Annual Report for 2019

Innovation powered by tradition

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FESCO

ABOUT THE REPORT

The Annual Report was approved by repeated annual General Meeting of Shareholders of PJSC FESCO on November 16, 2020 (Minutes No. 53 dated November 20, 2020).

The accuracy of data provided in the Report was confirmed by the Company's Audit Commission.

In this Annual Report, the term "FESCO" shall mean Far-Eastern Shipping Company PLC.

The terms "FESCO Group", "FESCO", "Group" and "Company" shall mean FESCO and any legal entities either directly or indirectly controlled by FESCO (controlled entities).

The reporting period extends from 1 January 2019 to 31 December 2019.

DISCLAIMER

This Report has been prepared based on information available to Far-Eastern Shipping Company PLC and its controlled entities at the time of its drafting, including information provided by third parties. The Company reasonably deems this information to be complete and reliable as at the date of the Report's publication. However, it is in no position to claim or guarantee that no adjustments, amendments or other changes will be made to the said information later on. This Report may also include certain forward-looking statements pertaining to the business activities, economic performance, financial position, economic and operating results of the Company, its plans, projects and performance expectations, dividend and capital expenditure policies, trends in prices, rates, volumes of transportation, production and consumption, costs, estimated expenses, growth prospects, asset life cycles and other similar factors or economic forecasts for the industry and the markets.

Such words as "forecast", "consider", "anticipate", "intend", "plan", "will", "may", "must", "might", "estimate", "expect", "seek", "believe", "proceed from", "continue", "strive", "speculate" and other similar expressions generally indicate a forward-looking statement and are based on the plans, estimates and projects available at the time of making such statements. By their nature, forward-looking statements are subject to inherent risks and uncertainties (both general and more specific). Besides, there are certain factors which may influence future operating performance of the Company and cause results to differ materially from predictions, forecasts, projections and other forward-looking statements included in the Report. In view of the above risks, uncertainties and assumptions, the Company warns that the actual results may significantly differ from those featuring, directly or indirectly, in the forward-looking statements which were true only at the time of drafting this Report. The Company provides no assurances or guarantees that the results announced in the forward-looking statements will be achieved. The Company also bears no responsibility for any losses which may be incurred by individuals or legal entities due to their reliance on the forward-looking statements. In each case, such forward-looking statements represent only one of possible scenarios, which shall not be treated as the most probable one.

Other factors which may influence the financial and operating performance of the Company, its plans, projects, capital expenditures and other aspects of their operations may include changes in macroeconomic or market conditions, and actions taken by the government authorities in the Russian Federation and other jurisdictions within the Company's footprint. The provided list of factors is not exhaustive.

Unless otherwise directly required by the applicable laws of the Russian Federation, the Company or its representatives, employees and advisors do not intend, feel obliged or undertake to amend, change, update or review the forward-looking statements based on the new available information or any subsequent events.

This Report may include links to the Company's website. Such links are provided for a reader's convenience.

LETTER FROM THE CHAIR OF THE BOARD OF DIRECTORS

Dear shareholders,

FESCO Group had a successful year in 2019. The Russian economy saw a return to stability on the back of resilient domestic business activity, with the nation's GDP and container transportation volumes growing by 1.4% and 9% YoY, respectively. I am happy to say that the Group's management was able to leverage that favourable environment to maximise the operational potential of FESCO.

Commercial Port of Vladivostok continued to set handling volume records for the second consecutive year. The Port's handling and the Company's railway container transportation volumes were far ahead of the market, showing growth of 13% and 14% respectively.

FESCO achieved these results during Alexander Isurin's tenure as President of the Group from 2016 to early 2020. Over that time, we went through a liquidity crisis, radically revised the Company's strategy, and started FESCO's smooth transformation into an intermodal transportation leader. On behalf of all directors, I would like to thank Alexander for all of his hard work.

In March 2020, the Board of Directors appointed Maxim Sakharov (formerly Vice President for Finance) as President of FESCO. He assumes leadership of the Group during a very challenging time: financial market volatility has led to a global crisis, and the coronavirus pandemic is far from over. We believe that Alexander's profound understanding of the industry and FESCO's business processes and corporate culture will help him chart a sustainable path forward for the Company.

In 2020, we are celebrating 140 years since the foundation of Far-Eastern Shipping Company, the Group's core asset. This is a history filled with hard labour and big achievements, of which there will be even more in the future. I send good wishes to our employees, colleagues and partners. You make a big contribution to that proud history, as it is your efforts that have made FESCO a leading provider of transportation services in the Russian Far East. For our part, we will continue to be a reliable and transparent partner. I have no doubts that we will best the challenges ahead as we continue to invest in dynamic growth while also reinforcing the Company's sustainable position.

Leyla Mamedzadeh,
Chair of the Board of Directors

LETTER FROM THE PRESIDENT

Dear colleagues, customers, shareholders and partners,

I am happy to present the first annual report prepared in my capacity as FESCO Group's President and Chair of the Executive Board.

In 2019, FESCO completed debt restructuring and moved past the consequences of the 2014–2015 crisis, thus cementing its financial stability with end-of-year net debt / EBITDA ratio of 3.7x (not adjusting for IFRS 16).

This was made possible because in 2016 we started paying more attention to improving service quality in the key areas – intermodal transportation along the East–West route and Port handling in the Far East, which boosted our market shares to 46% and 44%, respectively. FESCO increased its market share in intermodal transportation by reducing delivery time for containers along the Asia Pacific – Moscow route to 24 days (two times faster than via the Suez Canal), ramping up its railways with regular train service to 45 destinations, and implementing IT solutions, including MY.FESCO to help customers order services and track cargo online (in 2019, 60% of all intermodal transportation orders were made online).

On the back of the quality improvement effort, the Port's management and employees achieved high-water mark handling volumes of 11.5 mt, including record container and general cargo volumes of 624.5 thousand TEU and 5.13 mt, respectively.

Thanks to its more stable financial position, FESCO was able to invest around RUB 4 bn in the development of the Port and the railway and maritime assets, including:

- RUB 1.7 bn in reconstruction of berths and terminals, purchase of five new harbour cranes, and small-scale port mechanisation;
- RUB 1.0 bn in railway assets, growing the fitting platform and box car fleets to 6,620 and 2,047 units, respectively;
- RUB 1.0 bn in the Shipping Division's assets, including RUB 0.7 bn in the purchase of two container carriers. We signed a contract to buy one multi-purpose ice-class ship with the delivery scheduled for 2020;
- RUB 0.1 bn in the development of information technologies that have enabled us to improve customer services, launch fully electronic processing for intermodal transportation of imports, and thus shorten document processing times at the Port from 5 days to 21 hours.

To ensure a better focus on the development of its key business lines, the Group sold its non-core assets – all gondola cars and pellet hoppers and part of the old fleet. FESCO also entered into a preliminary sales and purchase agreement for the grain transportation business (Trans-Grain and related assets).

Our emphasis on the key operations has proven effective, and this is just the beginning. In spite of the challenging economic environment, we are going to continue improving service quality while ramping up transit shipments from Asia to Europe and transportation within Russia. We will also be further expanding the terminal network and upgrading port equipment and the fleet.

Just like in 2019, we are going to continue investing in our employees, engaging them in the decision-making process, entrusting them with complex tasks, delegating the implementation of innovative projects, and providing opportunities for professional growth.

I would like to take this opportunity to thank our customers and partners, shareholders and investors, and production facilities' management and employees for their loyalty, support, and efficient cooperation.

It makes me proud to be part of such a professional team, and I intend to do my best in my new position in order to maintain and strengthen FESCO's market leadership.

Maxim Sakharov,

President, Chair of the Executive Board

FESCO AT A GLANCE

FESCO is one of Russia's largest private transportation and logistics companies with port, railway, and integrated logistics assets. A diversified asset portfolio enables FESCO to provide door-to-door solutions and control all links of the intermodal transportation value chain.

FESCO is one of the leading providers of container transportation services in Russia's Far East managing own door-to-door transportation chain, including liner shipping, port handling, railway/intermodal container transportation and inland terminals.

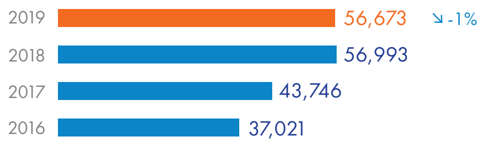
FESCO owns the following assets:
- Commercial Port of Vladivostok ("VMTP", the "Port", "Vladivostok Port"), one of the largest ports and stevedores in Russia's Far East;
- owners and operators of rolling stock, managing their vehicles both under the FESCO brand and under proprietary brands (Transgarant, Trans-Grain, and Russkaya Troyka). FESCO's rolling stock includes 6,620 fitting platforms and 2,047 box cars. The Company is Russia's second-largest operator of fitting platforms;
- own fleet numbering 20 vessels (Russian and international);
- inland terminals in Novorossiysk, Khabarovsk and Tomsk;
- dry and refrigerated containers;
- trucks (FESCO Trans).

The Group's subsidiaries FESCO Integrated Transport ("FIT") and Dalreftrans facilitate interaction between all transportation process parties and offer intermodal transportation of dry containers and refrigerated containers, respectively.

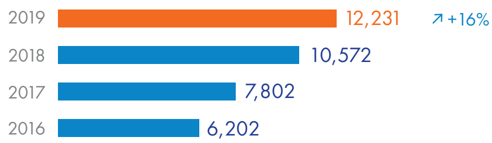
The assets that are not engaged in container transportation are managed by the companies independently.

The Group's financial performance

Revenue, RUB m.



EBITDA[1]**,** RUB m



EBITDA margin, %

[1] EBITDA is calculated as operating profit net of amortisation, depreciation, and the impact of asset write-offs and one-off expenses.

Financial performance by division

Liner and Logistics Division

	Revenue, RUB m	EBITDA, RUB m	EBITDA margin, %
2019	37,944 ↗ +6%	2,309 ↗ +83%	6 ↗ +2 pp
2018	35,875	1,259	4
2017	29,317	878	3
2016	24,121	790	3

Port Division

	Revenue, RUB m	EBITDA, RUB m	EBITDA margin, %
2019	15,409 ↗ +17%	6,787 ↗ +15%	44 ↘ -1 pp
2018	13,121	5,889	45
2017	9,403	4,508	48
2016	7,281	3,357	46

Rail Division

	Revenue, RUB m	EBITDA, RUB m	EBITDA margin, %
2019	8,232 ↘ -30%	3,596 ↘ -12%	44 ↗ +9 pp
2018	11,791	4,094	35
2017	8,207	3,028	37
2016	6,297	1,528	24

Shipping Division

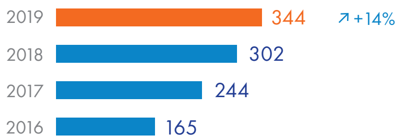
	Revenue, RUB m	EBITDA, RUB m	EBITDA margin, %
2019	3,245 ↘ +17%	776 ↘ +17%	24 → –
2018	2,767	664	24
2017	2,243	310	14
2016	3,877	1,304	34

Bunkering Division

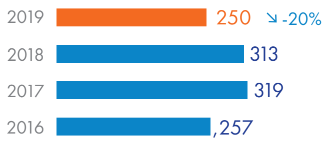
	Revenue, RUB m	EBITDA, RUB m	EBITDA margin, %
2019	1,191 ↗ +17%	83 ↗ +131%	7 ↗ +3 pp
2018	1,018	36	4
2017	1,038	27	3
2016	1,559	-68	0

Operating performance by division

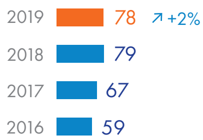
Intermodal transportation, k TEU



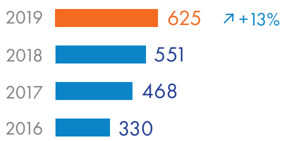
International maritime transportation, k TEU



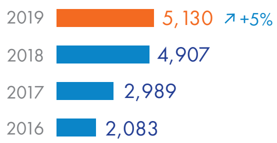
Domestic maritime transportation, k TEU



Container handling, k TEU

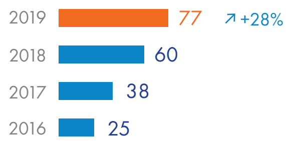


General cargoes handling, kt

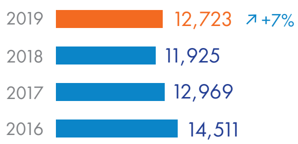


Oil product handling, kt

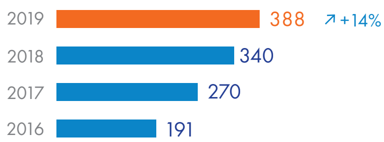
Vehicle handling, '000 units



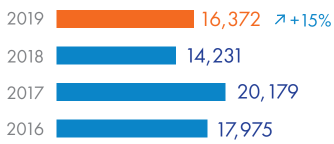
Rolling stock[2], units



Rail container transportation, k TEU

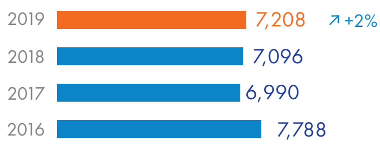


Shipments in box cars, units

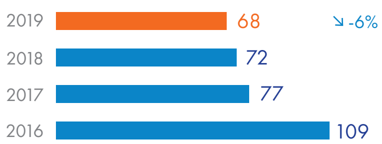


Transport fleet[3], units

Operable vessel days[4]



Bunkering volumes, kt



[2] Please see the Rail Division section for details on the rolling stock structure.
[3] Please see the Shipping Division section for details on the transport fleet composition.
[4] Total number of days in which the vessel was available for operation, excluding downtime due to the vessel's overhaul, upgrade, dry docking, and specialised or intermediate maintenance.

