

# 1. GENERAL INFORMATION

## Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP" or "Company") was founded in 1845. NCSP was transformed from a state-owned enterprise to a joint-stock company in December 1992. The Company's registered office is located in Novorossiysk, Krasnodar region, Russian Federation. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation. The principal activities and significant entities of the Group as at December 31, 2018 were as follows:

Significant subsidiaries	Effective ownership % held*	
	December 31, 2018	December 31, 2017
Stevedoring and additional port services**		
LLC Primorsk Trade Port	100.00%	100.00%
LLC Novorossiysk Grain Terminal	99.9968%	100.00%
JSC Novoroslesexport	91.38%	91.38%
LLC IPP	99.99%	99.99%
JSC Novorossiysk Shipyard	98.26%	98.26%
LLC Baltic Stevedore Company	100.00%	100.00%
Fleet services, including mooring, and bunkering		
JSC Fleet Novorossiysk Commercial Sea Port	95.19%	95.19%
Fleet services, including mooring		
JSC SoyuzFlot Port	99.99%	99.99%

\* The effective ownership is calculated based on the total number of shares owned by the Group as at the reporting dates including voting preferred shares.

\*\* Additional port services include ship repair services provided by JSC Novorossiysk Shipyard.

NCSP is the largest stevedore of the Group and the holding company. It operates the primary cargo-loading district, the Sheskhari's oil terminal and the passenger terminal in Novorossiysk. The main subsidiaries of the Group are located in the eastern sector of the Black Sea in Tsemesskaya Bay as well as in the Leningrad and Kaliningrad Districts.

The legal address of NCSP: 353901, Portovaya st., 14, Novorossiysk, Krasnodar region, Russia.

NCSP has eight significant subsidiaries, the primary activities of which are as follows:

### LLC Primorsk Trade Port ("PTP")

PTP is involved in the transshipment of oil and oil products in the port of Primorsk, 188910, Portovy proezd, 10, Vyborgsky District, Leningrad Region, Russia.

### LLC Novorossiysk Grain Terminal ("Grain Terminal")

Grain Terminal manages grain storage and a shipment terminal in the western part of the Tsemesskaya Bay in the port of Novorossiysk, 353901, Portovaya st., 14a, Krasnodar region, Russia.

### JSC Novoroslesexport ("Novoroslesexport")

Novoroslesexport provides stevedoring and storage services for the export of timber, containerised cargo, nonferrous metals and perishable goods in the port of Novorossiysk, 353900, Mira st., 2, Krasnodar region, Russia.

### LLC IPP ("IPP")

IPP specialises in transshipment and storage of liquid bulk cargo in the port of Novorossiysk, 353900, Magistralnaya st., 4, Krasnodar region, Russia.

## 1. GENERAL INFORMATION (continued)

### **JSC Novorossiysk Shipyard (“Shipyard”)**

Shipyard specialises in transshipment of ferrous metals, cement and perishable goods in the port of Novorossiysk and in providing ship repair services, 353902, Sukhumskiye shosse, w/o numb., Krasnodar region, Russia.

### **LLC Baltic Stevedore Company (“BSC”)**

BSC is a stevedoring company operating the container terminal in the port of Baltiysk, 238520, Nizhneye shosse, 17, Kaliningrad Region, Russia.

### **JSC Fleet Novorossiysk Commercial Sea Port (“Fleet”)**

Fleet is a maritime tug and towing company. It provides most of the tug and towing, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysk Port (“Port”) in Novorossiysk, 353900, Mira st., 2i, Krasnodar region, Russia. In addition, it carries out emergency services such as transferring vessels to shelter zones during emergencies, cleaning and containment services for oil or other liquid spills in and around the Port and hazardous material response and waste management services.

### **JSC SoyuzFlot Port (“SFP”)**

SFP is a subsidiary of PTP. SFP is the operator of pilotage and tug and towing services in the ports of Primorsk and Ust-Luga, 188910, Portovoy proezd, 10, Vyborgsky District, Leningrad District, Russia.

### **Golden share**

The Government of the Russian Federation holds a “golden share” in NCSP. This “golden share” allows the state to veto decisions made by the shareholders to amend the charter, as well as decisions relating to liquidation, corporate restructuring and significant transactions.

### **Going concern assumption**

The accompanying consolidated financial statements of the Group have been prepared assuming that the Group will continue as a going concern, which presumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

### **Price Monitoring**

Some activities of the Group fall within the scope of the law “Act on natural monopolies” and, as a result, prices on cargo-loading services are subject to price monitoring by the Federal Antimonopoly Service of Russia (“FAS”).

In 2016, FAS initiated a return to state price regulation of the stevedoring services tariffs (i.e. FAS will approve the fixed maximum rates for such services in Russian Roubles). At the same time, according to the methodology drafted by FAS, maximum profitability of stevedoring operations will be set and FAS will repeal the Federal Tariff Service of Russia (“FTS”) orders on cancellation of price regulation in ports. As at the moment, the probability of implementation of this initiative cannot be estimated. In 2016, FAS initiated litigation against NCSP and PTP upon the breach of antimonopoly law No. FZ-135 “On Protection of Competition”. At the date of issue of these Consolidated Financial Statements, the proceedings have not been completed. The Group does not expect significant cash outflow as a result of these legal cases (Note 27).

## 2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Group reviewed the type of presentation of expenses recognised in profit or loss by grouping operating income and expenses excluding depreciation and decided to disclose the information in the same way as the disclosures in the financial statements of the controlling shareholder. The Group believes that this approach is more relevant and reliable for users of the consolidated financial statements. The comparative information for the year ended December 31, 2017 included in the consolidated financial statements was restated accordingly. The new approach did not affect the Group's profit before tax or other economic metrics.

### New and revised standards

The Group has adopted IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with Customers effective for annual periods beginning on or after January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts, recognized in the financial statements:

- IFRS 9 was generally adopted without restating comparative information; no significant adjustments were recognized in financial statements. The changes in classification categories did not result in changes of presentation in Consolidated Statement of Financial Position
- IFRS 15 also was adopted without restating comparative information

### Other new standards and pronouncements

The following other new standards and pronouncements which became effective for annual periods beginning on or after January 1, 2018 did not have any material impact on the Consolidated Financial Statements of the Group:

- Amendments to IFRS 2 – Share-based Payment (issued on June 20, 2016 and effective for annual periods beginning on or after January 1, 2018)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on September 12, 2016 and effective, depending on the approach, for annual periods beginning on or after January 1, 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)
- Transfers of Investment Property – Amendments to IAS 40 (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2018)
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on December 8, 2016 and effective for annual periods beginning on or after 1 January 2018)
- IFRIC 22 – Foreign currency transactions and advance consideration (issued on 8 December 2016 and effective for annual periods beginning on or after January 1, 2018)

### Accounting policies applied

IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after January 1, 2018).

From January 1, 2018, the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value through profit or loss ("FVTPL"), those to be measured subsequently at fair value through other comprehensive income ("FVOCI"), and those to be measured subsequently at amortized cost.

The classification of debt instruments depends on the organization's business model for managing financial assets and whether contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI").

Financial assets and liabilities previously classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" within categories receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and investments, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

## 2. BASIS OF PRESENTATION (continued)

The adoption of IFRS 9 did not significantly impact balance sheet classification of financial assets and liabilities in the Consolidated Financial Statements of the Group. The amount of expected credit losses as at January 1, 2018 does not materially differ from the amount of recognized provisions and allowances in the Consolidated Financial Statements as at December 31, 2017 and, therefore, there is no quantitative effect of transition as of January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after January 1, 2018).

The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method.

Group recognizes revenue from the following main services:

- Stevedoring services
- Additional port services
- Fleet services

The Group recognizes revenue from stevedoring services, fleet services and additional port services when it satisfies a performance obligation during the period in which the services are rendered (which, in accordance with the conditions for the implementation of cargo transshipment services takes place after carrying out the loading and unloading operations). Time of the above services does not exceed, as rule, one month.

The adoption of IFRS 15 did not have a significant impact on the amounts recognized in this Consolidated Financial Statements of the Group.

### **New accounting standards**

IFRS 16 - Leases (issued on January 13, 2016 and effective for annual periods beginning on or after January 1, 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 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 January 1, 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

The Group preliminarily estimated impact of the initial application of IFRS 16 Leases on its consolidated financial position: recognition of approximately 312,839 of lease liabilities and 312,006 respective right-of-use assets with no effect on retained earnings as at January 1, 2019.

With respect to the subsequent impact on the consolidated income statement (as opposed to the current presentation of operating lease expenses), the Group will present depreciation charges for right-of-use assets, as well as interest expense on lease liabilities (unwinding of discount).

The Group also rents land under operating lease agreements with the State. The adoption of IFRS 16 "Leases" will not require the recognition of assets and liabilities in respect of such lease agreements, since the lease payments will not be included in determination of lease liability because they are not fixed nor variable payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Rental payments will be accounted for as operating expenses when they are incurred and will also be presented as operating cash flows in the cash flow statement (Note 27).

