

**FAR-EASTERN SHIPPING COMPANY PLC.
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

and Independent Auditors' Report

**FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries**

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Independent Auditors' Report

To the Shareholders and Board of Directors FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

Opinion

We have audited the consolidated financial statements of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audited entity: FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

Registration No. in the Unified State Register of Legal Entities
1022502256127.

Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.



Key Audit Matters

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

Valuation of goodwill

Please refer to the Note 4 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group has significant goodwill which is material to the consolidated financial statements as at 31 December 2019. Due to current market conditions and continuing market volatility, volatility of import and export volumes and exchange rates there is a risk that the above may be not recoverable in full. The risk is associated with goodwill of Vladivostok Sea Trade Port ("VMTP") cash generating unit ("CGU").</p> <p>As at the reporting date management determines the recoverable amount of the Group's assets and cash generating units as their value in use.</p> <p>Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>We evaluated the reasonableness of the expected cash flow forecasts by comparing them with externally derived data as well as our own assessments in relation to key inputs such as forecasts for volumes of containers throughput and other cargos, forecasted container charge out and general cargo rates, costs projections, discount and terminal growth rates.</p> <p>We challenged:</p> <ul style="list-style-type: none"> - the key assumptions for short and long term growth rates in the forecasts by comparing them with economic and industry forecasts; - the discount rates used. Specifically, we recalculated the Group's weighted average cost of capital using market comparable information. <p>We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group.</p>

Going concern considerations related to the COVID-19 outbreak

Please refer to the Note 2(d) in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group's consolidated financial statements are prepared on a going concern basis.</p> <p>The World Health Organization declared in March 2020 the coronavirus (COVID-19) outbreak a pandemic. The</p>	<p>We analysed management's assessment of the going concern basis of accounting, including their evaluation of business and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating</p>



The key audit matter	How the matter was addressed in our audit
<p>Russian government authorities has taken a number of measures to counter the effects of the outbreak, including border closures, quarantine, limitations imposed on cross-border and domestic transportation. As a result, during February and March 2020, the Group experienced a reduction in transportation volumes to and from China partially counterbalanced by increase in the volumes of internal transportation and goods loading services.</p> <p>The Group's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Group will have sufficient resources to continue in operational existence for the foreseeable future. The forecasts reflected a number of scenarios, considered by management to be plausible, such as prolonged transportation volumes decrease for import and export directions. As part of the assessment, management also considered a number of actions aimed at alleviating the potential disruption to the Group's business and liquidity position as discussed in Note 2.</p> <p>The Group's use of the going concern basis of accounting is a key audit matter due to high level of management judgment required and inherent uncertainty involved in forecasting and evaluating financial impact of current economic environment and measures planned by the Group.</p>	<p>inquiries of the Group's president and vice-president on finance and CFO.</p> <p>We tested the reasonableness expected cash flow forecasts by performing the following:</p> <ul style="list-style-type: none">- Challenging the key assumptions used in the determination of the forecast financial information under various scenarios. This primarily included challenging the forecast sales volumes, charge-out rates and costs projections based on our understanding of the Group's activities and by reference to publicly available industry/market reports;- Performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment. <p>We evaluated the adequacy of the Group's disclosures in respect of the going concern assessment and any related uncertainties in the consolidated financial statements.</p>



Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Group's Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

The engagement partner on the audit resulting in this independent auditors' report is:


Ludmila Klimanova
JSC "KPMG"
Moscow, Russia
20 May 2020



FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Financial Position
As at 31 December 2019

RUB mln	Note	31 December 2019	31 December 2018
ASSETS			
Non-Current Assets			
Fleet	5	4 982	5 677
Rolling stock and other tangible fixed assets	6	24 067	29 827
Goodwill	4	6 418	8 493
Investments in associates and joint ventures	7	68	141
Other non-current assets	9	1 584	1 042
Total non-current assets		37 119	45 180
Current Assets			
Inventories	8	1 046	1 085
Accounts receivable	9	10 542	10 367
Other current assets	9	52	665
Cash and cash equivalents	9	1 232	3 313
Assets classified as held for sale	19	11 336	217
Total current assets		24 208	15 647
Total assets		61 327	60 827
EQUITY AND LIABILITIES			
Shareholders' Equity			
Share capital	12	2 951	2 951
Share premium		23 697	23 697
(Accumulated losses)/retained earnings		(908)	1 312
Reserves		(22 255)	(26 518)
Equity attributable to owners of the Company		3 485	1 442
Non-controlling interests		2 124	1 734
Total equity		5 609	3 176
Non-current liabilities			
Long-term debt obligations and finance lease liabilities	10	26 741	40 952
Long-term lease liabilities	2,10	2 881	-
Deferred tax liability	11	1 496	1 348
Other long term liabilities		192	200
Total non-current liabilities		31 310	42 500
Current Liabilities			
Accounts payable	9	10 666	10 456
Short-term debt obligations and finance lease liabilities	10	6 145	4 695
Short-term lease liabilities	2,10	343	-
Liabilities classified as held for sale	19	7 254	-
Total current liabilities		24 408	15 151
Total liabilities		55 718	57 651
Total equity and liabilities		61 327	60 827

M.V. Sakharov, President 

L.G. Zvyagintsev, Vice President and CFO 

Date: 20 May 2020

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Profit or Loss
For the year ended 31 December 2019

RUB mln	Note	2019	2018
Revenue	14	56 673	56 993
Operating expenses	15	(37 279)	(39 634)
Gross profit before depreciation and amortization		19 394	17 359
Depreciation and amortisation	5,6	(3 485)	(2 480)
Administrative expenses	16	(7 341)	(6 983)
(Impairment)/impairment reversal, net	17	(141)	124
Other (expenses)/income, net		(123)	314
Profit from operating activity		8 304	8 334
Finance income	18	77	4 707
Finance costs	18	(7 450)	(5 148)
Result of disposal of subsidiaries and associates		-	816
Other non-operating expenses		(268)	(417)
Share of profit of equity accounted investees	7	77	1 662
Profit before income tax		740	9 954
Income tax expense	11	(2 582)	(2 945)
(Loss)/profit for the year		(1 842)	7 009
Attributable to:			
Owners of the Company		(2 232)	6 723
Non-controlling interests		390	286
(Loss)/earnings per share (in RUB)	20	(0,756)	2,278

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

**FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries**

**Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019**

RUB mln	2019	2018
(Loss)/profit for the year	(1 842)	7 009
Other comprehensive income/(loss):		
<i>Items that are not to be reclassified to profit or loss</i>		
Recycling of accumulated foreign currency translation loss upon subsidiaries and associates disposal	-	56
Effect of foreign currency translation	4 330	(7 851)
Revaluation of fleet	(52)	196
Depreciation of fleet revaluation reserve	(11)	-
Deferred tax on fleet revaluation	10	(39)
Other comprehensive income/(loss) for the year	4 277	(7 638)
Total comprehensive income/(loss) for the year	2 435	(629)
Total comprehensive income/(loss) attributable to:		
Ordinary shareholders of the Company	2 045	(915)
Non-controlling interests	390	286

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

**FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries**

**Consolidated Statement of Changes in Equity
For the year ended 31 December 2019**

RUB mln	Attributable to equity holders of the Company					Non-controlling interests	Total equity	
	Share capital (Note 12)	Share premium	(Accumulated losses)/retained earnings	Revaluation reserve	Translation reserve			Total
Balance at 1 January 2018	2 951	23 697	(5 483)	32	(18 828)	2 369	785	3 154
Profit for the year	-	-	6 723	-	-	6 723	286	7 009
Other comprehensive loss								
Effect of foreign currency translation	-	-	-	26	(7 877)	(7 851)	-	(7 851)
Share of other comprehensive loss of associates	-	-	56	-	-	56	-	56
Revaluation of fleet	-	-	-	196	-	196	-	196
Disposal of fleet revaluation reserve	-	-	28	(28)	-	-	-	-
Deferred tax on fleet revaluation	-	-	-	(39)	-	(39)	-	(39)
Total other comprehensive loss	-	-	84	155	(7 877)	(7 638)	-	(7 638)
Total comprehensive loss for the year	-	-	6 807	155	(7 877)	(915)	286	(629)
Transactions with owners, recorded directly in equity								
Acquisition of non-controlling interest	-	-	(12)	-	-	(12)	663	651
Total transactions with owners	-	-	(12)	-	-	(12)	663	651
Balance at 31 December 2018	2 951	23 697	1 312	187	(26 705)	1 442	1 734	3 176

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

**FAR-EASTERN SHIPPING COMPANY PLC.
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**Consolidated Statement of Changes in Equity
For the year ended 31 December 2018
(Continued)**

