PJSC TRANSCONTAINER

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2018

PJSC TRANSCONTAINER

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of PJSC TransContainer (the "Company") and its subsidiaries (the "Group") as at 31 December 2018 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking necessary steps to safeguard the Group's assets;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved on 25 March 2019 by:

V. G. Saraev	**M. V. Usenko**
General Director	Chief Accountant

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Center for Cargo Container Traffic TransContainer:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Center for Cargo Container Traffic TransContainer (PJSC TransContainer) and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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Our audit approach

Overview

- Overall Group materiality: 541 million Russian Roubles (RUB million), which represents 1% of an average between revenue and adjusted revenue, representing revenue net of third parties charges related to principal activities (providing integrated freight forwarding and logistics services).

- We conducted audit of PJSC TransContainer, considered to be the only significant component of the Group based on individual share in Group revenue (99%).
- Our audit scope addressed 99% of the Group's revenue and 95% of the Group's total carrying value of property, plant and equipment.

- Timing of revenue recognition

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

Materiality

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

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

Overall Group materiality	RUB 541 million
How we determined it	1% of an average between revenue and adjusted revenue determined as described above
Rationale for the materiality benchmark applied	We chose an average between revenue and adjusted revenue, determined as described above, as the benchmark because, in our view, this combined measure reflects the Group's performance (due to the significant share of services of third parties in revenue, revenue taken alone does not fully reflect the effectiveness of the business). We chose 1% which is consistent with quantitative materiality thresholds, used for profit-oriented companies.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Timing of revenue recognition	
See notes 3 and 6 to the consolidated financial statements for relevant disclosures, accounting policies and judgments. The Group's revenue for the year ended 31 December 2018 was RUB 76,959 million, including RUB 71,158 million of revenue from integrated freight forwarding and logistics services. In practice, the above type of services is carried out over a long time and the Group has not completed its performance obligations under some of those services at the reporting date. For integrated freight forwarding and logistics services acts of works performed are prepared at the date of waybill issuance (i.e. on the date when the cargo is provided to the consignee at the destination point, delivered to a temporary storage warehouse, transferred to a foreign railroad, or transferred for further transportation by other means of transport).	Our audit procedures for verifying appropriateness of the cut-off assumption for revenues from integrated freight forwarding and logistics services included the following: • analysis of the average duration of transportation, resulting in confirmation of sufficiency of the period of services rendered by the Group that was used by the Group management in its estimates of progress in performing those services; • recalculation of revenue related to outstanding transportation services at the reporting date based on acts of services rendered and applicable appendices signed in the following accounting period to assess the amount of revenue recognised in the Group's consolidated financial statements in accordance with management's estimations; • analysis of the Group's operating expenses, and accounts receivable and payable balances related to outstanding transportation services recognised in the Group's consolidated financial

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Key audit matter	How our audit addressed the key audit matter
In accordance with IFRS 15, Revenue from Contracts with Customers, an entity recognises revenue over time if the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. The Group's management estimates the stage of completion in respect of transportation services that are outstanding at the reporting date on the basis of information available at the date of the consolidated financial statements' authorisation. The accuracy of management's estimates depends on the analysed period, level of details used in calculations and on a number of judgments used. We paid special attention to determining the timing of recognition of revenue from integrated freight forwarding and logistics services due to the fact that the process of assigning revenue from these services to the current period is complex and involves management's judgment.	statements in accordance with the management's estimations; • sample testing of the documents used by management in estimating the stage of transportation services completion, for example, acts on the services rendered and appendices to them that were issued in the following accounting period and confirm services rendered in prior accounting period; • obtaining written representations from management on correctness of the completion stage determined for transportation services outstanding as at the reporting date and correctness of corresponding revenue calculations. The Group management's current estimate of the stage of completion of transportation services outstanding as at the reporting date in respect of revenue from integrated freight forwarding and logistics services recognised in the consolidated financial statements for the year ended 31 December 2018 has been considered acceptable. As a result of our procedures we have not identified any facts that would indicate that significant adjustments are required to the amount of revenue from these transactions recognised in the accompanying consolidated financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

The Group's reporting process is based on the financial information of its components - individual Group companies. If a component was considered to be significant, we performed an audit of its financial information, based on the level of materiality, set for such component.

Similar to the overall materiality determination, materiality of the components was estimated on the basis of their individual share in the Group's total revenue. PJSC TransContainer was considered to be the only significant component.

In case if procedures performed at the level of a significant component, in our view, did not provide us with sufficient evidence to express our opinion on the consolidated financial statements, we performed analytical procedures in respect of other Group components at the Group level and audited individual account balances and types of operations, subject to materiality.

Our choice of other components of the Group for the audit of individual balances and types of operations was carried out separately for each line of the Group consolidated financial statement included in the scope of the audit, and depended on such factors as level of audit evidence obtained from a significant component and concentration of balances and types of operations in the Group's structure.

In general, audit procedures that we performed at the level of significant and other components of the Group, including sample-based detailed testing, in our view, have provided sufficient coverage in respect of individual amounts of the consolidated financial statements of the Group.

Procedures were performed by the audit team with involvement of tax specialists, and experts in IFRS methodology, property, plant and equipment valuation and accounting for employee benefit liabilities.

Based on the results of our procedures carried out on a sampling basis at the level of the Group components, our analytical procedures at the Group level, as well as procedures with regard to the consolidation reporting process, we believe to have obtained sufficient appropriate audit evidence to form our opinion on the consolidated financial statements of the Group as a whole.

Other information

Management is responsible for the other information. The other information comprises the PJSC TransContainer Annual Report for 2018 and the Issuer's Report of PJSC TransContainer for the 1 Quarter 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's 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.

When we read the PJSC TransContainer Annual Report for 2018 and the Issuer's Report of PJSC TransContainer for the 1 Quarter 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The certified auditor responsible for the audit resulting in this independent auditor's report is Ekaterina Viktorovna Sidorova.

25 March 2019
Moscow, Russian Federation

E.V. Sidorova, certified auditor (licence no. 01-000104), AO PricewaterhouseCoopers Audit

Audited entity:
Public Joint Stock Company Centre for Cargo Container Traffic TransContainer

Record made in the Unified State Register of Legal Entities on 4 March 2006 under State Registration Number 1067746341024

Russian Federation, 125047, Moscow, Oruzheiniy pereulok, 19

Independent auditor:
AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

PJSC TRANSCONTAINER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in millions of Russian Roubles)

	Notes	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	8	47,453	41,701
Advances for acquisition of non-current assets	8	590	119
Investment property		390	294
Intangible assets	9	269	384
Investments in joint ventures	10	3,370	3,403
Other non-current assets		67	82
Total non-current assets		**52,139**	**45,983**
Current assets			
Inventory		222	287
Trade and other receivables	11	1,744	1,323
Prepayments and other current assets	12	4,480	3,975
Cash and cash equivalents	13	9,527	4,171
Total current assets		**15,973**	**9,756**
TOTAL ASSETS		**68,112**	**55,739**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	13,895	13,895
Reserve fund	14	703	703
Translation reserve		(273)	(468)
Other reserves, including investment property's revaluation reserve	14	(1,946)	(2,025)
Retained earnings		33,682	28,262
Total equity attributable to the Company's owners		**46,061**	**40,367**
Non-current liabilities			
Long-term debt	15	10,980	4,987
Employee benefit liability	16	889	1,103
Deferred tax liability	24	1,782	1,635
Financial guarantee for investment in joint venture	10	154	154
Total non-current liabilities		**13,805**	**7,879**
Current liabilities			
Contracts liabilities	17	4,510	-
Trade and other payables	17	975	4,562
Current portion of long-term debt	15	326	1,425
Income tax payable		440	87
Taxes other than income tax payable	18	491	370
Accruals and other current liabilities	19	1,504	1,049
Total current liabilities		**8,246**	**7,493**
TOTAL EQUITY AND LIABILITIES		**68,112**	**55,739**

V. G. Saraev

General Director

M. V. Usenko

Chief Accountant

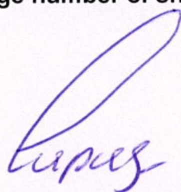
25 March 2019

PJSC TRANSCONTAINER

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

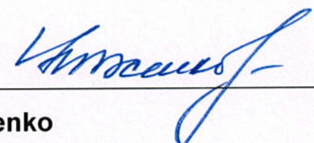
(Amounts in millions of Russian Roubles, unless otherwise stated below)

	Notes	2018	2017
Revenue	20	76,959	65,567
Other operating income	21	1,486	647
Operating expenses	22	(66,886)	(58,438)
Foreign exchange gain/(loss), net		417	(23)
Gain from early termination of finance lease		-	7
Interest expense	23	(885)	(634)
Interest income		465	301
Share of result of associates and joint ventures	10	268	704
Excess of the fair value of net assets of subsidiary over cost of its acquisition	7	154	-
Gain on disposal of associate		-	41
Profit before income tax		**11,978**	**8,172**
Income tax expense	24	(2,469)	(1,638)
Profit for the year attributable to the Company's owners		**9,509**	**6,534**
Other comprehensive income/(loss) (net of income tax)			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit plans liabilities	16	38	(9)
Remeasurements of investment property upon transfer from property, plant and equipment	14	79	111
Items that may be reclassified subsequently to profit or loss:			
Share of translation of financial information of associates and joint ventures to presentation currency	10	146	(142)
Exchange differences on translating of other foreign operations		49	14
Other comprehensive income/(loss) for the year		**312**	**(26)**
Total comprehensive income for the year attributable to the Company's owners		**9,821**	**6,508**
Earnings per share, basic and diluted (in Russian Roubles)		**684**	**470**
Weighted average number of shares outstanding	14	**13,894,778**	**13,894,778**



V. G. Saraev

General Director



M. V. Usenko

Chief Accountant

25 March 2019

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in millions of Russian Roubles)

	Notes	2018	2017
Cash flows from operating activities:			
Profit before income tax		**11,978**	**8,172**
Adjustments for:			
Depreciation and amortisation	22	2,927	2,668
Change in provision for impairment of receivables		23	(50)
Gain from disposal of property, plant and equipment	21	(1,144)	(240)
Share of result of associates and joint ventures	10	(268)	(704)
Excess of the fair value of net assets of subsidiary over cost of its acquisition	7	(154)	-
Gain on disposal of associate		-	(41)
Interest expense, net		420	333
Foreign exchange (gain)/loss, net		(417)	23
Other expenses/(income)		170	(5)
Operating profit before working capital changes, paid income tax and interest and changes in other assets and liabilities		**13,535**	**10,156**
Working capital changes:			
Decrease in inventory		494	216
(Increase)/ decrease in trade and other receivables		(366)	350
Increase in prepayments and other assets		(450)	(389)
(Decrease)/increase in employee benefit liabilities		(150)	21
Increase in trade and other payables and contracts liabilities		712	186
Increase/(decrease) in taxes other than income tax		101	(32)
Increase in accrued expenses and other current liabilities		391	162
Net cash from operating activities before income tax and interest		**14,267**	**10,670**
Interest paid		(733)	(721)
Income tax paid		(2,144)	(1,483)
Net cash provided by operating activities		**11,390**	**8,466**
Cash flows from investing activities:			
Purchases of property, plant and equipment		(7,032)	(6,896)
Proceeds from disposal of property, plant and equipment		950	63
Acquisition of investment in joint venture		-	(10)
Proceeds from disposal of investments in associates		-	43
Sale of short-term investments		2,550	1,538
Purchases of short-term investments		(2,550)	(1,460)
Acquisition of subsidiary, net of cash acquired of RUR 32m	7	(1,868)	-
Purchases of intangible assets		(84)	(141)
Dividends received from joint ventures		372	14
Interest received		465	281
Net cash used in investing activities		**(7,197)**	**(6,568)**
Cash flows from financing activities:			
Repayments of finance lease obligations		-	(132)
Dividends	14	(4,072)	(650)
Proceeds from issuance of long-term bonds	15	5,985	-
Principal payments on short-term part of long-term bonds	15	(1,250)	(2,500)
Net cash provided by/(used in) financing activities		**663**	**(3,282)**
Net increase/(decrease) in cash and cash equivalents		4,856	(1,384)
Cash and cash equivalents at beginning of the year		**4,171**	**5,525**
Foreign exchange effect on cash and cash equivalents		500	30
Net cash and cash equivalents at end of the year	**13**	**9,527**	**4,171**

PJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Amounts in millions of Russian Roubles)

	Notes	Share capital	Reserve fund	Translation reserve	Other reserves, including investment property's revaluation reserve	Retained earnings	Total equity attributable to the Company's owners
Balance at 1 January 2017		**13,895**	**697**	**(340)**	**(2,133)**	**22,390**	**34,509**
Profit for the year		-	-	-	-	6,534	6,534
Other comprehensive (loss)/income for the year		-	-	(128)	108	(6)	(26)
Total comprehensive (loss)/income for the year		**-**	**-**	**(128)**	**108**	**6,528**	**6,508**
Dividends	14	-	-	-	-	(650)	(650)
Allocation to reserve fund		-	6	-	-	(6)	-
Balance at 31 December 2017		**13,895**	**703**	**(468)**	**(2,025)**	**28,262**	**40,367**
The impact of the new standard IFRS 9	4, 10	-	-	-	-	(55)	(55)
Total restated at 1 January 2018		**13,895**	**703**	**(468)**	**(2,025)**	**28,207**	**40,312**
Profit for the year		-	-	-	-	9,509	9,509
Other comprehensive income for the year		-	-	195	79	38	312
Total comprehensive income for the year		**-**	**-**	**195**	**79**	**9,547**	**9,821**
Dividends	14	-	-	-	-	(4,072)	(4,072)
Balance at 31 December 2018		**13,895**	**703**	**(273)**	**(1,946)**	**33,682**	**46,061**

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF THE BUSINESS

Public Joint Stock Company Center for Cargo Container Traffic TransContainer (the "PJSC TransContainer" or "Company" or "TransContainer") was incorporated in Moscow, Russian Federation on 4 March 2006.

The Company was formed as a result of a spin-off by Open Joint Stock Company "Russian Railways" ("RZD"), which is 100% owned by the Russian Federation, of some of its activities and certain assets and liabilities related to container transportation into a separate legal entity. In connection with this spin-off RZD contributed to the share capital of the Company containers, flatcars, buildings and constructions in the amount of RUR 13,057m, VAT receivable related to these assets of RUR 104m, and cash of RUR 991m, in exchange for the ordinary shares of the Company. Furthermore, certain employees previously employed by RZD were hired by the Company. The Company assumed related employee benefit liabilities from RZD. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a freight forwarding agent.

The Company's principal activities include arrangement of container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 40 container terminals along the Russian railway network. As at 31 December 2018, the Company operated 14 branches in Russia. The Company's registered address is 19 Oruzheiniy pereulok, Moscow, 125047, Russian Federation.

PJSC TransContainer has ownership in the following major entities:

Name of Entity	Type	Country	Activity	Interest held, %		Voting rights, %	
				2018	2017	2018	2017
JSC TransContainer-Slovakia, a.s.	Subsidiary	Slovakia	Container shipments	100	100	100	100
TransContainer Europe GmbH	Subsidiary	Austria	Container shipments	100	100	100	100
TransContainer Asia Pacific Ltd.	Subsidiary	Korea	Container shipments	100	100	100	100
TransContainer Freight Forwarding (Shanghai) Co., Ltd.	Subsidiary	China	Container shipments	100	100	100	100
LLC TransContainer Mongolia	Subsidiary	Mongolia	Container shipments	100	-	100	-
Oy ContainerTrans Scandinavia Ltd.	Joint venture	Finland	Container shipments	50	50	50	50
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture	China	Container shipments	49	49	50	50
JSC Kedentransservice (Note 10)	Joint venture	Kazakhstan	Container shipments	50	50	50	50
JSC Logistika-Terminal (Note 7)	Subsidiary	Russia	Terminal operations	100	-	100	-
LLC Freight Village Kaluga Sever (FVK Sever Group) (Note 10)	Joint venture	Russia	Terminal operations	30	30	50	50
LLC SpecTransContainer	Subsidiary	Russia	Special container transportation	100	100	100	100
Logistic System Management B.V.	Joint venture	Netherlands	Investment activity	50	50	50	50

Establishment of a subsidiary. On 7 September 2018 100% subsidiary - LLC TransContainer Mongolia was registered on the territory of Mongolia.

1. NATURE OF THE BUSINESS (CONTINUED)

The consolidated financial statements of PJSC TransContainer and its subsidiaries (the "Group") as at 31 December 2018 and for the year then ended were authorised for issue by the General Director of the Company on 25 March 2019.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation. The Group's consolidated financial statements have been prepared using the historical cost convention, except for the effects of assets acquired and liabilities assumed at the formation of the Company, which were recorded at the estimated fair value at the date of transfer, initial recognition of financial instruments based on fair value and revaluation of investment properties.

The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered.The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

The consolidated financial statements are presented in millions of Russian Roubles (hereinafter "RUR m"), except where specifically stated otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all entities of the Group.

Consolidated financial statements. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared as at 31 December of each year. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt; and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to equity instruments which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Investments in associates and joint ventures. Joint venture is a joint activity which implies that the parties, that have joint control over the activity, have the rights to the net assets of the activity. Joint control occurs in the case when decisions relating to the relevant activities require the unanimous consent of the parties sharing joint control in accordance with the contract.

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

Dividends received from associates (joint ventures) reduce the carrying value of the investment in associates (joint ventures). Other post-acquisition changes in the Group's share of an associate's (joint ventures') net assets are recognised as follows: (i) the Group's share of profits or losses of associates (joint ventures) is recorded in the consolidated profit or loss for the period as the share of financial result of associates (joint ventures), (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates (joint ventures) are recognised in consolidated profit or loss within the share of financial result of associates (joint ventures).

When the Group's share of losses in an associate (joint venture) equals or exceeds its interest in the associate (joint venture), including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate (joint ventures).

Unrealised gains on transactions between the Group and its associates (joint ventures) are eliminated to the extent of the Group's interest in the associates (joint ventures); unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency transactions and translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Russian Rouble is the functional currency of the Company and is also the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated into the functional currency at exchange rate as at the end of the reporting period. Exchange differences arising from such translation are included in consolidated profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Russian Rouble at foreign exchange rates ruling at the dates the fair value was determined.

When the functional currency of an entity of the Group is not the presentation currency of the Company's consolidated financial statements, the results and financial position of the entity are translated into the presentation currency using the following procedures:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- all assets and liabilities are translated at the closing rate at the date of each presented statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates for the period if fluctuation of exchange rates during the period was insignificant. Otherwise exchange rates at the dates of the transactions are used for translation to the presentation currency;
- components of equity are translated at historical rates;
- all resulting exchange differences are recognised as other comprehensive income.

When control over a foreign operation is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Property, plant and equipment. Property, plant and equipment are recorded at acqusition or construction cost, less accumulated depreciation and provision for impairment. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, is expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Construction in progress

Construction in progress includes, principally, capital expenditure incurred in relation to the construction of new container terminals and the reconstruction of existing terminals. Construction in progress is carried at cost, less any recognised impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalised borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Subsequent costs

The cost of replacing a part of property, plant and equipment is included in the carrying amount when the cost is incurred, only if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognised in the consolidated profit or loss for the year.

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in consolidated profit or loss for the year.

An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs of disposal.

Depreciation

Owned land plots and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is charged to the consolidated profit or loss so as to write off the cost of assets less their estimated residual values, using the straight-line method over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for property, plant and equipment are as follows:

	Number of years
Buildings	20-84
Constructions	5-70
Containers	10-20
Flatcars	28-38
Cranes and loaders	5-31

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Number of years
Vehicles	3-15
Other equipment	2-25

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

Leased assets improvements

Operating leasehold inseparable improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Gain or loss on disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated profit or loss.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

Earned rental income is recorded in profit or loss for the year within revenue. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes. If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer in another category is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. Intangible assets that are acquired by the Group represent mainly purchased software and are recorded at cost less accumulated amortisation and provision for impairment.

Amortisation is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives for existing assets vary from 2 to 8 years.

Useful lives and amortisation methods for intangible assets are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets. Intangible assets not ready for use are not subject to amortisation and are tested annually for impairment.

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Financial instruments – initial recognition. Financial instruments measured at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an expected credit losses allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – classification and subsequent measurement – measurement categories. The Group classifies financial assets in the following measurement categories: those to be measured at fair value through profit or loss, those to be measured at fair value through other comprehensive income and those to be measured at amortised cost. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A financial asset shall be measured at amortised cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

As at 31 December 2018 the Group classifies all financial assets as subsequently measured at amortised cost. As at 31 December 2017 the Group classifies all financial assets as loans and receivables.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at fair value through profit or loss.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for expected credit losses (ECL). The Group measures *ECL* and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at amortised cost are presented in the consolidated statement of financial position net of the allowance for ECL.

In accordance with IFRS 9, the Group applied a simplified approach to determining ECL in relation to trade accounts receivable that requires that full lifetime ECL are to be recognised.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

explained in Note 29. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets - derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading, contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

As at 31 December 2018 and 31 December 2017 the Group classifies all financial liabilities as subsequently measured at amortised cost.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Financial liabilities – modifications. Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Cash and cash equivalents. Cash and cash equivalents comprise cash in hand, deposits held at call with banks and short-term interest-bearing deposits with original maturities of not more than three months (not more than 92 days).

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

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

Trade and other payables. Trade and other payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the consolidated statement of financial position as an asset.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on the weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Employee benefits. Remuneration to employees in respect of services rendered by employees during the reporting period is recognised as an expense in that reporting period.

Defined benefit plans

The Group operates a defined benefit pension plan. Present value of obligation under the plan are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the consolidated profit or loss, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. The net obligation under this plan is assumed to be equal to the present value of the liabilities less the fair value of the assets under this plan. Remeasurements of the net defined benefit liability are recognised in other comprehensive income in full as they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the Group provides certain retirement benefits, other post-employment and other long-term benefits to its employees. These benefits are not funded.

The obligation and cost of benefits for the other long-term benefits are determined using the projected unit credit method. Remeasurements of the net defined benefit liability are recognised in the profit and loss in full as they arise.

Upon introduction of a new plan or modification of an existing plan, past service costs are recognised in full as they arise in profit or loss.

Defined contribution plans

In addition to the defined benefit plan described above, the Group also sponsors a defined contribution plan for selected employees. The Group's contributions relating to the defined contribution plan are charged to the consolidated profit or loss in the year to which they relate.

State Pension Plan

In addition, the Group is legally obliged to make contributions to the retirement benefit plan run by the Pension Fund of the Russian Federation. The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions are charged to the consolidated profit or loss in the year in which services are provided. Contributions for each employee to the State Pension Fund of the Russian Federation vary from 10% to 22%, depending on the annual gross remuneration of employee.

Value added tax. Output value added tax ("VAT") related to revenues is payable to tax authorities on the earlier of (a) delivery of the goods or services to customers, (b) collection of prepayments from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the provision is recorded for the gross amount of the debtor, including VAT.

Revenue recognition. Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of discounts, returns and value added taxes. Services provided in a bundle and recognised as a single performance obligation, as none of them is distinct.