The following other new standards and pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 17 – Insurance Contracts (issued on May 18, 2017 and effective for annual periods beginning on or after January 1, 2021)
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on June 7, 2017 and effective for annual periods beginning on or after January 1, 2019)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on September 11, 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on October 12, 2017 and effective for annual periods beginning on or after January 1, 2019)
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on October 12, 2017 and effective for annual periods beginning on or after January 1, 2019)

## 2. BASIS OF PRESENTATION (continued)

**Functional and presentation currency**

The functional currency of NCSP and principally all of its subsidiaries is the Russian Rouble ("RUB"). The consolidated financial statements are presented in USD ("USD") as management considers the USD to be a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The Group also issues a separate set of consolidated financial statements prepared in accordance with IFRS that meets the requirements of Federal Law No. 208-FZ "Consolidated Financial Statements" ("208-FZ") dated July 27, 2010, using the Russian Rouble as the presentation currency.

The translation from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 "The Effect of Changes in Foreign Exchange Rates", as described below:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented
- Income and expense items are translated in the consolidated statement of comprehensive income at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used
- All resulting exchange differences are included in equity and presented separately as an effect of translation into presentation currency (foreign currency translation reserve)
- In the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used and
- All items included in shareholder's equity, other than net profit for the year and other comprehensive income for the year, have been translated at historical rate, except for balances converted to USD at the rate effective from January 1, 2005, date of transition to IFRS

**Exchange rates**

The Group used the following exchange rates in the preparation of the consolidated financial statements:

	2018	2017
<b>Year-end rates</b>		
RUB / 1 USD	69.47	57.60
RUB / 1 EUR	79.46	68.87
<b>Average rates</b>		
RUB / 1 USD	62.71	58.35
RUB / 1 EUR	73.95	65.90

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for assets and liabilities at the date of acquisition of control.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and entities controlled by NCSP and its subsidiaries.

Control is achieved when NCSP:

- › Has power over the investee
- › Is exposed, or has rights, to variable returns from its involvement with the investee and
- › Has the ability to use its power to affect its variable returns

NCSP reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When NCSP has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. NCSP considers all relevant facts and circumstances in assessing whether or not NCSP's voting rights in an investee are sufficient to give it power, including:

- › The size of NCSP's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- › Potential voting rights held by NCSP, other vote holders or other parties
- › Rights arising from other contractual arrangements and
- › Any additional facts and circumstances that indicate that NCSP has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made including voting patterns, at previous shareholders' meetings

Consolidation of a subsidiary begins when NCSP obtains control over the subsidiary and ceases when NCSP loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income / (loss) from the date NCSP gains control until the date when NCSP ceases to control the subsidiary.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. 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.

The Group measures non-controlling interest that represents present ownership interest in entities that provide holder with the right to a proportionate share of net assets in the event of liquidation, on a transaction by transaction basis, either at: the non-controlling interest's proportionate share of net assets of the investee or at the fair value. Non-controlling interests that are not present ownership interests are measured at fair value.

Profit or loss and each component of other comprehensive income / (loss) are attributed to the owners of NCSP and to the non-controlling interests. Total comprehensive income / (loss) of subsidiaries is attributed to the owners of NCSP and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fair value

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly and
- Level 3 inputs are unobservable inputs for the asset or liability

#### Investments in joint ventures

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

Disposals of joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

#### Goodwill

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

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less accumulated impairment loss, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergy of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's policy for goodwill arising on the acquisition of joint venture is described under "Investments in joint ventures" above.

## Foreign currencies

In preparing the financial statements of the individual entities forming part of the Group, transactions in currencies other than the functional currency of each entity (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of each reporting period presented. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date the fair value was determined. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction. Exchange differences are recognised in profit or loss in the period in which they arise as a separate component, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings
- Exchange differences on transactions entered into to hedge certain foreign currency risks and
- Exchange differences on the Group's mutual settlements with units operating abroad that are not expected to be repaid and are unlikely to occur (such items represent part of the Group's net investment in foreign operations) that are initially recognised in other comprehensive income or loss are reclassified from equity to profit or losses at the time of settlement on such items

## Revenue recognition (effective for annual periods beginning on or after January 1, 2018)

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 and value added taxes.

The Group's revenue is presented by the following types or performance obligations:

- Stevedoring services (liquid cargo, dry bulk cargo, general cargo and containers transshipment) including loading and unloading of oil, oil products, grain, mineral fertilisers, chemicals, containers, timber, timber products, metal products (slabs, tubing, rolled metal and others), sugar, and other cargo, fuel bunkering
- Additional port services provided to customers at their requests (e.g. freight forwarding, storage, customs documentation, repacking, ship repair services for all types of vessels and maintenance in docks, etc.)
- Fleet services including tugging, towing and other related services
- Other services mainly including the rental and resale of energy and utilities to external customers

All types of performance obligations include similar payment terms, according to which agreements with customers contain up to 100% advance. The repayment period of the remaining part generally does not exceed 10 days from the date of service provision.

The Group provides services under fixed-price contracts. All types of performance obligations are recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Contracts with customers do not have significant financing component. A receivable is recognised when the services are rendered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Contract liabilities include advances received from customers.

## Revenue recognition (effective for annual periods before December 31, 2017)

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred, services have been rendered or works are fully completed, the amount of the revenue can be measured reliably, persuasive evidence of an arrangement exists.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's revenue is derived as follows:

- Stevedoring services (liquid cargo, dry bulk cargo, general cargo and containers transshipment) including loading and unloading of oil, oil products, grain, mineral fertilisers, chemicals, containers, timber, timber products, metal products (slabs, tubing, rolled metal and others), sugar, and other cargo, fuel bunkering
- Additional port services provided to customers at their requests (e.g. freight forwarding, storage, customs documentation, repacking, ship repair services for all types of vessels and maintenance in docks, etc.)
- Fleet services including tugging, towing and other related services
- Other services mainly including the rental and resale of energy and utilities to external customers

Revenue from cargo-transshipment, fleet and additional port services is recognised when the services are accepted by the customers (typically, for cargo-transshipment services, after the loading or unloading of cargo, as defined by the sales terms). Revenue from other services is recognised when the services are provided to the customers.

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding (excluding interest) and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Dividend income**

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

#### **Interest income**

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding (excluding interest) and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## **Financial instruments – key measurement terms (effective for annual periods beginning on or after January 1, 2018)**

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.

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 held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking 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: (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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

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 ("FVTPL")
- Those to be measured at fair value through other comprehensive income ("FVOCI")
- 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.

Assets that meet the following conditions are subsequently measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- 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

Assets that meet the following conditions are subsequently measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets and
- 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

By default, all other financial assets are subsequently measured at fair value through profit or loss.

The Group does not have financial assets at FVPL and FVOCI as at December 31, 2017 and December, 31 2018.

Financial instruments – initial recognition. Financial instruments at FVTPL 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 ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, 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 – 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. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. 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 AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

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 impaired, the asset is transferred to Stage 3 and the expected credit losses on it are estimated as expected credit losses over the entire term. For acquired or created credit and impaired financial assets, expected credit losses are always estimated as expected credit losses over the entire term.

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 Group derecognises the original financial asset and recognises a new asset at its fair value. 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, and recognises a modification gain or loss in profit or loss.

Financial liabilities are respectively classified as:

- Those to be measured at fair value through profit or loss ("FVTPL")
- Other financial liabilities measured at amortised cost, which include debts and borrowings, trade and other payables

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss, except for the change of the fair value attributable to the change of own credit risk, which is recognized in other comprehensive income. The group does not have financial liabilities at fair value through profit or loss.

Other financial liabilities. After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortization accrued using the effective interest method.

Financial liabilities – Initial recognition. All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

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).

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognised as gains and losses for the period.

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 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 include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. The Group initially recognises receivables on the date that they are originated at the price of the transaction. The Group uses the practical expedient provided for in paragraph 63 of the IFRS 15 and does not adjust the amount of the receivable if the period between the transfer of the promised goods or services by the Group to the buyer and the buyer's payment for such goods or services is not more than one year. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures

them subsequently at amortised cost using the effective interest method, less any impairment losses. The Group recognises lifetime expected credit losses (ECL) for trade receivables. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Subsequent recoveries of amounts previously written off are credited to profit or loss.

## Financial instruments (effective for annual periods before January 1, 2018)

### Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group's financial assets consist of cash and cash equivalents and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Impairment of financial assets. Financial assets are assessed for indicators of impairment at the end of each reporting period presented. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows have been impacted. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale ("AFS") equity instruments, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In respect of AFS equity securities, impairment losses previously recognised in profit / (loss) are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income or other comprehensive loss and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## Financial liabilities and equity instruments issued by the Group

### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the asset of an entity deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

### Financial liabilities

The Group's financial liabilities can be classified into financial liabilities at fair value through profit and loss ("FVTPL") and other financial liabilities.

### Financial liabilities as at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking or
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 29.

### Other financial liabilities

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

### Derecognition of financial liabilities

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

## Leasing

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

### Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

### Finance lease

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income / (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Transaction costs associated with the issuance of a debt instrument are recorded as a reduction of the liability, and are amortised to interest expense over the term of the related borrowing. In any period in which the borrowing is redeemed, the related unamortised costs are expensed.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

### Defined contribution plan

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund. The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to the consolidated statement of comprehensive income or comprehensive loss in the period to which they relate.

In the Russian Federation, all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes of 0% to 30%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 22%. When the annual gross remuneration of an employee exceeds 1,021 thousand RUB (USD 16 thousand) (in 2017: 876 thousand RUB (USD 15 thousand)), the 10% tax rate is applied to the exceeding amount.