RUB mln	Attributable to equity holders of the Company						Non- controlling interests	Total equity
	Share capital (Note 12)	Share premium	(Accumulated losses)/ retained earnings	Revaluation reserve	Translation reserve	Total		
Balance at 1 January 2019	2 951	23 697	1 312	187	(26 705)	1 442	1 734	3 176
Loss for the year	-	-	(2 232)	-	-	(2 232)	390	(1 842)
Other comprehensive income								
Effect of foreign currency translation	-	-	-	(17)	4 347	4 330	-	4 330
Revaluation of fleet	-	-	-	(52)	-	(52)	-	(52)
Disposal of fleet revaluation reserve	-	-	-	(11)	-	(11)	-	(11)
Depreciation of fleet revaluation reserve	-	-	14	(14)	-	-	-	-
Deferred tax on fleet revaluation	-	-	-	10	-	10	-	10
Total other comprehensive income	-	-	14	(84)	4 347	4 277	-	4 277
Total comprehensive income for the year	-	-	(2 218)	(84)	4 347	2 045	390	2 435
Transactions with owners, recorded directly in equity								
Dividends paid	-	-	(2)	-	-	(2)	-	(2)
Total transactions with owners	-	-	(2)	-	-	(2)	-	(2)
Balance at 31 December 2019	2 951	23 697	(908)	103	(22 358)	3 485	2 124	5 609

The availability of the Company's retained earnings for distribution to shareholders is determined by the Company's Charter and by Russian law and does not correspond with the figures shown above. The Company's retained earnings available for distribution under Russian Accounting Standards as at 31 December 2019 were RUB nil (as at 31 December 2018: RUB nil).

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

**FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries**

**Consolidated Statement of Cash Flows
For the year ended 31 December 2019**

RUB mln	Note	2019	2018
Cash flows from operating activities			
(Loss)/profit for the year		(1 842)	7 009
Adjustments for:			
Depreciation and amortisation		3 485	2 480
Impairment/(impairment reversal)		141	(124)
Gain on disposal of tangible fixed assets		(123)	(605)
Foreign exchange loss/(gain)		2 713	(4 391)
Other finance costs, net		4 660	4 832
Result on disposal of subsidiaries and associates		-	(816)
Share of profit of equity accounted investees		(77)	(1 662)
Income tax expense		2 582	2 945
Other income and expense		(77)	132
Cash from operating activities before changes in working capital and provisions		11 462	9 800
Change in inventories		39	(314)
Change in trade and other receivables		448	(2 829)
Change in trade and other payables		(387)	1 028
Cash flows from operations before income taxes paid		11 562	7 685
Income tax paid		(2 688)	(1 787)
Cash flows generated from operating activities		8 874	5 898

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

**FAR-EASTERN SHIPPING COMPANY PLC.
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**Consolidated Statement of Cash Flows
For the year ended 31 December 2019
(Continued)**

RUB mln	Note	2019	2018
Cash flows from investing activities			
Expenditure on rolling stock and other fixed assets	6	(2 862)	(4 657)
Proceeds on disposal of other fixed assets		1 588	1 798
Vessels acquired	5	(701)	(411)
Proceeds on disposal of fleet	5	610	88
Expenditure on dry-docking	5	(275)	(236)
Acquisition of subsidiary, net of cash acquired		-	(732)
Disposal of subsidiary, net of cash disposed		-	234
Disposal of associated company		-	14 625
Other investments disposal/ (acquisition), net		514	(561)
Dividends received		92	912
Restricted deposits		-	614
Interest received		51	75
Net cash (used in)/generated from investing activities		(983)	11 749
Cash flows from financing activities			
Proceeds from borrowings		-	500
Repayment of borrowings		(3 731)	(10 140)
Lease liabilities repayments		(1 139)	-
Redemption of bonds		(120)	(3 997)
Finance charges		(4 872)	(6 060)
Dividends paid		(2)	-
Acquisition of non-controlling interests		-	(28)
Net cash used in financing activities		(9 864)	(19 725)
Effect of exchange rate fluctuations on cash and cash equivalents			
		108	(320)
Net decrease in cash and cash equivalents		(2 081)	(2 398)
Cash and cash equivalents at the beginning of the year		3 313	5 711
Cash and cash equivalents at the end of the year	9	1 232	3 313

The accompanying notes on pages 16 to 50 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

1. Organisation and Trading Activities

Far-Eastern Shipping Company PLC. (FESCO or the “Company”) was privatised and became a joint stock company governed by the laws of the Russian Federation on 3 December 1992. The Company’s registered office and principal place of business is: 75 Sadovnicheskaya Str., Moscow, Russian Federation, 115035.

As at 31 December 2019 the principal shareholders which have indirect ownership of the Group are as follows: Z. Magomedov – 32.5% of FESCO shares, TPG Group – 17.4% of FESCO shares, GHP Group – 23.8% of FESCO shares.

The principal activity of FESCO and its subsidiaries (the “Group”) has traditionally been shipping (ship owning, ship management, chartering out and line operating). In recent years FESCO has been transformed into an intermodal logistics Group, offering a full range of logistical solutions through a combination of shipping, rail, trucking and port services.

2. Basis of Preparation

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Group additionally prepares consolidated financial statements in Russian in accordance with the requirements of IFRS.

This is the first set of the Group’s consolidated financial statements in which IFRS 16 *Leases* have been applied.

IFRS 16 “Leases” cancels the classification of leases as operating or finance as required by IAS 17 and instead introduces a single model for accounting for leases for lessees. Lessees recognize: (a) right-of-use assets and liabilities in respect of all leases longer than 12 months, unless the value of the leases (the underlying asset) is not material; and (b) depreciation of leases separately from interest on lease liabilities in the consolidated statement of profit or loss. The cost of right-of-use assets comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Right-of-use assets are depreciated over the shorter of lease term and remaining useful life of the underlying asset. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

A lease liability is measured at the present value of lease payments that have not yet been made at the date of recognition of the lease agreement. Lease payments are discounted using either the rate implicit in the lease or incremental borrowing rate for the lessee. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group recognizes right-of-use assets at the date of initial application for leases previously classified as operating leases under IAS 17 “Leases” in an amount equal to the lease liability, adjusted for pre-realized or accrued lease payments in connection with such leases, which are recognised in the consolidated statement of financial position immediately prior to the date of initial application.

The Group elected to present right-of-use of the assets as part rolling stock and other tangible fixed assets in the consolidated statement of financial position.

IFRS 16 “Leases” for to the accounting of leases from a lessor basically retains the accounting requirements of IAS 17 “Leases”. Therefore, the lessor continues to classify leases as operating or financial leases and, accordingly, to account them differently in these consolidated financial statements.

Leases – The Group is Lessee

As at 1 January 2019, the Group recognized right-of-use assets related to the lease previously classified as operating lease in the amount corresponding to lease liabilities in the amount of RUB 4 603 million. The discount rates applied to such lease liabilities as at 1 January 2019 were in the range of 12% to 17% depending on the type of lease arrangement.

The assets held under lease arrangement determined as finance lease under IAS 17 *Leases* as at transition date and 31 December 2019 comprise rolling stock with a net book value of RUB 8 016 million and RUB 1 149 million, respectively, and plant, machinery and other fixed assets with a net book value of RUB 439 million and RUB 464 million. The Group has not reassessed the above-mentioned assets and related liabilities as at transition date.

In applying IFRS 16 “Leases” for the first time in determining leases, the Group applies the following practical expedients:

- use of a single discount rate for the leases with similar characteristics;
- accounting for operating leases with the remaining lease term less than 12 months as at 1 January 2019 as short-term leases;
- accounting for operating leases of low value items as at 1 January 2019 as leases in which the underlying asset has a low value;
- not separating lease and non-lease components for time-charter contracts where the Group acts as a lessee and accounting for both as a single lease component.

The Group leases land, fleet, railway sidings, rolling stock, loading machinery, berths and containers. The remaining term of the relevant lease agreements as at 31 December 2019 was from 1 year to 44 years. The Group has tested its right-of-use assets for impairment on the date of transition and as at 31 December 2019 and has concluded that there is no indication that the right-of-use assets are impaired.

As at 31 December 2019, the Group's future lease payments under lease agreements concluded for less than 12 months amounted to 517 RUB million.