Key developments and achievements in 2019

FESCO grew its share across the core business lines, with intermodal transportation on the East–West route increasing to 46% and handling in Russia's Far East via VMTP to 44%:
- intermodal transportation grew to 344 thousand TEU (up 14% YoY);
- handling volumes at the Port reached an all-time high, with 11.5 million tonnes of cargo handled (up 10% YoY), including record-breaking 624.5 thousand TEU of containers and 5.13 million tonnes of general cargo.

FESCO reduced delivery time for cargoes along the key Shanghai–Moscow route to 24 days (two times faster than the sea route via the Suez Canal).

Together with RZD Logistics, FESCO launched Trans-Siberian Landbridge, a joint service for express delivery of transit cargoes from Asia Pacific to Europe via Vladivostok over the Trans-Siberian Railway ("TSR").

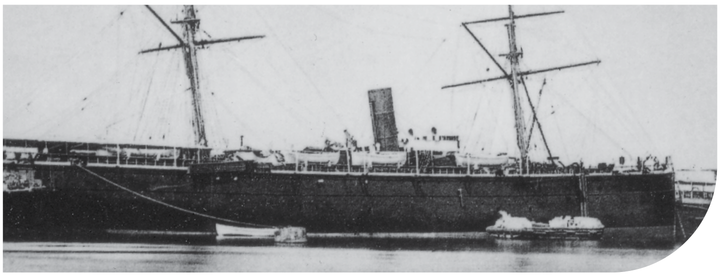
In line with its strategy of expanding its land network, FESCO introduced railway routes from China to Russia via Mongolia, from Russia to China via the Grodekovo/Suifenhe land border crossing, and China-to-Germany and return transit trains via Kaliningrad and Germany-to-China transit trains via Russia's Far East.

FESCO launched an intermodal container service for cargo delivery from Russian cities to the Kuril Islands via the Far East.

FESCO introduced new container trains for deliveries across Russia – from Yekaterinburg to St Petersburg and from St Petersburg to Novosibirsk.

The Group's net debt / EBITDA ratio decreased to 3.7x (excluding the IFRS 16 impact).

Events after the reporting date



- FESCO PLC, the Group's head company, celebrates its 140-year anniversary in 2020. On 25 April 1880, the Moscow ship heading from Odessa entered the Golden Horn Bay, thus giving a start to regular cargo and passenger voyages between the European part of Russia and its Far East. In honour of the anniversary, FESCO has purchased two thousand new 40-foot containers that have higher capacity of 28,800 kg (gross weight of up to 32,500 kg) and comply with the latest environmental regulations. They boast a special logo that was created to commemorate FESCO's 140th anniversary.
- In January 2020, FESCO acquired 25% plus one share in Russkaya Troyka from Russian Railways, becoming the company's sole shareholder. The deal was worth RUB 622 million.

FESCO sold its non-core assets – all gondola cars and pellet hoppers and part of the old fleet. The Group also entered into a preliminary sales and purchase agreement for the grain transportation business (Trans-Grain and related assets).

FESCO signed contracts to procure for VMTP five cranes and a universal ice-class ship, purchased two container vessels, and expanded the operated fitting platform fleet to 6,620 units. In addition, the Company entered into an agreement with Russian Railways to acquire the remaining stake in Russkaya Troyka.

FESCO started a partnership with the National Centre for Polar and Ocean Research (NCPOR) under the Ministry of Earth Science of India to deliver supplies to the Indian research stations in Antarctica. Over 4 thousand tonnes of supplies have been transported there by the diesel-electric ship Vasiliy Golovnin.

FESCO continued building up its supply chain management in 3PL and 4PL segments, having significantly grown its order portfolio.

- In February 2020, FESCO sold its 100% stake in the grain transportation operator Trans-Grain and a number of other grain-related assets in a deal that totalled RUB 4,391 million.
- In April 2020, FESCO added a new multi-purpose ice-class vessel to its fleet – bulk carrier FESCO ULISS. In July 2020, the Company acquired another ship – universal bulk carrier FESCO PARIS. Both vessels are built to an ice class, which enables them to navigate through polar seas.
- In May 2020, VMTP purchased a new Liebherr LPS 420 portal crane with the 124 tonne lifting capacity.
- In June 2020, Fitch revised FESCO's credit rating upwards by four notches, from RD to CCC.

FESCO is actively pursuing a digital transformation strategy, having achieved the following:

over 60% of all intermodal transportation orders made through MY.FESCO account, which has become available for all customers;

the Service Excellence project launched to monitor the indicators that are directly linked to the service quality;

use of electronic workflow for managing **50%** of customers' material legal documents;

automation of extraction and processing of data from customers' transportation and accounting documents;

partial automation of the comprehensive inland terminal management system resulting in improved intermodal services and expanded offering of comprehensive logistics services;

FESCO shortened the document processing time at VMTP **from 5 days to 21 hours** by partnering with Russian Railways to launch fully electronic processing for intermodal transportation of imports through the Port as part of the INTERTRAN project. In the initiative's first stage, the technology will be applied for processing imports, and in the second stage it will be available for recording transit cargoes from Asia Pacific to Europe.

Forums, exhibitions, and the resulting agreements

March 2019
Krasnoyarsk Economic Forum

FESCO and Segezha Group signed a partnership agreement on transportation and logistics support of timber processing plants.

FESCO, Russian Export Centre and Rail Cargo Logistics-RUS entered into a trilateral agreement to cooperate in export transportation of containerised cargo from Siberia to China through railway land border crossings and VMTP. This move is in line with FESCO's strategy of route network expansion and development of non-commodity exports.

April 2019
TransRussia International Exhibition

FESCO and DB Cargo Russija Co Ltd signed an agreement to develop container transportation of perishable goods between Russia and China through direct land services and an intermodal route via VMTP.

FESCO and RZD Logistics entered into an agreement to organise a joint intermodal service for the delivery of containerised cargo from the Asia-Pacific region to Europe through VMTP using the Trans-Siberian railway.

June 2019
St Petersburg International Economic Forum

FESCO and URALCHEM signed a letter of intent to cooperate on transportation of mineral fertilisers by rail and regular sea liner services.

September 2019
Eastern Economic Forum

FESCO and Korean logistics company UNICO signed an agreement to develop expedited delivery of transit cargo from Japan and the Republic of Korea to Europe.

FESCO and Polish rail operator PCC Intermodal entered into an agreement on developing services of expedited cargo delivery from Asia Pacific to European countries through the Far East and Trans-Siberian Railway.

FESCO and its Chinese partners signed an agreement to develop sea liner services and exports of Russia's grain.

FESCO and Chinese logistics companies made an agreement to develop intermodal transportation of liquefied natural gas (LNG) in tank containers from the Russian Far East to China.

FESCO and Ammosov North-Eastern Federal University signed an agreement on cooperation in research and development.

FESCO and SKB Kontur Production signed an agreement to cooperate in electronic workflow.

Sustainability and social responsibility

FESCO is one of Russia's oldest companies with an illustrious history. We put sustainability at the core of everything we do, always aiming to create the best possible conditions for every stakeholder to realise their needs and wants.

As part of its efforts to be a reliable and responsible partner for all stakeholders, the Company:

- creates additional value for shareholders;
- fosters engagement among employees and seeks to unlock their creative potential, including through their participation in social projects;
- ensures operational safety;
- closely follows Russian legislation and assists government authorities in matters of the society's sustainable development;
- champions fair, transparent and ethical cooperation in business dealings;
- cares for the environment, makes efficient use of resources, implements state-of-the-art technology and best practices to protect nature;
- contributes to social, economic and cultural development of local communities;
- bases dialogue and relationships with all stakeholders on mutual respect and trust, always making sure to follow through on commitments;
- improves corporate governance and ensures full and regular disclosure of the information on its decisions and activities.

Environment

FESCO makes it a priority to reduce its environmental footprint and comply with the Russian environmental legislation, which is why each of the Group's divisions has special services that are responsible for compliance with these laws. In 2019, the Port Division's health, safety and environment department was audited for compliance of the VMTP operations with the Russian environmental laws. The inspection was done by a third-party company accredited to conduct environmental audits. It included:

- assessment of compliance with applicable waste management requirements;
- assessment of compliance with applicable water use requirements;
- assessment of compliance with applicable air protection requirements;
- assessment of compliance with applicable sanitary and hygienic requirements;
- assessment of the environmental monitoring and industrial control system;
- assessment of compliance with the Russian environmental management laws.

The audit found VMTP's operations to be in compliance with the applicable Russian environmental laws, with certain recommendations being issued that as of today have all been fulfilled.

In order to ensure environmental protection, the Shipping Division:

- purchases modern, more fuel-efficient vessels;
- paints underwater hulls with silicone coatings that do not emit harmful substances into the sea water and cut down on friction, leading to average fuel savings of 6–8%;
- outfits ships with special equipment and substances (dispersants) for quickly eliminating any oil spills and preventing contamination of offshore areas;
- shifted its watercraft to low sulphur fuel oil;
- complies with the requirements of the International Convention for the Prevention of Pollution from Ships (MARPOL) on energy efficiency and monitors fuel consumption in accordance with the approved Ship Energy Efficiency Management Plans (SEEMP). All FESCO vessels are documented by the Register, confirming the correctness of data collection;
- complies with the EU MRV scheme that requires all vessels calling at EU ports to have a monitoring plan approved by a verifier, as well as to collect and submit data on fuel consumption, CO_2 emissions, and the voyage (amount of cargo, duration, distance);
- carried out preliminary studies on the selection of ballast water treatment systems and the possibility of their installation on specific vessels.

Social responsibility

As a socially-oriented company, FESCO invests heavily in personnel development, sponsorship and charity.

FESCO updated its corporate social responsibility strategy, making its main priority projects in the sphere of healthcare, education, culture and urban development in the Russian Far East. Because a substantial number of FESCO's assets is located in the Far East, the well-being of Vladivostok and other communities of the region has always been of great importance to the Company.
In furtherance of the strategy, FESCO:

- signed an agreement with Russia's largest charity foundation Rusfond to assist severely ill children in the Primorye Territory;
- repaired and furnished academic building No. 1 of Admiral Nevelskoy Maritime State University;
- created a co-working zone for student project teams at an academic building of the School of Economics and Management at Far Eastern Federal University (FEFU);
- continued cooperation with FEFU on student internships and practical training.

In 2019, VMTP carried out around 100 charity and social projects in the Primorye Territory, which included aid to orphanages in Yaroslavsky and Monastyrishche and to a Vladivostok boarding school for hearing-impaired children, Regional Children's Oncohematological Centre, Living Hope social support organisation, and Youth and Children's Home.

FESCO supports the families of employees with children, veterans, and sporting activities. VMTP helped form amateur football, hockey and volleyball clubs in Vladivostok and football and volleyball teams in Moscow. In addition, FESCO provides sponsorship support to the Karatenomichi Russian Federation and helps to promote hockey in the Primorye Territory. In particular, it sponsors the Admiral (Primorye) hockey club that includes teams from the Kontinental (KHL) and Junior (JHL) Hockey Leagues, as well as the Soyuz children's school.

FESCO implements the People of FESCO programme, with the following achievements in 2019:

- 100% fulfilment of development plans for employees on key positions;
- launch of the FESCO Leader programme geared towards continuing and consistent development of management at all levels based on FESCO's corporate competency model;
- launch of online education services (e-learning system, digital library) available to all employee categories;
- approval and implementation of 37 corporate training programmes (distance programmes and classroom sessions).

The Vladivostok branch of FESCO PLC and the trade unions of the Seafarers' Union of Russia and the Water Transport Workers Union signed a new collective agreement. The parties agreed to:

- raise salaries for ship personnel: by an average of 30% for ratings and by 5–10% for officers, keeping annual indexation;
- supplement the provisions on financial aid in the event of the birth of a child;
- double the financial aid in the event of the death of a close relative;
- introduce a new financial support payout (in addition to life insurance) to the family of an employee who died in an occupational accident;
- increase compensation for holiday trips of employees' children.