### Income tax

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 comprises current tax and deferred tax and is recognised in 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deferred tax

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 for financial reporting purposes. 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 balances are 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 taxes 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.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment acquired through acquisitions of subsidiaries are recorded at fair value on the date of the acquisition, as determined by management with the assistance of an independent appraiser.

Additions to property, plant and equipment are recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to profit or loss for the year as incurred.

Depreciation is charged so as to write off the cost or deemed cost of assets, other than land and property under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

	Number of years
Buildings and constructions	3-75
Machinery and equipment	2-40
Marine vessels	4-25
Motor transport	3-15
Other	2-30

Properties in the course of construction for production, rental or administrative purposes or for purposes not currently defined are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation.

Construction in progress comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss.

Advances paid for property, plant and equipment are included in line "Property, plant and equipment", in category "Construction-in-progress" in consolidated statement of financial position.

## Mooring rights and other intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortisation of mooring rights and other intangible assets is charged to profit or loss.

Mooring rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, mooring rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets acquired separately.

Useful lives of mooring rights and other intangible assets are as follows:

	Number of years
Mooring rights	20
Other intangible assets	3-5

### Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Spare parts

Major spare parts and stand-by equipment qualify as non-current assets when an entity expects to use them during more than one year. Such spare parts are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the spare parts to their present location and condition.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **Value added tax**

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to 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. 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 impairment loss is recorded for the gross amount of the debtor, including VAT.

#### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

#### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### **Treasury shares**

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from the equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

#### **Earnings per share**

Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

#### **Dividends declared**

Dividends paid to shareholders are declared and approved at the annual shareholders' meeting based on recommendation of the board of directors.

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and legally payable.

Accumulated profits distributable by the Group's entities are based on the amounts available for distribution in accordance with the applicable legislation of the jurisdictions where each entity operates and as reflected in the statutory financial statements of the individual entities of the Group based on calendar reporting years (years ended December 31). These amounts may differ significantly from the amounts calculated on the basis of IFRS.

## 4. CORRECTION OF PRIOR PERIOD ERROR

Subsequent to issuance of the financial statements for the year ended December 31, 2017, a material error was identified in the goodwill impairment test that had been performed for SFP. The impairment test utilized a value in use model. The cash flow forecast prepared to estimate the recoverable amount of the SFP cash generating unit erroneously included future cash flow impacts such as indexation of certain fixed expenses and inclusion of non-related to CGU costs which both significantly impacted SFP's costs.

The recalculation of the recoverable amount, taking into account correction of the cash outflows related to the above mentioned items, indicate that the CGU was not impaired and thus no impairment of the goodwill should be recognized.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the error was corrected retrospectively. As such, the previously recognized impairment amount of 33,077 (RUB 1,930 million) in the Consolidated Financial Statements of the Group was reversed.

The impact of the error correction is as outlined below:

Value as of December 31, 2017 and for 2017 when correcting error in the reporting year, (in thousands of USD)			
	Initial value	Correction	Corrected value
Consolidated statement of comprehensive income for the year ended December 31, 2017			
Impairment of goodwill	(33,077)	33,077	–
Profit for the year	438,952	33,077	472,029
Effect of translation to presentation currency	40,113	432	40,545
Total comprehensive income for the year	478,736	33,509	512,245
Basic and diluted earnings per share, USD	0.024	0.001	0.025
Consolidated statement of financial position as at December 31, 2017			
Goodwill	583,622	33,509	617,131
Total assets	583,622	33,509	617,131
Foreign currency translation reserve	(426,120)	432	(425,688)
Retained earnings	1,214,963	33,077	1,248,040
Total equity	809,295	33,509	842,804
Consolidated statement of changes in equity for the year ended December 31, 2017			
Profit for the year	438,952	33,077	472,029
Other comprehensive income for the year	39,784	432	40,216
Total comprehensive income for the year	478,736	33,509	512,245
Consolidated statement of cash flows for the year ended December 31, 2017			
Profit for the year	438,952	33,077	472,029
Impairment of goodwill	(33,077)	33,077	–
Net cash generated by operating activities	463,669	–	463,669

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods of the revision affects both current and future periods.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period presented that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Useful lives of fixed assets

The useful economic lives of the Group's assets are determined by management at the time the asset is acquired and regularly analysed. The Group defines useful lives of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and / or commercial obsolescence arising on changes or improvements from a change in the market.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended December 31, 2018 would be to increase it by 5,860 or decrease by 5,209 (2017: increase by 6,021 or decrease by 5,000).

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Key estimates used in the Group's annual impairment testing are presented in Note 14.

#### Impairment of assets (excluding goodwill)

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

The impairment indicators were not identified as of December 31, 2018 and December 31, 2017.

#### Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation where the Group's operations are principally located. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due (Note 27).

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

The Group management believes that all deferred tax assets recognised as at the reporting date will be fully realised. It is probable that taxable profits will be available against which deductible temporary differences can be utilised. Tax losses carry forward relate mainly to forex losses arising from the revaluation of the loan denominated in USD (Note 22). They are not connected with operating activities and Group considers that it will gain profit in future and, therefore, deferred tax assets ("DTA") are recoverable. Under the Russian legislation tax loss carry forward may be used to reduce tax base.

## 6. SEGMENT INFORMATION

Operating segments are business units that are engaged in business activities that may earn revenues or incur expenses, the operating results of which are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons responsible for allocating resources and assessing the performance of the entity. The CODM's functions are performed by the members of the parent company's Board of Directors.

The Group's operations are managed by type of services: stevedoring services and additional port services, including ship repair services; fleet services; and other services mainly comprising rent, resale of energy and utilities to external customers (which individually do not constitute separate reportable segments). Stevedoring services, additional port services and fleet services are then managed by regions. As a result, all decisions regarding allocation of resources and further assessment of performance are made separately for Novorossiysk, Primorsk and Baltiysk in respect of stevedoring and additional services and for Novorossiysk and Primorsk in respect of fleet services. All segments have different segment managers responsible for each segment's operations. The chief operating decision maker (the Board of directors) is responsible for allocating resources to and assessing the performance of each segment of the business.

Segment results are evaluated based on segment operating profit as disclosed in the management accounts, which are determined under Russian statutory accounting standards. Adjustments to reconcile segment profit to profit before income tax under IFRS include the following: unallocated operating and other income and expenses, differences between Russian statutory accounting standards and IFRS, finance income, finance costs, share of profit in joint venture (net) and foreign exchange (loss) / gain (net).

The difference in depreciation and amortisation relates to a difference arising on transition to IFRS when the remeasurement of property, plant and equipment was performed by an independent appraiser and gave rise to a difference with the underlying Russian accounting standards measurement basis.

Financial leases under IFRS are recognised at the time of receipt of the leased asset by reflecting the asset and the related liability with the calculation of depreciation and interest expenses. No assets and liabilities are recognised the Russian accounting standards, and all expenses are recorded immediately through profit and loss.

### Segment revenue and segment results

Sales transactions between segments are made at prices which are defined in the Group companies' price lists. The price list contains both services for which tariffs are monitored by the state and other services for which prices are not monitored by FAS. Prices for services are at market rates.

## 6. SEGMENT INFORMATION (continued)

The segment revenue and results for the years ended December 31, 2018 and 2017 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017 (restated)
Stevedoring and additional port services	929,906	819,744	2,420	2,298	567,305	536,951
Novorossiysk	738,215	650,430	2,176	1,978	462,623	433,861
Primorsk	173,985	155,330	244	320	93,835	95,738
Baltiysk	17,706	13,984	–	–	10,847	7,352
Fleet services	13,292	69,081	63,182	2,043	25,770	31,895
Novorossiysk	1,289	34,069	35,157	1,972	17,545	11,267
Primorsk	12,003	35,012	28,025	71	8,225	20,628
<b>Total reportable segments</b>	<b>943,198</b>	<b>888,825</b>	<b>65,602</b>	<b>4,341</b>	<b>593,075</b>	<b>568,846</b>
Other	8,055	11,006	10,239	10,449	2,336	9,183
<b>Total segments</b>	<b>951,253</b>	<b>899,831</b>	<b>75,841</b>	<b>14,790</b>	<b>595,411</b>	<b>578,029</b>
Unallocated amounts (see following table)					(261,938)	8,660
<b>Profit before income tax</b>					<b>333,473</b>	<b>586,689</b>

During the year ended December 31, 2018, there were no counterparties whose revenue amounted to more than 10% of revenue from stevedoring and additional services for respective period. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

## 6. SEGMENT INFORMATION (continued)

Total reportable segment profit reconciles to the Group consolidated profit before income tax through the following adjustments and eliminations:

	Year ended	
	December 31, 2018	December 31, 2017 (restated)
Total segment profit	595,411	578,029
Differences between management accounts and IFRS:		
Impairment of construction in progress	(495)	(1,639)
Depreciation and amortisation	(5,494)	(7,509)
Finance lease	4,615	4,387
Credit loss allowance	(1,151)	(4,386)
Other	(7,094)	(770)
Unallocated operating income and expenses:		
Defined benefit obligation expense	(312)	(279)
Finance income	13,597	15,059
Finance costs	(73,095)	(72,461)
Share of profit in joint venture, net	6,091	4,858
Foreign exchange (loss)/gain, net	(201,579)	66,677
Other income, net	2,979	4,723
Profit before income tax	333,473	586,689

Impairment of construction in progress is attributable to stevedoring and additional port services (Novorossiysk) segment.