FAR-EASTERN SHIPPING COMPANY PLC.
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Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

Information on the carrying amount of right-of-use assets is provided below:

	<u>Buildings and infrastructure</u>	<u>Rolling stock</u>	<u>Other fixed assets</u>	<u>Total</u>
	RUB mln			
Net book value				
At 1 January 2019	1 291	10 741	1 026	13 058
At 31 December 2019	<u>1 103</u>	<u>1 195</u>	<u>816</u>	<u>3 114</u>

Lease Liabilities

Liabilities under lease agreements as at 31 December 2019 were the following:

	<u>31 December 2019</u> <u>RUB mln</u>
At 1 January 2019	11 051
New lease contracts	547
Disposal	(157)
Transfer to liabilities classified as held for sale	(7 020)
Interest expenses on lease liabilities	1 454
Lease payments for the period	(2 593)
Translation difference	(58)
	<u>3 224</u>
	<u>31 December 2019</u> <u>RUB mln</u>
Short-term lease liabilities	343
Long term balance less short- term part	2 881
	<u>3 224</u>

The lease liabilities as at 31 December 2019 comprise:

Liabilities under lease agreements classified as operating lease before 1 January 2019 before IFRS 16 come into effect	1 557
Liabilities under lease agreements classified as finance lease before 1 January 2019	1 667
	<u>3 224</u>

The table below shows the lease-related expenses recognised for the year ended 31 December 2019 in the consolidated statement of profit or loss:

	<u>2019</u> <u>RUB mln</u>
Depreciation of right-of-use assets	1 359
Interest expenses on lease liabilities	1 454
Short-term lease and low value lease contracts expenses that are exempt from the recognition under IFRS 16 "Leases"	<u>2 083</u>

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	31 December 2019
	RUB mln
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	9 130
Discounted using the incremental borrowing rate at 1 January 2019	(4 375)
Lease liabilities recognised as at 31 December 2018	6 448
Recognition exemption for leases with less than 12 months of lease term at transition	(152)
Lease liabilities recognised at 1 January 2019	11 051

Leases – The Group is Lessor

For the year ended 31 December 2019, income from leased property, plant and equipment amounted to RUB 2 227 million and was recognised in other revenue (Note 14). There was no sublease of right-of-use assets in the Group.

Estimates

The Group makes the following judgments in assessing:

Lease term. The lease term usually corresponds to the non-cancellable term of the contract. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee, based on the period for which the contract is enforceable. The Group considers that enforceability of the lease is established by the written contract (including penalty clauses) in combination with applicable legislation related to renewal or termination rights (specifically the lessee's preferential rights to renew the lease). However, the Group determined, that its preferential right to renew would not on its own be treated as substantive, when the lessor can refuse to agree to a request from the Group to extend the lease. As a consequence, for the leases with short contractually stated term (less than 12 months) where the Group has a preferential right to renew in accordance with law, but the lessor can refuse to agree to a request from the Group to extend the lease, the Group determined that the lease term does not exceed the term stated in the contract.

The Group considers the lease contract as renewable when the contract contains tacit renewal clauses. In respect of such contracts the Group determines the enforceable period considering the broader economics of the contract and whether more than insignificant penalties exist for the terminating party.

Discount rate. When calculating the present value of lease payments, the incremental borrowing rate for the lessee is used as the discount rate. The discount rate is determined for each asset based on the incremental borrowing rate at the commencement of the contract.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.
- Interest Rate Benchmarking Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

(b) Basis of consolidation

These consolidated financial statements include the accounts of FESCO and its subsidiaries.

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Subsidiaries.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of investor's return. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Transactions eliminated on consolidation.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The principal subsidiaries of the Group are as follows:

<u>Name</u>	<u>Country of Incorporation</u>	Percentage Holding as at 31 December 2019 and 31 December 2018	<u>Activity</u>
Bodyguard Shipping Company Limited	Cyprus	100%	Ship owning
Diataxis Shipping Company Limited	Cyprus	100%	Ship owning
Yerakas Shipping Company Limited	Cyprus	100%	Ship owning
Marview Shipping Company Limited	Cyprus	100%	Ship owning
Astro-Moon Shipping Company Limited	Cyprus	100%	Ship owning
Anouko Shipping Company Limited	Cyprus	100%	Ship owning
Seamore Shipping Company Limited	Cyprus	100%	Ship owning
FESCO China Logistics	China	100%	Transport and forwarding services
Firm Transgarant LLC	Russia	100%	Holding company for transportation services group
FIT LLC	Russia	100%	Transport and forwarding services
VMTP PJSC	Russia	95%	Commercial Port
Dalrefrans Co, Ltd	Russia	100%	Transport and forwarding services
FESCO Ocean Management Limited	Cyprus	100%	Shipping operations

(c) **Critical accounting estimates and judgements in applying accounting policies**

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of selecting and applying accounting policies.

Management bases its judgements and estimates on historical experience and various other factors that are believed to be appropriate and reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily

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apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

1. Impairment of goodwill and tangible fixed assets, see Note 4 and Notes 5, 6;
2. Determination of the fair value of the Group's fleet, see Note 5;
3. Going concern, see Note 2(d);
4. Use of estimates to determine right-of-use assets and lease obligations, see Note 2(a).

(d) Going concern

Currently the Group has completed the restructuring of its Russian rouble bonds obligations and reduced its consolidated debt under loan agreements, excluding lease obligations, to RUB 32 886 million as at 31 December 2019.

Despite the fact that the Group incurred net loss of RUB 1 842 million for the year ended 31 December 2019, its operating profit for the respective period was RUB 8 304 million and cash flows generated from operating activity amounted to RUB 8 483 million.

In connection with the financial statements preparation and the Group's analysis of its liquidity position, management performed a detailed cash flow analysis for the period from the beginning of 2020 to 2023 to determine its ability to service its existing debt obligations over the next 12 months and in the foreseeable future. The Group's cash flows are particularly sensitive to such macroeconomic factors as exchange rates and the balance of export and import turnover. In the first quarter of 2020 the global economy has faced significant turbulence related to COVID which was announced as pandemic by the World Health Organisation in March 2020. As a result certain measures were introduced by the government of the Russian Federation and other countries which included inter alia limitations on cross-border movements, quarantine measures and work-from-home regime. As a result of the above global oil demand has fallen which, together with other factors, has resulted in significant decrease in oil prices and financial indices together with depreciation of Russian rouble. In April 2020 a number of countries have agreed on oil extraction volumes cut for the purpose of oil market stabilisation. But at the moment of these consolidated financial statements preparation this has not decreased the pressure on the oil prices. The above factors have also resulted in the fluctuations with transportation and loading volumes in February - March 2020 including temporarily decrease of transportation to China counterbalanced by increases at other directions.

At the moment the Group is assessing further impact of the above-mentioned factors on its business volumes, takes a number of measures to mitigate the related business and liquidity risks, develops steps to attract new customers, optimises transportation routes and costs. Group's management is also planning the update of the Group's budgets within 2-3 months after situation starts to stabilise. Considering the factors above and anticipated GDP decline, the Group expects certain fluctuations of loading and transportation volumes and related charge-out rates and increased share of empty runs due to export and import disbalance during the year ending 31 December 2020. These fluctuations will depend on the type of cargo and transportation directions.

The Group expects that the above-mentioned risks will be mitigated by the depreciation of the Russian rouble which will support the increase of margin earned on Far-Eastern intermodal routes and continuing quarantine measures which increase the demand for the Group's container transportation services.

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The Group considers a number of stress-test scenarios of loading and transportation volumes dynamics in correlation to GDP forecast, current Russian Rouble exchange rate and Group's current services portfolio. Considering the forecast which is based on historical market developments during the years 2014-2015 and takes into account cyclical nature of container market during and after crisis years the Group expects that it will be able to meet its obligations when they fall due during the years 2020-2021. In case continuing negative disbalance of export and import is maintained and the market developments in terms of volumes and rates do not meet the Group's expectations, the Group may face liquidity gap during the year 2021. To mitigate liquidity and market risks, Group's management maintains discussions with the suppliers for the purpose of liquidity management and develops a number of actions to optimise costs and railcar and container fleet allocation by routes.

Based on the actions taken to date, management has a reasonable expectation that the Group has adequate resources to reach the targeted cash flows or, if required, negotiate the acceptable terms under existing loan arrangements and therefore to continue as a going concern for the foreseeable future.

Thus these consolidated financial statements have been prepared on a going concern basis.

3. Accounting Policies

Significant accounting policies are described in the related notes to the consolidated financial statements captions and in this note. The significant accounting policies adopted by the Group have been consistently applied with those of the prior period taking into account adoption of new and revised standards effective as at 1 January 2019.

The consolidated financial statements are prepared on the historical cost basis except for the fleet (Note 5). Group's vessels are stated at fair value at each reporting date based on valuation performed by an independent professional appraiser as disclosed in Note 5. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(a) Functional and presentation currency

The presentation currency used in the preparation of these consolidated financial statements is Russian rouble ("RUB").

The functional currency of each Group entity is the currency of the primary economic environment in which the entity operates.

The results and financial position of each Group entity whose functional currency is different from RUB, are translated into the presentation currency as follows:

- i. assets and liabilities at each reporting date are translated at the closing rate at this date;
- ii. income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
and
- iii. all resulting exchange differences are recognised as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the statement of profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

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None of the Group entities has a functional currency which is a currency of hyperinflationary economy. All financial information presented in RUB has been rounded to the nearest million.

At 31 December 2019, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUB 61.9057 (31 December 2018 USD 1 = RUB 69.4706).

4. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses.