The Group provides services under fixed-price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised. When the Group has the right to consideration that is unconditional, a receivable is recognised. Contract liabilities are represented by advances from customers and are included in Contracts liabilities in the consolidated statement of financial position. The amounts of contract assets of the Group are generally not significant.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There is no variable consideration, consideration of the Group for services that it performs under the contracts with customers is fixed. Transaction price for services is determined in the orders (a standard primary document detailing the information on the nature of services and the amount of consideration, authorized by both parties). Each order represents a separate performance obligation of the Group.

No significant financing component is deemed present. In accordance with contracts with customers, payments are primarily made on a prepayment basis that is consistent with market practice for the industry. The Group requires prepayment for the transportation not for the purpose of obtaining financing but to mitigate risks associated with the provided services. The period between the moment when the payment is made and the moment when the service is rendered is less than one year.

The main Group revenues are the following categories of services: integrated forwarding and logistics services, Agency fees and other services.

Integrated freight forwarding and logistics services

Integrated freight forwarding and logistics services are service packages including rail container transportation, terminal handling, truck deliveries, freight forwarding and logistic services. According to the method of providing these services are the compound rate services at a single price.

As parts of the compound rate service the following services are available to customers:

(a) full-service under a single contract at a single price or;

(b) incomplete set of services. In this case services rendered by the Company at a single price represent only a part of the logistic chain while remaining services are provided on a stand-alone basis separately.

Revenues from integrated freight forwarding and logistics services are recognised in the accounting period in which the services are rendered based on the stage of completion of an individual transaction determined by the actual number of days of transportation spent in the reporting period relative to the total number of days of transportation.

Agency fees and other services

The Group acts as an agent on behalf of RZD in providing mandatory railroad services for all railway users at the Group’s terminals, designated as the “sites of common use” by the legislation. In this capacity the Group provides some of its terminal services as a legal intermediary (agent) between clients and RZD and collects a commission.

The Group provides other services, such as: handling of rolling stock and container fleet, terminal services, other freight forwarding services, truck deliveries.

Dividend and interest income

Dividends from investments are recognised in consolidated profit or loss only if:

(i) the Group’s right to receive payment is established;

(ii) it is probable that any future economic benefit associated with dividends will flow to the Group; and

(iii) dividend income can be measured with reliability.

Interest income is recorded on an accrual basis using the effective interest method.

Leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance leases

The Group had no finance leases as at 31 December 2018 and as at 31 December 2017.

Operating leases

Payments made under operating leases are recognised in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a liability and as a reduction in expense on a straight-line basis.

Contingent rentals under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs. Borrowing costs include:

(a) interest expense calculated by the effective interest method;

(b) finance charges in respect of finance leases;

(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when

(a) the Group incurs expenditures for the qualifying asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in consolidated profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

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

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period. Except for income tax related interest and fines, adjustments for uncertain income tax positions are recorded within the income tax charge. Income tax related interest and fines are recognised in finance expenses and operating expenses, respectively.

Share capital and other reserves. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares (other than on a business combination) are shown as a deduction from the proceeds in equity. The difference between the fair value of consideration received and the par value of shares issued is recognised as other reserves in equity.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the reporting period, except treasury shares. The Group does not have any potentially dilutive equity instruments.

Dividends. Dividends are recognised as a liability and deducted from equity in the period in which they are declared and approved. Dividends are disclosed when they are declared after the reporting date but before the consolidated financial statements are authorised for issue.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Adoption of IFRS 9 Financial Instruments. The Group adopted IFRS 9, Financial Instruments, from 1 January 2018. The Group elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standards, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The significant new accounting policies under IFRS 9 applied in the current period are described in Note 3. Accounting policies under IAS 39 applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 30.

At the IFRS 9 adoption date 1 January 2018 all financial assets of the Group were reclassified from loans and receivables measurement category under IAS 39 to amortised cost measurement category under IFRS 9. All financial liabilities of the Group that were included in the other financial liabilities measurement category under IAS 39 are accounted for at amortised cost under IFRS 9.

The Group management determined that the amount of expected credit losses as of 1 January 2018 has not changed significantly compared to the amount of recognised allowances in the consolidated financial statements as of 31 December 2017.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

In accordance with the application of IFRS 9 relating to the recognition of allowance for expected credit losses as at 1 January 2018, the cost of investment in JSC Kedentransservice decreased by RUR 55m (Note 10) due to accrual of additional expected credit loss allowance for financial assets of JSC Kedentransservice that were carried at amortised cost.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Adoption of IFRS 15 Revenue from Contracts with Customers. The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method. The Group applies IFRS 15 retrospectively only to contracts that were not completed at the date of initial application (1 January 2018).

The Group has changed presentation of contract liabilities in the consolidated statement of financial position as at 1 January 2018. Contract liabilities consist of advances from customers and were included in trade and other payables as at 31 December 2017. As at 1 January 2018 contract liabilities were reclassified from trade and other payables and are presented separately.

	IAS 18 carrying amount at 31 December 2017	**Reclassification**	**IFRS 15 carrying amount at 1 January 2018**	**IFRS 15 carrying amount at 31 December 2018**
Contract liabilities	-	3,706	3,706	4,510
Trade and other payables (Note 17)	4,562	(3,706)	856	975

Except as described above, the adoption of IFRS 15 did not have a significant impact on the financial position or financial performance of the Group.

In addition to IFRS 9 and IFRS 15 the following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 – Transfers of Investment Property (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

New standards and improvements mandatory for annual periods beginning on or after 1 January 2019 or later periods that are applicable for the Group's activity and approved for adoption in the Russian Federation (unless stated otherwise) and which the Group has not early adopted, are as follows:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). The amendments have not been endorsed for application in the Russian Federation.
- IFRIC 23, Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments have not been endorsed for application in the Russian Federation.
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments have not been endorsed for application in the Russian Federation.

Unless otherwise described above, these new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

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

The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives. The Group will recognise right-of-use assets at the date of initial application for leases previously classified as operating leases under IFRS (IAS) 17 Leases, in the amount equal to the lease obligation, adjusted for prepaid or accrued lease payments in relation to such leases, which are recognised in the consolidated statement of financial position immediately prior to the date of initial application.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

	1 January 2019
- Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	1,236
- Effect of discounting to present value	(429)
Total lease liabilities	**807**

The Group expects to recognise right-of-use assets in the amount corresponding to the lease liabilities of RUR 807m. No impact on the overall net assets is expected.

As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, the Group does not expect any significant impact on the consolidated financial statements in respect of recognition of the Group's activities as a lessor. However, some additional disclosures will be required from next year.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and current year as well, and other key sources of estimation uncertainty at the reporting date, that can cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting year, are discussed below.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

As at 31 December 2017 and 31 December 2018 the Group reassessed the remaining useful lives of certain items of property, plant and equipment, the ranges of terms for each group of items of property, plant and equipment have not changed.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2018 would be to increase it by RUR 297m or decrease it by RUR 244m (for the year ended 31 December 2017: to increase by RUR 269m or decrease by RUR 221m).

Impairment of property, plant and equipment. The Group reviews at each reporting date the carrying amounts of its property, plant and equipment to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, change in current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than asset's carrying value plus costs of disposal, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

As at 31 December 2018 and 31 December 2017 there were no indicators of impairment of property, plant and equipment.

Compliance with tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. management believes that it has accrued all applicable taxes. management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

Pension and other non-curerent obligations. The Group uses projected unit credit method for measurement of the present value of post-employment benefit obligations and other long-term obligations to employees and related current service cost. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality after employment, rates of employee turnover etc.), as well as financial assumptions (discount rate, future salary and benefits levels, etc.). In the event that further changes in the key assumptions are required, the amounts of the pension benefit costs may be materially affected (Note 16).

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market conditions, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 25.

6. CRITICAL ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements and may influence carrying amounts of assets and liabilities within the next financial year.

Accounting for leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions. At the same time special attention is given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise.

Revenue from integrated freight forwarding and logistics services. In case the Group provides integrated freight forwarding and logistic services the customers do not interact with other transportation organisations. A full service fee is charged by the Group to its customers for its services including rail-based container transportation, terminal handling, trucking, etc. and the full third-party charges, including railway tariff. These services are offered to the client as one service at a single price and the Group considers them to be a single performance obligation, the performance of which reflects the period in which services are provided based on the number of days of transportation.

Management believes that the Group acts as a principal in these arrangements and the Group accounts for receipts from customers as sales revenue. Third-party charges, including the railroad tariff, is included in third-party charges related to principal activities in operating expenses.

6. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

Had the railway tariff and third-party services directly attributable to integrated freight forwarding and logistics services been excluded from both revenue and expenses, then revenue from integrated freight forwarding and logistics services and third-party charges related to principal activities would have decreased by RUR 45,671m for the year ended 31 December 2018. For the year ended 31 December

2017 this effect would be RUR 37,785m (including RUR 35,805m for integrated freight forwarding and logistics services, and RUR 1,980m for management of cargo transportation and handling with involvement of third parties).

7. ACQUISITION OF SUBSIDIARY

On 3 September 2018, after receiving the necessary approvals from the regulatory authorities, the Company acquired from JSC First Container Terminal, a subsidiary of Global Ports Investments PLC, 100% ownership interest in JSC Logistika-Terminal, operator of one of the most modern container terminals in the North-Western region of Russia. The transaction amounted to RUR 1.9 billion.

The fair value of assets and liabilities of JSC Logistika-Terminal at the date of acquisition was:

	Fair value as recognised on acquisition
Property, plant and equipment	2,178
Cash and cash equivalents	32
Other assets	59
Total assets	**2,269**
Deferred tax liability	157
Other liabilities	58
Total liabilities	**215**
Net assets acquired	**2,054**
Excess of the fair value of net assets over cost of acquisition	(154)
Cost of acquisition:	**1,900**
Cash consideration paid	1,900
Net cash outflow from acquisition	
Cash compensation	1,900
Cash and cash equivalents acquired	(32)
Total net cash outflow from acquisition	**1,868**

As a result of this transaction, the Company recognised gain from acquisition in the amount of RUR 154m as a result of excess of the fair value of the identifiable assets less liabilities at the date of acquisition of JSC Logistika-Terminal over the cash consideration transferred to the buyer. The reason for the gain from acquisition was insufficient loading of the design capacity of the acquired asset, which had an impact on the amount of its future cash flows. The Company plans to significantly increase the load of JSC Logistika-Terminal by transferring cargo flows from the terminal at the station St. Petersburg-Tovarniy-Vitebskiy station planned to be closed.

The acquired subsidiary contributed revenue of RUR 192m and loss of RUR 18m to the Group from the date of acquisition to 31 December 2018. If the acquisition had occurred on 1 January 2018, the Group revenue and profit would have amounted to RUR 77,358m and RUR 9,477m, respectively.

8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS

	Land, buildings and constructions	Containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in progress	Total
Cost						
1 January 2017	**12,388**	**36,615**	**2,692**	**2,891**	**473**	**55,059**
Additions	87	6 137	393	178	381	**7,176**
Transfers	282	51	36	52	(421)	**-**
Transfer to investment property	(64)	-	-	-	-	**(64)**
Capitalised borrowing costs	-	-	-	-	14	**14**
Disposals	(17)	(458)	(62)	(287)	(36)	**(860)**
31 December 2017	**12,676**	**42,345**	**3,059**	**2,834**	**411**	**61,325**
Additions	39	6,146	146	176	154	**6,661**
Acquisition in a business combination (Note 7)	2,022	-	126	30	-	**2,178**
Transfers	90	52	3	15	(160)	**-**
Transfer to investment property	(13)	-	-	-	-	**(13)**
Capitalised borrowing costs	-	-	-	-	11	**11**
Disposals	(312)	(631)	(4)	(130)	(85)	**(1,162)**
31 December 2018	**14,502**	**47,912**	**3,330**	**2,925**	**331**	**69,000**
Accumulated depreciation						
1 January 2017	**(2,490)**	**(12,238)**	**(1,053)**	**(1,961)**	**-**	**(17,742)**
Depreciation charge for the year	(285)	(1 882)	(184)	(265)	-	**(2,616)**
Transfer to investment property	16	-	-	-	-	**16**
(Impairment) / reversal of impairment	(6)	-	4	17	-	**15**
Disposals	30	415	56	202	-	**703**
31 December 2017	**(2,735)**	**(13,705)**	**(1,177)**	**(2,007)**	**-**	**(19,624)**
Depreciation charge for the year	(317)	(2,069)	(232)	(239)	-	**(2,857)**
Transfer to investment property	13	-	-	-	-	**13**
Impairment)	(2)	-	-	-	-	**(2)**
Disposals	175	589	2	157	-	**923**
31 December 2018	**(2,866)**	**(15,185)**	**(1,407)**	**(2,089)**	**-**	**(21,547)**
Net book value						
31 December 2017	**9,941**	**28,640**	**1,882**	**827**	**411**	**41,701**
31 December 2018	**11,636**	**32,727**	**1,923**	**836**	**331**	**47,453**

The item "Land, buildings and constructions" includes the amounts of RUR 112m and RUR 112m, which represent the net book value of land plots owned by the Group as at 31 December 2018 and 31 December 2017, respectively.