**Other segment information**

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Stevedoring and additional port services	57,731	59,409	100,647	113,450
Novorossiysk	49,404	48,799	98,786	109,780
Primorsk	6,457	8,385	1,384	2,068
Baltiysk	1,870	2,225	477	1,602
Fleet services	4,224	4,258	2,496	3,214
Novorossiysk	2,326	2,555	1,394	1,738
Primorsk	1,898	1,703	1,102	1,476
<b>Total reportable segments</b>	<b>61,955</b>	<b>63,667</b>	<b>103,143</b>	<b>116,664</b>
Other	1,896	1,945	738	401
<b>Total segments</b>	<b>63,851</b>	<b>65,612</b>	<b>103,881</b>	<b>117,065</b>
Unallocated amounts	8,510	7,903	7,973	33,172
<b>Consolidated</b>	<b>72,361</b>	<b>73,515</b>	<b>111,854</b>	<b>150,237</b>

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid for the period (Note 13).

## 7. REVENUE

	Year ended	
	December 31, 2018	December 31, 2017
Stevedoring services	732,604	709,592
Additional port services	197,302	110,152
Fleet services	13,292	69,081
Other	8,055	11,006
<b>Total</b>	<b>951,253</b>	<b>899,831</b>

Revenue of 12,463, recognized in the current reporting period, relates to the contract liabilities as at January 1, 2018, of which 12,463 relates to advances received.

## 8. OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Year ended	
	December 31, 2018	December 31, 2017
Employee benefit expense	83,656	86,753
Rent	45,104	47,402
Third-party services related to the transshipment process	40,776	12,572
Fuel for resale and own consumption	39,869	24,823
Social funds contribution	20,513	20,398
Repair and maintenance services	19,077	20,124
Materials	8,572	8,292
Property tax and other taxes, except for income tax	7,776	5,350
Energy and utilities	6,658	6,776
Charitable donation	5,228	4,994
Security services	4,092	3,195
Professional services	1,840	2,828
Insurance	1,439	1,683
Other expenses	8,317	11,654
<b>Total</b>	<b>292,917</b>	<b>256,844</b>

## 9. FINANCE COSTS

	Year ended	
	December 31, 2018	December 31, 2017
Interest on loans and borrowings	72,633	71,638
Interest expense – finance lease	462	823
<b>Total</b>	<b>73,095</b>	<b>72,461</b>

## 10. FOREIGN EXCHANGE (LOSS) / GAIN, NET

	Year ended	
	December 31, 2018	December 31, 2017
Foreign exchange (loss) /gain on debt financing	(212,432)	72,505
Foreign exchange gain / (loss) on cash and cash equivalents	9,266	(5,386)
Foreign exchange gain / (loss) on financial investments	–	(85)
Foreign exchange gain / (loss) on other assets and liabilities	1,587	(357)
<b>Total</b>	<b>(201,579)</b>	<b>66,677</b>

## 11. INCOME TAX

	Year ended	
	December 31, 2018	December 31, 2017
Current income tax expense	63,885	84,789
Deferred income tax expense	1,477	29,871
<b>Total</b>	<b>65,362</b>	<b>114,660</b>

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP, which is permitted to apply a reduced income tax rate of 16.5% until December 31, 2021 inclusively, is calculated at 20% of the taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Income tax expense calculated by applying the Russian Federation statutory income tax rate to profit before income tax differs from income tax expense recognised in the consolidated statement of comprehensive income as a consequence of the following factors:

	Year ended	
	December 31, 2018	December 31, 2017 (restated)
Profit before income tax	333,473	586,689
Tax at the Russian Federation statutory rate of 20%	66,695	117,338
Other non-deductible expenses	2,989	1,339
Impairment of construction in progress	99	328
Effect of different tax rates of subsidiaries	(4,421)	(4,345)
<b>Total</b>	<b>65,362</b>	<b>114,660</b>

The movement in the Group's net deferred taxation position was as follows:

	December 31, 2018	December 31, 2017
Net balance at the beginning of the year	52,456	21,075
Expense recognised during the year	1,477	29,871
Effect of translation into presentation currency	(9,107)	1,510
<b>Net balance at the end of the year</b>	<b>44,826</b>	<b>52,456</b>

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

## 11. INCOME TAX (continued)

The tax effects of temporary differences that give rise to deferred taxation are as follows:

	December 31, 2018	December 31, 2017
<b>Deferred tax assets</b>		
Impairment of restricted cash in Vneshprombank	57,313	69,121
Tax loss carry forward	35,961	43,602
Accrued expenses	10,909	6,561
Allowance for doubtful receivables	829	922
Allowance for obsolete and slow-moving inventories	303	240
<b>Total</b>	<b>105,315</b>	<b>120,446</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	144,667	166,553
Investment valuation	3,535	3,529
Debt	1,562	2,305
Mooring rights	377	515
<b>Total</b>	<b>150,141</b>	<b>172,902</b>
<b>Net deferred tax liability</b>	<b>44,826</b>	<b>52,456</b>

In the context of the Group's current structure, tax losses and current tax assets of different companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group 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, when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The following is the analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position:

	December 31, 2018	December 31, 2017
<b>Deferred tax assets</b>	71,884	88,777
<b>Deferred tax liabilities</b>	116,710	141,233
<b>Net deferred tax liability</b>	<b>44,826</b>	<b>52,456</b>

At December 31, 2018 and 2017, The Group has not recorded any deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the legislation allows zero tax on dividends from subsidiaries under certain conditions. The Group meets such conditions.

## 12. DIVIDENDS

Dividends declared by the Group during the years ended December 31, 2018 and 2017 were 221,364 and 258,259, respectively, including dividends to non-controlling interest. The total dividends paid during the years ended December 31, 2018 and 2017 were 148,955 and 250,012, respectively.

As at December 31, 2018, the dividend liability of the Group amounted to 72,092 (December 31, 2017: 2,193). It is included in accrued expenses as at December 31, 2018 and 2017 (Note 25).

## 13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at January 1, 2017	635,424	361,229	343,011	88,315	20,811	10,610	56,600	1,516,000
Additions	12,868	27,127	56,731	3,228	3,815	2,134	44,334	150,237
Transfer	–	21,759	1,899	65	–	13	(23,736)	–
Disposals	(185)	(6,149)	(9,211)	(959)	(1,352)	(200)	(609)	(18,665)
Effect of translation into presentation currency	33,886	19,728	18,847	3,805	1,134	586	3,265	81,251
As at December 31, 2017	681,993	423,694	411,277	94,454	24,408	13,143	79,854	1,728,823
Accumulated depreciation and impairment								
As at January 1, 2017	–	(131,766)	(176,681)	(42,191)	(12,366)	(8,188)	(269)	(371,461)
Depreciation expense	–	(25,416)	(35,394)	(6,224)	(2,654)	(2,305)	–	(71,993)
Disposals	–	5,383	8,743	959	1,237	187	–	16,509
Impairment of construction in progress	–	–	–	–	–	–	(1,639)	(1,639)
Effect of translation into presentation currency	–	(7,254)	(9,723)	(1,965)	(673)	(461)	(33)	(20,109)
As at December 31, 2017	–	(159,053)	(213,055)	(49,421)	(14,456)	(10,767)	(1,941)	(448,693)
Cost								
As at January 1, 2018	681,993	423,694	411,277	94,454	24,408	13,143	79,854	1,728,823
Additions	150	16,529	47,774	2,610	1,722	3,855	39,214	111,854
Transfer	–	8,341	5,086	2,103	–	83	(15,613)	–
Disposals	–	(3,104)	(5,771)	(3,151)	(1,234)	(250)	(2)	(13,512)
Effect of translation into presentation currency	(116,547)	(74,511)	(74,863)	(13,351)	(4,218)	(2,605)	(15,942)	(302,039)
As at December 31, 2018	565,596	370,949	383,503	82,665	20,678	14,226	87,511	1,525,128
Accumulated depreciation and impairment								
As at January 1, 2018	–	(159,053)	(213,055)	(49,421)	(14,456)	(10,767)	(1,941)	(448,693)
Depreciation expense	–	(25,777)	(35,230)	(6,045)	(2,405)	(1,382)	–	(70,839)
Disposals	–	2,401	4,885	2,101	1,169	247	–	10,803
Impairment of construction in progress	–	–	–	–	–	–	(495)	(495)
Effect of translation into presentation currency	–	29,449	39,363	7,578	2,591	1,950	378	81,309
As at December 31, 2018	–	(152,980)	(204,037)	(45,787)	(13,101)	(9,952)	(2,058)	(427,915)
Carrying value								
As at January 1, 2017	635,424	229,463	166,330	46,124	8,445	2,422	56,331	1,144,539
As at December 31, 2017	681,993	264,641	198,222	45,033	9,952	2,376	77,913	1,280,130
As at December 31, 2018	565,596	217,969	179,466	36,878	7,577	4,274	85,453	1,097,213

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2018, the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 20,040 (December 31, 2017: 19,914).

During the years ended December 31, 2018 and 2017, no interest expense was capitalised.