Negative goodwill (excess of the fair value of the share in net assets acquired over consideration paid) is recognised in the statement of profit or loss. Any excess of the consideration paid to acquire a non-controlling interest over the book value of the non-controlling interest is recognised in equity.

Every reporting period a formal estimate of recoverable amount of each cash generating unit (CGU) is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of a cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal.

Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal.

	<u>Gross amount</u>	<u>Accumulated impairment loss RUB mln</u>	<u>Carrying amount</u>
At 1 January 2018	11 618	(3 175)	8 443
Translation difference	50	-	50
At 31 December 2018	11 668	(3 175)	8 493
Translation difference	(47)	-	(47)
Transfer to assets classified as held for sale (Note 19)	(2 028)	-	(2 028)
At 31 December 2019	<u>9 593</u>	<u>(3 175)</u>	<u>6 418</u>

Goodwill has been allocated to groups of cash generating units (CGU's) which represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

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The carrying amount of goodwill, net of impairment, allocated to each CGU is as follows:

	31 December 2019	31 December 2018
	RUB mln	
FIT LLC and its subsidiaries	115	115
FESCO ESF Limited and its subsidiaries	324	371
Commercial Port of Vladivostok (VMTP)	5 979	5 979
Trans - Grain LLC (Note 19)	-	2 028
	6 418	8 493

The recoverable amount is determined as value in use based on discounted cash flows calculations. These calculations are based on post-tax cash flow projections and all the assumptions in relation to growth rates are determined by reference to management's experience and industry forecasts.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term growth rate, consistent with the assumption that a market participant would make.

The key assumptions in respect of Commercial Port of Vladivostok (VMTP) CGU as the CGU to which most significant goodwill as allocated, are as follows:

- Revenue projections are based on rates and volumes growth. Volumes of container throughput are estimated to increase by 1.8% in 2020 with the maximum throughput reached at the container terminal. Container charge out rates are expected to grow at average annual growth of 2% for the rates nominated in RUB and 2.4% for rates nominated in USD. General cargo rates nominated in roubles are assumed to increase 2.1% in 2020 and assumed to increase on average 7.4% for the future forecast period and the volume of the general cargo will not exceed the level of the reporting period due to the maximum capacity of universal terminals and the sea front.
- The forecast of expenditures is based on the indexation of expenditures budgeted in 2020 at the level of the medium – term inflation forecast of the Ministry of economic development of Russia-4%. Costs projections were made assuming slight increase EBITDA margin during the forecast period from existing 45% to 52% in 2023 as a result of reaching maximum port capacity utilization in 2020 due to container throughput volume growth with further unit cost optimisation.
- Discount rate of 14.2% and terminal growth rate of 4%.

The projected volumes of throughput reflect past experience and management's estimates. The prices are estimated in accordance with the past performance of VMTP CGU and management's expectations of market development and macroeconomic projections.

The discount rate was a post-tax measure estimated based on the industry average weighted-average cost of capital reflecting specific risks relating to the VMTP CGU.

Increase in discount rate by 2% or decrease in revenue projections by 20% will not result in the impairment of goodwill.

5. Fleet

The fleet is stated on an individual vessel basis at market value as assessed by independent professional valuers and supported by calculations of value in use. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Revaluations are performed annually.

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A revaluation increase is recognised in revaluation reserve in equity except to the extent that it reverses a previous revaluation deficit on the same asset recognised in the statement of profit or loss, in which case it is recognised in the consolidated statement of profit or loss. A revaluation decrease is recognised in the consolidated statement of profit or loss except to the extent that it reversed the previous revaluation surplus on the same asset recognised directly in equity, in which case it is recognised directly in equity.

At the end of the year, a portion of the revaluation reserve equal to the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on historical cost is transferred from the revaluation reserve to retained earnings.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Dry-docking and special survey costs ("Dry-docking costs") are recognised as a separate component of the vessel and are capitalised as incurred during the period of the dry-docking programme.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of that item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of profit or loss as incurred.

Depreciation is charged on a straight-line basis in the consolidated statement of profit or loss on net book value less an estimated scrap value, based on anticipated useful lives of 25 years from date of building of the vessel.

Dry-docking and special survey costs are capitalised and depreciated on a straight-line basis over a period of five years. Any unamortised amounts are derecognised when the next dry dock / special survey occurs or on disposal of the vessel to which the costs relate.

	Carrying value	
	31 December 2019	31 December 2018
	RUB mln	
Fleet	4 342	5 035
Deferred dry docking expenses	640	642
	<u>4 982</u>	<u>5 677</u>
Total deadweight tonnage	<u>292</u>	<u>303</u>

	Valuation	Depreciation	Net book value
	RUB mln		
At 1 January 2018	3 947	-	3 947
Depreciation charge for the year	-	(157)	(157)
Additions	242	-	242
Disposal	(111)	-	(111)
Revaluation	83	157	240
Translation difference	874	-	874
At 31 December 2018	<u>5 035</u>	<u>-</u>	<u>5 035</u>
Depreciation charge for the year	-	(193)	(193)
Additions	618	-	618
Disposal	(412)	-	(412)
Revaluation	(344)	190	(154)
Translation difference	(555)	3	(552)
At 31 December 2019	<u>4 342</u>	<u>-</u>	<u>4 342</u>

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The Group reviews the carrying value of the fleet on an annual basis. In determining an appropriate carrying value, the Company relies on the opinion of expert third party valuers (level 2 fair value measurement). The independent professional brokers determine by reference to recent sales transactions of similar vessels the amount a vessel could be sold for, assuming that the vessel is in reasonable condition. The fleet was revalued as at 31 December 2019 by the brokers with reference to the observable market transactions with comparable vessels. The resulting revaluation loss of RUB 154 million was recorded in the consolidated statement of profit or loss in the amount of RUB 102 million and the revaluation reserve in the amount of RUB 52 million.

The valuation basis utilised implicitly includes the value of dry-docking in the overall valuation. Management, therefore, deducts the net book value of capitalised dry dock from the valuation and accounts for such dry dock at historical cost less accumulated depreciation.

Fully depreciated vessels are valued by the management at scrap value which approximates their value in use. The fleet includes 3 vessels, fully depreciated, with an aggregate scrap value of RUB 414 million at 31 December 2019 (3 vessels with scrap value of RUB 569 million at 31 December 2018).

At 31 December 2019, the estimated scrap value of the Group's fleet was calculated based on an estimate of RUB 24 453 per LWT (31 December 2018: RUB 31 262). The change in accounting estimate has resulted from increase in scrap rate nominated in USD and appreciation of Russian rouble.

Had the vessels been carried at the historical cost, the carrying amount would have been RUB 3 360 million at 31 December 2019 (31 December 2018: RUB 3 529 million).

At 31 December 2019 9 vessels in the Group's fleet with a net book value of RUB 2 484 million were insured for hull and machinery risks with western underwriters, a further 12 vessels with a net book value of RUB 1 858 million were insured with Russian underwriters. The total insured value amounted to RUB 5 593 million.

Movements during the period on deferred dry docking expenses were:

	<u>Cost</u>	<u>Depreciation</u>	<u>Net book value</u>
		RUB mln	
At 1 January 2018	1 112	(604)	508
Additions	258	-	258
Acquisitions	20	-	20
Disposals	(40)	28	(12)
Charge for the year	-	(238)	(238)
Amortised dry dock write off	(246)	246	-
Translation difference	228	(122)	106
At 31 December 2018	<u>1 332</u>	<u>(690)</u>	<u>642</u>
Additions			
Acquisitions	357	-	357
Disposals	(142)	93	(49)
Charge for the year	-	(237)	(237)
Amortised dry dock write off	(195)	195	-
Translation difference	(146)	73	(73)
At 31 December 2019	<u>1 206</u>	<u>(566)</u>	<u>640</u>

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6. Rolling Stock and Other Tangible Fixed Assets

Other fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Other fixed assets are depreciated on a straight line basis to their residual values at the following annual rates:

Buildings	3 – 10%
Rolling stock	4 – 20%
Machinery, equipment and other fixed assets	5 – 33%

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in the statement of profit or loss unless it reverses a previous revaluation recognised in equity in which case it is recognised in equity. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of non-financial assets other than goodwill impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

a) Rolling stock

	<u>Cost</u>	<u>Depreciation</u>	<u>Net book value</u>
		RUB mln	
At 1 January 2018	11 175	(4 732)	6 443
Additions	9 909	-	9 909
Additions through business combination	2 908	-	2 908
Depreciation charge	-	(1 171)	(1 171)
Disposals	(2 927)	2 017	(910)
At 31 December 2018	<u>21 065</u>	<u>(3 886)</u>	<u>17 179</u>
IFRS 16 application (Note 2(a))	2 725	-	2 725
At 1 January 2019	<u>23 790</u>	<u>(3 886)</u>	<u>19 904</u>
Additions	949	-	949
Transfer to assets classified as held for sale (Note 19)	(10 451)	1 331	(9 120)
Depreciation charge	-	(1 888)	(1 888)
Disposals	(1 395)	773	(622)
At 31 December 2019	<u>12 893</u>	<u>(3 670)</u>	<u>9 223</u>

The Group has not identified any impairment indicators in respect of rolling stock which is primarily allocated to Firm Transgarant and its subsidiaries CGU as at 31 December 2019. The turbulence of global economy and other factors described in Note 2(d) may potentially result in the impairment of the Group’s rolling stock in future.