The item "Vehicles and other equipment group" includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 696m and RUR 709m as at 31 December 2018 and 31 December 2017, respectively.

During the year ended 31 December 2018 there were additions of flatcars and containers in the amount of RUR 5,364 and RUR 782, respectively (during the year ended 31 December 2017 – RUR 4,893m and RUR 1,244m, respectively).

8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS (CONTINUED)

As at 31 December 2017, the Group reviewed the useful lives of certain property, plant and equipment. As a result, the amount of accrued depreciation for the year ended 31 December 2018 decreased by RUR 28m compared to what would have been accrued under the previous useful lives, the range of useful life values for the objects of various groups had not changed. Assessing the impact of revision on subsequent periods is impracticable.

The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RUR 1,036m and RUR 1,142m as at 31 December 2018 and 31 December 2017, respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2018 and 31 December 2017 comprised the following:

	2018	2017
Cost	785	398
Accumulated deprecation	(283)	(199)
Impairment	(118)	(115)
Net book value	**384**	**84**

Construction in-progress as at 31 December 2018 consisted mainly of the capital expenditures incurred for the reconstruction and expansion of container terminals in Moscow and Yekaterinburg amounting to RUR 80m and RUR 26m, respectively, and RUR 115m for the construction of the new container terminal in Primorsky Region.

Construction in-progress as at 31 December 2017 consisted mainly of the capital expenditures incurred for the reconstruction and expansion of container terminals in Moscow and Yekaterinburg amounting to RUR 160m and RUR 49m, respectively, and RUR 104m for the construction of the new container terminal in Primorsky Region.

Additions of construction in-progress include capitalised interest expenses on bonds in connection with the construction and reconstructions of property, plant and equipment items. The total amount of interest capitalised for the year ended 31 December 2018 was RUR 11m at a rate of capitalisation of 8.40% and RUR 14m capitalised for the year ended 31 December 2017 at a rate of capitalisation of 8.58%.

Advances for acquisition of non-current assets

As at 31 December 2018 and 31 December 2017, advances for the acquisition of non-current assets, net of VAT, consisted of advances for the acquisition of cranes and loaders (RUR 10m and RUR 51m, respectively), advances for the acquisition of containers (RUR 243m and RUR 12m, respectively), advances for the purchase of rolling stock (RUR 335m and RUR 49m, respectively) and advances for the acquisition of other non-current assets (RUR 2m and RUR 7m, respectively).

9. INTANGIBLE ASSETS

Company's intangible assets are comprised of software with initial cost of RUR 382m and accumulated depreciation of RUR 113m as at 31 December 2018 (RUR 456m and RUR 72m as at 31 December 2017 respectively).

For the year ended 31 December 2018 depreciation charge for intangible assets amounted to RUR 70 m (for the year ended 31 December 2017 RUR 52 m).

Included in intangible assets are assets not ready for intended use with historical cost of RUR 16m as at 31 December 2018 (RUR 257m as at 31 December 2017).

Intangible assets are mostly comprised of railway services operations software, logistics services rendering software, software for tax, management and financial accounting. These assets are depreciated on linear basis. Economic lives length of the assets is from 2 to 8 years.

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures.

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.	Joint ventures LLC Freight Village Kaluga Sever	Other joint ventures	Associates	Total associates and joint ventures
Carrying amount as at 1 January 2017	**2,584**	**-**	**93**	**8**	**2,685**
Share of profit/(losses) of associates and joint ventures	688	(9)	26	(1)	**704**
Fair value of net assets related to the acquisition of the joint venture	-	(179)	-	-	**(179)**
Goodwill arising on the acquisition of joint ventures	-	351	-	-	**351**
Dividends received from joint ventures	-	-	(14)	-	**(14)**
Disposal	-	-	-	(8)	**(8)**
Share of translation to presentation currency	(140)	-	3	1	**(136)**
Carrying amount as at 31 December 2017	**3,132**	**163**	**108**	**-**	**3,403**
The impact of the new standard IFRS 9	(55)	-	-	-	(55)
Total restated at 1 January 2018	**3,077**	**163**	**108**	**-**	**3,348**
Share of profit/(losses) of joint ventures	304	(52)	16	-	268
Dividends received from joint ventures	(385)	-	(7)	-	(392)
Share of translation to presentation currency	131	-	15	-	146
Carrying amount as at 31 December 2018	**3,127**	**111**	**132**	**-**	**3,370**

In 2017, the Company acted as a guarantor for the execution of LLC Freight Village Kaluga Sever (FVKS) obligations under the loan agreement with Vnesheconombank. As at 31 December 2018 the debt of FVKS secured by the guarantee under the loan agreement amounted to RUR 2.3bn (2.1bn as at 31 December 2017). As at 31 December 2018 and 31 December 2017 the financial guarantee for investment in joint venture recognised in the consolidated statement of financial position was RUR 154m.

Furthermore, as part of the transaction, the following pledge agreements came into force, providing a number of obligations of the parties to each other:

- with JSC Freight Village Kaluga (hereinafter, FVK), which has 70% ownership in FVK Sever authorised share capital, according to which the Company pledged to FVK immovable property in the amount of RUR 301m;
- with LLC V-Park (part of the FVK Group), according to which the Company received a land plot and immovable property in the amount of RUR 412m.

As at 31 December 2017 and 31 December 2018 the amount of pledge agreements have not changed.

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

In September 2017 the Company ceased to participate in an associate Trans-Eurasia Logistics GmbH by selling 20% of its shares to DB Cargo AG.

Summarised financial information of associates and joint ventures for the years ended 31 December 2018 and 31 December 2017, and as at 31 December 2018 and 31 December 2017:

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever		Other joint ventures		Associates		Total associates and joint ventures	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Current assets	2,460	3,284	1,001	403	315	252	-	-	**3,776**	**3,939**
Non-current assets	4,344	3,652	3,438	3,567	8	9	-	-	**7,790**	**7,228**
Current liabilities	709	784	606	204	59	45	-	-	**1,374**	**1,033**
Non-current liabilities	361	386	4,632	4,394	-	-	-	-	**4,993**	**4,780**
Net assets	**5,734**	**5,766**	**(799)**	**(628)**	**264**	**216**	**-**	**-**	**5,199**	**5,354**
Revenue	10,625	9,493	1,573	512	934	761	-	2,455	**13,132**	**13,221**
Profit/(loss)	608	1,375	(172)	(29)	31	52	-	(5)	**467**	**1,393**

Net assets of Logistic System Management B.V. are RUR 2m as at 31 December 2018 (RUR 6m as at 31 December 2017) and are mainly comprised of cash and cash equivalents.

During the year ended 31 December 2018, Logistic System Management B.V. paid dividends to shareholders in the amount of RUR 730m (50% to PJSC TransContainer and 50% to JSC KTZ). During the year ended 31 December 2018 there were no dividend payments from Logistic System Management B.V.

The reconciling difference between the above amounts and the carrying amount of the investments in associates and joint ventures is elimination of the ownership interest held by the other investors and goodwill arising on acquisition of associates and joint ventures.

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever		Other joint ventures		Total associates and joint ventures	
	2018	2017	2018	2017	2018	2017	2018	2017
Net assets	5,734	5,766	(799)	(628)	264	216	**5,199**	**5,354**
Interest held, %	50%	50%	30%	30%	49%,50%	49%,50%	**-**	**-**
Goodwill	260	249	351	351	-	-	**611**	**600**
Investments in associates and joint ventures	**3,127**	**3,132**	**111**	**163**	**132**	**108**	**3,370**	**3,403**

Additional financial information of joint ventures JSC Kedentransservice, Logistic System Management B.V. and LLC Freight Village Kaluga Sever for the year ended 31 December 2018 and 31 December 2017, and as at 31 December 2018 and 31 December 2017 is as follows:

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever	
	2018	2017	2018	2017
Cash and cash equivalents	1,286	1,091	791	208
Current financial liabilities (excluding trade and other payables and provisions)	20	20	334	14

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever	
	2018	**2017**	**2018**	**2017**
Non-current financial liabilities (excluding trade and other payables and provisions)	20	40	4,296	4,207
Depreciation and amortisation	248	298	147	62
Interest income	11	28	26	3
Interest expense	6	8	490	216
Income tax expense	297	351	139	(47)

11. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Credit loss allowance/ provision for impairment	Outstanding balance, net
31 December 2018			
Trade receivables	1,736	(31)	1,705
Other receivables	132	(93)	39
Total current trade and other receivables, classified as financial assets	**1,868**	**(124)**	**1,744**
31 December 2017			
Trade receivables	1,247	(25)	1,222
Other receivables	187	(86)	101
Total current trade and other receivables, classified as financial assets	**1,434**	**(111)**	**1,323**

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 215m as at 31 December 2017, which are past due at the respective reporting date and which the Group considers to be not impaired. The Group holds collateral over part of these outstanding balances (Note 29). The matrix of provision is presented below.

Analysis by credit quality of trade and other receivables as at 31 December 2017 is as follows:

	31 December 2017	
	Trade receivables	**Other receivables**
Neither past due nor impaired	1,056	52
Total neither past due nor impaired	**1,056**	**52**
Past due but not impaired		
- less than 90 days	136	14
- 90-180 days	12	4
- more than 180 days	18	31
Total past due but not impaired	**166**	**49**
Individually impaired		
- less than 90 days	-	-
- 90-180 days	1	-
- more than 180 days	24	86

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

	31 December 2017	
	Trade receivables	**Other receivables**
Total individually impaired	**25**	**86**
Less impairment provision	**(25)**	**(86)**
Total	**1,222**	**101**

Movement in the impairment provision for trade and other receivables is as follows:

	2017
Balance at beginning of the year	**(168)**
Additional provision, recognised in the current year	(10)
Release of provision	59
Utilisation of provision	6
Foreign currency translation	2
Balance at end of the year	**(111)**

Change of credit loss allowance in 2018 is not significant.

The Group applies the simplified approach provided in IFRS 9 for assessment of expected credit losses using the estimated allowance for expected credit losses over the entire term for trade and other receivables. To assess expected credit losses allowance, trade and other receivables were grouped based on the general characteristics of credit risk and the number of days of late payment. The levels of expected credit losses are based on payment schedules for sales for 12 months before 31 December 2018 or 1 January 2018, respectively, and similar historical credit losses incurred during this period. The credit loss allowance for trade and other receivables is determined in accordance with the provision matrix presented in the table below. The matrix of provision is based on a credit risk assessment system (Note 29).