The carrying value of property, plant and equipment held under finance leases as at December 31, 2018 was 26,414 (December 31, 2017: 7,468). During the year ended December 31, 2018, the Group purchased 4 leased assets in the end of lease agreement. Additions to the group "Machinery and equipment" in 2018 include 28,416 of property, plant and equipment under finance leases, there were no additions of property, plant and equipment under finance leases during the the year ended December 31, 2017. Leased assets are pledged as security for the related finance liabilities. No other property, plant and equipment items are pledged.

In 2018, the Group acquired property, plant and equipment with an aggregate cost of 111,854 (2017: 150,237). Cash payments of 98,894 were made to purchase property, plant and equipment (2017: 160,519) including payments under finance lease contracts.

During the years ended December 31, 2018 and 2017, the Group disposed of assets resulting in net losses of 2,027 and 1,176, respectively.

## 14. GOODWILL

	December 31, 2018	December 31, 2017 (restated)
Cost	692,391	835,081
Accumulated impairment loss:	(180,709)	(217,950)
Carrying amount	511,682	617,131
Cost		
Balance at the beginning of the year	835,081	792,999
Effect of translation into presentation currency	(142,690)	42,082
Balance at the end of the year	692,391	835,081

Accumulated impairment loss:

Balance at the beginning of the year	(217,950)	(206,967)
Effect of translation into presentation currency	37,241	(10,983)
Balance at the end of the year	(180,709)	(217,950)

## 14. GOODWILL (continued)

The carrying amount of goodwill was allocated to cash-generating units ("CGU") as follows:

	Cost		Accumulated impairment loss		Carrying amount	
	December 31, 2018	December 31, 2017 (restated)	December 31, 2018	December 31, 2017 (restated)	December 31, 2018	December 31, 2017 (restated)
<b>Stevedoring and additional services segment:</b>						
PTP	353,395	426,223	(92,089)	(111,067)	261,306	315,156
Grain Terminal	68,351	82,437	–	–	68,351	82,437
Novoroslesexport	55,160	66,528	–	–	55,160	66,528
IPP	11,889	14,339	–	–	11,889	14,339
Shipyard	5,383	6,492	(1,356)	(1,636)	4,027	4,856
BSC	1,230	1,484	–	–	1,230	1,484
<b>Fleet services segment:</b>						
SFP	165,837	200,013	(87,264)	(105,247)	78,573	94,766
Fleet	31,146	37,565	–	–	31,146	37,565
<b>Total</b>	<b>692,391</b>	<b>835,081</b>	<b>(180,709)</b>	<b>(217,950)</b>	<b>511,682</b>	<b>617,131</b>

**Annual impairment test information**

For goodwill impairment purposes, the recoverable amount of each CGU is determined based on a value in use calculation, which uses cash flow projections based on actual operating results, business plans approved by management and a discount rate which reflects the time value of money and the risks associated with the respective CGU.

The most significant estimates and assumptions used by management in the value in use calculations as at December 31, 2018 were as follows:

- Cash flow projections were based on the business plans of the Group for the years 2019-2023, approved by management. Such business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.
- Cash flows were presented in the Russian Roubles and were projected using the inflation set by Global Insight
- Cash flow projections beyond 2023 were extrapolated using a steady 4.4% per annum growth rate and
- Discount rate was determined for each CGU in nominal terms based on the Group's weighted average cost of capital adjusted for tax effect to arrive at rate of 12.63% (prior year estimate – 14.68%)

The Group's CGUs operate within a consistent industry within the same geographic regions. As such, within the development of the Group's business plan, management applies consistent assumptions across each CGU.

Management believes that the values assigned to the key assumptions and estimates represent the most probable assessment of cash flow forecasts.

The estimated recoverable amount of each of the Group's CGUs exceeded its carrying value.

**Sensitivity analysis**

For all such CGUs, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of a CGU to exceed its recoverable amount.

Management prepared a sensitivity analysis and determined that neither a 10% reduction in revenue, nor a 10% increase in capital expenditure (costs associated with the maintenance of fixed assets), nor 10% increase in operating expenses (the fixed and variable costs) applied in the impairment testing would lead to recognition of impairment loss. These are the most sensitive assumptions used in the impairment test for all CGUs.

## 15. INVESTMENT IN JOINT VENTURE

LLC Novorossiysk Fuel Oil Terminal ("NFT") is a fuel oil terminal in Novorossiysk, 353900, Magistralnaya st., 6, Krasnodar region, with maximum transshipment capacity of four million tons per year.

The Group owns 50% of NFT and its share in profit of the joint venture for the years 2018 and 2017 recognised in the consolidated statement of comprehensive income amounted to 6,091 and 4,858, respectively.

Summarised financial information of NFT is represented below:

	December 31, 2018	December 31, 2017
Current assets	25,188	18,695
Non-current assets	35,195	46,399
<b>Total assets</b>	<b>60,383</b>	<b>65,094</b>
Current liabilities	(1,197)	(1,627)
Non-current liabilities	(1,567)	(2,027)
<b>Total liabilities</b>	<b>(2,764)</b>	<b>(3,654)</b>
<b>Net assets</b>	<b>57,619</b>	<b>61,440</b>
<b>Group's share of joint venture net assets</b>	<b>28,810</b>	<b>30,720</b>
Elimination of unrealised profit	(2,255)	(2,171)
<b>Carrying value of investment</b>	<b>26,555</b>	<b>28,549</b>

The above amounts of assets and liabilities include the following:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	21,650	10,862

	Year ended	
	December 31, 2018	December 31, 2017
Revenue	43,185	39,625
Operating profit	10,774	10,835
Profit for the year	12,182	9,716
Group's share in profit for the year at 50%	6,091	4,858
Other comprehensive (loss) / income	(11,429)	3,490

## 15. INVESTMENT IN JOINT VENTURE (continued)

The above profit for the year includes the following:

	Year ended	
	December 31, 2018	December 31, 2017
Depreciation and amortization	(6,200)	(8,159)
Interest income	1,157	542
Interest expense	–	(26)
Income tax	429	(329)

In December 2018, NFT distributed profit to NCSP in the amount of 2,264, with a 0% tax rate.

Loan issued by NFT to the Group is disclosed in Note 22.

## 16. DETAILS OF SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	December 31, 2018	December 31, 2017	2018	2017	December 31, 2018	December 31, 2017
JSC Novorossiysk Shipyard	1.74%	1.74%	315	286	529	568
JSC Fleet Novorossiysk Commercial Sea Port	4.81%	4.81%	649	683	1,068	1,734
JSC Novoroslesexport	8.62%	8.62%	2,849	2,804	7,360	7,812
Other subsidiaries with non-controlling interests					487	290
<b>Total</b>					<b>9,444</b>	<b>10,404</b>

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehen- sive income	Cash flows
Year ended December 31, 2018								
JSC Novorossiysk Shipyard	9,425	24,248	(2,478)	(807)	47,206	18,129	18,129	4,098
JSC Fleet Novorossiysk Commercial Sea Port	12,093	14,192	(3,854)	(233)	63,808	13,499	13,499	(1,180)
JSC Novoroslesexport	21,006	69,275	(3,733)	(1,169)	70,451	33,055	33,055	5,406
Other subsidiaries with non- controlling interests	39,646	48,940	(6,384)	(3,930)	89,013	34,930	34,930	21,800
Year ended December 31, 2017								
JSC Novorossiysk Shipyard	7,092	28,695	(2,253)	(915)	41,875	16,461	16,461	(12,853)
JSC Fleet Novorossiysk Commercial Sea Port	19,355	20,962	(3,995)	(283)	56,729	14,196	14,196	(38,046)
JSC Novoroslesexport	16,494	80,329	(4,388)	(1,806)	70,305	32,528	32,528	3,702
Other subsidiaries with non-controlling interests	19,349	51,248	(4,499)	(4,914)	79,687	43,905	43,905	(5,159)

## 17. INVENTORIES

	December 31, 2018	December 31, 2017
Materials	8,468	8,250
Goods for resale	3,064	7,692
Fuel	1,443	1,438
Less: inventory write-down to net realisable value	(1,879)	(927)
<b>Total</b>	<b>11,096</b>	<b>16,453</b>

## 18. TRADE AND OTHER RECEIVABLES, NET

	December 31, 2018	December 31, 2017
Trade receivables (RUB)	21,215	18,282
Trade receivables (USD)	8,345	7,602
Trade receivables (EUR)	–	17
Other receivables	9,203	10,807
Less: credit loss allowance	(8,770)	(11,243)
<b>Total</b>	<b>29,993</b>	<b>25,465</b>

Average credit period provided to the Group's customers is 10 days. During this period, no interest is charged on the outstanding balances. Thereafter, interest is charged according to the contracts determined on a customer specific basis, based on size, volume and history of operations with the Group at rates from 0.3% to 15% per month on the outstanding balance.

The Group uses an internal credit system to assess potential customer's credit quality. The Group's 6 largest customers (2017: 6) in total represent 41% (2017: 35%) of the outstanding trade receivables balance at the end of the year.

Included in the Group's receivable balance are debts with carrying value of 7,474 (2017: 4,252) which are past due at the respective reporting date but not impaired and which the Group still considers as recoverable.