Federal social projects

Transgarant has a standalone unit in Novosibirsk – an industrial railway transport facility. It ensures uninterrupted and timely supply of coal to CHPP-4, which is a strategic element of the city's infrastructure that provides heat to most of Novosibirsk. More than 1 million tonnes of coal are supplied via the facility each year, making it a strategically important link in the life of Western Siberia's largest city.

FESCO ships deliver a year's worth of consumer goods to Russia's northern regions (to the ports of Pevek, Anadyr, Egvekinot and Provideniya) within the tight constrains of a five-month summer navigation period.

Geography

FESCO is one of the leading providers of international and transit transportation services in the Russian Far East.

Services via the Far East Basin ports

Regular international container shipping lines

- Vladivostok – Qingdao – Shanghai – Ningbo – Vladivostok;
- Vladivostok – Vostochny – Yantian – Shekou (Chiwan) – Xiamen – Ningbo – Shanghai – Vladivostok.

FESCO Korea Express (FKXP) works the following routes:

- Vladivostok – Busan – Vladivostok (FKXP-1);
- Vostochny – Busan – Vostochny (FKXP-2);
- Korsakov – Busan – Korsakov (FKXP-3).

Japan Trans-Siberian Line (JTSL) – a direct service along the Vladivostok – Vostochny – Sendai – Yokohama – Shimizu – Nagoya – Kobe – Busan – Toyama-Shinko – Vostochny route.

FESCO India Line East (FILS) – from India's ports via the Xiamen port to Vladivostok and Vostochny.

Domestic container liner shipping to and from Vladivostok :

- FESCO Kurily Line (FKL) to Kurilsk and Yuzhno-Kurilsk / Malokurilskoye;
- FESCO Petropavlovsk-Kamchatsky Line (FPKL) to Petropavlovsk-Kamchatsky;
- FESCO Anadyr Direct Line (FADL) to Anadyr and Egvekinot;
- FESCO Korsakov Direct Line (FKDL) to Korsakov;
- FESCO Magadan Line (FML) to Magadan.

Baltic Sea services

Container shipping lines:

- FESCO Baltorient Line (FBOL) from Southeast Asia ports to Russian towns and also to CIS countries through St Petersburg, Riga, Klaipėda, Kotka, Helsinki;
- FESCO Baltorient Line (FBOL ER) Service Europe – Russian Far East and Inland – shipments ex Europe to ports of Russian Far East and final rail transportation to Russian inland destinations;
- FESCO ESF Service (FESF) – shipping from European ports via port of St Petersburg to Russian towns and CIS countries.

Black Sea services

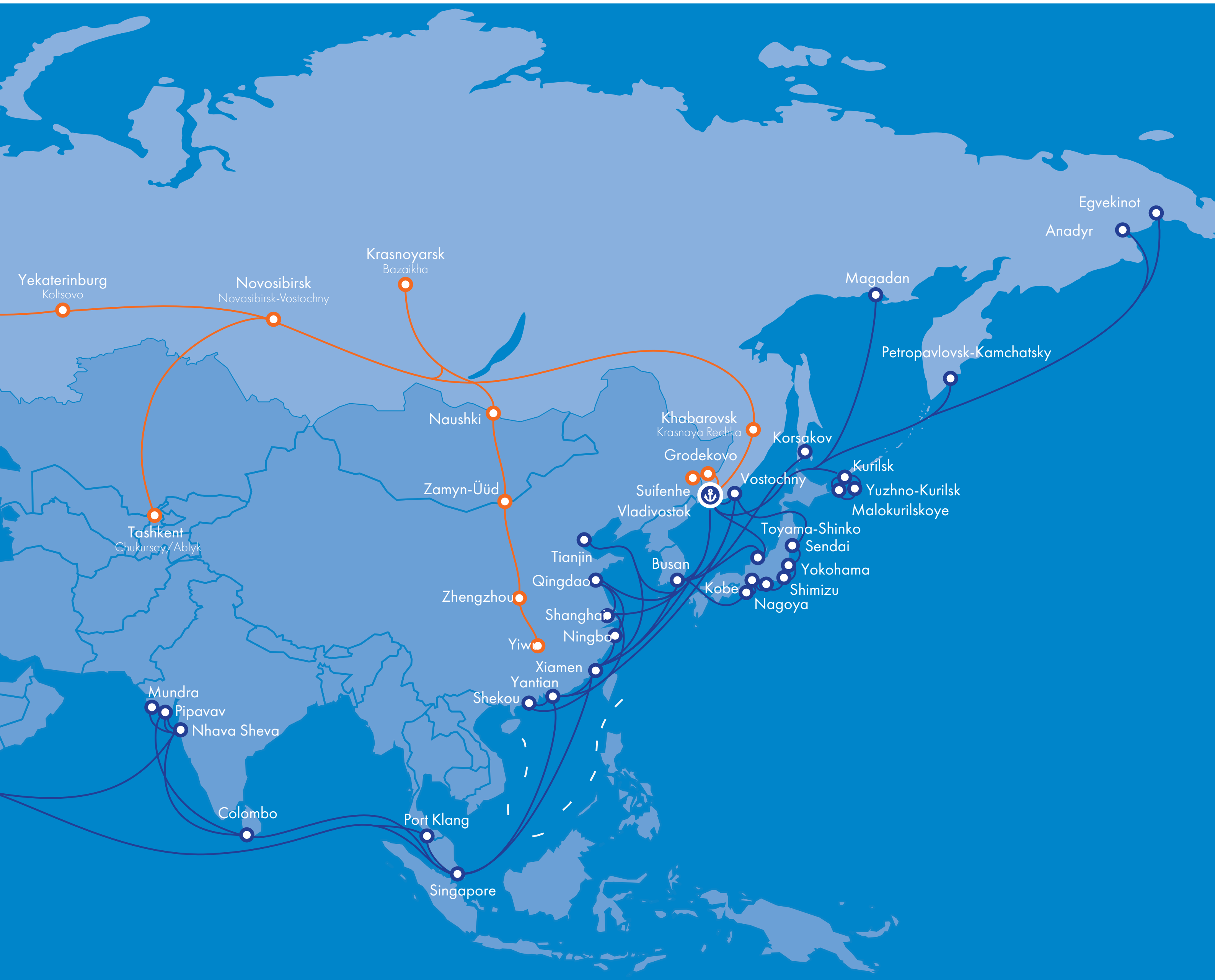
Liner shipping to and from Novorossiysk:

- FESCO Black Sea Service Far East (FBSS FE) – delivery from Asia Pacific ports;
- FESCO Black Sea Service Far East (FBSS EU) – delivery from European-based ports;
- FESCO Black Sea Service Far East (FBSS MED) – delivery from Italy and Malta ports;
- FESCO Turkey Black Sea Service (FTBS) – delivery from Ambarli.

Container trains

Regular container trains (part of intermodal services) from Southeast Asia via the Vladivostok port:

- FESCO Moscow Shuttle to Moscow;
- FESCO Siberian Shuttle to Novosibirsk;
- FESCO Ural Shuttle to Yekaterinburg;
- FESCO Baltic Shuttle St Petersburg;
- FESCO Yenisey Shuttle to Krasnoyarsk;
- FESCO Tashkent Shuttle to Tashkent (Uzbekistan);
- FESCO Primorye Shuttle to Suifenhe (China).



Regular container trains (part of intermodal services) from Moscow:
- FESCO Moscow Shuttle Eastbound to Vladivostok and then to Chukotka, Sakhalin (Korsakov), Petropavlovsk-Kamchatskiy and Magadan;
- FESCO Bazaikha Shuttle to Krasnoyarsk;
- FESCO Amur Shuttle to Khabarovsk;
- FESCO Ob Shuttle to Novosibirsk.

Regular domestic container services:
- FESCO Siberian Shuttle Eastbound from Novosibirsk to Vladivostok and then to Chukotka, Sakhalin (Korsakov), Petropavlovsk-Kamchatskiy and Magadan;
- FESCO Ob Amur Shuttle from Novosibirsk to Khabarovsk;
- FESCO Ural Shuttle Eastbound from Yekaterinburg to Vladivostok;
- Fesco Ural Baltic Shuttle from Yekaterinburg to St Petersburg;
- FESCO Yenisey Shuttle Eastbound from Krasnoyarsk to Vladivostok;
- FESCO SPB Eastbound from St Petersburg to Vladivostok.

Door-to-door services via land border crossings:
- FESCO Silk Way Shuttle from China (Zhengzhou) to Europe (Hamburg);
- FESCO Mongolia Shuttle from China (Yiwu) to Moscow.

Regular trains via land border crossings:
- China – Mongolia – Tula;
- China – Mongolia – Moscow;
- Krasnoyarsk – Mongolia – China;
- Novosibirsk – Mongolia – China.

Container transportation of perishable cargo
Domestic/international/transit transportation of perishable cargo is done in refrigerated containers along FESCO's own routes.

Business model

FESCO is made up of five operating divisions (Liner and Logistics, Port, Rail, Shipping, Bunkering), as well as the Extra-divisional Group that acts as the management company for the entire Group. FESCO has its own domestic and international shipping lines, railways and roads, which enables it to engage in intermodal transportation while also providing division-specific services. FESCO actively works to develop 3PL services, project logistics, and logistics services in China.

FIT | Dalreftrans | FESCO Trans | Fesco Ocean Management Limited

Liner and Logistics Division

The Liner and Logistics Division integrates services provided by the other divisions.

Services:

- liner shipping services;
- rail container transportation;
- intermodal transportation;
- 3PL and project logistics;
- road transportation;
- shipping agency and freight forwarding;
- customs clearance;
- freight forwarding.

Please see the Liner and Logistics Division section **on p. 25** for details

VMTP

Port Division

Services:

- stevedoring;
- storage, weighing, specification and separation of cargoes;
- towing and port pilot services;
- in-port freight forwarding;
- customs clearance;
- maintenance of ships and other transport.

Please see the Port Division section **on p. 36** for details.

Transgarant | Russkaya Troyka

Rail Division

Services:

- cargo transportation using own box car fleet;
- freight forwarding;
- dispatcher control (24/7 monitoring of railcar movement within the network);
- integrated services to consignors and consignees;
- rolling stock planning and management;
- renting out traction and switch stock;
- terminal services.

Please see the Rail Division section **on p. 42** for details.

FESCO PLC

Shipping Division

Services:

- charter of vessels;
- transportation of general cargoes;
- tramp shipping;
- delivery to Arctic and Antarctic regions using reinforced ice-class vessels.

Please see the Shipping Division section **on p. 48** for details.

FESCO Fuel Company | FESCO-Bunker

Bunkering Division

Services:

- purchase and sale of oil products;
- vessel refuelling in ports;
- storage and handling of oil products using own petroleum tank farm.

Please see the Bunkering Division section **on p. 52** for details.

FESCO'S STRATEGY

REFLECTS THE COMPANY'S FOCUS ON:

- Maintaining leadership on the Russian Far East's transportation market that enables trade between Russia and Asia Pacific countries
- Boosting FESCO's already superior technological capacity in stevedoring and domestic sea transportation
- Transforming FESCO into a company that renders comprehensive supply chain management services

Expanding the terminal network across all Russian regions

Increasing transit cargo volumes transported from Asia to Europe while shifting part of them from ships to the Trans-Siberian Railway

Optimising costs to make transportation less expensive without detriment to quality

To further its strategy, FESCO focuses on its core business, adds new routes and regions, and develops new business lines.

In order to ensure consistent forward momentum for its core business, FESCO:

- optimised the rolling stock fleet;
- increases the fitting platform fleet to keep its railway container transportation market share and become less sensitive to container transportation market volatility, as well as maintain meaningful presence in that market segment;
- upgrades and optimises the fleet;
- develops own handling capacity.