	Gross carrying amount	Lifetime ECL
Excellent	-	-
Good	1,556	5
Satisfactory	177	4
Special monitoring	-	-
Default	135	115
Total trade and other receivables (gross carrying amount)	**1,868**	**-**
ECL allowance	-	(124)
Total trade and other receivables (carrying amount)	**1,744**	**-**

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	2018	2017
VAT receivable	3,034	2,928
Advances to suppliers (net of provision)	1,341	939
Other current assets	105	108
Total prepayments and other current assets	**4,480**	**3,975**

As at 31 December 2018 and 31 December 2017 provision for impairment of advances to suppliers was recognised in the amount of RUR 2m and RUR 2m, respectively.

13. CASH AND CASH EQUIVALENTS

	2018	2017
Foreign currency denominated current accounts with banks	1,198	2,324
Russian Rouble denominated bank deposits	5,380	1,067
Foreign currency denominated bank deposits	1,948	-
Cash and Russian Rouble denominated current accounts with banks	1,001	780
Total cash and cash equivalents	**9,527**	**4,171**

Seventeen Russian Rouble denominated short-term bank deposits in the amount of RUR 5,362m bearing interest at annual rates in a range from 3% to 7.75% and three USD-denominated short-term bank deposits in the amount of USD 28m (RUR 1,945m at the Central Bank of Russia exchange rate as at 31 December 2018) bearing interest at annual rates in a range from 2.4% to 3% were placed with JSC Alfa-Bank, AO UniCredit Bank and PJSC Bank VTB, a related party as at 31 December 2018. Total amount of accrued interest on Russian Rouble denominated and USD-denominated short-term bank deposits amounted to RUR 21m. The deposits matured in January - February 2019.

Five Russian Rouble denominated short-term bank deposits in the amount of RUR 1,063m bearing interest at annual rates in a range from 7% to 7.40% were placed with PJSC JSCB Absolut Bank and PJSC Bank VTB, a related party as at 31 December 2017. Total amount of accrued interest on Russian Rouble denominated short-term bank deposits amounted to RUR 4m. The deposits matured in January 2018.

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's long-term ratings or equivalents of Moody's or Fitch ratings as follows as at 31 December 2018 and 31 December 2017:

	2018		2017	
	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
- A- to A+ rated	43	-	34	-
- BBB to A- rated	79	-	107	-
- Lower than BBB rated	2,076	7,328	2,963	1,067
- Unrated	1	-	-	-
Total	**2,199**	**7,328**	**3,104**	**1,067**

14. EQUITY

Share Capital

The Company's authorised, issued and paid share capital as at 31 December 2018 and 31 December 2017 comprises:

	Number of ordinary shares	Value
Ordinary shares (par value: RUR 1,000)	13,894,778	13,895

The JSC United Transportation and Logistics Company (JSC UTLC) is the immediate parent of the Company, holding 50%+2 of its ordinary shares.

During the year ended 31 December 2018 the weighted average number of outstanding ordinary shares, excluding treasury shares amounted to 13,894,778 shares (13,894,778 during the year ended 31 December 2017).

Other Reserves, including investment property's revaluation reserve

As discussed in Note 1, the Company was formed as a result of a spin-off by RZD which involved the contribution by RZD of containers, flatcars, buildings and constructions, VAT receivable related to these assets, and cash, in exchange for ordinary shares of the Company.

14. EQUITY (CONTINUED)

As at 31 December 2018 Other Reserves, including investment property's revaluation reserve amounted to RUR 1,946m (RUR 2,025m as at 31 December 2017).

The difference between the fair value of net assets contributed and the nominal value of the shares issued by the Company, as well as differences arising from transactions with shareholders, of RUR 2,221m were recorded as other reserves as at 31 December 2012.

Due to the transfer of part of property, plant and equipment to the investment property during the year ended 31 December 2018 the investment property's revaluation was recognised in other comprehensive income for the amount of RUR 79m (RUR 196m during the years 2017 - 2013).

Retained Earnings, Dividends

In accordance with the Russian legislation, dividends may only be declared from the Company's accumulated undistributed and unreserved earnings as shown in the Company's statutory financial statements, which are prepared in accordance with Russian Accounting Rules. In accordance with the financial statements under Russian accounting standards, as at 31 December 2018 and 31 December 2017 the Company had RUR 25,948m and RUR 20,985m of undistributed earnings, respectively, including undistributed and unreserved earnings of the Company in the amount of RUR 9,592m and RUR 5,986m, respectively.

Dividends of RUR 293.04 per share (RUR 4,072m in total) were approved at the annual shareholders' meeting on 15 May 2018 relating to the Company's results for the year ended 31 December 2017. In June 2018 the dividends have been fully paid.

Dividends of RUR 46.81 per share (RUR 650m in total) were approved at the annual shareholders' meeting on 22 June 2017 relating to the Company's results for the year ended 31 December 2016. In July 2017 the dividends have been fully paid.

Reserve Fund

According to its charter, the Company is required to establish a legal reserve fund through the allocation of 5 percent of net profit as computed under the Russian Accounting Rules. The total amount of the reserve fund is limited to 5 percent of the nominal registered amount of the Company's issued share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem issued bonds or purchase treasury shares and cannot be distributed to shareholders. As at 31 December 2018 reserve fund was RUR 703m (RUR 703m as at 31 December 2017).

15. LONG-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

Long-term debt

	Effective interest rate	2018	2017
Bonds, series BO-01	7,55%	5,988	-
Bonds, series BO-02	9,45%	4,992	4,987
Total		**10,980**	**4,987**

Long-term borrowings of the Group are denominated in Russian Roubles.

Five-year RUR bonds, series BO-01

On 25 January 2018, the Company issued non-convertible five-year bonds for a total amount of RUR 6,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 5,985m. The annual coupon rate of the bonds for five years is 7.5% with interest paid semi-annually.

The series BO-01 bonds will be redeemed in four equal semi-annual installments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

As at 31 December 2018 the carrying value of the bonds amounted to RUR 6,183m (RUR 0m as at 31 December 2017), including the amount of accrued interest of RUR 195m (RUR 0m as at 31 December

15. LONG-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT (CONTINUED)

2017). The amount of accrued interest has been included as current portion of long-term debt in the consolidated statement of financial position.

Five-year RUR bonds, series BO-02

On 22 September 2016, the Company issued non-convertible five-year bonds for a total amount of RUR 5,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 4,987m. The annual coupon rate of the bonds for five years is 9.4% with interest paid semi-annually.

The series BO-02 bonds will be redeemed in four equal semi-annual installments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

As at 31 December 2018 the carrying value of the bonds amounted to RUR 5,123m (RUR 5,117m as at 31 December 2017), including the amount of accrued interest of RUR 131m (RUR 130m as at 31 December 2017). The amount of accrued interest has been included as current portion of long-term debt in the consolidated statement of financial position.

The fair value of Company’s bond is disclosed in Note 29.

Current portion of long-term debt

	Effective interest rate	2018	2017
Bonds, series BO-01	7,55%	195	-
Bonds, series BO-02	9,45%	131	130
Bonds, series 4	8,40%	-	1,295
Total		**326**	**1,425**

Five-year RUR bonds, series 4

On 1 February 2013, the Company issued non-convertible five-year bonds for a total amount of RUR 5,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 4,988m. The annual coupon rate of the bonds for five years is 8.35% with interest paid semi-annually.

The series 4 bonds were redeemed in four equal semi-annual installments within the fourth and fifth years. The Company made full repayment of its obligation in January 2018 in the amount of RUR 1,295m (including the amount of accrued interest of RUR 45m).

16. EMPLOYEE BENEFIT LIABILITY

The employees of the Group are members of a state-managed pension plan operated by the government of the Russian Federation. The Group is required to contribute a specified percentage of payroll costs as part of the contributions to the Pension Fund of the Russian Federation to fund the benefits.

The Group also provides supplementary defined benefit and defined contribution retirement benefit plans covering about a quarter of its employees, requiring contributions to be made to a separately administered non-state pension fund Blagosostoyanie (”Fund Blagosostoyanie”). The not-for-profit fund Pochet (”Fund Pochet”) provides pensions to the Group’s employees that retired before the defined benefit plan provided though the Fund Blagosostoyanie was introduced.

Benefits accrued through Fund Blagosostoyanie are partially funded, whilst benefits administered by the Fund Pochet are not funded. In addition, the Group provides other retirement and post-employment benefits to its employees, covering compensation for transportation costs on long-distance trains, a one-time bonus on retirement ranging from one to six monthly salaries, depending on the duration of the service period, a benefit for dedication to the Company and certain other benefits. These benefits are not funded.

16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Defined contribution plans

The total amount recognised as an expense in respect of payments to defined contribution plans for the years ended 31 December 2018 and 31 December 2017 included in payroll and related services within operating expenses and consisted of the following:

	2018	2017
Pension Fund of the Russian Federation	786	715
Defined contribution plan Blagosostoyanie	26	24
Total expense for defined contribution plans	**812**	**739**

Defined benefit plans

There were 84 employees as at 31 December 2018 (as at 31 December 2017: 105) eligible for defined benefit pension plan with benefits depending on salary and years of service. In addition, there were 64 and 72 retired employees eligible for the post-retirement benefit program of the Group through Fund Pochet as at 31 December 2018 and 31 December 2017, respectively. Other retirement and post-employment defined benefit plans cover substantially all employees of the Group.

During the reporting period the minimum age for the right to retirement and post-employment benefits was increased. In accordance with the terms of the plans this age is connected with the retirement age for the state-managed pension plan, which was increased in the period. This change of the minimal age is considered as the change to the defined benefit plans. The corresponding change in the present value of the defined benefit obligation is taken into account as part of the past services cost.

Changes in the retirement age in the state pension plan had no significant impact on the present value of the defined benefit obligation for other long-term employee benefits.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2018 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income in Payroll and related charges for the year ended 31 December 2018 and 31 December 2017 in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2018	2017	2018	2017	2018	2017
Service cost	(94)	32	146	141	52	173
Net interest on obligation	52	58	10	11	62	69
Remeasurements of the net defined benefit	-	-	(18)	4	(18)	4
Net expense recognised in the consolidated profit or loss	**(42)**	**90**	**138**	**156**	**96**	**246**

Net gain recognised in the other comprehensive income for post-employment benefits related mainly to remeasurements of the net defined benefit constitute RUR 38m for the year ended 31 December 2018. Net loss recognised in the other comprehensive income for post-employment benefits related mainly to remeasurements of the net defined benefit constitute RUR 9m for the year ended 31 December 2017.

16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

The amounts recognised in the consolidated statement of financial position as at 31 December 2018 and 31 December 2017 in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Present value of defined benefit obligation	681	875	275	294	956	1,169
Fair value of plan assets	(67)	(66)	-	-	(67)	(66)
Net employee benefit liability	**614**	**809**	**275**	**294**	**889**	**1,103**

Movements in the present value of defined benefit obligation are as follows:

	Post-employment benefits	Other long-term benefits	Total
Present value of defined benefit obligation as at 1 January 2017	**855**	**275**	**1,130**
Service cost:	32	141	173
Current service cost	*32*	*141*	*173*
Interest on the defined benefit liability	63	11	74
Actuarial losses/(gain):	9	4	13
from changes in demographic assumptions	*(6)*	-	*(6)*
from changes in financial assumptions	*(25)*	*3*	*(22)*
other	*40*	*1*	*41*
Losses arising on transfer of employees*	5	-	5
Settlement of liability	(89)	(137)	(226)
Present value of defined benefit obligation as at 31 December 2017	**875**	**294**	**1,169**
Service cost:	(94)	146	52
Current service cost	*32*	*146*	*178*
Past service cost	*(126)*	-	*(126)*
Interest on the defined benefit liability	57	10	67
Actuarial losses/(gain):	(52)	(18)	(70)
from changes in demographic assumptions	*(1)*	-	*(1)*
from changes in financial assumptions	*(62)*	*(8)*	*(70)*
other	*11*	*(10)*	*1*
Losses arising on transfer of employees*	6	-	6
Settlement of liability	(111)	(157)	(268)
Present value of defined benefit obligation as at 31 December 2018	**681**	**275**	**956**

Movements in the fair value of defined benefit pension plan assets:

	2018	2017
Fair value of plan assets as at 1 January	**(66)**	**(63)**
Income on plan assets:	(7)	(7)
interest on the plan assets	*(5)*	*(5)*
the return on plan assets, excluding amounts included in net interest on the net defined benefit liability	*(2)*	*(2)*
Contributions from the employer (funded plans)	(43)	(41)
Settlement of liability (funded plans)	49	45
Fair value of plan assets as at 31 December	**(67)**	**(66)**

* The losses arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the ultimate parent company.