A maturity analysis of trade and other receivables is as follows:

In % of gross value	Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables	–	21,244	–
– current			
– less than 45 days overdue	–	4,759	–
– 45 to 90 days overdue	10%	313	31
– 91 to 180 days overdue	33%	441	145
– 181 to 360 days overdue	65%	1,003	652
– over 360 days overdue	85%	1,800	1,530
Total trade receivables (gross carrying amount)		29,560	
Credit loss allowance		(2,363)	
Total trade receivables from contracts with customers (carrying amount)		27,197	
Other receivables	11%	1,273	140
– current			
– less than 45 days overdue	25%	330	83
– 45 to 90 days overdue	35%	3	1
– 91 to 180 days overdue	51%	53	27
– 181 to 360 days overdue	65%	560	364
– over 360 days overdue	83%	6,984	5,797
Total other receivables		9,203	
Credit loss allowance		(6,407)	
Total other receivables (carrying amount)		2,796	

The Group does not hold any collateral over these outstanding balances.

## 18. TRADE AND OTHER RECEIVABLES, NET (continued)

The following table explains the changes in the credit loss allowance for trade and other financial receivables under ECL model between the beginning and the end of the annual period:

	Year ended	
	December 31, 2018	December 31, 2017
As at beginning of the year	11,243	6,946
New originated during the year	1,151	4,386
Receivables written-off during the year as uncollectable	(1,761)	(410)
Financial assets derecognized during the period	-	(98)
Effect of translation into presentation currency	(1,863)	419
As at end of the year	8,770	11,243

Trade and other receivables with a balance of 8,770 (2017: 11,243) were individually impaired and fully provided for. The individually impaired receivables mainly relate to companies, which have been considered as insolvent based on the Group's legal department analysis.

	2017	
	Trade receivables	Other financial receivables
Not past due and not impaired	19,792	1,422
Past due but not impaired		
- less than 45 days overdue	1,878	753
- 45 to 90 days overdue	148	7
- 91 to 180 days overdue	105	10
- 181 to 365 days overdue	75	15
- over 365 days overdue	-	1,795
<b>Total past due but not impaired</b>	<b>2,205</b>	<b>2,579</b>
Individually determined to be impaired (gross)		
- less than 45 days overdue	-	36
- 45 to 90 days overdue	45	10
- 91 to 180 days overdue	42	9
- 181 to 365 days overdue	581	3,713
- over 365 days overdue	2,239	4,037
<b>Total individually impaired</b>	<b>2,907</b>	<b>7,804</b>
<b>Less impairment provision</b>	<b>(6,449)</b>	<b>(4,794)</b>
<b>Total trade and other receivables at December 31</b>	<b>18,455</b>	<b>7,010</b>

## 19. OTHER NON-CURRENT ASSETS

	December 31, 2018	December 31, 2017
Advances issued for acquisition of fixed assets and capital services	1,568	1,041
Debt on assignment of rights of claims	24,708	24,479
<b>Total</b>	<b>26,276</b>	<b>25,520</b>

The debt on assignment of rights of claims represents debts of Terminal Mega LLC and OJSC Mega, which were obtained by the Group under the commercial assignment agreement with SBC-Retail LLC in 2017.

These debts are secured by property of the debtors. The debts have been classified as Other Non-Current Assets, since the probability of cash receipt under the agreement is remote and the sole purpose of the acquisition of the debts was to obtain the eventual ownership of the property. Management has not impaired the asset as the market value of the property exceeds the purchase consideration of the debts.

## 20. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Bank deposits in RUB	128,313	98,151
Bank deposits in USD	38,454	17,930
Bank deposits in EUR	858	–
Current accounts in RUB	3,325	3,332
Current accounts in USD	1,752	1,918
Current accounts in EUR	146	161
Cash in hand	17	36
<b>Total</b>	<b>172,865</b>	<b>121,528</b>

Finance income from deposits in 2018 - 13,597, in 2017 - 15,059.

Bank deposits as at December 31, 2018 are summarised below:

Bank	Currency	Rate, %	December 31, 2018
PJSC Bank VTB ("Bank VTB")	RUB	5.25-8.00	74,003
Bank VTB	USD	0.20-3.25	19,287
PJSC Sberbank Russia ("Sberbank")	RUB	4.16-7.60	23,607
Sberbank	USD	0.55-2.07	1,471
JSC Rosselkhozbank	RUB	6.25-7.60	20,066
JSC Rosselkhozbank	USD	2.90-4.20	17,696
JSC Rosselkhozbank	EUR	1.30	858
Other	RUB	6.50-7.50	10,637
<b>Total</b>			<b>167,625</b>

## 20. CASH AND CASH EQUIVALENTS (continued)

Bank deposits as at December 31, 2017 are summarised below:

Bank	Currency	Rate, %	December 31, 2017
Sberbank	RUB	4.54–6.70	57,812
Sberbank	USD	0.69–1.40	8,220
Bank VTB	RUB	6.15–7.45	20,469
JSC Rosselkhozbank	RUB	7.20–7.80	10,243
JSC Rosselkhozbank	USD	1.45–1.80	6,927
Other	RUB	5.10–8.45	9,627
Other	USD	1.35–1.40	2,783
<b>Total</b>			<b>116,081</b>

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at December 31, 2018.

Master scale credit risk grade	Corresponding ratings of external international rating agencies	Bank balances payable on demand	Term deposits	Total
Excellent	-Baa3	3,068	25,078	28,146
Good	-Ba1	2,106	132,615	134,721
Good	-Ba3	–	720	720
Satisfactory	-B1	44	9,212	9,256
Satisfactory	Unrated	5	–	5
<b>Total cash and cash equivalents, excluding cash on hand</b>				<b>172,848</b>

The credit quality of cash and cash equivalents balances may be summarised based on Moody's as follows at December 31, 2017:

Master scale credit risk grade	Corresponding ratings of external international rating agencies	Bank balances payable on demand	Term deposits	Total
Excellent	- Baa3	2,739	68,932	71,671
Good	- Ba1	2,606	40,422	43,024
Good	- Ba3	–	6,545	6,545
Satisfactory	- B1	62	182	244
Satisfactory	Unrated	8	–	8
<b>Total cash and cash equivalents, excluding cash on hand</b>				<b>121,492</b>

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- › Excellent – strong credit quality with low expected credit risk
- › Good – adequate credit quality with a moderate credit risk
- › Satisfactory – moderate credit quality with a satisfactory credit risk

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets. As of December 31, 2018 and 2017, no significant credit loss allowance for impairment in respect of these assets was recognized.

## 21. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 ordinary shares authorised, issued, and fully paid with a par value of US cents 0.054 per share. Authorised share capital at par is 10,471. Each ordinary share has equal voting rights.

On the account treasury shares, in the section of equity, the Group reflects its own shares repurchased in 2011.

On October 1, 2018, 1,417,475 previously repurchased ordinary shares, which were classified as treasury shares as at December 31, 2017, were sold to the LLC Transneft Service for a cash consideration of 148.

The number of shares outstanding is 18,482,934,068 and 18,481,516,593 as at December 31, 2018 and 2017, respectively.

Shares are admitted to circulation on the Moscow Exchange, as well as on the London Stock Exchange in the form of global depositary receipts.

## 22. DEBT

	Interest rate	Maturity date	December 31, 2018	December 31, 2017
Unsecured borrowings				
NFT (RUB)	7.0%	October 2018	–	2,693
Industrial Development Fund (RUB)	1.0%	December 2022	4,478	–
Industrial Development Fund (RUB)	1.0%	December 2022	5,212	–
Secured bank loans				
Bank VTB (USD)	LIBOR 3M + 3.99%	June 2023	994,233	1,190,511
<b>Total debt</b>			<b>1,003,923</b>	<b>1,193,204</b>
Short-term borrowing			–	(2,693)
Current portion of long-term debt			(200,299)	(199,930)
<b>Total non-current debt</b>			<b>803,624</b>	<b>990,581</b>

### Bank VTB

On June 20, 2016, NCSP received a loan in the amount of 1,500,000 from Bank VTB to repay of financial debt to Sberbank prior to maturity under the following terms:

- > The term of the facility is seven years
- > Floating interest of LIBOR 3M + 3.99% per annum
- > A lump sum commission of 12,985 was paid for the loan receipt
- > The loan is secured by independent guarantees of PTP and SFP as well as by indemnity guarantee of Novoport Holding Ltd.
- > Certain financial covenants are imposed on the Group (such as: total net debt of the Group to earnings before interest, taxes, depreciation and amortisation ("Adjusted EBITDA" ratio), adjusted EBITDA to financial expenses ratio, share of cumulative indicators of adjusted EBITDA, revenue and fixed assets of the NCSP and guarantors in similar indicators of the Group, and other covenants). As at the reporting date, the Group met all the financial covenants under the loan agreement with Bank VTB

The sensitivity analysis is performed in Note 30.

## 22. DEBT (continued)

**Other debt**

On February 14, 2018, NCSP has obtained two special-purpose loans totaling 11,650 (RUB 673 million) from the Industrial Development Fund to finance an advance payment of the acquired all-wheel drive bridge cranes "Aist" and "Vityaz" comprising 9 pieces. Both loans are granted at 1% interest rate per annum. Principal amounts are repayable in equal instalments at the end of each quarter starting from March, 31 2021; maturity date is December 2022. Interest is charged monthly and paid quarterly.

As at December 31, 2018, the long-term borrowings are disclosed net of unamortised expense for raising a loan in amount of 7,810 (December 31, 2017: 11,526).