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periods in case of continuing negative disbalance of export and import is maintained and the market developments in terms of railway transportation volumes and rates do not meet the Group's expectations.

As at 31 December 2019, rolling stock with a net book value of RUB 11 517 million was insured with Russian insurance companies. The total insured value is RUB 18 146 million (31 December 2018: RUB 19 119 million with a net book value of RUB 11 054 million).

b) Other Tangible Fixed Assets

	Buildings and infrastructure	Plant, machinery and other	Assets under construction	Total
	RUB mln			
Cost				
At 1 January 2018	7 890	9 030	2 072	18 992
Additions	481	880	632	1 993
Transfers from AUC	18	11	(29)	-
Additions through business combination	87	-	39	126
Disposals	(25)	(178)	(4)	(207)
Translation difference	348	649	51	1 048
At 31 December 2018	8 799	10 392	2 761	21 952
IFRS 16 application (Note 2(a))	1 291	586	-	1 877
At 1 January 2019	10 090	10 978	2 761	23 829
Additions	567	954	292	1 813
Transfers from AUC	392	27	(419)	-
Transfer to assets classified as held for sale (Note 19)	-	(8)	-	(8)
Disposals	(259)	(183)	(36)	(478)
Translation difference	(200)	(424)	(60)	(684)
At 31 December 2019	10 590	11 344	2 538	24 472
Depreciation				
At 1 January 2018	2 093	5 723	-	7 816
Depreciation charge for the year	212	497	-	709
Disposal	(4)	(119)	-	(123)
Translation difference	291	611	-	902
At 31 December 2018	2 592	6 712	-	9 304
Depreciation charge for the year	275	755	-	1 030
Transfer to assets classified as held for sale (Note 19)	-	(7)	-	(7)
Disposal	(28)	(156)	-	(184)
Translation difference	(181)	(334)	-	(515)
At 31 December 2019	2 658	6 970	-	9 628
Net book value				
At 1 January 2018	5 797	3 307	2 072	11 176
At 31 December 2018	6 207	3 680	2 761	12 648
At 31 December 2019	7 932	4 374	2 538	14 844

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Profit from the sale and other disposal of rolling stock and other fixed assets for 2019 amounted to RUB 123 million and is included in the net amount of other income (2018: RUB 605 million).

The Group has not identified any impairment indicators in respect of other fixed assets included in key cash generating units.

7. Investments in Associates and Joint Ventures

Joint ventures are those companies and other entities in which the Group, directly or indirectly, undertake an economic activity that is subject to joint control. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures and associates are accounted for using the equity method.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment.

Thus the consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control/significant influence commences until the date that joint control/significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

In accordance with the Group's accounting policies, each investment in an associate or joint venture is evaluated every reporting period to determine whether there are any indications of impairment after application of the equity method of accounting. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an investment in an associate or joint venture is measured at the higher of fair value less costs to sell and value in use.

Equity accounted investments represent investments in joint ventures and associates.

<u>Name</u>	<u>Country of incorporation</u>	<u>Percentage Holding</u>	<u>Activity</u>	<u>Classification</u>
Trans Russia Agency Japan Co. Ltd	Japan	50%	Agency services	Joint Venture
International Paint (East Russia) Limited	Hong Kong	49%	Ship Paint Production	Associate

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Movements in joint ventures and associated companies consolidated on an equity basis are as follows:

	31 December 2019	31 December 2018
	RUB mln	
Balance as at 1 January	141	14 325
Group's share of results of equity accounted investees	77	1 662
Group's share of other comprehensive loss of equity accounted investees	-	56
Disposals	(59)	(14 825)
Dividends received	(77)	(1 091)
Translation differences	(14)	14
Balance as at 31 December	<u>68</u>	<u>141</u>

Summary financial information for equity- accounted investees, not adjusted for the percentage ownership held by the Group, is as follows:

Reporting date	Current assets	Non-current assets	Total assets	Current liabilities	Non – current liabilities	Total liabilities	Profit from operations	Other comprehensive income	Total comprehensive income
RUB mln									
2019	249	8	257	149	6	155	161	-	161

Reporting date	Current assets	Non-current assets	Total assets	Current liabilities	Non – current liabilities	Total liabilities	Profit from operations	Other comprehensive income	Total comprehensive income
RUB mln									
2018	504	19	523	305	-	305	6 480	222	6 702

Profit from operations and other comprehensive income for the year ended 31 December 2018 comprises profit and other comprehensive income of PJSC "TransContainer", investment in which was disposed by the Group in 4th quarter 2018 in the amount of 6 386 RUB million and 222 RUB million respectively.

8. Inventories

Inventories are stated at the lower of cost, calculated on a FIFO basis, and net realisable value. Inventories comprise bunkers, victualling stocks, stores and spares. Net realisable value is the estimated amount an item could be sold for less any selling expenses.

	31 December 2019	31 December 2018
	RUB mln	
Bunkers	370	461
Stores and spares	440	436
Other stocks and raw materials	236	188
	<u>1 046</u>	<u>1 085</u>

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9. Non-Derivative Financial Assets and Liabilities, Other Assets

Non-derivative financial instruments comprise investments in debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group's financial assets and financial liabilities are classified as measured at amortized cost.

Impairment of financial assets

The Group measures loss allowances at an amount equal to lifetime 'expected credit loss' (ECLs), except for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition. The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset in case of long-term assets.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables are presented as part of net other operating expenses.

a) Other Non-Current Assets

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RUB mln</u>	
Restricted cash	9	10
Lease right	-	74
Prepayments for fixed assets, at cost	877	438
Prepayments for investment (Note 24)	106	-
Other intangible assets	248	228
Other equity investments	38	60
Guarantees	70	80
Other non-current assets	<u>236</u>	<u>152</u>
	<u>1 584</u>	<u>1 042</u>

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b) Other Current Assets

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RUB mln</u>	
Restricted deposits	41	28
Prepayments for investment	-	622
Assets held for sale	-	217
Other non-current assets	11	15
	<u>52</u>	<u>882</u>

c) Accounts Receivable

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RUB mln</u>	
Trade debtors	4 255	3 540
VAT receivable	2 795	2 660
Prepayments to OJSC "Russian Railways"	761	1 028
Amounts due from associates and joint ventures	-	11
Amounts due from subsidiaries	-	4
Current tax assets	1 110	530
Other debtors and prepayments	2 252	3 090
Allowance for impairment	(631)	(496)
	<u>10 542</u>	<u>10 367</u>

d) Cash and Cash Equivalents

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RUB mln</u>	
Bank accounts and cash in hand	1 232	1 510
Restricted cash not available for the Group	-	1 803
	<u>1 232</u>	<u>3 313</u>

e) Accounts Payable

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RUB mln</u>	
Trade creditors	3 814	3 508
Taxes payable, other than income tax	1 128	1 070
Interest payable	364	491
Amounts due to subsidiaries	-	7
Current tax liabilities	997	843
Other creditors and accruals	4 363	4 537
	<u>10 666</u>	<u>10 456</u>

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10. Debt Obligations

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Fair value is obtained through discounting future cash flows at the current market interest rate applied to financial instruments with similar terms. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(a) Loans payable

	31 December 2019	31 December 2018
	RUB mln	
Loans and other obligations comprise:		
<i>Secured loans</i>		
At fixed rate 10% - 15%	16	56
At variable rates 7%-12% above Libor/ Russian Central bank	32 117	38 264
	32 133	38 320
<i>Unsecured loans</i>		
At fixed rate 5% - 10%	501	501
	501	501
<i>Bonds</i>		
Russian rouble bonds at interest rate 11%-19% p.a.	252	378
	252	378
Obligations under finance leases at fixed rate 12%-20% (Note 2 (a))	-	6 448
	-	6 448
	32 886	45 647
Repayable within the next twelve months	6 145	4 695
Long term balance	26 741	40 952
	32 886	45 647

The carrying amount of pledged under debt obligations rolling stock and other fixed assets as at 31 December 2019 was RUB 8 256 million (31 December 2018: RUB 7 704 million).

For currency and maturity analysis of loans and other obligations see Note 22.