In order to add new routes and expand into new regions, FESCO:

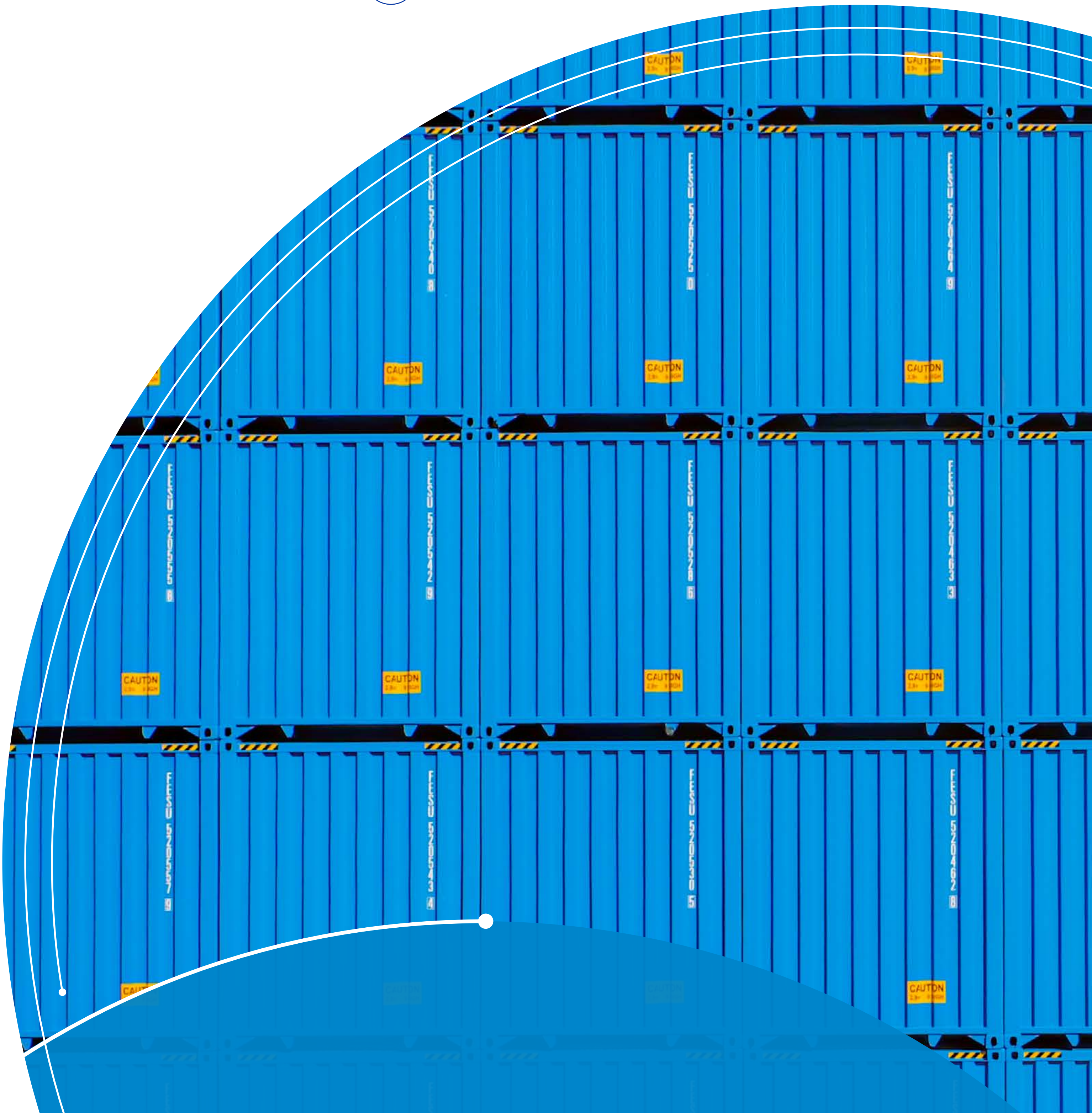
- improves existing services by decreasing cargo delivery times and moving forward on the FESCO Fast Forward and FESCO Express solutions;
- develops transit transportation from Asia to Europe and back via Far East ports and land border crossings;
- introduces new export routes by ramping up:
  - exports from Northwestern Russia via the ports of the Baltic and Vladivostok and land border crossings,
  - exports from the Urals region to Baltic and Black Sea ports;
- expands hub networks for domestic/import routes by ramping up:
  - transportation via the border crossing of Grodekovo – Suifenhe (Russia – China),
  - import and export transportation between Russia and Europe (intermodal and rail).

In order to grow new business lines, including on international markets, FESCO:

- promotes project logistics, which enables the Company to capitalise on its extensive experience in project cargo transportation and build long-term business relations with EPC contractors and direct customers;
- develops 3PL and 4PL services, which will enable customers to outsource logistics solutions. These services include:
  - intermodal transportation,
  - customs clearance,
  - warehouse operations, responsible storage and cross-docking,
  - less-than-container-load (LCL)[5] deliveries;
- offers comprehensive logistics solutions to the timber, mining, and agricultural sectors.

[5] LCL describes container loads that are filled by multiple orders or goods.

OPERATING PERFORMANCE



Liner and Logistics Division

The Liner and Logistics Division (LLD) integrates the operations of our other divisions and provides customers with door-to-door intermodal transportation services.

The division operates

- 6,620 fitting platforms;
- 40,301 general-purpose containers;
- 1,839 refrigerated containers;
- 167 tractors and trailers.

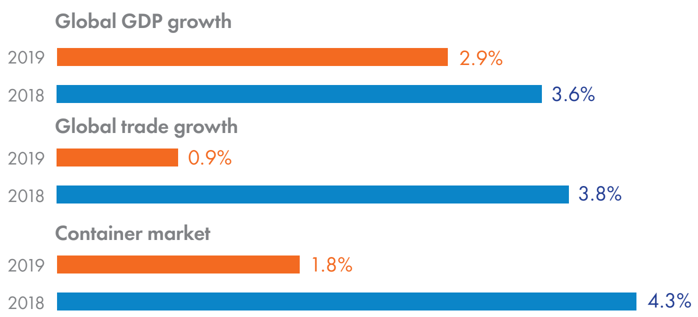
Container transportation

Market overview

Container market and the global economy
In early 2019, key economic sectors were expected to see further robust growth against the favourable global backdrop. However, the following serious risks had a negative impact on trade dynamics:
- aggravation of the US-China trade war;
- slowdown in emerging markets;
- delay to the UK's decision to withdraw from the European Union (Brexit);
- imposition of sanctions on Iran.

In addition, the depreciation of national currencies of Turkey, Brazil and Argentina contributed to an increase in the share of local production (regionalisation). This led to the substitution of imports and changes in international supply chains.

Slower growth rates were seen in global output (up by 2.9% vs 3.6% in 2018 (IMF)) and trade volumes (up by 0.9% vs 3.8% in 2018 (IMF)). These negative developments pulled the growth in the global container market down to 1.8% vs 4.3% in 2018.



Sources: IMF, Clarkson

Sea shipping margins remained low due to the following factors:
- the three dominant maritime alliances (The Alliance, 2M, and Ocean Alliance) in the Eastern Pacific account for 75.9% of the market (according to IHS). Carriers are finding it increasingly difficult to obtain antimonopoly authorities' approval for mergers and, as a result, to optimise costs;
- excess tonnage puts pressure on the market, with the global supply of the container fleet and the transportation volumes up by 5.7% and 4%, respectively (data by Alphaliner);
- the need to reduce emissions through the use of low sulphur fuel oil according to IMO 2020 forces carriers to purchase more expensive fuel;
- expansion of global players to local emerging markets;
- standardisation and digitisation of document flow;
- lower production growth in China;
- slowdown in consumption due to shrinking global production and rising inflation;
- placement of large orders for container ships puts pressure on rates;
- slowdown in global trade amid the development of local production and restrictions on imports introduced in a number of countries.

Russian container market

In 2019, the segment's economic growth amounted to 1.5% of GDP. All key macro indicators, such as Industrial Production, Retail Trade and Capital Investments, demonstrated lower growth rates.

Dynamics of Russia's macroeconomic indicators, %

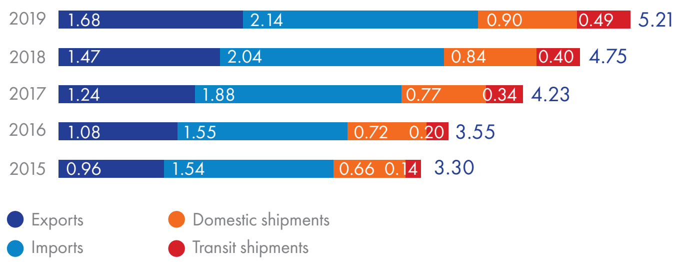
YoY change	2015	2016	2017	2018	2019
GDP	(3.7)	0.3	1.6	2.3	1.5
Industrial Production	(5.1)	(0.5)	1.6	2.4	2.0
Retail Trade	(9.4)	(1.2)	4.1	3.2	1.7
Capital Investments	(7.7)	0.5	6.5	3.0	2.0
USD/RUB exchange rate	61.0	67.0	58.0	63.0	65.0

Sources: Bloomberg consensus, the Bank of Russia

The average annual value of the Consumer Confidence Index plunged below 50.0 pp, while the Business Activity Index fell to 45.6 in December 2019. These indicate the expected negative economic shocks.

Following the economic slowdown, the growth of container market in Russia subsided as well[6]. The transportation volumes were up by 9.3% vs 12.6% in 2018.

Structure of the Russian container market, loaded containers, mln TEU



Source: Company calculations

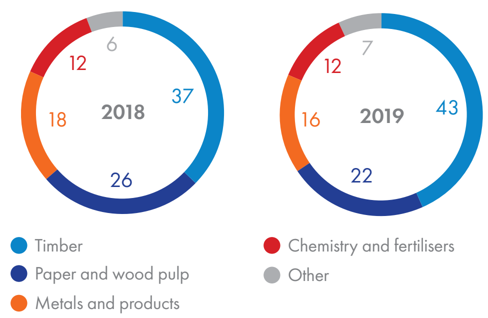
Exports

Exports grew by 14% (mainly due to timber products shipped to China). The share of timber in container exports increased to 43% vs 37% in 2018 due to the following factors:

- increased duties on unprocessed timber exports;
- high investment in the industry;
- rouble depreciation;
- subsidies for shipments via land border crossings provided by the Chinese government.

The segment's growth was also underpinned by the development of container exports of agricultural and food products (included in "Other" below).

Cargo structure of container exports via Russian Railways' network (general-purpose containers), %



Source: Company calculations

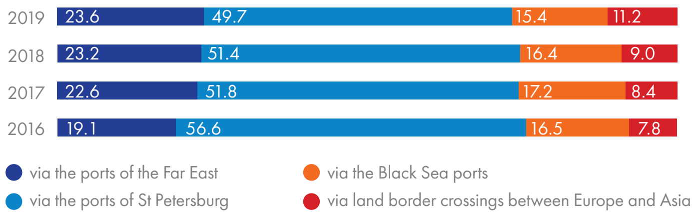
Imports

Imports increased by 5% to 2.1 million TEU vs 2 million TEU in 2018. Such a marginal growth over the last five years was due to a higher value added tax (VAT) and lack of investment activity, which was only partially compensated by active lending to households and the rouble appreciation against the US dollar.

The share of Russia's Far East in imports went up by 0.4 pp to 23.6% due to deliveries of FMCG, auto parts and cars on routes from China via land border crossings.

[6] The Russian container market comprises international and transit container handling of Russian ports, international and transit container handling of land border crossings within the Russian Railways network, domestic container transportation across the Russian Railways network, as well as domestic maritime transportation.

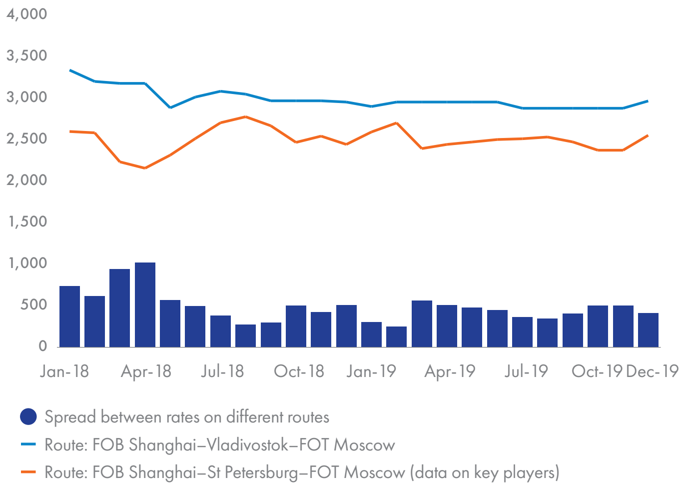
Structure of container imports' entry points to Russia, %



Source: Company calculations

The average cost for importing a 40-foot container on the Shanghai–Far East–Moscow route decreased by USD 147 to USD 2,920 vs USD 3,067 in 2018. The rates for the Deep Sea Route (via the ports of St Petersburg) remained unchanged.

Changes in transportation rates for a 40-foot container on the Shanghai–Moscow route, spread between rates on FESCO's intermodal route and alternative DeepSea Route through the Suez Canal, USD



Source: Company calculations

Domestic shipments

Over the last four years, the segment has enjoyed stable growth. The volume of transportation increased by 7% to 900 thousand TEU vs 841 thousand TEU in 2018. Due to the fact that 55% of quality warehouse facilities in Russia is located in Moscow (according to KnightFrank), it remains a key domestic distribution centre. Two factors contributing to the segment's growth are the launch of new container train routes between Moscow and other Russian cities and effective competition between container transportation and delivery by road.