The Group's borrowings as at December 31, 2018 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	–	16,741	16,741
Due from three to six months	100,000	17,020	117,020
Due from six months to twelve months	100,000	30,548	130,548
	<b>200,000</b>	<b>64,309</b>	<b>264,309</b>
Between 1 and 2 years	200,000	50,898	250,898
Between 2 and 5 years	609,688	67,499	677,187
<b>Total</b>	<b>1,009,688</b>	<b>182,706</b>	<b>1,192,394</b>

The Group's borrowings as at December 31, 2017 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	–	16,665	16,665
Due from three to six months	100,000	16,958	116,958
Due from six months to twelve months	102,603	31,166	133,769
	202,603	64,789	267,392
Between 1 and 2 years	200,000	53,342	253,342
Between 2 and 5 years	600,000	92,566	692,566
Over 5 years	200,000	5,617	205,617
<b>Total</b>	<b>1,202,603</b>	<b>216,314</b>	<b>1,418,917</b>

For the variable rate borrowings, contractual interest liability for future periods was calculated based on effective borrowing rate relating to the Group's variable rate borrowings as at December 31, 2018 of 6.78% (December 31, 2017: 5.63%).

The main part of financial obligations of the Group is denominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended December 31, 2018, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 212,432 (during the year ended December 31, 2017 the foreign exchange gain on financial obligations increased the Group's profit before income tax by 63,115).

**Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

## 22. DEBT (continued)

	January 1, 2018	Financing cash flows (i)	Other changes (ii)	December 31, 2018
Bank loans	1,190,511	(200,000)	3,722	994,233
Loans from related and other parties	2,693	8,447	(1,450)	9,690
Finance lease (Note 23)	3,221	(13,825)	23,723	13,119
	<b>1,196,425</b>	<b>(205,378)</b>	<b>25,995</b>	<b>1,017,042</b>

## 2017

	January 1, 2017	Financing cash flows (i)	Other changes (ii)	December 31, 2017
Bank loans	1,389,152	(200,000)	1,359	1,190,511
Loans from related and other parties	–	2,571	122	2,693
Finance lease (Note 23)	6,683	(11,602)	8,140	3,221
	<b>1,395,835</b>	<b>(209,031)</b>	<b>9,621</b>	<b>1,196,425</b>

1. The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
2. Other changes include interest accruals and payments 1,941 (2017: 2,929), translation difference (gain) / loss, net (4,362) (2017: 6,692) and additions of property, plant and equipment under finance leases 28,416 (2017: 0).

## 23. FINANCE LEASE

The Group rents transshipment machinery and equipment under finance lease agreements with five years terms. The Group has the right to purchase equipment after expiration of the lease contracts at a purchase price close to zero. Interest rates for all obligations under the finance lease agreements are fixed at the dates of the agreements at rates ranging from 10.76% to 17.14% per annum.

	Minimum lease payments as at December 31, 2018	Minimum lease payments as at December 31, 2017	Present value of minimum lease payments as at December 31, 2018	Present value of minimum lease payments as at December 31, 2017
Less than one year	3,557	3,409	3,368	3,156
In the second and fifth year	13,379	78	9,751	65
Less: future financing costs	(3,817)	(266)	–	–
<b>Present value of minimum lease payments</b>	<b>13,119</b>	<b>3,221</b>	<b>13,119</b>	<b>3,221</b>

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in Note 13.

## 24. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
Trade payables	4,059	6,117
Payables for property, plant and equipment	3,560	5,473
Other accounts payable	1,512	509
<b>Total</b>	<b>9,131</b>	<b>12,099</b>

The average credit period for trade payables relating to the purchase of inventories (e.g. fuel) and services (e.g. utilities) is 9 days. No interest is charged on the outstanding balance for trade and other payables during the credit period. Thereafter, interest may be charged from 0.3% to 15% per month on the outstanding balance.

The maturity profile of trade and other payables is as follows:

	December 31, 2018	December 31, 2017
Past due	361	857
Due within three months	5,342	8,473
Due from three to six months	199	478
Due from six months to twelve months	3,229	2,291
<b>Total</b>	<b>9,131</b>	<b>12,099</b>

## 25. ACCRUED EXPENSES

	December 31, 2018	December 31, 2017
Accrued salaries and wages	10,991	12,268
Dividend liability (Note 12)	72,092	2,193
Accrued rent expenses	386	–
Accrued expenses due to increase in tariffs	–	887
Accrued professional service expenses	210	400
Tax contingencies	133	–
Other accrued expenses	847	677
<b>Total</b>	<b>84,659</b>	<b>16,425</b>

## 26. RELATED PARTY TRANSACTIONS

As of December 31, 2017 and December 31, 2018, the controlling shareholder (the immediate parent entity) of NCSP was Novoport Holding Ltd. (registered under the legislation of the Republic of Cyprus), which controlled 50.1% of NCSP. Novoport Holding Ltd. was owned by OMIRICO LIMITED (registered under the legislation of the Republic of Cyprus).

As of December 31, 2017, OMIRICO LIMITED was jointly controlled by PJSC Transneft and the Summa Group. The owner of 100% of the PJSC Transneft ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation. The ultimate beneficiary of the Summa Group are members of the Magomedov family.

In September 2018, PJSC Transneft acquired 50% of the share capital of OMIRICO LIMITED and as a result of the transaction, the share of PJSC Transneft in OMIRICO LIMITED increased to 100%. The effective share of PJSC Transneft in NCSP increased from 37.07% to 63.08%. As a result, PJSC Transneft obtained control over NCSP and its subsidiaries.

As of December 31, 2017 and December 31, 2018, the Federal Property Agency of the Russian Federation owned a direct 20% interest in NCSP and was a controlling shareholder of PJSC Transneft. Due to the fact that the Federal Property Agency of the Russian Federation had a joint control and control over NCSP as of December 31, 2017 and December 31, 2018, respectively, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended December 31, 2018 and 2017, the Group transacted with Sberbank, VTB Bank, PJSC Rosneft Oil Company, OJSC Russian Railways and other state-controlled entities (apart from PJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees in regards to related parties have been given or received during the reporting period. Provisions have been made in respect of the amounts owed by related parties in respect of trade and other receivables in the amount 112 (December 31, 2017: 4,661).

Transactions with state-controlled entities (apart from PJSC Transneft):

	Year ended	
	December 31, 2018	December 31, 2017
Sales		
Sales of goods and services	92,459	101,967
Interest income	13,022	10,286
Purchases		
Services and materials received	17,808	17,939
Finance costs and commission for early repayment of debt	72,490	71,546

## 26. RELATED PARTY TRANSACTIONS (continued)

Balances with state-controlled entities (apart from PJSC Transneft):

	December 31, 2018	December 31, 2017
Cash and cash equivalents		
Cash and cash equivalents	162,686	111,701
Receivables		
Long-term receivables	1,512	–
Trade and other receivables, net of allowance for doubtful trade and other receivables	1,589	2,079
Advances to suppliers	468	360
Payables		
Trade and other payables	216	159
Advances received from customers	574	357
Debt		
Long-term debt	803,624	990,581
Current portion of long-term debt	200,299	199,930

Transactions with PJSC Transneft and its subsidiaries:

	Year ended	
	December 31, 2018	December 31, 2017
Sales		
Sales of goods and services	90,412	98,098
Purchases		
Services and materials received	64,657	41,852
Other selling expenses	2,558	3,033

Balances with PJSC Transneft and its subsidiaries:

	December 31, 2018	December 31, 2017
Receivables		
Trade and other receivables, net of allowance for doubtful trade and other receivables	1,348	944
Advances to suppliers	3,020	368
Payables		
Trade and other payables	1,707	3,141
Advances received from customers	1,541	1,567

Transactions and balances with NFT, a joint venture of the Group, are disclosed below:

## 26. RELATED PARTY TRANSACTIONS (continued)

Transactions with NFT:

	Year ended	
	December 31, 2018	December 31, 2017
Sales and income		
Sales of goods and services	8,956	7,242
Purchases		
Services and materials received	1,441	2,268
Interest expense	139	87

Balances with NFT:

	December 31, 2018	December 31, 2017
Receivables		
Trade and other receivable	168	354
Payables to related parties		
Trade and other payables	8	–
Advances received from customers	31	36
Financial debt to related parties		
Short-term debt	–	2,693

### Compensation of key management personnel

For the years ended December 31, 2018 and 2017, remuneration to key management personnel (salaries, taxes directly attributable to salaries and bonus provision) amounted to 10,466 (including termination benefits in the amount of 248) and 10,567 (including termination benefits in the amount of 429), respectively.

Remuneration of directors and key executives is determined by the board of directors with regard to performance of the individuals and market trends.

## 27. COMMITMENTS AND CONTINGENCIES

### Legal proceedings

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. Management believes that resolution of such matters will not have a material adverse effect on the Group's financial performance and liquidity ratios based on information currently available.

In 2017, FAS found NCSP and PTP guilty for breaking the Federal Law No. 135 FZ "On Protection of Competition", upon the fact of imposing monopolistically high prices for transshipment in 2015 in the port of Novorossiysk and Primorsk, respectively. FAS issued an order for NCSP and PTP to transfer certain proceeds from their activities in the amount of 140,247 and 2,666, respectively (using the exchange rate as at December 31, 2018) to the federal budget. In addition, FAS ordered to set economically justified tariffs. The Law Courts (which includes the Presidium of the Supreme Court of the Russian Federation) had confirmed the legal position of NCSP and PTP and annulled the FAS order. Similar cases are also being conducted with respect to the transshipment tariffs of PTP during 2016-2017. These cases for both companies were suspended until the completion of the legal actions under the transshipment tariffs for 2015. Currently there is no information on the resumption of the cases in respect of 2016-2017.