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(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

RUB mln	Loans	Bonds	Leases (Note 2 (a))	Interest payable	Total
Balance at 31 December 2018	38 821	378	6 448	491	46 138
IFRS 16 application (Note 2(a))	-	-	4 603	-	4 603
Balance at 1 January 2019	38 821	378	11 051	491	50 741
Changes from financing cash flows					
Repayments	(3 731)	(120)	(1 139)	-	(4 990)
Interest paid	-	-	(1 454)	(3 418)	(4 872)
Total changes from financing cash flows	(3 731)	(120)	(2 593)	(3 418)	(9 862)
Other changes					
Leases received	-	-	547	-	547
Disposal	-	-	(157)	-	(157)
Transfer to assets classified as held for sale (Note 19)	-	-	(7 020)	-	(7 020)
Interest expense	-	-	1 454	3 232	4 686
Bonds redemption result	-	(6)	-	-	(6)
Translation differences	(2 456)	-	(58)	59	(2 455)
Total other changes	(2 456)	(6)	(5 234)	3 291	(4 405)
Balance at 31 December 2019	32 634	252	3 224	364	36 474

Comparative information for the year 2018:

RUB mln	Loans	Bonds	Finance lease	Interest payable	Total
Balance at 1 January 2018	42 371	4 559	246	1 452	48 628
Changes from financing cash flows					
Proceeds	500	-	-	-	500
Repayments	(8 859)	(3 997)	(1 281)	-	(14 137)
Interest paid	-	-	(427)	(5 633)	(6 060)
Total changes from financing cash flows	(8 359)	(3 997)	(1 708)	(5 633)	(19 697)
Other changes					
Finance leases received	-	-	7 495	-	7 495
Additions through business combination	110	-	-	-	110
Interest expense	-	-	427	3 920	4 347
Bonds redemption result	-	(184)	-	-	(184)
Other finance costs	-	-	-	752	752
Translation differences	4 699	-	(12)	-	4 687
Total other changes	4 809	(184)	7 910	4 672	17 207
Balance at 31 December 2018	38 821	378	6 448	491	46 138

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11. Current and Deferred Tax

Companies within the Group are subject to taxation in different jurisdictions. The most significant tax expense arises in entities incorporated in the Russian Federation.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised and not less than deferred tax liability recognised as at the reporting date. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

	<u>2019</u>	<u>2018</u>
	<u>RUB mln</u>	
Current tax expense		
Current period	2 292	2 447
	<u>2 292</u>	<u>2 447</u>
Deferred tax expense		
Origination and reversal of temporary differences	290	498
	<u>290</u>	<u>498</u>
Total income tax expense	<u>2 582</u>	<u>2 945</u>

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Reconciliation of the reported net income tax expense to reported profit before income tax:

	31 December 2019	31 December 2018
	RUB mln	RUB mln
Profit before income tax	740	9 954
Income tax (benefit)/expense at applicable tax rate of 20% (2018: 20%)	148	1 991
Effect of income taxed at different rates	821	352
Income tax on dividends	-	123
Non-taxable income/(non-deductible expenses), net	1 166	302
Change in unrecognised deferred tax asset	447	177
	2 582	2 945

The Group's deferred tax liability mainly arises in entities incorporated in Russia and the effect of deferred taxation in other jurisdictions is not material.

Movements in temporary differences were the following:

	Balance 1 January 2019	Recognised in profit or loss	Transfer to liabilities classified as held for sale (Note 19)	Translation differences	Other comprehen- sive income	Balance 31 December 2019
	RUB mln					
Vessels	(437)	60	-	45	10	(322)
Other fixed assets and assets under construction	(2 692)	5	642	6	-	(2 039)
Accounts receivable	147	34	(1)	-	-	180
Accounts payable	370	(95)	27	(3)	-	293
Loans and borrowings	564	28	(584)	-	-	8
Other	404	(213)	-	-	-	191
Tax loss carry-forwards	296	(109)	-	-	-	187
	(1 348)	(290)	84	48	10	(1 496)

	Balance 1 January 2018	Recognised in profit or loss	Acquisition	Disposal	Translation differences	Other comprehen- sive income	Balance 31 December 2018
	RUB mln						
Vessels	(308)	(26)	-	-	(69)	(34)	(437)
Other fixed assets and assets under construction	(1 198)	(1 096)	(391)	1	(8)	-	(2 692)
Accounts receivable	228	(81)	1	-	(1)	-	147
Accounts payable	207	157	-	-	6	-	370
Loans and borrowings	-	564	-	-	-	-	564
Other	318	86	-	-	-	-	404
Tax loss carry- forwards	397	(101)	-	-	-	-	296
	(356)	(497)	(390)	1	(72)	(34)	(1 348)

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Unrecognised deferred tax liability

A temporary difference of RUB 2 466 million relating to investments in subsidiaries and joint ventures has not been recognised as at 31 December 2019 (31 December 2018: RUB 2 020 million) as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

Unrecognised deferred tax asset

The Group has unrecognized deferred tax assets at the amount of RUB 4 299 million as at 31 December 2019 (31 December 2018: RUB 2 763 million). Unrecognised deferred tax assets relate to tax losses carried forward that are not expected to be recoverable in the foreseeable future.

12. Shareholders' Equity

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>RUB mln</u>	
Authorised number of shares (1 Rouble per share)	3 643 593 000	3 643 593 000
Issued number of shares	2 951 250 000	2 951 250 000
Share capital (RUB mln)	<u>2 951</u>	<u>2 951</u>

13. Business Segmental Analysis

For management purposes, the Group is organised into five operating segments: shipping, which operates on a global basis; liner and logistics; railway transportation services which operate in Russia and other countries of the CIS, port services which include Russian-based port, sea terminal and bunkering services. The Group also includes certain companies that cannot be allocated to a specific division; these include investing and managing companies. These divisions are the basis on which the Group reports its operating segment information. The services provided by each of these divisions are as follows:

Shipping	The shipping division is involved in ship ownership, ship management, chartering out and provision of agency services. These activities are carried out on a cabotage, cross trade and import-export basis. The vessels operated by the shipping division are largely container vessels and bulk carriers.
Liner and Logistics	The liner and logistics division operates liner services and provides freight forwarding services both for containers and break-bulk cargoes.
Railway Services	The railway services division provides services both as an operator and an agent. When acting as an operator it renders services for containerised and bulk cargoes using locomotives, railway wagons, hoppers, steel-pellet wagons and tank wagons owned by the division or leased by it under finance leases. In addition it uses rolling stock hired on short term operating leases.
Ports	The ports division owns and operates port facilities and container terminals in Russia and provides cargo handling, stevedoring, container storage and rental and related port services and facilities.

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Bunkering The bunkering division provides services of ship bunkering which involves transferring oil and fuel to and from a vessel and other supporting activity.

Segmental reporting information is submitted to the Board of directors of the Group on a regular basis as part of the management reporting process. It is used to assess the efficiency of the segments and to take decision on the allocation of resources. The main segment measure of profit is net profit.

Segment information for the main reportable segments of the Group for the year ended 31 December 2019 is set out below.

RUB mln	Shipping	Liner and logistics	Railway services	Ports	Bunkering	Corporate	Eliminations/ adjustments	Total
External sales	1 971	37 613	5 466	11 512	111	-	-	56 673
Inter-segment sales	1 274	331	2 766	3 897	1 080	-	(9 348)	-
Segment revenue	3 245	37 944	8 232	15 409	1 191	-	(9 348)	56 673
Segment expenses (*)	(2 557)	(35 471)	(4 612)	(8 614)	(1 158)	(2 519)	10 311	(44 620)
Segment result	688	2 473	3 620	6 795	33	(2 519)	963	12 053

Segment non-cash items:

Depreciation and amortization	(459)	(285)	(1 945)	(678)	-	(118)	-	(3 485)
Impairment of assets	(102)	-	(39)	-	-	-	-	(141)

Other material items of income/expense:

Other financial expenses, net	(25)	46	(1 472)	1 477	(20)	(5 802)	(1 577)	(7 373)
Other income, net	(17)	(83)	320	(127)	51	736	(1 003)	(123)
Share of profit of equity accounted investees	77	-	-	-	-	-	-	77
Income tax expense	59	(732)	(263)	(1 344)	(13)	(289)	-	(2 582)
Segment net result	221	1 419	221	6 123	51	(8 260)	(1 617)	(1 842)

Segment information for the main reportable segments of the Group for the year ended 31 December 2018 is set out below.