The volume of domestic maritime transportation in the Russian Far East went up by 6% to 172 thousand TEU vs 162 thousand TEU in 2018. This growth was mainly driven by infrastructure projects and industrial construction.

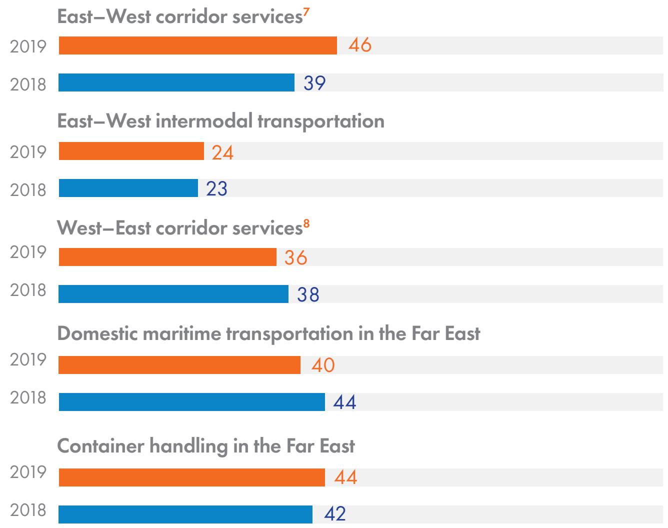
Transit shipments

Being the smallest segment of the Russian container market in terms of transportation volumes, transit shipments boast the largest annual growth rate. In 2019, the volume of transit rail transportation grew by 21% to 487 thousand TEU vs 402 thousand TEU in 2018. The main direction for transit transportation is from China to Europe and back. The segment's growth is driven by the better quality of route services via the Trans-Siberian Railway, improved frequency of container train shipments, and subsidies provided by the Chinese government.

FESCO's share in the key transportation routes is presented below.

[7] Includes Far East–Moscow, Far East–Yekaterinburg and Russia's Far East–Novosibirsk routes.
[8] Includes Moscow–Russia's Far East, Moscow–Novosibirsk and Moscow–Khabarovsk routes.

FESCO's share in the key markets, %



Source: Company calculations

Fitting platform market

In 2019, Russian railcar manufacturers hit an absolute record for car production, having supplied more than 12 thousand fitting platforms to consumers. As a result, the fleet of specialised rolling stock for container transportation went up by 23% to 68 thousand railcars vs 55 thousand railcars in 2018, including the construction of new railcars and write-offs of old ones.

The high demand for new cars was driven not only by larger transportation volumes, but also by higher business profitability, which is linked to the cost of leasing. The market rate for an 80-foot fitting platform was continuously increasing since 2016 to reach RUB 2,125 per day by mid-2019. In late 2019, the rates started to lose momentum, resulting in an oversupplied market, which indicates a potential surplus.

Services

Through the integration of the Group's assets under FESCO Integrated Transport (FIT), we continue to hold one of leading positions in Russia's container transportation market. FESCO's intermodal transportation offering includes liner shipping, port handling, railway transportation, customs clearance and last mile services. To provide intermodal transportation services, the Company relies on its own and leased assets, such as vessels, containers, fitting platforms, trucks, and terminal and port facilities in Vladivostok, Novosibirsk, Khabarovsk and Tomsk.

FESCO seeks to define quality in the intermodal transportation industry and puts special emphasis on improving customer service to provide full control over deliveries, enable users to view all relevant information at any time, simplify document workflow, and automate interaction between all parties to the transportation process.

Liner shipping services

FESCO ranks among the liner shipping market leaders carrying cargoes between ports in the Asia-Pacific region and Russia's Far East. To cement its leading positions, the Company has upgraded its key line services on the routes from China, Korea and Japan to improve traffic frequency and reduce transit time.

The following lines have seen an upgrade on the routes from China and Korea:

- FESCO China Express (FCXP-1 south line) runs between the southern ports of China with a minimum transit time from Shanghai to Vladivostok. The voyages are made on a weekly basis;
- FESCO China Express (FCXP-2 north line) connects the northern ports of China, boasting a minimum transit time from Ningbo to Vladivostok. The shipping frequency is one week;
- FESCO Korea Express (FKXP) was removed from Chinese FCDL line and divided into three direct services with a minimum transit time between Busan–Vladivostok, Vostochny and Korsakov. The voyages are made on a weekly basis;

The new route from Japan operates on a weekly basis (previously, once every two weeks), connecting Russia's Far Eastern ports with the largest Japanese ports of Sendai, Yokohama, Nagoya, Kobe and Toyama-Shinko.

FESCO is also one of the leading providers of domestic maritime transportation. Its domestic lines connect Vladivostok with Magadan (FML), Sakhalin (FKDL), Petropavlovsk-Kamchatsky (FPKL) and Chukotka (FADL). A new FKL line was launched between Vladivostok and Kunashir, Shikotan, and Iturup. The shipping frequency is once every two weeks. To ensure enough capacity for the FML line, the Group purchased FESCO Magadan and FESCO Moneron container ships.

Rail container services

The Liner and Logistics Division runs regularly scheduled container trains using its own and leased fitting platforms. This service is regarded as one of the most promising priority business lines due to the continuous growth of cargo containerisation.

The division has dispatched over 1.4 thousand container trains from Vladivostok Port, reaching an all-time high of 34 trains in one week.

To optimise empty runs and expand the rail transportation coverage, FESCO has resumed St Petersburg–Vladivostok container train service (shipments dispatched from the St Petersburg–Tovarny–Finlyandsky railway station) and rolled out new services:

- FESCO Ural Baltic Shuttle from Yekaterinburg to St Petersburg;
- FESCO Ural Baltic Siberia Shuttle from St Petersburg to Novosibirsk;
- FESCO Primorye Shuttle from Krasnoyarsk to Beijing via land border crossings.

The market share of FESCO across the East–West and the West–East corridor gained 2% vs 2018 thanks to improved frequency of shipments, better quality of services and expanded railway geography.

FESCO is actively developing transit transportation from Asia to Europe and back. The first FESCO Silk Way container train travelled along the China–Europe–China land route spanning more than 10 thousand km with several border crossings. Shipments dispatched from Zhengzhou (China) arrived to Poland and Germany in 13 and 15 days respectively, or three times faster than if delivered through the Suez Canal. The reverse route took 18 days. This initiative was part of cooperation between FESCO and Zhengzhou International Hub (ZIH), a Chinese state-owned logistics operator specialising on the routes through Henan Province, as well as on trading of food and agricultural products, and wine and spirits.

To increase transit volumes from Korea and Japan, FESCO has signed agreements with Russian and Korean logistics companies, namely RZD Logistics and UNICO LOGISTICS CO.

The Company has launched a land service between China and Germany to transport transit cargoes via Kaliningrad FESCO Silkway Amber. The route goes through the Erlian (China) – Zamyn-Üüd (Mongolia) – Naushki (Russia) and Mamonovo (Russia) – Branevo (Poland) border crossings. Cargoes are transshipped to the 1,435 mm gauge trains at the Dzerzhinskaya-Novaya station (the Kaliningrad Region). The total transit time is 14 days. The freight traffic mostly consists of consumer goods and equipment.

To expand the geography of land export services, FESCO has launched a regular container train from the Khabarovsk Territory to Harbin (China) through the border crossing of Grodekovo (the Primorye Territory) – Suifenhe (China). The total travel time is 10 days. The timber processing industry is a key freight traffic generator.

FESCO's share of export train shipments from Siberia to China via Mongolia added 2%.

Intermodal services

FESCO delivers door-to-door intermodal transportation services by combining two or more modes of transport, such as domestic and international maritime transportation, rail transportation, or road transportation by truck. To streamline the process, FESCO provides its customers with a possibility to deliver containerised cargo under a single bill of lading, submit transportation requests and track cargo online via MY.FESCO.

Launched by FESCO in 2017, the project called From Shanghai to Moscow in 20 days helped reduce the average transit time from 44 to 24 days thanks to detailed analysis of business processes and their upgrade. This experience allowed FESCO to further develop expedited delivery services. To implement FESCO Fast Forward, the Group has

- updated the personal account's functionality;
- optimised liner shipping services;
- launched a joint project with Russian Railways called INTERTRAN, which provides for electronic execution of intermodal transportation documents;
- increased the frequency of container trains' shipments;
- established electronic workflow with customers;
- launched the Service Excellence project to monitor the performance of indicators directly linked to the service quality;
- optimised internal business processes.

These efforts helped reduce total transit time and improve service quality. Today, more than 40% of cargoes are delivered to Moscow within 15–20 days.

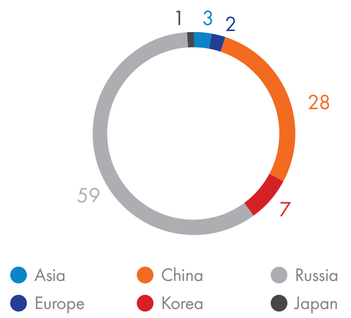
In addition to the expedited delivery on the route Shanghai–Moscow, FESCO offers the following services:

- expedited cargo delivery from Japan to Moscow (the Hayamichi project);
- expedited cargo delivery from Korea to Moscow (the Ji-Rum-Gil project).

The FESCO Fast Forward solution served as an impetus to create a Trans-Siberian Landbridge service featuring routes from Japan and Korea to Europe together with RZD Logistics. In May 2019, a joint transit service was launched for expedited delivery of cargoes from Japan to Europe via Russia's Far East using the Trans-Siberian Railway. In June 2019, the first container train was dispatched from Busan (Korea) via Vladivostok along the Trans-Siberian Railway to Brest and then to a warehouse in Poland. The total transit time was 21 days, which is twice as fast as a sea route through Suez Canal.

After a series of successful dispatches of trains from Asia to Europe, October 2019 saw the first container train running along the reverse route (Europe–Brest–Vladivostok–Japan). This is how the reverse service Trans-Siberian LandBridge Eastbound was launched.

Container transportation geography of the Liner and Logistics Division in 2019, %



Source: Company data.

Customers

The division's well-diversified customer portfolio includes:

- major global players: Woojin Global Logistics, Zhengzhou International Hub, DHL, UNICO LOGISTICS, Swift Transport International Logistics, DSV Group, TOYO TRANS INC;
- Russian freight forwarding companies: VL Logistic, Fares, TIS-Logistic, KLM-Logistic;
- freight owners:
  - retail networks: Magnit (Tander), Kari, Sportmaster,
  - timber industry: Lesosibirsky LDK No. 1, Ilim Group,
  - petrochemical and oil refining industries: SIBUR Holding,
  - metals industry: RUSAL.

For over five years, FESCO has been the most trusted cargo and freight shipper for the top 15 largest customers accounting for 24% of the division's turnover. Glovis, the exclusive logistics operator of Hyundai, has entered into cooperation with FESCO in 2019 to became one of the Group's key partners. In addition to Glovis, 48 other companies have chosen FESCO as a provider of intermodal services.

Refrigerated transportation

Services

FESCO is the only company involved in the refrigerated transportation of perishable goods requiring special temperature conditions, which uses its own assets on international and domestic routes: sea, rail and road transport, as well as carrier- and shipper owned containers. Refrigerated container transportation is carried out by Dalreftrans on the basis of the Liner and Logistics Division.

Market overview

The share of refrigerated transportation increased by 5% to 58 thousand TEU vs 55 thousand TEU in 2018. The segment undergoes the process of containerisation. In total refrigerated transportation volume, the share of refrigerated container transportation across the Russian Railways network grew by 3% to 26% vs 23% in 2018. The share of Dalreftrans in total shipments across the Russian Railways network was 21%.

Key industry trends:

- exports of livestock products from Russia encourages the development of cross-border refrigerated transportation by container trains;
- depreciation and disposal of diesel generator cars drives market participants either to renew the fleet or to switch to new technologies, including the acquisition of autonomous mounted diesel generator sets (jensets), which requires substantial investment;
- softening of rules for railroad freight transportation simplifies the process of tapping the market for new players, however, the initial investment threshold remains very high;
- the programme to develop rail shipments of perishable goods announced by Maersk and the company's investment in its own warehouse infrastructure will drive competition in the market.

Customers

Dalreftrans' key customers are fish and fish processing companies, fruit and vegetable traders, food exporters and importers. When building its customer portfolio, the company focused on international multimodal transportation from the ports of China to Siberia, Primorye Territory and the Central Federal District.

3PL

Services

3PL (third-party logistics) providers offer a full range of logistics services. 3PL is one of the fastest growing areas of FESCO's logistics business. The Company has launched less-than-container-load (LCL) deliveries and started to engage FESCO Integrated Transport in the preparation of internal customs transit documentation. In addition, FESCO offers the following 3PL services to its customers:

- transportation management;
- accounting and inventory management;
- preparation of import, export, and freight documentation;
- warehousing and cargo handling;
- delivery to end customers;
- maintenance of special equipment, assembly of loaders and excavators;
- customs clearance services;
- customs brokerage services;
- delivery by air.