16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Net losses are the difference between the losses arising from transfer of employees and the assets arising from transfer of employees.

The major categories of plan assets administered by Fund Blagosostoyanie as a percentage of the fair value of total plan assets as at the balance sheet date were as follows:

	Share in total plan assets	
	2018	**2017**
Corporate bonds and stock of Russian legal entities	66%	69%
Shares in closed investment funds	27%	24%
Bank deposits	1%	1%
Other	6%	6%
	100%	**100%**

Most benefits to employees and retired employees depend on wage growth and rising consumer prices. Besides inflation risk, post-employment benefits are also subject to demographic risk due to the dependence of payment duration to changes in life expectancy of retired employees.

Plan assets under the supplementary defined benefit pension plan are subject to investment risks. To reduce the risks in accordance with laws Fund Blagosostoyanie places the assets in a diversified portfolio with a statutory structure. Since retirement of a participant Fund Blagosostoyanie is exposed to all the risks of the plan with respect to this participant.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018	**2017**
Discount rate	8,7%	7,5%
Average rate of employee turnover	Based on the industry average rates	Based on the industry average rates
Projected average annual growth of consumer prices	4,1%	4,1%
Life expectancy table	Russia, 2017, with probability corrected to 87% of the initial level	Russia, 2016, with probability corrected to 82% of the initial level

As at 31 December 2018 the Group assumed that wage and salary growth will be in line with the growth of consumer prices.

Results of sensitivity analysis of defined benefit obligation at 31 December 2018 and 31 December 2017:

	Change in assumption	**Change in liabilities**	
		2018	**2017**
Discount rate	-1%	52	68
	+1%	(45)	(58)
Rate of employee turnover	-1%	22	23
	+1%	(21)	(24)
Projected average growth of consumer prices	-1%	(52)	(67)
	+1%	62	76
Average life expectancy after retirement	-1 year	(3)	(4)
	+1 year	3	4

Weighted average duration of the defined benefit obligation is 6.0 years (2017: 6.2 years).

The maturity profile of the defined benefit obligation as at 31 December 2018:

	Before year	**1 to 2 years**	**2 to 5 years**
Post-employment benefits	114	67	140
Other long-term benefits	101	89	113
	215	**156**	**253**

17. CONTRACT LIABILITIES, TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	691	704
Amounts payable for the acquisition of property, plant and equipment	275	139
Amounts payable for the intangible assets	9	13
Total financial liabilities within trade and other payable	**975**	**856**
Contract liabilities	4,510	-
Liabilities to customers (advances)	-	3,706
Total contract liabilities, trade and other payables	**5,485**	**4,562**

RUR 3,706m of revenue was recognized in the current reporting period related to the contract liabilities as at 1 January 2018, all of which related to advances.

Increase of contract liabilities as at 31 December 2018 in comparison to 31 December 2017 is consistent with an increase in the volume of freight forwarding services and corresponds to an increase in Revenue.

18. TAXES OTHER THAN INCOME TAX PAYABLE

	2018	2017
Social insurance contribution	320	216
Property tax	116	113
VAT	6	-
Personal income tax	38	35
Other taxes	11	6
Total taxes other than income tax payable	**491**	**370**

19. ACCRUALS AND OTHER CURRENT LIABILITIES

	2018	2017
Settlements with employees	1,341	1,023
Other liabilities (financial liabilities)	97	11
Other liabilities	66	15
Total accruals and other current liabilities	**1,504**	**1,049**

Settlements with employees as at 31 December 2018 and 31 December 2017 comprised accrued salaries and bonuses of RUR 1,153m and RUR 838m, respectively, and accruals for unused vacation of RUR 188m and RUR 185m, respectively.

20. REVENUE AND SEGMENT INFORMATION

The Company's General Director is its chief operating decision-maker. The Group's business activities are interdependent in providing customers with container shipping and other logistics services. As such, the Group's internal reporting, as reviewed by the General Director to assess performance and allocate resources, is prepared as a single reportable segment. The Group's internal management reports are prepared on the same basis as these consolidated financial statements.

Analysis of revenue by category

	2018	2017
Integrated freight forwarding and logistics services	71,158	57,052
Cargo transportation and handling services with involvement of third parties	-	1,980
Agency fees	2,988	2,597
Other	2,813	3,938
Total revenue	**76,959**	**65,567**

Analysis of revenue by location of customers

	2018	2017
Revenue from external customers		
Russia	65,056	56,315
Korea	6,020	3,816
China	2,051	1,118
Germany	1,889	1,596

20. REVENUE AND SEGMENT INFORMATION (CONTINUED)

	2018	2017
Latvia	467	443
Finland	401	361
Kazakhstan	372	426
Great Britain	213	981
Other	490	511
Total revenue	**76,959**	**65,567**

Performance obligations under revenue contracts are short-term in nature. All contract liabilities at 31 December 2017 were recognised as Revenue in 2018.

21. OTHER OPERATING INCOME

	2018	2017
Gain from disposal of property, plant and equipment	1,144	240
Gain from the sale of inventory and from the reuse of spare parts	215	186
Change in provision for impairment of receivables	-	50
Change in provision for impairment of property, plant and equipment	-	15
Other operating income	127	156
Total other operating income	**1,486**	**647**

Gain from disposal of property, plant and equipment in 2018 is primarily due to the sale of assets of the Vitebsk terminal resulting in a gain of RUR 1,100m in December 2018.

22. OPERATING EXPENSES

	2018	2017
Third-party charges related to principal activities	45,671	37,785
Payroll and related charges	6,422	5,809
Freight handling and transportation services	5,407	6,549
Materials, repair and maintenance	3,427	3,182
Depreciation and amortisation	2,927	2,668
Taxes other than income tax	725	581
Rent	410	279
Consulting and information services	205	232
Fuel costs	184	155
Security	179	192
License and software	169	130
Charity	146	134
Communication costs	70	69
Other expenses	944	673
Total operating expenses	**66,886**	**58,438**

23. INTEREST EXPENSE

	2018	2017
Interest expense on RUR bonds	885	628
Interest expense on finance lease obligations	-	6
Total interest expense	**885**	**634**

24. INCOME TAX

	2018	2017
Current income tax expense	(2,511)	(1,551)
Deferred income tax expense	42	(87)
Income tax expense	**(2,469)**	**(1,638)**

The statutory tax rate applied to the profit of the Group was 20% for the years ended 31 December 2018 and 31 December 2017.

24. INCOME TAX (CONTINUED)

Profit before income tax for financial reporting purposes is reconciled to income tax expense as follows:

	2018	2017
Profit before income tax	**11,978**	**8,172**
Theoretical tax charge at statutory rate of 20%	(2,396)	(1,634)
Tax effect of items which are not deductible or assessable for taxation purposes and other effects:		
Benefits in-kind and other non-deductible payments to employees	(33)	(22)
Non-deductible charitable donations	(29)	(27)
Non-taxable income of result of associates and joint ventures	86	131
Other effects, net	(97)	(86)
Income tax expense	**(2,469)**	**(1,638)**

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the consolidated statements of financial position give rise to the following deferred tax effects:

	1 January 2018	Acquisition of JSC Logistika-Terminal	Charged to profit or loss	Charged to other comprehensive income	31 December 2018
Investment property	59	-	(1)	20	78
Property, plant and equipment	1,890	156	13	-	2,059
Employee benefits liability	(98)	-	6	8	(84)
Trade and other receivables	(174)	-	(42)	-	(216)
Trade and other payables	(28)	-	(25)	-	(53)
Other	(14)	-	12	-	(2)
Total net deferred tax liability	**1,635**	**156**	**(37)**	**28**	**1,782**
Deferred tax assets	**(6)**	**-**	**(5)**	**-**	**(11)**

	1 January 2017	Charged to profit or loss	Charged to other comprehensive income	31 December 2017
Investment property	23	9	27	59
Finance lease obligations	(28)	28	-	-
Property, plant and equipment	1,845	45	-	1,890
Employee benefits liability	(96)	-	(2)	(98)
Trade and other receivables	17	(191)	-	(174)
Trade and other payables	(224)	196	-	(28)
Other	(14)	-	-	(14)
Total net deferred tax liability	**1,523**	**87**	**25**	**1,635**
Deferred tax assets	**(6)**	**-**	**-**	**(6)**

The Group did not recognise a deferred tax liability for temporary differences of RUR 1,978m (31 December 2017: RUR 1,651m) in respect of investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

Management has performed an analysis of the dividend policies at the Group's joint ventures with regard to the Group's potential deferred tax liabilities where the Group does not control reversal of the temporary difference or expects the reversal to occur in the foreseeable future. For all joint ventures, management expects that the carrying value of the investments would be recovered primarily through a sale and partially through dividends. No deferred taxes related to a future sale are recognised in respect of all joint ventures because any sale would occur in a tax free jurisdiction.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and there is a legally enforceable right to offset current tax assets against current tax liabilities.

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 “Related party disclosures”, parties are considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related-party relationships for those related parties with which the Group has entered into significant transactions, or had significant balances outstanding as at 31 December 2018 and 31 December 2017, are disclosed below:

Related party	Nature of relationship	
	31 December 2018	31 December 2017
OJSC Russian Railways (RZD)	Ultimate parent company	Ultimate parent company
JSC UTLC (Note 14)	Immediate parent company	Immediate parent company
JSC Kedentransservice	Joint venture of the Company	Joint venture of the Company
Oy ContainerTrans Scandinavia Ltd.	Joint venture of the Company	Joint venture of the Company
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture of the Company	Joint venture of the Company
LLC Freight Village Kaluga Sever (FVK Sever Group) (Note 10)	Joint venture of the Company	Joint venture of the Company
Far East Land Bridge Ltd.	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 1	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 2	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 3	Subsidiary of RZD	Subsidiary of RZD
JSC RZD Logistics	Subsidiary of RZD	Subsidiary of RZD
PJSC Bank VTB	Significant shareholder	State-controlled entity
Non-state Pension Fund Blagosostoyanie	Post-employment benefit plan for Company employees	Post-employment benefit plan for Company employees
FAR-EASTERN SHIPPING COMPANY PLC	-	Significant shareholder
LLC Enysei Capital	Significant shareholder	Significant shareholder

The Group’s ultimate controlling party is the Russian Federation and, therefore, all companies related to the Russian Federation are also treated as related parties of the Group for the purposes of these consolidated financial statements.

In the ordinary course of business, the Group enters into various transactions and has outstanding balances with government related entities and governmental bodies, which are shown as “Other related parties” in the tables below. The Group also enters in transactions with government entities for acquisition of goods and providing services like electricity, taxes and post services. The majority of related-party transactions are with OJSC Russian Railways, its subsidiaries, joint ventures and associates (shown as “Other RZD group entites” in the table below), and PJSC Bank VTB, which is a state-controlled entity. PJSC Bank VTB provides settlement and cash servicing of Company’s bank accounts and carries out depository operations for free funds placement. Transactions with government related entities are conducted on general commercial terms.

Relationships with RZD, its subsidiaries, joint ventures and associates

The Group carries out various transactions with RZD, which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority of rail-car repair facilities in Russia, which the Group uses to maintain its rolling stock in operating condition.