RUB mln	Shipping	Liner and logistics	Railway services	Ports	Bunkering	Corporate	Investment in Trans- Container	Eliminations/ adjustments	Total
External sales	1 757	35 779	9 767	9 674	16	-	-	-	56 993
Inter-segment sales	1 010	96	2 024	3 447	1 002	-	-	(7 579)	-
Segment revenue	2 767	35 875	11 791	13 121	1 018	-	-	(7 579)	56 993
Segment expenses (*)	(2 247)	(34 462)	(7 685)	(7 085)	(981)	(2 406)	-	8 249	(46 617)
Segment result	520	1 413	4 106	6 036	37	(2 406)	-	670	10 376

Segment non-cash items:

Depreciation and amortization	(429)	(107)	(1 225)	(639)	-	(80)	-	-	(2 480)
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RUB mln	Shipping	Liner and logistics	Railway services	Ports	Bunkering	Corporate	Investment in Trans- Container	Eliminations/ adjustments	Total
Impairment reversal	124	-	-	-	-	-	-	-	124
<i>Other material items of income/expense:</i>									
Other financial income, net	(7)	(81)	(672)	425	(6)	386	-	(486)	(441)
Other income, net	112	(124)	655	(188)	(1)	562	-	(702)	314
Result of disposal of subsidiaries and associates	-	-	290	-	-	-	526	-	816
Share of profit of equity accounted investees	42	19	-	-	-	-	1 601	-	1 662
Income tax expense	(47)	(421)	(1 217)	(912)	(5)	(344)	-	1	(2 945)
Segment net result	315	699	1 937	4 714	25	(2 291)	2 127	(517)	7 009
<i>Segmental assets and liabilities</i>									

	Assets		Liabilities	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RUB mln			
Shipping (Global)	8 107	7 128	723	958
Liner and logistics (Global)	9 150	8 021	5 467	4 147
Railway services (Russia)	23 427	23 442	9 046	9 404
Ports (Russia)	13 556	11 473	36 535	41 430
Bunkering (Russia)	104	100	133	143
Total of all segments	54 344	50 164	51 905	56 082
Goodwill	6 418	8 493	-	-
Other items not attributable to a specific segment	565	2 170	3 814	1 569
Consolidated	61 327	60 827	55 718	57 651

Other segmental information

	Acquisition of segment assets		Investments in equity accounted investees	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	RUB mln			
Shipping (Global)	987	746	50	59
Liner and logistics (Global)	402	113	18	82
Railway services (Russia)	1 103	13 271	-	-
Ports (Russia)	1 231	1 738	-	-
	3 723	15 868	68	141

(*) Segment expenses include operating expenses and administrative expenses

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14. Revenue

The Group derives revenue from the following main sources:

- “freight and hire” revenue from sea transportation;
- agency fees for arranging transportation;
- provision of transportation services using own and leased wagons (operators’ business);
- revenue from stevedoring services;
- revenue from rentals;
- bunkering.

There are 2 types of transportation contracts entered into by the Group with the customers:

- The contracts where the Group fully controls the pricing, including railway tariff and the fees of subcontractors and bears credit and price risk in full. In this case the transaction price comprises full charge out rate invoiced to the customer.
- The contracts where the customer additionally reimburses the Group for the railway tariff paid. In this case the transaction price comprises only the fee charged by the Group to the customer net of railway tariff reimbursed.

Revenue from transportation and freight services is recognized in the process of providing transportation. Revenue from stevedoring services is recognised at point in time when the services are completed.

	2019	2018
	RUB mln	
Revenue from contracts with customers		
Transportation services (operators’ business)	41 795	44 183
Port and stevedoring services	11 512	9 674
Bunkering	111	16
Freight revenue	770	525
Total revenue from contracts with customers	54 188	54 398
Other revenue		
Revenue for vessels chartering	1 201	1 232
Revenue from railcar and other rentals	1 026	1 097
Agency fees	258	266
Total other revenue	2 485	2 595
	56 673	56 993

Freight revenue and revenue from vessels chartering is earned by the shipping division. Revenue from railcar and other rentals is earned by the railway division. Transportation services revenue is earned by liner and logistics and railway divisions.

Below please find the disclosure of contract assets and liabilities under contracts with customers:

	31 December 2019	1 January 2019
	RUB mln	
Contract assets included in Trade and other receivables	805	419
Contract liabilities included in Trade and other payables	(1 776)	(1 927)

Contract assets comprise receivables from customers from revenue earned but not yet invoiced as a reporting date. Contract liabilities comprise advances received for the revenue recognised over time. Contract liabilities as at 1 January 2018 were recognised as revenue for the year ended 31 December 2019.

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15. Operating Expenses

	2019	2018
	RUB mln	
Railway infrastructure tariff and transportation services	26 832	29 120
Bunkering	63	36
Payroll expenses	4 802	3 752
Voyage and vessel running cost	1 181	1 088
Lease	1 736	3 035
Stevedoring services	2 591	2 409
Non-profit based taxes	74	194
	37 279	39 634

16. Administrative Expenses

	2019	2018
	RUB mln	
Salary and other staff related costs	5 028	4 901
Professional fees	642	610
Office rent	347	333
Other administrative expenses	1 324	1 139
	7 341	6 983

17. (Impairment)/Impairment Reversal, net

	2019	2018
	RUB mln	
Fleet (impairment)/impairment reversal (Note 5)	(102)	83
Assets available for sale valuation	-	41
Impairment of other assets	(39)	-
	(141)	124

18. Other Finance Income and Costs, net

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets, changes in the fair value of financial assets at fair value through profit or loss, gains on bonds redemption. Interest income is recognised as it accrues in the statement of profit or loss, using the effective interest method. Dividend income is recognised in the statement of profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, bonds related expenses, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the statement of profit or loss using the effective interest method, except to the extent that they relate to acquisition of qualifying assets, in which case they are capitalized in the cost of such assets.

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	2019	2018
	RUB mln	
Finance income		
Bonds redemption	6	184
Interest income	71	132
Foreign exchanges gain	-	4 391
Total finance income	77	4 707
Finance costs		
Interest expense	(3 232)	(3 920)
Foreign exchanges loss	(2 713)	-
Interest expense on leases (IFRS) 16	(1 454)	(427)
Other finance costs	(51)	(801)
Total finance costs	(7 450)	(5 148)
	(7 373)	(441)

Interest expense in the amount of RUB 1 454 million comprise RUB 808 million interest expense on the lease contracts that were accounted as finance leases under IAS 17 *Leases* as at 31 December 2018 and RUB 646 million interest expense on the lease contracts that were recognized as a lease upon transition to IFRS 16 *Leases*.

19. Disposal Group Held For Sale

In 2019 the Group's management has approved disposal the part of Group's railway division which was involved in grain transportation and performed a number of actions related to customer location. Accordingly, all assets and liabilities that are planned to be disposed of are presented as a disposal group as at 31 December 2019. The sale was completed in February 2020 (Note 24).

At 31 December 2019 the disposal group comprised the following assets and liabilities.

RUB mln	2019
Assets classified as held for sale	
Goodwill	2 028
Fixed assets	9 121
Accounts receivable	178
Cash and cash equivalents	9
	11 336
Liabilities classified as held for sale	
Accounts payable	150
Deferred tax liability	84
Leases liabilities	7 020
	7 254

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20. (Loss)/Earnings Per Share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Basic earnings per share is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held by Group companies.

	31 December 2019	31 December 2018
	RUB	
(Loss)/profit for the year	(2 232 000 000)	6 723 000 000
Weighted average number of shares in issue (Note 12)	2 951 250 000	2 951 250 000
(Loss)/earnings per share	(0,756)	2,278

21. Contingencies and Commitments

(a) Taxation Contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

The tax authorities have the power to impose fines and penalties for tax arrears. A tax year is generally open for review by the tax authorities during three subsequent calendar years. Currently the tax authorities are taking a more assertive and substance-based approach to their interpretation and enforcement of tax legislation.

Current Russian transfer pricing legislation requires transfer pricing analysis for the majority of cross-border intercompany and major domestic intercompany transactions. Starting from 2019, transfer pricing control, as a general rule, is applied to domestic transactions only if both criteria are met: the parties apply different tax rates, and the annual turnover of transactions between them exceeds RUB 1 billion.

The Russian transfer pricing rules are close to OECD guidelines, but have certain differences that create uncertainty in practical application of tax legislation in specific circumstances. A very limited number of publicly available transfer pricing court cases in Russia does not provide enough certainty as to the approach to applying transfer pricing rules in Russia. The impact of any transfer pricing assessment may be material to financial statements of the Group, however, the probability of such impact cannot be reliably assessed.

Russian tax authorities may review prices used in intra-group transactions, in addition to transfer pricing audits. They may assess additional taxes if they conclude that taxpayers have received unjustified tax benefits as a result of those transactions.

Russian tax authorities continue to exchange transfer pricing as well as other tax related information with tax authorities of other countries. This information may be used by the tax authorities to identify transactions for additional in-depth analysis.

In addition, changes aimed at regulating tax consequences of transactions with foreign companies have been introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group’s tax position and create additional tax risks.

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All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for the tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts could differ and the effect on these consolidated financial statements, if the tax authorities are successful in enforcing their interpretations, could be significant.