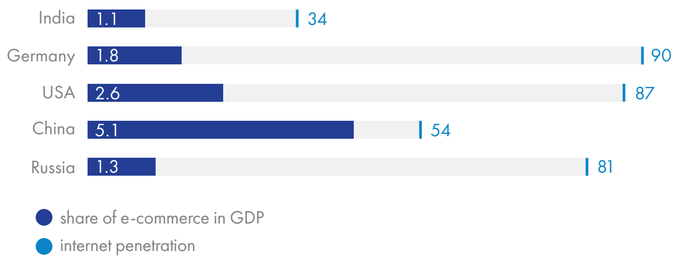
Market overview

There are both opportunities and constraints for the 3PL market in Russia.

Growth opportunities:

- e-commerce development. In 2019, the share of e-commerce in Russia's stood at 1.3%, with further growth potential and a high internet penetration rate of 81% (according to Data Insight);

Share of e-commerce in GDP / internet penetration in Russia and other countries, %



Источник: Data Insight.

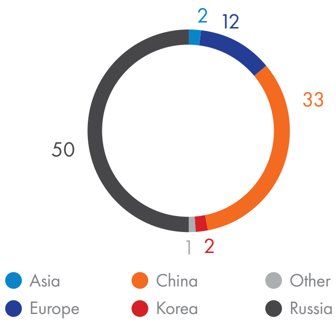
- automation of logistic processes. The sector's players are actively automating customs clearance processes, introducing electronic workflow and embracing cloud technology to improve the efficiency of the above processes even further.

Constraints:
- lack of quality warehouse facilities in the Russian regions. In 2019, there were 27.2 million sq m of quality warehousing facilities in Russia, including 70% in the Moscow agglomeration and in St Petersburg / the Leningrad Region (according to KnightFrank);
- slow transition to 3PL outsourcing. Its share amounts to 40–50% globally vs 20–25% in Russia (according to the Company data);
- poor quality of road infrastructure. By late 2018, the share of regional and local roads meeting regulatory requirements was below 60% and 50% respectively (according to Rosstat).

Customers

2019 saw the number of customers who had ever used 3PL complex services go up by 40%. This mainly includes direct customers – representatives of retail and industrial companies such as Askona Trading House, Liebherr-Russland, Razrez Mayrykhsky Management Company, Vostochnaya Technica (the official dealer of Caterpillar), and Melon Fashion Group.

3PL transportation geography in 2019, %



Source: Company data

Project logistics

Services

FESCO offers turnkey project transportation of bulky and heavyweight cargoes: from receipt at the manufacturing plant to installation at the destination point. Transportation is fully compliant with the regulatory requirements for the transit of cargo along the route, including border crossings. The project logistic services include:
- engineering and construction support of transport and logistics projects;
- handling of bulky cargo;
- transportation of bulky cargo by sea and river transport;
- transportation of bulky cargo by specialised vehicles;
- transportation of bulky pieces equipment by rail;
- delivery of oversize and heavyweight cargoes by any means of transport;
- customs support;
- installation and assembly of cargoes in their designed position at the destination point.

Over 200 thousand freight tonnes of bulky cargoes were transported in 2019, including:
- transportation of nine nuclear submarine units and a tanker from the Kamchatka Territory to their disposal site in the Primorye Territory;
- transportation of oversized equipment for a coal terminal under construction in Port of Vanino;
- transportation of four Liebherr rubber tyre gantry (RTG) cranes from St Petersburg to the Far East of Russia;
- transportation of equipment (including oversized) from Europe to the plant under construction in Gubakha (the Perm Territory);
- equipment for the construction of a thermal power plant in Nizhnekamsk;
- equipment for the construction of the Rooppur Nuclear Power Plant in Bangladesh.

Market overview

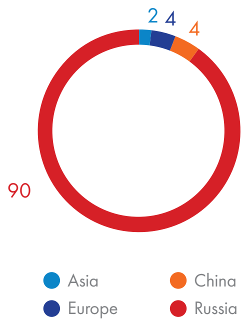
The global demand for project logistics services is growing on the back of the following:
- construction of infrastructure for the development of recently discovered large oil and gas fields in the Arctic;
- the development of the Northern Sea Route infrastructure for exploration and mining, and for transit transportation;
- the growing demand for liquefied natural gas fostered the construction of plants and terminals to receive, store and process this type of hydrocarbon worldwide;
- booming renewable energy projects, which pushes up demand for construction of renewable power generation plants.

Despite the slowdown in Russia's investment growth (up 2% vs 3% in 2018), 2019 saw the following positive trends in the project logistics development:
- growth in the number of projects in the oil and gas and energy sectors in the CIS and Transcaucasia, mainly in Uzbekistan, Turkmenistan, Kazakhstan, and Azerbaijan;
- creation of international alliances and pools in the field of project cargo transportation by sea, which allows combining expertise to tackle complex project tasks;
- government support for major infrastructure projects, such as construction of bridges, tunnels, ports, and terminals;
- creation of a market niche for specialised engineering services involving horizontal and vertical movement of cargo with complex equipment;
- the growing number of mergers and acquisitions between project forwarders and 3PL operators, which helps to improve expertise in providing project logistics services.

Customers

In 2019, project logistics services were used by 17 customers, of them 11 were new. 11 countries, including Russia, China, Romania, and Bangladesh, served as departure points. Customers included RosRAO, Zuest & Bachmeier Project GmbH, Atomstroyexport, and Kuhne+Nagel.

Geography of project logistics in 2019, %



Source: Company data

Road transportation

FESCO offers short-distance first and last mile deliveries of containerised cargo by road from terminals to customers. The fleet is consolidated on the basis of FESCO TRANS, which uses its own and outsourced trucks in Moscow, Vladivostok, St Petersburg, Khabarovsk and other Russian cities.

Shipping agency

FESCO provides the following shipping agency services:
- arrival/departure of Russian and international vessels;
- electronic workflow with customs authorities;
- supply of ships with fuel, water, food, and spare parts;
- ship repair;
- mooring/unmooring of ships;
- cargo operations;
- crew change.

Logistics services in China

Since China is a key strategic market for FESCO, there are three full-fledged companies based in China with a wide portfolio of logistics services for destinations popular with Chinese customers. The companies' offices are located in Shanghai, Beijing, Guangzhou, Tianjin, Ningbo, Qingdao, Dalian, Xiamen, and Chongqing. With its own representative offices in China, FESCO is well-poised to sell its transport solutions to direct shippers. In 2019, FESCO companies in China employed 125 people who organised forwarding and transportation of 267 thousand TEU and 213 tonnes of air cargoes, including:

- transportation between China, Russia, and Europe via land routes;
- imports of perishables to China;
- international LCL deliveries by FESCO's own service from China to Russia.

With these services currently booming, FESCO plans to see a several-fold increase in volumes going forward.

Operations

In 2019, the Group reached all-time highs capturing 46% of the intermodal transportation market across the East–West corridor, up 7 pp YoY. The volume of intermodal transportation went up by 14% to 344 thousand TEU vs 302 thousand TEU in 2018 thanks to the launch of new services, the Group's flexible commercial policies, and automation of logistics.

International maritime transportation slid to 250 thousand TEU (down 20% YoY) vs 313 thousand TEU in 2018 following the decision taken in late 2018 to cut transportation volumes at the Baltic lines.

Domestic maritime transportation fell to 78 thousand TEU (down 2% YoY) vs 79 thousand TEU in 2018.

Core operating performance

Indicator, ktEU	2016	2017	2018	**2019**	YoY change, %
Intermodal transportation	165	244	302	**344**	14
International maritime transportation	257	319	313	**250**	(20)
Domestic maritime transportation	59	67	79	**78**	(2)

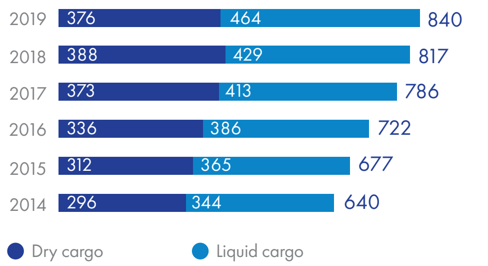
Port Division

Commercial Port of Vladivostok (VMTP) is the largest stevedore in Russia's Far East and a critical link in FESCO's logistics value chain, enabling the Company to provide intermodal transportation services to customers.

Market overview

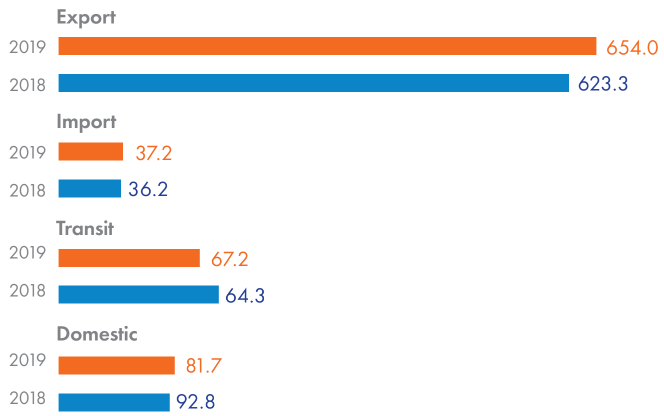
In 2019, the cargo handling of the Russian sea ports reached yet another all-time high of 840 mt, growing 2.9% from 817 mt in 2018. The national stevedoring industry has been expanding since the late 1990s, and handling volumes have increased by 31% since 2014.

Handling volumes in Russian ports in 2014–2019, mt

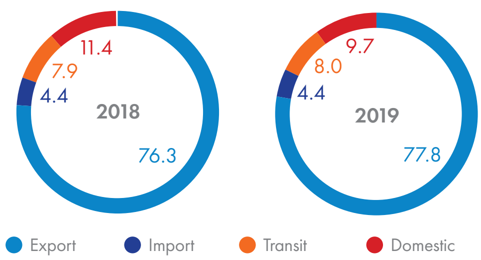


Source: Morcenter-TFC: morcenter.ru/analitycs/obyom-perevalki-gruzov-v-morskih-portah-rossii-za-2019-god-mlnt.

Handling in Russian ports by destination, mt

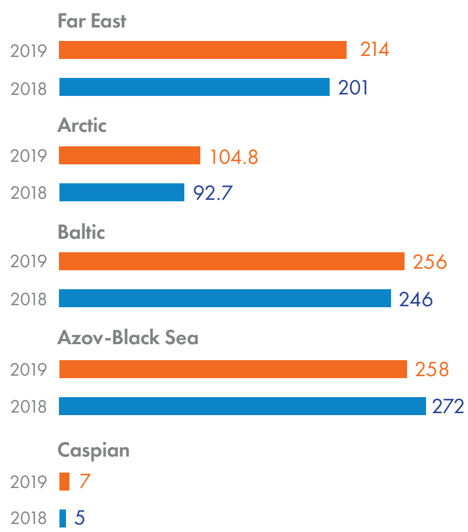


Handling in Russian ports by destination, %

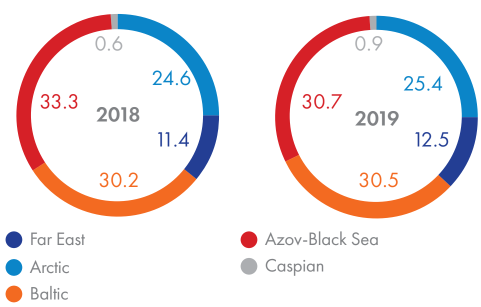


Source: ASCP: www.morport.com/rus/content/statistika.

Russia's basins by cargo handling volumes, mt



Basins' shares in total cargo handling, %



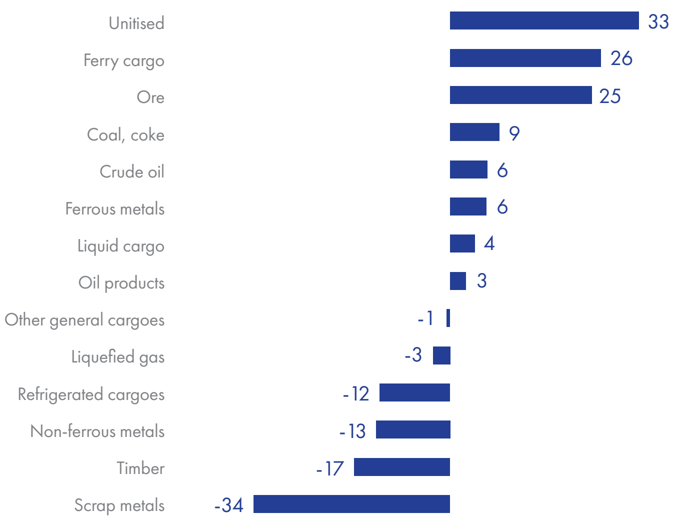
Source: Morcenter-TFC: morcenter.ru/analitycs/peregruzka-gruzov-po-basseynam-za-2019-god-mlnt.