No provision was recorded in the consolidated financial statements for these claims as according to management's assessment the risk of outflow of economic benefits is between remote and possible.

### Taxation contingencies in the Russian Federation

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 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 non-compliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances, reviews may cover longer periods.

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.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

## 27. COMMITMENTS AND CONTINGENCIES (continued)

## Operating environment

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 frequent changes and varying interpretations.

The Russian economy continues to be negatively impacted by ongoing political tension in the region 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 a significant 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.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

## Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations. Management believes that the Group's operations are in compliance with all current existing environmental legislation in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change, or the cost thereby.

## Insurance

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position.

## Operating lease arrangements

The Group rents land plots, mooring installations, vessels and equipment under operating lease agreements with the Russian Federation and related parties. These arrangements have lease terms of between 1 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

Future minimum lease payments under non-cancellable operating leases with initial terms in excess of one year are as follows:

	December 31, 2018	December 31, 2017
Within 1 year	44,592	54,348
Between 1 and 2 years	44,693	51,066
Between 2 and 3 years	44,496	51,181
Between 3 and 4 years	42,284	50,893
Between 4 and 5 years	42,287	50,893
Thereafter	657,901	845,069
<b>Total</b>	<b>876,253</b>	<b>1,103,450</b>

As at December 31, 2018, minimum lease payments were calculated according to the existing contract terms.

## 28. CAPITAL COMMITMENTS

As at December 31, 2018 and 2017, the Group had the following commitments for acquisition of property, plant and equipment and construction works:

	December 31, 2018	December 31, 2017
NCSP	30,701	47,340
IPP	4,446	1,528
Novoroslesexport	3,722	4,070
PTP	1,571	120
Shipyard	1,129	47
NZT	359	944
SFP	40	2
BSC	20	261
<b>Total</b>	<b>41,988</b>	<b>54,312</b>

As at December 31, 2018 and 2017, there were no capital commitments relating to obligations under finance lease contracts.

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- > The fair values of financial assets and financial liabilities with standard terms and conditions which are traded on active liquid markets are determined with reference to quoted market prices and
- > The fair values of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analyses, using prices from observable current market transactions

As at December 31, 2018 and 2017, management believes that the carrying values of financial assets (Notes 18 and 20) and financial liabilities recorded at amortised cost (Note 22 and 24) and also finance lease liability (Note 23) in the consolidated financial statements approximate their fair values, due to the fact that they are short-term, except for liabilities under credit agreement with Bank VTB (see disclosure below).

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements (see Note 3 "Significant accounting policies").

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organisations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of Central Bank of Russian Federation. As at 31 December 2018 the discount rate used for obligations under agreement with Bank VTB comprised 5.63% (December 31, 2017: 5.75%).

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value compared to the carrying value of long-term financial liabilities as at December 31, 2018 and 2017 is as follows:

	December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
LIBOR + rate agreement with Bank VTB (Level 2)	994,233	1,022,144	1,190,511	1,195,391
Fixed rate financial liabilities (Level 2)	9,690	7,686	–	–

## 30. RISK MANAGEMENT

### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance and meet debt to equity ratio covenant of the loan agreement with Bank VTB (Note 22). Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends as well as the issuance of new debt or the redemption of existing debt.

### Major categories of financial instruments

The Group's principle financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables, investments in securities and cash and cash equivalents.

	December 31, 2018	December 31, 2017
Financial assets		
Cash and cash equivalents	172,865	121,528
Cash and cash equivalents	172,865	121,528
Receivables	56,269	50,956
Trade and other receivables including long-term	56,269	50,956
Loans issued	–	–
Total financial assets	229,134	172,484
Financial liabilities carried at amortised cost		
Borrowings	(1,003,923)	(1,193,204)
Trade and other payables	(5,725)	(6,707)
Payables for property, plant and equipment	(6,729)	(10,014)
Finance lease	(13,119)	(3,221)
Total financial liabilities	(1,029,496)	(1,213,146)

The main risks arising from the Group's activities are foreign currency, interest rate, credit and liquidity risks.

## 30. RISK MANAGEMENT (continued)

**Foreign currency risk**

Foreign 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 undertakes certain transactions denominated in foreign currencies.

The carrying amount of the Group's USD denominated monetary assets and liabilities as at the reporting date are as follows:

	December 31, 2018	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	40,206	19,848
Investments and receivables carried at amortised cost	8,369	4,032
<b>Total assets</b>	<b>48,575</b>	<b>23,880</b>
<b>Liabilities</b>		
Borrowings	(994,233)	(1,190,511)
Finance lease	(77)	(3,221)
Trade payables	(30)	(46)
<b>Total liabilities</b>	<b>(994,340)</b>	<b>(1,193,778)</b>
<b>Total net liability position</b>	<b>(945,765)</b>	<b>(1,169,898)</b>

The table below details sensitivity of the Group's financial instruments to a 20% (2017: 20%) depreciation of the RUB against the USD if all other variables are held constant. The analysis was applied to monetary items denominated in USD at the year-end dates. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A 20% appreciation of the RUB against the USD would have an equal and opposite impact:

	December 31, 2018	December 31, 2017
Loss	(151,322)	(187,184)

The carrying amount of the Group's EUR denominated monetary assets and liabilities as at the reporting date are as follows:

	December 31, 2018	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	1,004	161
Trade and other receivables	–	17
<b>Total assets</b>	<b>1,004</b>	<b>178</b>
<b>Liabilities</b>		
Trade payables	(726)	(622)
<b>Total liabilities</b>	<b>(726)</b>	<b>(622)</b>
<b>Total net assets / (liability) position</b>	<b>278</b>	<b>(444)</b>

## 30. RISK MANAGEMENT (continued)

The table below details the Group's sensitivity to a 20% (2017: 20%) depreciation of the RUB against the EUR if all other variables are held constant. The analysis was applied to monetary items at the year-end dates denominated in the EUR. A 20% appreciation of the RUB against the EUR would have an equal and opposite impact:

	December 31, 2018	December 31, 2017
Gain / (loss)	45	(71)

**Interest rate risk**

The Group is exposed to interest rate risk because entities of the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group has only one credit agreement with the floating interest rate terms. On June 20, 2016, NCSP received a loan from Bank VTB in the amount of 1,500,000 for early repayment of Sberbank loan. Floating interest rate of LIBOR 3M + 3.99% per annum is applied. The change in LIBOR rate by 1% would lead to an increase in interest expense and, consequently, to a decrease in net profit by 10,000 and 8,000 respectively.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group has an approved policy in accordance with which it regularly assesses creditworthiness of banks it deals with and reviews limit for allocation of free cash.

The Group's policy is generally to transact with its customers on a prepayment basis. Its trade accounts receivable are unsecured.

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group's suppliers of assets and services are selected mainly through tenders. The criteria for the bidders include both technical and financial indicators (availability of production facilities, skilled personnel, relevant experience, cost of assets and services etc.) and reliability (financial position, professional and ethical image of the bidders, whether quality control of the assets and services is established) resulting in admission of participants. The tender approach ensures the selection of suppliers with a low risk of failure to discharge their contractual obligations.

## 30. RISK MANAGEMENT (continued)

The summary below shows revenue for 2018 and 2017 and outstanding balances as at December 31, 2018 and 2017 of the top five counterparties:

	Customer location	Revenue for 2018	Outstanding balance at December 31, 2018
JSC "TRANSNEFT-SERVICE"	Russia	83,752	2,075
PJSC ROSNEFT	Russia	62,951	862
METALLOINVEST TRADING AG	Switzerland	53,276	1,694
PJSC "SURGUTNEFTEGAS"	Russia	47,776	2,647
JSC LYKOYL-CHEMNOMORE	Russia	34,440	268
<b>Total</b>		<b>282,195</b>	<b>7,546</b>

  

	Customer location	Revenue for 2017	Outstanding balance at December 31, 2017
JSC "TRANSNEFT-SERVICE"	Russia	85,422	743
PJSC ROSNEFT	Russia	68,093	1,119
METALLOINVEST TRADING AG	Switzerland	56,106	1,283
JSC LYKOYL-CHEMNOMORE	Russia	38,612	170
PJSC NLMK	Russia	38,601	354
<b>Total</b>		<b>286,834</b>	<b>3,669</b>

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

**Liquidity risk**

In order to manage and control the liquidity needs of the Group, management performs budgeting and forecasting of cash flows, which ensure the availability of the necessary funds for the discharging of payment obligations. Net cash flows from operating activities provide an adequate amount of working capital for conducting the Group's underlying business activities.

For a maturity analysis of financial liabilities, see Notes 22 and 24.

## 31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2019, Transneft PJSC obtained direct control over PJSC NCSP in connection with the acquisition of a 50.11% stake in PJSC NCSP from the Cyprus-based Novoport Holding Limited.

In accordance with sale / purchase agreement dated February 5, 2019 PJSC NCSP acquired 0.01456% (zero point one thousand four hundred fifty six hundred percent) of the share in the authorized capital of LLC IPP and became its 100% participant.