(b) Business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display the characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which contribute together with other legal and fiscal impediments to the challenges faced by entities operating in the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

22. Fair Value and Risk Management

Fair Values

Management of the Group believes that the fair values of financial assets and liabilities shown in the consolidated statement of financial position both as at 31 December 2019 and 31 December 2018 approximate their carrying amounts.

Capital Risk Management

The Group manages its capital to ensure that it can continue to operate and expand their operations while at the same time maximising returns to shareholders.

The Group is not subject to externally imposed capital requirements other than those included, from time to time, in the financial covenants associated with bank borrowing and those, imposed by the Russian legislation.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, finance leases, trade and other payables.

The main risks arising from the Group's financial instruments are market risk which includes foreign currency and interest rate risk, credit and liquidity risks.

The Board of Directors has overall responsibility for the establishment and overseeing of the Group's risk management framework. The Group Audit Committee is responsible for developing and monitoring the Group's risk management policies.

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The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which the customer of the Group operates, has less of an influence on a credit risk. There is no concentration of credit risk with a single customer.

Each company within the Group establishes its own credit policy taking into account the specifics of the sector and the company's customer base.

The majority of the Group's customers have been transacting with the Group companies for many years and losses arising from this category of customer are infrequent.

Policies established by Group companies for new customers will generally involve some form of credit check based on the available information. Where a customer is not deemed creditworthy, the Group will generally only offer services on a prepayment basis.

The Group has provided fully for all receivables over one year because historical experience is such that receivables that are past due beyond one year are generally not recoverable.

The Group's maximum exposure to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the consolidated statement of financial position and was as follows:

	31 December 2019	31 December 2018
	RUB mln	
Accounts receivable	4 607	3 857
Other current assets	52	15
Cash and cash equivalents	1 232	3 313
	5 891	7 185

The ageing profile of trade receivables was:

	31 December 2019		31 December 2018	
	RUB mln			
	Total book value	Allowance for impairment	Total book value	Allowance for impairment
Current	2 947	-	2 563	-
Overdue 90 days	418	(2)	331	-
Overdue 91 days to one year	518	(146)	462	-
Overdue more than one year	372	(372)	184	(184)
	4 255	(520)	3 540	(184)

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During the year, the Group had the following movement in allowance for trade receivables:

	31 December 2019	31 December 2018
	RUB mln	
Balance as at 1 January	184	191
Change in allowance	336	(7)
Balance as at 31 December	520	184

The following analysis provides further detail about the calculation of ECLs related to trade receivables. The Group uses a provision matrix to calculate ECLs for customers' trade receivables. The level of losses is calculated using the sliding rate method based on the probability of the receivables going into default for write-off. The ECLs were calculated based on actual credit loss experience over the past year. The Group performed the calculation of ECL rates separately for the customers of each key operating company of the Group. Exposures within each operating company were not further segmented except for individually significant buyers, which cause certain credit risks depending on the buyer's credit history and relationship with the Group.

	Weighted-average loss rate	Credit-impaired
Current (not past due)	0%	No
1–30 days past due	4%	No
30-90 days past due	10%	No
90–360 days past due	13%	No
More than 360 days past due	100%	Yes

Other assets of the Group with exposure to credit risk include cash and other receivables. Cash is placed with reputable banks bearing the investing ranking. Other receivables comprise settlements with agents with turnover period less than 3 months. Management does not expect these counterparties to fail to meet their obligations.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases, finance leases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the RUB and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

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At 31 December 2019, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

	<u>USD</u>	<u>RUB</u> <u>RUB mln</u>	<u>Other currencies</u>
Assets			
Other non-current assets	-	11	723
Accounts receivable	506	53	94
Bank and cash balances	80	-	5
Intra-group assets	21 735	5 522	-
	<u>22 321</u>	<u>5 586</u>	<u>822</u>
Liabilities			
Accounts payable	487	108	153
Loans and other obligations	18 868	-	-
Intra-group liabilities	358	33 470	9
	<u>19 713</u>	<u>33 578</u>	<u>162</u>
	<u>2 608</u>	<u>(27 992)</u>	<u>660</u>

At 31 December 2018, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

	<u>USD</u>	<u>RUB</u> <u>RUB mln</u>	<u>Other currencies</u>
Assets			
Other non-current assets	27	12	-
Accounts receivable	464	37	9
Bank and cash balances	243	1 766	17
Intra-group assets	17 860	4 963	-
	<u>18 594</u>	<u>6 778</u>	<u>26</u>
Liabilities			
Accounts payable	414	149	27
Loans and other obligations	23 536	-	-
Intra-group liabilities	920	30 136	3
	<u>24 870</u>	<u>30 285</u>	<u>30</u>
	<u>(6 276)</u>	<u>(23 507)</u>	<u>(4)</u>

Other currencies comprise mostly Euro.

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to strengthening/weakening of USD against the RUB by 30% (2018: 20%), which represents management's assessment of the possible change in foreign currency exchange rates.

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RUB mln	RUB/USD impact			
	31 December 2019	31 December 2019	31 December 2018	31 December 2018
	RUB/USD +30%	RUB/USD -30%	RUB/USD +20%	RUB/USD -20%
Profit or (loss)	9 180	(9 180)	3 446	(3 446)

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest risk mainly arises from its debt obligations in particular non-current borrowings. Borrowing at variable rates exposes the Group to cash flow interest rate risk. Lending at fixed rates or the purchase of debt instruments at fixed rates expose the Group to changes in the fair value.

The Group reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings is disclosed in Note 10.

Structure of interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, excluding the effect of derivative financial instruments, was:

	Carrying amount	
	31 December 2019	31 December 2018
	RUB mln	
Fixed rate instruments		
Cash and cash equivalents	698	624
Other investments	-	587
Long-term deposits	9	10
Debt and lease liabilities	(3 741)	(7 005)
	(3 034)	(5 784)
Variable rate instruments		
Debt and lease liabilities	(32 369)	(38 642)
	(32 369)	(38 642)

Interest rate sensitivity analysis

The table below details the Group's sensitivity to increase or decrease of floating interest rates by 1%.

The analysis was applied to loans and borrowings (financial liabilities) based on the assumption that the amount of liability outstanding as at the reporting date was outstanding for the whole year.

	LIBOR impact		Key CBR impact	
	31 December 2019	31 December 2019	31 December 2019	31 December 2019
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
	RUB mln	RUB mln	RUB mln	RUB mln
Profit/(loss)	(198)	198	(133)	133

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(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group has in place a detailed budgeting and cash flow forecasting process to help ensure that it has sufficient cash to meet its payment obligations.

Loans, borrowings, finance lease and other payables

RUB mln	Contractual cash flows				
	Carrying value	Minimum future payment	Less than 12 months	1-5 years	Later than 5 years
As at 31 December 2019					
Debt and interest payable	33 250	38 717	8 631	30 086	-
Leases	3 224	8 510	758	2 305	5 447
Trade and other payables	7 108	7 108	7 108	-	-
Total	43 582	54 355	16 497	32 391	5 447

RUB mln	Contractual cash flows				
	Carrying value	Minimum future payment	Less than 12 months	1-5 years	Later than 5 years
As at 31 December 2018					
Debt and interest payable	39 690	49 655	7 694	41 961	-
Finance Leases	6 448	12 059	1 248	5 869	4 942
Trade and other payables	7 746	7 746	7 746	-	-
Total	53 884	69 460	16 706	47 830	4 942

23. Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if both parties are under common control or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During the period eight individuals were considered to be the Group's key management and directors (2018: eight individuals). Their remuneration during the period was as follows:

	31 December 2019	31 December 2018
	RUB mln	
Salaries	274	215
Bonuses accrual	169	147
	443	362

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	31 December 2019	31 December 2018	Nature of transactions
	RUB mln		
Consolidated statement of financial position			
Subsidiaries	-	4	Trade receivables
Subsidiaries	-	(7)	Trade payables
Associates	-	11	Trade receivables
Related through common shareholder	(103)	-	Other services
Consolidated statement of profit or loss			
Associates purchases	(7)	(282)	Agency services, rent and security services
Associates sales	-	68	Agency services, rent and security services
Related through common shareholder	(323)	(251)	Other income and expense, net

24. Events Subsequent to The Reporting Date

Other than disclosed in Note 2(d) the following events have occurred for the period from 31 December 2019 till the date of these financial statements. In January 2020, the Group acquired 25% plus 1 share of Russkaya Troika JSC, which were bought from Russian Railways PJSC, and thereby became a sole shareholder of the Company. The transaction cost amounted to RUB 622 million part of which was paid as at 31 December 2019 in the amount of RUB 106 million (Note 9).

In February 2020, the Group sold its 100% stake in the grain carrier operator "Trans – Grain" LLC and a number of other assets related to the grain business. The total amount of the transaction was RUB 4 391 million.

In February-March 2020 the Group has disposed of 3 vessels for the total consideration of RUB 334 million (USD 5 million) and acquired 1 new vessel for RUB 451 million (USD 6 million).