In 2019, the share of the Far East Basin, FESCO's key region of operations, in the total cargo throughput of the Russian ports increased to 25.4% compared to 24.6% in 2018. The basin demonstrated the highest throughput growth of 6.5%, an increase from 200 mt in 2018 to 213.5 mt, including 135.3 mt of dry cargoes and 78.2 mt of liquid cargoes.

Dry cargo

Handling of dry cargoes amounted to 135 mt (+7.8%) of the Far East Basin's total turnover. The growth primarily came from unitised cargo, ferry cargo, ore and coal. Timber and scrap metal demonstrated the biggest decline.

Handling of key cargo types at the Far East Basin YoY (excluding containers), %

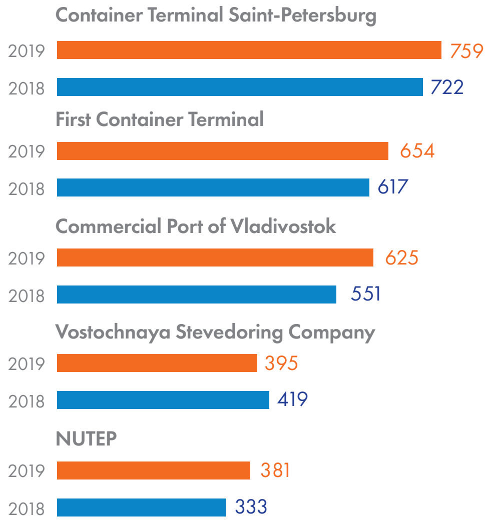


Source: data of the Association of Commercial Sea Ports.

Containerised cargo

VMTP has strengthened its position in the Top 3 leading Russian stevedoring companies by container handling.

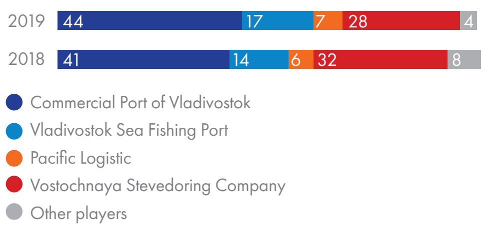
Container handling of major Russian container terminals in 2018–2019, ktEU



Source: data of the Association of Commercial Sea Ports.

In 2019, container handling in key ports of the Primorye Territory increased by 6% to 1.4 million TEU vs 1.3 million TEU in 2018. VMTP demonstrated the biggest growth among its peers in the Primorye Territory – its cargo throughput went up by 13% to 625 million TEU vs 551 million TEU in 2018, taking the Port's market share to 44%.

Major stevedoring companies of the Primorye Territory by share, %



Source: Company calculations.

Assets

The Port Division owns and operates the Vladivostok container terminal, offering stevedoring, storage, warehouse lease and other port services. The port of Vladivostok benefits from convenient access to the Trans-Siberian Railway and road infrastructure.

VMTP is located in the north-west of Vladivostok, in the ice-free Golden Horn Bay of the Sea of Japan, making it navigable all year round. The port allows FESCO to capitalise on trade flows between Asia and Europe, providing transportation of containerised and general cargo.

With the area of 737,500 sq m, VMTP has 15 berths with a total length of 3.2 km and the maximum depth of 15 m. FESCO's Port Division operates a diversified set of terminals in Vladivostok, including automobile, general cargo, oil and container terminals, and a refrigerated terminal.

VMTP's annual handling capacities:
- 5.6 million tonnes – general cargo and oil products;
- 642 ktEU – containers.

The Port operates 49 cranes with lifting capacity varying from 16 to 100 tonnes, along with fork-lift trucks, tractors, reachstackers, front (bucket) loaders, empty container stackers.

As part of its equipment upgrade programme, VMTP signed agreements to procure:
- Liebherr LPS 420 portal crane with a lifting capacity of up to 124 t;
- four new Vityaz portal cranes with a lifting capacity of up to 63 t each and a maximum boom reach of up to 40 m. This machinery can handle various cargoes at the multi-purpose terminal. The new cranes will increase labour productivity, shorten loading and unloading times, and increase processing speeds by 15–20% over the current levels.

In 2019, the port motor fleet increased by 23 units, including terminal tractors, reachstackers, and new 46 t Sany fork-lift trucks that had never before been used at the ports of the Russian Far East.

On top of investing in equipment, VMTP repaired and reconstructed 71,000 sq m of road and berth pavements, thus increasing the warehouse area of the multi-purpose terminal.

Services

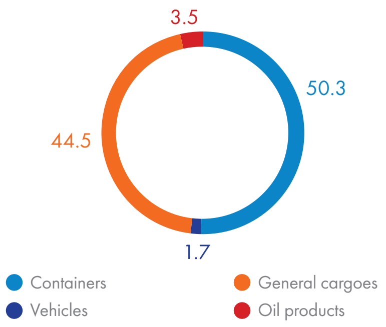
As a multi-purpose port operator, VMTP handles a broad variety of cargo types, including containerised, LCL, bulk, and general cargo, cars and heavy-duty vehicles, as well as oil products.

The Port Division provides stevedoring, surveyor and freight forwarding services, including loading and discharging of vessels, railcars and trucks; transportation of cargo to storage facilities; sorting cargo; packing, changing the packaging and labelling cargo; storage; measuring and weighing cargo; preparation of documents in respect of cargo receipt and dispatch, port pilot services, forwarding and customs clearance.

Customers

The Port Division's customers are large shipping companies, exporters and importers: East Metals AG, Siberian Anthracite, Maersk, CMA CGM, APL, Hyundai Merchant Marine Vladivostok, MMK Trading AG, Sinokor Merchant Marine and Korea Marine Transport.

Cargoes handled by VMTP in 2019, %



Source: Company data.

Operations

In 2019, VMTP improved all key operating indicators. Handling volumes reached an all-time high of 11.5 mt, exceeding the last year's record by 10.5%. The increase occurred in all types of cargo.

Core operating performance

Indicators	2016	2017	2018	2019	YoY change, %
Container handling, ktEU	330	468	551	**625**	13
General cargoes handling, kt	2,083	2,989	4,907	**5,130**	5
Oil product handling, kt	388	299	376	**396**	5
Vehicle handling, '000 units	25	38	60	**77**	28

Containers

VMTP's share of the Far East's handling market grew by 3 pp vs 2018 and reached a record 44%. The handling volume increased by 13% to a record 624,519 TEU vs 551,208 TEU in 2018. Handling of import and export cargoes showed the biggest growth of 17% due to higher volumes of both loaded and empty containers. Containers shipped domestically demonstrated 1% growth vs 2018.

General and bulk cargoes

Handling of bulk and general cargoes increased by 5%, to 5,130 thousand tonnes vs 4,907 thousand tonnes in 2018. Cast iron and construction materials showed significant growth, by 8% and 40% respectively, while the 52% decline in steel plates handling was offset by a 70% rise in slab handling.

Oil products

The petroleum tank farm of Commercial Port of Vladivostok processed 396 thousand tonnes of oil products, up by 5% vs 377 thousand tonnes in 2018.

Vehicles

Handling of vehicles and machinery increased by 27.6%, to 77,023 units vs 60,363 units in 2018. The growth was driven by high car demand in 2019 caused by the planned introduction of the Motor Vehicle Safety Certificate and attraction of new customers. In order to be able to handle the growing volumes, FESCO expanded the automobile terminal by leasing space from the multi-purpose terminal.

In 2019, VMTP handled a total of 2,009 vessels vs 1,989 vessels in 2018. Average daily fleet handling grew by 10.5% to 31.56 thousand tonnes vs 28.69 thousand tonnes in 2018. VMTP also handled 201 thousand units of rolling stock (+12%) vs 179 thousand units in 2018. Daily railcar handling reached 549 units vs 491 units in 2018.

Rail Division

FESCO is one of Russia's major rolling stock operators boasting own technical and repair facilities servicing its railcar fleet. The Rail Division offers a wide array of transportation and logistics services such as transporting general cargoes in box cars, renting out own rolling stock to transport cargoes across Russia, the CIS and Baltic states, as well as locomotive leasing and services of the network of inland terminals in Tomsk, Khabarovsk and Novosibirsk. In 2019, the Division also provided grain transportation in specialised grain hoppers.

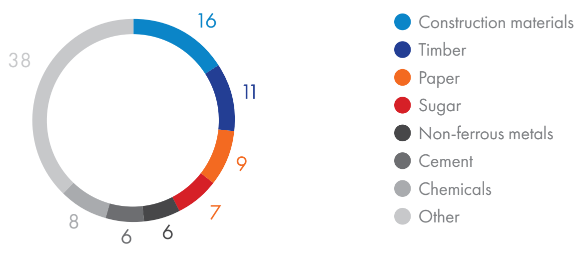
Market overview

In 2019, the cargo load of Russian Railways' network went down by 0.9% YoY to 1.28 mt. The volumes began to decrease in mid-2019 on the back of a decline in shipments of ferrous metals and grain, lower prices for Russian coal, and a bigger share of oil products transported by pipeline. Rail cargo turnover (measured in tkm) went up by 0.2% due to a change in the supply chains (bigger trip length).

Box cars

Box cars are universal rolling stock, meaning they are fit to haul a variety of cargo types.

Box car shipments across the Russian Railways network in 2019, %



Source: Russian Railways data.

Box car transportation displays the following trends:
- reduced empty run ratio;
- more consignors using box cars (up 19% YoY in 2019);
- expanded fleet of box cars with a higher capacity (158 cu m) across the cargo base of railcars. The key box car models have the capacities of 120, 138 or 158 cu m. Given the same tonnage and cargo base, the railcars designed to transport cargoes with larger cubic volume enjoy higher demand;
- enhanced box car turnaround, up 7% YoY thanks to better logistics schemes and an increased share of full train shipments;
- switch from gondola cars to box cars. Given the wide use of gondola cars for coal transportation, some consignors switched to box cars for chalk, gypsum slabs and bricks. However, the situation may reverse if the trend towards a surplus of gondola cars persists;
- changes in regulations and tariff policy. At the end of 2019, Russian Railways and SRO Union of Railway Operators Market supported the unification of empty run tariffs for box cars and approved the transportation of certain food cargoes using universal rolling stock.

For box cars, the transportation geography did not change much, with 53% delivered domestically, 33% exported (mainly to the CIS countries), 9% imported, and 5% going to transit routes.

Despite a decline in cargo load, the rolling stock production saw higher demand. Over the period of twelve months, more than 3,000 large-volume box cars were manufactured, and more than ten new companies entered the box car transportation market. In 2019, factoring in the sale of cars to the CIS countries and write-offs at the end of the service life, the railcar fleet grew by 1%, and the capacity improved by 2% to almost 7,000 cu m.

The overall decrease in transportation volumes did not affect box car transportation margins, because some large consignors faced a shortage of railcars for their loading needs at various locations and had to lease. The lease rate remained high throughout the year. According to the Company's calculations, the average exceeded RUB 1,800 per day, up 26% YoY. The high level of rates is also supported by expectations that up to 35% of the existing box cars will be written off by 2027.

Grain hoppers

The volume of transportation in grain hoppers went down, which led to a surplus of railcars and their use for non-core purposes.

Transportation volume

Rail cargo load decreased to 44 mt (down 2% YoY) due to a 3.5 mt reduction in wheat export. This was driven by changes in prices for Russian grain on international markets, which caused the bulk of shipments of the 2020/2019 harvest to shift to Q1 2020.

As at the beginning of 2019, there were around 45,300 railcars on the market. The demand for new grain hoppers surged, as the service life of 13,000 railcars would expire within the next three years. Operators received over 8,600 new railcars during the year. At the end of the year, the number of railcars (including write-offs) increased by 10.3% to 49,900.[9]

The main trend of 2019 was the consolidation of the grain hopper market. Five major companies increased their railcar fleets to 38,700 or 76% of the market in 2019, with the largest one accounting for 50% of the market.

Use of grain hoppers for non-core purposes

In 2019, grain hopper surplus resulted in these railcars being used for transporting non-core cargoes (cement, chemical and mineral fertilisers). Usually these are railcars whose useful life is coming to an end. In 2019, their share rose by 9%, reaching 34% of the fleet.

Assets

The Rail Division includes rolling stock owners and operators: Transgarant, Russkaya Troyka and Trans-Grain[9], along with Stroyopttorg (an inland terminal in Khabarovsk) and TG-Terminal.

The Rail Division runs several types of target rolling stock: fitting platforms for container transportation, specialised grain hoppers[10], and universal box cars.