Under current Russian regulations, only RZD can perform certain functions associated with arranging the container transportation process. As the assets required for performing such functions were transferred to the Company, RZD engaged the Company to act as its agent in the performance of these functions. Company’s revenue generated from such transactions with RZD is reported as agency fees in the consolidated profit or loss.

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and outstanding balances with related parties as at and for the year ended 31 December 2018 are shown below:

	Ultimate parent company (RZD)	Other RZD group entities	Group's Joint ventures	Other related parties	Total
ASSETS					
Cash and cash equivalents	-	-	-	7,003	**7,003**
Trade receivables	367	3	13	-	**383**
Advances to suppliers	903	46	19	2	**970**
Other assets	6	3	18	17	**44**
Total assets	**1,276**	**52**	**50**	**7,022**	**8,400**
LIABILITIES					
Contracts liabilities	-	219	149	8	**376**
Other liabilities	28	33	8	18	**87**
Total liabilities	**28**	**252**	**157**	**26**	**463**
Revenue					
Agency fees	2,923	-	-	-	**2,923**
Integrated freight forwarding and logistics services	1	3,416	731	392	**4,540**
Other revenue	332	108	20	6	**466**
Interest income on deposits	-	-	-	268	**268**
Dividends from joint ventures	-	-	372	-	**372**
Other income	20	10	-	23	**53**
Total income	**3,276**	**3,534**	**1,123**	**689**	**8,622**
Operating Expenses					
Freight and transportation services	4,146	-	236	58	**4,440**
Third-party charges related to principal activities	36,350	1	3,602	120	**40,073**
Repair services	401	1,681	35	3	**2,120**
Other expenses	179	39	11	133	**362**
Total expenses	**41,076**	**1,721**	**3,884**	**314**	**46,995**
Purchases of property, plant and equipment	-	2	-	69	**71**
Purchases of inventory	2	324	-	17	**343**
Contributions to non-state pension funds	-	-	-	73	**73**
Total other transactions	**2**	**326**	**-**	**159**	**487**

In October 2018 as a result of the sale of its shareholding to PJSC Bank VTB FAR-EASTERN SHIPPING COMPANY PLC has lost significant influence on the Company. Operations with the Group of companies of FAR-EASTERN SHIPPING COMPANY prior to the date of sale of the Company's shares are reflected above as Other related parties transactions.

In 2017, the Company acted as a guarantor for the execution of FVK Sever obligations under the loan agreement with State Development Corporation "VEB.RF". As at 31 December 2018 the debt of FVK Sever secured by the guarantee under the loan agreement amounted to RUR 2.3bn (RUR 2.1bn as at 31 December 2017). As at 31 December 2018 and 31 December 2017 the financial guarantee recognised in the consolidated statement of financial position for investment in joint venture was RUR 154 (Note 10).

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and outstanding balances with related parties as at and for the year ended 31 December 2017 are shown below:

	Ultimate parent company (RZD)	Other RZD group entities	Group's Joint ventures	Other related parties	Total
ASSETS					
Cash and cash equivalents	-	-	-	3,632	**3,632**
Trade receivables	352	195	20	-	**567**
Other receivables	10	17	2	47	**76**
Advances to suppliers	798	40	46	4	**888**
Total assets	**1,160**	**252**	**68**	**3,683**	**5,163**
LIABILITIES					
Liabilities to customers (advances)	-	37	93	25	**155**
Other liabilities	10	40	20	27	**97**
Total liabilities	**10**	**77**	**113**	**52**	**252**
Revenue					
Agency fees	2,597	-	-	-	**2,597**
Integrated freight forwarding and logistics services	3	2,840	846	291	**3,980**
Other revenue	345	84	20	115	**564**
Interest income on deposits	-	-	-	96	**96**
Other income	34	93	33	7	**167**
Total income	**2,979**	**3,017**	**899**	**509**	**7,404**
Operating Expenses					
Freight and transportation services	4,417	-	173	1	**4,591**
Third-party charges related to principal activities	30,980	12	2,613	115	**33,720**
Repair services	479	1,399	3	6	**1,887**
Other expenses	162	44	16	146	**368**
Total expenses	**36,038**	**1,455**	**2,805**	**268**	**40,566**
Purchases of property, plant and equipment	4	14	-	109	**127**
Purchases of inventory	-	238	-	13	**251**
Contributions to non-state pension funds	-	-	-	68	**68**
Total other transactions	**4**	**252**	**-**	**190**	**446**

In September 2017 the Company ceased to participate in associate company Trans-Eurasia Logistics GmbH by selling 20% of its shares to DB Cargo AG. Revenue on integrated freight forwarding and logistics services from Trans-Eurasia Logistics GmbH amounted to RUR 98m for the year ended 31 December 2017.

Dividends

15 May 2018 the Group declared dividends payable to JSC UTLC, FAR-EASTERN SHIPPING COMPANY PLC. and LLC Enysei Capital in the amount of RUR 2,036m, RUR 1,021m and RUR 998m, respectively, which were paid in June 2018.

In July 2017 dividends paid to JSC UTLC and FAR-EASTERN SHIPPING COMPANY PLC amounted to RUR 325m and RUR 163m, respectively.

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Compensation of key management personnel

Key management personnel consist of members of the Company's Board of Directors, as well as the General Director and his deputies, Chief Accountant, Chief Engineering Officer and directors of the central office who are under direct control of the General Director in accordance with the Company's existing organisational structure and comprised 22 and 19 persons as at 31 December 2018 and 31 December 2017, respectively. Total gross compensation, including insurance contributions and before withholding of personal income tax, to key management personnel amounted to RUR 802m (including total social insurance contributions of RUR 106m) and RUR 447m (including total social insurance contributions of RUR 60m) for the years ended 31 December 2018 and 31 December 2017, respectively.

This compensation is included under payroll and related charges in the consolidated profit and loss and comprises primarily short-term benefits. Major part of compensation for Key management personnel is generally sort-term excluding contributions under pension plans with defined benefits. Defined benefits to Key management of the Group are calculated based on the same terms as for other employees.

As at 31 December 2018 liabilities in respect of Key management personnel on accrued expenses and other current assets amounted to RUR 411m, and on employee benefit liability amounted to RUR 1m (RUR 249m and RUR 24m respectively as at 31 December 2017).

26. LIABILITIES ARISING FROM FINANCING ACTIVITIES

	As at 1 January 2018	Cash flow	Non-monetary changes	As at 31 December 2018
Long-term debt	4,987	5,985	8	10,980
Current portion of long-term debt	1,425	(1,995)	896	326
Dividends paid	-	(4,072)	4,072	-
Total	**6,412**	**(82)**	**4,976**	**11,306**

The cash flow of the current portion of long-term debts for the year ended 31 December 2018 consists of repayment of principal part in the amount of RUR 1,250m and interest paid in the amount of RUR 745m.

	As at 1 January 2017	Cash flow	Reclassification of current portion of long-term debt	Non-monetary changes	As at 31 December 2017
Long-term debt	6,236	-	(1,249)	-	4,987
Current portion of long-term debt	2,762	(3,229)	1,249	643	1,425
Finance lease obligations	139	(132)	-	(7)	-
Dividends paid	-	(650)	-	650	-
Total	**9,137**	**(4,011)**	**-**	**1,286**	**6,412**

The cash flow of the current portion of long-term debts for the year ended 31 December 2017 consists of repayment of principal part in the amount of RUR 2,500m and interest paid in the amount of RUR 729m.

27. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2018 and 31 December 2017, the Group leased container terminal Dobra in Slovakia. The remaining period of agreements validity at 31 December 2018 is 6 years.

The Group leases certain production buildings and office premises in Russia. The remaining terms of the relevant lease agreements are from one to four years. Additionally, the Group leases the land on which its container terminals are located.

27. COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

Future minimum lease payments under contracted operating leases, excluding the possibility of prolongation, including VAT, are as follows:

	2018	2017
Within one year	109	123
Within two to five years	127	213
After five years	18	38
Total future minimum lease payments	**254**	**374**

Decrease of minimum lease payments under contracted operating leases relates to the termination and expiration of lease agreements.

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's capital commitments as at 31 December 2018 and 31 December 2017 consisted of the following, including VAT:

	2018	2017
Acquisition of containers and flatcars	4,533	2,906
Construction of container terminal complexes and modernisation of existing assets	135	133
Acquisition of lifting machines and other equipment	67	132
Total capital commitments	**4,735**	**3,171**

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to changes and varying interpretations). The Russian economy continues to be negatively impacted by ongoing political tension and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The operating environment has an impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Transfer pricing. Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The management has implemented internal controls to comply with current TP legislation.

Since Russian tax legislation does not contain clear guidance on some issues, as well as the absence of established law enforcement practice on controversial issues, the Group may use such interpretations of legislation that could potentially lead to optimization of the total amount of taxes for the Group.

The Controlled Foreign Company (CFC) legislation introduced Russian taxation on profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). CFC's profits are subject to a 20% tax rate. However, as a result of the preliminary analysis of the relevant foreign companies' business and the structure of earnings, expenses, dividend policy, evaluation of tax residency status, management of the Group has not identified any liabilities for taxes to the Russian budget in respect of CFC's profits.

Because of the ambiguity of formulation of current legislation, the Group can use the provisions of the tax law in the interpretation that differs from the applicable by regulatory authorities. While management currently estimates that it is probable that the tax positions and interpretations that it has taken can be sustained, there is a possible risk that an incremental outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities.

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are immediately recognised in the consolidated financial statements. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. No provisions have been recognized in the consolidated financial statements at the reporting dates.

Legal proceedings. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group, beyond those already recognised in these consolidated financial statements.

Insurance. The Group holds no insurance policies in relation to its assets, operations and other insurable risks, with the exception of insurance policies that partially cover its vehicles, buildings and constructions, machinery, Directors and Officers liability insurance policy. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

29. RISK MANAGEMENT ACTIVITIES AND FAIR VALUE

Capital Risk Management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group's objectives when managing capital is to maintain an optimal capital structure to reduce the cost of capital and to provide the shareholders with an acceptable level of return respecting the interests of other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2018 (Total equity attributable to Company's owners per consolidated statement of financial position) was RUR 46,061m (as at 31 December 2017: RUR 40,367m).

The capital structure of the Group consists of issued capital, reserves and retained earnings as disclosed in Note 14.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

Major Categories of Financial Instruments

The Group's financial assets include trade and other receivables, cash and cash equivalents and other non-current assets. As at 1 January 2018 all classes of financial assets were reclassified from loans and receivables measurement category under IAS 39 to AC measurement category under IFRS 9.

	2018	2017
Financial assets		
Cash and cash equivalents (Note 13)	9,527	4,171
Trade and other receivables	1,760	1,340
Other non-current assets	7	6
Total financial assets	**11,294**	**5,517**

The Group's principal financial liabilities are trade and other payables, debt, which includes bonds and financial guarantee for investment in joint venture. All financial liabilities are carried at amortised cost.

29. RISK MANAGEMENT ACTIVITIES AND FAIR VALUE (CONTINUED)

	2018	2017
Financial liabilities		
Trade and other payables (Note 17)	975	856
Other current liabilities (Note 19)	97	11
Long-term debt (Note 15)	10,980	4,987
Current portion of long-term debt (Note 15)	326	1,425
Financial guarantee for investment in joint venture	154	154
Total financial liabilities	**12,532**	**7,433**

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations as they fall due. Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures.

In 2018 the Company made full repayment of its obligation in the amount of RUR 1,295m (including the amount of accrued interest of RUR 45m) which was classified as current portion of long-term debt in the consolidated statement of financial position as at 31 December 2017 and affected current liquidity ratio of the Group.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of bond obligations. The non-interest bearing liabilities include trade and other payables and other financial liabilities.

