials, repair, and maintenance	4,632	5.2	4.5	3,692	5.2	4.3
Taxes other than income tax	688	0.8	0.7	383	0.5	0.4
Rent	160	0.2	0.2	149	0.2	0.2
Other expenses	2,113	2.4	2.0	2,895	4.0	3.4
Total operating expenses	89,422	100.0	86.4	71,569	100.0	83.0

The Company's operating expenses increased by RUB 17,853 mln, or 24.9% year-on-year, to RUB 89,422 mln compared to RUB 71,569 mln in 2019. This rise was mainly due to a significant increase in the volume of operations related to principal activities.

THIRD-PARTY CHARGES RELATED TO PRINCIPAL ACTIVITIES

The third-party charges related to principal activities increased from RUB 48,283 mln to RUB 62,721 mln in 2020, up 29.9% year-on-year. This was primarily driven by a higher volume of the Company's

operations, tariff indexing by the Russian Railways and other subcontractors, and growth in international transportations with the involvement of outsourced transportation services. The weakening of the Russian ruble against the US dollar and the euro in 2020 has also had an impact on the amount of tariffs paid by foreign railway administrations and international maritime lines set in foreign currency.

ADJUSTED OPERATING EXPENSES

Adjusted operating expenses (as defined in the Adjustments and Additional Financial Information section) raised by 14.7% year-on-year, to RUB 26,701

mln compared to RUB 23,286 mln in 2019. The greatest contribution to dynamics of adjusted operating costs was from items Freight and transportation services, Materials, repair, and maintenance and Depreciation and amortisation. The Other expenses item shows decrease in absolute value.

Adjusted Operating Expenses Structure and Dynamics

Item	2020	2019	Year-on-year change	
	RUB mln	RUB mln	RUB mln	%
Freight and transportation services	7,994	6,202	1,792	28.9
Payroll and related charges	6,545	6,492	53	0.8
Depreciation and amortisation	4,569	3,473	1,096	31.6
Materials, repair, and maintenance	4,632	3,692	940	25.5
Taxes other than income tax	688	383	305	79.6
Rent	160	149	11	7.4
Other expenses	2,113	2,895	-782	-27.0
Adjusted operating expenses	26,701	23,286	3,415	14.7

FREIGHT AND TRANSPORTATION SERVICES

Expenses related to freight and transportation services increased by RUB 1,792 mln, or 28.9%, year-on-year, to RUB 7,994 mln, that is caused by growth of business volumes, tariff indexing by subcontractors, wider footprint of the Company beyond the 1,520 gauge railway network

DEPRECIATION AND AMORTISATION

Depreciation and amortisation expenses increased by RUB 1,096 mln, or 31.6% year-on-year, to RUB 4,569 mln compared to RUB 3,473 mln in 2019. The growth is caused by raised sum of the fixed assets due to 2020 Investment Programme implementation and shift of the great part of the 2019 investments to the fourth quarter.

PAYROLL AND RELATED CHARGES

Payroll and related charges increased by RUB 53 mln, or 0.8% year-on-year, from RUB 6,492 mln in 2019 to RUB 6,545 mln in 2020. Wage indexation and the changes in reserves for staff payments were partially compensated by 2.2% decrease in the average number of staff to 3,229 persons compared to 3,301 in 2019.

MATERIALS, REPAIR, AND MAINTENANCE

Expenses related to materials, repair, and maintenance were up by 25.5% year-on-year to RUB 4,632 mln compared to RUB 3,692 mln in 2019. This was mainly due to an increase in the number of railcar repairs resulted from a higher fleet utilisation (37.8 thousand compared to 29.9 thousand in 2019). Another significant factor was the increase in the cost of materials used for repairs.

TAXES OTHER THAN INCOME TAX

Taxes, excluding income tax, increased by 79.6% year-on-year to RUB 688 mln compared to 383 mln in 2019, mainly due to dynamics of VAT calculations.

RENT

Rental payments increased by RUB 11 mln, or 7.4% year-on-year, from RUB 149 mln to RUB 160 mln, due to the increase of operational leasing of the low-cost assets. At the same time, according to IFRS 16 financial statements "Lease", leasing of assets with value exceeding RUB 350 thousand must be reflected in the IFRS statements in the form of right to use and leasing obligations.

OTHER OPERATING EXPENSES

Other operating expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication service and loss of sale of fixed assets, etc. In 2020, other operating expenses decreased from RUB 2,895 mln to RUB 2,113 mln, down 27.0% year-on-year. This decrease is mainly due to the lack of accruals of reserves for depreciation of fixed assets, as well as a decrease in costs under the items such as security, consulting expenses.

INTEREST EXPENSES

Interest expenses increased by RUB 738 mln, or 66.0% year-on-year, from RUB 1,118 mln to RUB 1,856 mln, mainly due to the increase in principal and use of usage factoring.

INTEREST INCOME

The increase in interest income by RUB 154 mln, or 41.8% year-on-year, from RUB 368 mln to RUB 522 mln, is due to an increase in the amount of loans provided.

PROFIT BEFORE INCOME TAX

As a result of the reasons described above, the Company's profit before income tax increased by RUB 824 mln, or 5.4% year-on-year, from RUB 15,396 mln in 2019 to RUB 16,220 mln in 2020.

INCOME TAX EXPENSES

Income tax expenses decreased by RUB 85 mln, or 2.3% year-on-year, from RUB 3,646 mln in 2019 to RUB 3,561 mln in 2020, due to a reduction in taxable profit. The effective tax rate for 2020 was down to 22.0% from 23.7% in 2019.

TOTAL PROFIT AND COMPREHENSIVE INCOME FOR THE PERIOD

As a result of the factors discussed above, the profit for the full year of 2020 increased by RUB 909 mln, or 7.7% year-on-year, to RUB 12,659 mln compared to RUB 11,750 mln for the same period of 2019. Taking into account the exchange rate differences relating to foreign operations, as well as other effects, the total comprehensive income of the Company for the reporting period increased by 24.1% and amounted to RUB 13,898 mln, compared to RUB 11,195 mln for the full year of 2019.