The following table details the Group's remaining contractual maturity for financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities, including future interest, based on the earliest date on which the Group can be required to pay or expect to make the payment.

	Effective interest rate	On demand	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Total
2018							
Non-interest bearing liabilities (including trade and other payables and other liabilities)	-	-	711	315	46	-	**1,072**
Bonds	7.55% - 9.45%	-	224	234	459	12,820	**13,737**
Financial guarantee for investment in joint venture	-	2,323	-	-	-	-	**2,323**
Total		**2,323**	**935**	**549**	**505**	**12,820**	**17,132**

	Effective interest rate	On demand	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Total
2017							
Non-interest bearing liabilities (including trade and other payables and other liabilities)	-		700	167	-	-	**867**
Bonds	8,40%-9,45%		1,302	234	234	6,054	**7,824**
Financial guarantee for investment in joint venture		2,111	-	-	-	-	**2 ,111**
Total		**2,111**	**2,002**	**401**	**234**	**6,054**	**10,802**

Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has export revenue, and purchases third party transportation services, which are denominated in foreign currencies. Certain receivable and payable

29. RISK MANAGEMENT ACTIVITIES AND FAIR VALUE (CONTINUED)

balances, related primarily to settlements with customers, are denominated in currencies other than the Russian Rouble, the functional currency of the Company.

As at 31 December 2018 and 2017 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities.

As at 31 December 2018 there was the weakening of the Russian Rouble against the USD by 21% and against EUR by 15% (as at 31 December 2017 was the strengthening of the Russian Rouble against the USD by 5% and weakening of the Russian Rouble against the EUR by 8%). The Group does not have or use any formal arrangements to manage foreign currency risk exposure (derivatives).

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	USD		EUR		Other	
	2018	2017	2018	2017	2018	2017
Assets						
Cash and cash equivalents	808	1,710	365	610	25	4
Trade and other receivables	37	39	103	85	9	8
Total assets	**845**	**1,749**	**468**	**695**	**34**	**12**
Liabilities						
Trade and other payables	182	157	80	36	10	6
Total liabilities	**182**	**157**	**80**	**36**	**10**	**6**

The table below provides analysis of sensitivity of Group's profit and loss and capital to strengthening of the Russian Rouble against the USD and EUR by 30%, all other variables being held constant. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies:

	USD – impact		EUR – impact	
	2018	2017	2018	2017
Total	**(199)**	**(478)**	**(116)**	**(197)**

The weakening of the Russian Rouble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

Interest rate risk

Interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group's financial performance. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates, and maintaining an appropriate mix between debt and equity.

As at 31 December 2018 and 31 December 2017 the Group's borrowed funds consist of long-term debt, current portion of long-term debt (Note 15).

As at 31 December 2018 and 31 December 2017 long-term debt and current portion of long-term debt consist of bonds only. All bonds were granted at fixed interest rates, therefore the Group was not exposed to the additional interest risk.

The annual coupon rate of the five-year RUR bonds, series 4 issued on 1 February 2013 was set at 8.35% for five years without any further changes. The effective interest rate of the bonds, series 4 is 8.4%.

The annual coupon rate of the five-year RUR bonds, series BO-02 issued on 22 September 2016 was set at 9.4% for five years without any further changes. The effective interest rate of the bonds, series BO-02 is 9.45%.

29. RISK MANAGEMENT ACTIVITIES AND FAIR VALUE (CONTINUED)

The annual coupon rate of the five-year RUR bonds, series BO-01 issued on 25 January 2018 was set at 7.5% for five years without any further changes. The effective interest rate of the bonds, series BO-01 is 7.55%.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not hedge its credit risk.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor's, Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal ratings	Corresponding ratings of external international rating agencies (where possible)	Corresponding PD interval
Excellent	Counterparties with the lowest risk of default and strong ability to fulfil their contractual obligations, for which the Group has relevant data and regularly performs the financial analysis	AAA – BB+, B (Ba)	0% - 0,01%
Good	Counterparties with the low risk of default and strong ability to fulfil their contractual obligations, for which the Group has relevant data and periodically performs the financial analysis	BB- – BBB-	0,01% - 0,5%
Satisfactory	Counterparties with the moderate risk of default and payments overdue from 30 to 90 days	CCC+ – CC	0,5% - 5%
Special monitoring	Counterparties with the high risk of default and payments overdue from 30 to 90 days	CC- – C	5% - 99,9%
Default	Counterparties with the payments (interest or principal amount) overdue for more than 90 days	C, D-I, D-II	100%

The Group's exposure to credit risk arises primarily with respect to receivables in connection with container shipping activities and financial guarantee for investment in joint venture.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection and to minimize losses.

Credit exposure is managed by establishing credit limits for the most significant customers that are reviewed and approved by management. Deferred payment terms are offered only to the most significant customers of the Group with proven credit history. Sales to other customers are made on a prepayment basis.

The carrying amount of accounts receivable, net of provision for impairment of receivables (Note 11), carrying amount of cash and cash equivalents (Note 13) and financial part of other non-current assets represents the maximum amount of financial assets exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

29. RISK MANAGEMENT ACTIVITIES AND FAIR VALUE (CONTINUED)

The Group's maximum exposure to credit risk by class of assets and liabilities is reflected in the carrying amounts of financial assets and financial guarantee in the consolidated statement of financial position, described below.

The Group's concentration of credit risk is dependent on a few large key customers. As at 31 December 2018 77% of the total net amount of trade and other receivables related to five largest counterparties of the Group (as at 31 December 2017: 68% related to seven largest counterparties) of which one of the largest counterparty is a related party and accounts for 21% of the total amount of trade receivables and other receivables (as at 31 December 2017: 42% related to two largest counterparties).

The largest trade and other receivables outstanding as at the balance sheet date are as follows:

	Outstanding balance, net	
	2018	**2017**
LLC Liga Development	771	-
RZD	373	362
DB Cargo Logistics GmbH (DB Schenker Rail Automotive GmbH)	146	113
JSC Kuznetskie Ferrosplavy	35	30
UNICO LOGISTICS	15	23
JSC RZD Logistics	1	196
Fintrans GL LLC	1	128
PJSC Chelyabinsk Pipe-Rolling Plant	-	57
JSC Vyksa Steel Works	-	8
Total	**1,342**	**917**

As at 31 December 2017 no impairment of accounts receivable has been identified for all these customers. The provision matrix presented in Note 11.

Financial assets neither past due nor impaired are primarily receivables from related parties (Note 25) and receivables from other companies in the transportation and logistics sector. Accounts receivable from related parties are characterised by a high degree of creditworthiness and the likelihood of recovery. Accounts receivable from other companies have similar rates of credit capacity and analysed on a regular basis by the Group for reliability and collectability.

As at 31 December 2018 the Group received financial guarantees in the total amount of RUR 2,697m in order to ensure the proper performance of contractual obligations and minimise risks of collecting receivables (as at 31 December 2017: RUR 344m).

The Group's management monitors past due balances of receivables and provides ageing analysis as disclosed in Note 11.

Credit risk on liquid funds is limited because these funds are placed only with financial organisations with minimal level if defolt risk. As at 31 December 2018 72% of total cash and cash equivalents were held with one bank which is related to the Group (as at 31 December 2017: 87%) (Note 13).

As part of the financial guarantee issued by the Company for FVK Sever under a loan agreement with the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank), as of 31 December 2018, the credit risk is represented by a maximum amount of RUR 2.3 billion (as of 31 December 2017: RUR 2.1 billion.), which the Company will have to pay if the joint venture fails to settle its obligations under a loan agreement (Note 10).

Fair value of assets and liabilities

Management uses its judgment to the assessment and classification of financial instruments by category using the fair value measurement hierarchy (Note 3). As at the reporting date the Group had financial assets and liabilities classified as Levels 1, 2 and 3.

For financial assets and liabilities not measured at fair value but for which fair value is disclosed, management believes that the fair value of the following assets and liabilities approximates their carrying value: cash and cash equivalents, trade and other receivables, other financial assets, trade,other payables

29. RISK MANAGEMENT ACTIVITIES AND FAIR VALUE (CONTINUED)

and financial guarantee for the investment in joint venture. These financial assets and liabilities, except for cash and cash equivalents relate to Level 3 in the fair value hierarchy.

Cash refers to the Level 1 in the fair value hierarchy, cash equivalents refer to the Level 2 in the fair value hierarchy.

Company's bonds are placed on the Moscow Exchange and quoted on the market, thus they refer to the Level 1 in the fair value hierarchy.

The following table details the fair value of the Company's bonds:

	2018	2017
Financial liabilities		
Bonds	10,915	6,493
Total	**10,915**	**6,493**

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

Liabilities carried at amortised cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and maturity.

30. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Financial instruments

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity of assets and liabilities held by the Company and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows:

(a) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(b) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(c) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

30. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Classification of financial assets. Financial assets have the following categories:

(a) loans and receivables;

(b) available-for-sale financial assets;

(c) financial assets held to maturity, and

(d) financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss have two sub-categories:

(a) assets designated as such upon initial recognition, and

(b) those classified as held for trading.

The Group has the following financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest income is recognised by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

Classification of financial liabilities. Financial liabilities have the following measurement categories:

(a) held for trading which also includes financial derivatives

(b) other financial liabilities.

Other financial liabilities are carried at amortised cost. As at 31 December 2017 all financial liabilities are classified as other financial liabilities.

Initial recognition of financial instruments. Financial instruments of the Group are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and liabilities. The Group derecognises financial assets when:

(a) the assets are redeemed or the rights to cash flows from the assets otherwise expire, or

30. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

(b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income for the year.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off:

(1) must not be contingent on a future event and

(2) must be legally enforceable in all of the following circumstances:

- (a) in the normal course of business,
- (b) in the event of default, and
- (c) in the event of insolvency or bankruptcy.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

(a) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;

(b) the counterparty considers bankruptcy or a financial reorganisation;

(c) there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or

(d) the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

30. ACCOUNTING POLICIES BEFORE 1 JANUARY 2018 (CONTINUED)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to wholly or partially recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within the profit or loss for the year.

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

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided, net of discounts, returns and value added tax.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Income from sales of inventories are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Revenues from services. Revenues from services are recognised in the accounting period in which the services are provided based on the stage of completion of the transaction at the end of the accounting period.

Interest income. Interest income is recorded on an accrual basis using the effective interest method.

31. SUBSEQUENT EVENTS

Acquisition of flatcars. In January - March 2019 the Group obtained under the previously signed agreements:

- 276 flatcars from LLC Speccompany for the total amount of RUR 788m, net of VAT;
- 247 flatcars from LLC RailAlliance for the total amount of RUR 778m, net of VAT;
- 275 flatcars from JSC Roslavlskiy vagonoremontniy zavod for the total amount of RUR 605m, net of VAT;
- 205 flatcars from OJSC Transportnoye Mashinostroyeniye for the total amount of RUR 481m, net of VAT;
- 125 flatcars from JSC Altaiskogo vagonostroenia for the total amount of RUR 330m, net of VAT.

Acquisition of containers. In January-March 2019 the Group obtained under the previously signed agreements:

- 3,188 containers from Taicang CIMC special logistic equipment Co.,Ltd for the total amount of RUR 499m at the Central Bank of Russia official exchange rate as at the date of purchase, net of VAT;
- 757 containers from DG ORDEREASY LTD for the total amount of RUR 204m at the Central Bank of Russia official exchange rate as at the date of purchase, net of VAT.

31. SUBSEQUENT EVENTS (CONTINUED)

Agreement on acquisition of flatcars. In March 2019 the Group entered into agreement with LLC Torgoviy dom RM Rail on the purchase of 3,500 flatcars for the total amount of RUR 10,861m (plus VAT in the amount of RUR 2,172m). Delivery is expected no later than 31 December 2021, according to the delivery schedule.