[9] In February 2020, a 100% stake in Trans-Grain was sold.
[10] The fleet of grain hoppers was sold in 2020.

Operated rolling stock

Indicator, units	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019
Fitting platforms	3,593	4,457	5,593	**6,296** [11]
Grain hoppers	–	2,931	4,069	**4,203**
Box cars	1,639	1,515	1,244	**2,047**
Other	1,333	381	300	**177**
Gondola cars	6,248	2,109	709	**–**
Pellet hoppers	1,698	1,576	10	**–**

Source: Company data.

FESCO is the second largest operator of fitting platforms on the market. The Company's market share in terms of box cars and grain hoppers is 4% and 8%, respectively.

In 2019, a two-year large-scale swap programme came to an end. As a result, all other types of rolling stock (except for fitting platforms, grain hoppers and box cars) were classified as non-core assets. Over 6,000 gondola cars, more than 1,500 pellet hoppers and over 1,000 other railcars were sold. The sale enabled the Company to purchase fitting platforms and box cars on the secondary market, build new railcars (including advanced high-capacity railcars boasting longer repair intervals), and acquire a controlling stake in Russkaya Troyka. The fleets of fitting platforms and box cars added 703 units (including 450 leased units) and 803 units, respectively. As at 31 December 2019, the Rail Division operated a total of 12,723 units of rolling stock.

Grain segment

In 2019, FESCO resolved to exit the grain cargo transportation segment by selling Trans-Grain and its existing fleet of grain hoppers. The reason was poor macroeconomic environment in Q1 2019 brought about by the grain hopper surplus on the Russian Railways network and industry consolidation trends. At the time of the resolution, the grain hopper fleet comprised 4,203 units, including 2,338 leased railcars. In 2019, FESCO also entered into a preliminary sales and purchase agreement, intending to complete the transaction in 2020 and use the resulting funds to reduce its debt and invest in core assets and digital technologies for the sake of better service quality.

Inland terminals

The Rail Division's assets include inland container terminals in Khabarovsk, Novosibirsk and Tomsk, which are the key links in the FESCO intermodal transportation chain.

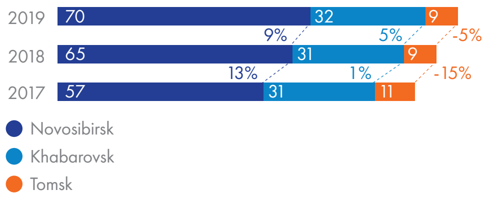
[11] Operated by the Liner and Logistics Division.

Key metrics of FESCO inland terminals

Terminals	Novosibirsk	Khabarovsk	Tomsk
Total area, ha	15.7	9.2	0.6
Container storage area, ha	1.7	1.6	0.6
Container storage capacity, TEU	1,300	2,350	800
Annual container throughput capacity, TEU	90,000	54,000	12,960
Container handling in 2019, TEU	72,822	35,927	8,730

Source: Company data.

Container handling in 2017–2019, ktEU



Source: Company data.

The container terminal in Novosibirsk is located near the Novosibirsk-Vostochny rail station and has three railway lines. In 2019, the Company put into operation an additional concrete platform at the terminal, which increased the storage capacity and the area for simultaneous delivery of cars for loading to 71 standard railcars (previously 57 standard railcars). Thus, the volume of handling large-capacity containers increased by 9%. The facility contains a well-developed network of own railway lines and six own shunting locomotives. The terminal services export container trains from Novosibirsk and regular FESCO shuttles from Novosibirsk to Khabarovsk, and its track facilities ensure seamless coal supplies to CHPP No. 4.

The Khabarovsk terminal, one of the largest logistics hubs in the Russian Far East, is the only facility in the region offering a combination of warehousing, freight forwarding and container terminal services. Occupying a total area of 9.3 hectares, the facility lies close to the federal highway running from Khabarovsk to Vladivostok, has access to the Amur River and the Krasnaya Rechka railway station. In 2019, the terminal developed new options to handle and forward containers for export, as well as refrigerated container handling. This helped enhance the container handling and railcar turnover by 5% and 9%, respectively. With an inflow of new customers, the volumes of road transportation and forwarding grew by 24% to 4,934 TEU vs 3,968 TEU in 2018.

The Tomsk terminal is located on the site of Tomskneftekhim (a subsidiary of SIBUR Holding). The terminal is connected to the Trans-Siberian Railway (Kopylovo station) via 305 m long access routes. It carries out its handling operations under a partnership agreement with Tomskneftekhim, which supplies polypropylene and low-density polyethylene to the Russian, FSU and non-FSU markets. The terminal had its spreader upgraded and introduced tank container operations. On top of that, the terminal performs container repairs (particularly welding works).

Services

FESCO's Rail Division operates a fleet of universal box cars and specialised grain hoppers, offering freight forwarding services, dispatcher control (24/7 monitoring of railcar movement within the network), own train formation technology, locomotive leasing, and railcar storage infrastructure. To deliver excellence in transportation, the Rail Division runs six representative offices in the key cargo base regions: Moscow and the Moscow Region, the Primorye Territory, the Chelyabinsk Region, the Irkutsk Region, and the Komi Republic.

The Rail Division ramps up its fitting platform fleet to integrate FESCO's assets and the other divisions' competencies. The Division ensures the technical quality of the fleet and proper maintenance of railcars, optimises repair costs and times by installing its own spare parts and wheel sets.

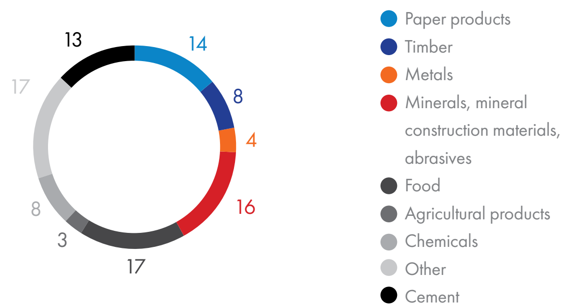
The Rail Division maintains and develops the infrastructure of inland terminals in Tomsk, Khabarovsk and Novosibirsk, and renders container terminal services, including receiving and dispatching containers, loading and securing cargo in a container, crating, warehouse logistics and responsible storage services.

Customers

The Rail Division provides services to a wide range of customers by leveraging its universal box car fleet along with grain hoppers.

In 2019, the Company's premier customers were:
- mining and metals industries: ArcelorMittal Temirtau, NAC;
- construction industry: Serebryakovcement, Novoroscement;
- petrochemical industry: Nizhnekamskneftekhim, SIBUR Holding, Kuchuksulphate;
- timber industry: Swiss Timber International, Mondi Syktyvkar LPK;
- food and agricultural industries: UGC South, Louis Dreyfus Company Vostok, TD RIF, ASTON.

Transportation in 2019 by cargo type, %



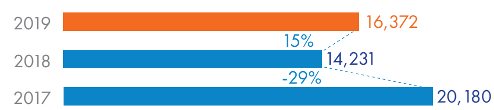
Source: Company data.

Operations

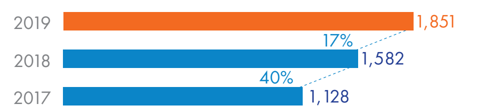
In 2019, railway container transportation volumes rose by 14% to 388 thousand TEU vs 340 thousand TEU in 2018 on the back of the ramp-up of the fitting platform fleet.

Shipments in box cars grew by 15 % to 16,372 units, with transportation margins up by 17% YoY thanks to new routes.

Shipments in box cars, units



Transportation margins for box cars, RUB / working wagon-day



Rail Division's key operating indicators

Indicators	2016	2017	2018	2019	YoY change, %
Rolling stock, units	14,511	12,969	11,925	12,723	7
Shipments in box cars, units	17,975	20,179	14,231	16,372	15
Rail container transportation, ktEU	191	270	340	388	14

Shipping Division

Overview

The Shipping Division owns and manages various vessel in FESCO's fleet. Container vessels and ice class universal vessels prevail in the fleet reflecting FESCO's core business priorities. Most of the vessels are used in own domestic and export and import sea lines operated by the Liner and Logistics Division. In addition to own transportation, the Shipping Division is involved in tramp shipments, including supplies to the Far Eastern and Arctic regions of Russia, cargo delivery to international stations in Antarctica, along with projects of Ministry of Defence of the Russian Federation (the "Russian Ministry of Defence").

Assets

As at 31 December 2019, the Shipping Division's fleet consisted of 20 vessels with a total deadweight of 292 kt. The fleet comprises 12 container vessels, four Sokol-type multi-purpose ice-class vessels, two timber carriers, one icebreaker transport ship and one universal bulk carrier.

FESCO fleet structure as at 31 December 2019

Indicator	Number of vessels	Deadweight, kt
Container vessels	12	223
Sokol-type ice-class vessels	4	38
Timber carriers	2	14
Icebreaker transport vessels	1	11
Universal bulk carriers	1	6
Total transportation vessels	**20**	**292**

Source: Company data

An integral part of FESCO's strategy is the fleet renewal and ongoing upgrade programme. The Company sold four outdated vessels (FESCO Voyager, Kapitan Krems, Abakan, Zoloto Kolymy) and purchased two Arc4 ice class container vessels (FESCO Magadan and FESCO Moneron with a capacity of 822 TEU and a deadweight of 8.7 kt each) that meets the requirements for operation in the northern part of the Sea of Okhotsk in winter.

As part of the fleet renewal programme, the management has provided for the sale of outdated multi-purpose vessels and the purchase of newer, modern multi-purpose vessels as it will enable us to tap into the global freight transportation market.

Services

The Shipping Division deals in liner and tramp sea shipping, including cargo handling at unimproved port facilities.

Liner shipping

Liner shipping is carried out by the Liner and Logistics Division responsible for the sea part of intermodal transportation. The service is offered on domestic shipping lines FESCO Magadan Line (FML), FESCO Anadyr Direct Line (FADL), FESCO Petropavlovsk-Kamchatka Line (FPKL), FESCO Korsakov Direct Line (FKDL) coaster lines, along with FESCO China Express export and import sea shipping line.

Tramp shipping

FESCO universal bulk carriers are engaged in delivering cargoes to unimproved port facilities of the Kuriles, Kamchatka and the Russian Arctic. FESCO vessels operate on the FADL line and take part in an important social project for the delivery of goods to the northern territories of Russia, including the ports of Pevek, Anadyr, Egvekinot and Provideniya.

FESCO teams up with NCPOR. Diesel-electric ship Vasiliy Golovnin participated in the Second Antarctic expedition to supply goods to the Indian research stations Bharati and Maitri. To participate in the expedition in polar waters, it received the certificate of a polar navigation vessel issued by the Russian Maritime Register of Shipping and a special permit of the Ministry of Natural Resources and Environment to operate in the Antarctic. In total, during the voyage the diesel-electric vessel delivered more than 4 kt of cargo, including machinery, fuel and food; took household and technical waste, brought polar explorers to Antarctica and took home the researchers who had been working at the stations. The contract was extended for the Antarctic summer 2019/2020, and in December 2019 Vasiliy Golovnin made a new voyage when it also called at the Belgian station Princess Elizabeth.

In 2019, FESCO won the tender for cargo transportation for the Russian Ministry of Defence for the second time after an eight-year break.

On the premises of FESCO Service, the Shipping Division repairs FESCO vessels and offers ship repair and maintenance services to third parties. Mobile maintenance crews perform a wide range of works without suspending operation of vessels based on both FESCO's own ships and third-party vessels.

Customers

In 2019, the National Centre for Polar and Ocean Research (NCPOR), the Russian Ministry of Defence, GUOHE INVESTMENT GROUP, SIBANTHRACITE OVERSEAS AG, Terneiles, Sovship DV, Alliance DV Kamchatka, Sea Victory, Far Shipping Lines PTE Ltd, Sinokor, and Sea Transportation became the Shipping Division's largest third-party customers.

Operations

The growth of the key operating indicators was driven not only by increasing volumes, but also by the fleet renewal programme.

Shipping Division's key operating indicators

Indicator	2016	2017	2018	2019	YoY change, %
Transport fleet, units	21	21	22	20	(9)
Operable vessel days	7,788	6,990	7,096	7,208	2

Bunkering Division

Overview

The Bunkering Division started its operations in 2013 via two subsidiaries – FESCO-Bunker and FESCO Fuel Company.

Services

The Bunkering Division provides a full range of bunkering services: from fuel purchase to its transfer to the tanks of transport vessels in the ports of the Russian Far East (in particular, Vladivostok, Vostochny and Nakhodka). Also, as a fuel agent it arranges the supply of bunkering oil products to FESCO's fleet at foreign ports. Oil products are purchased outside the Russian Far East, as well as from regional suppliers and distribution companies. FESCO's own oil depot is used to refuel vessels at berths, while the Division engages local tankers to refuel vessels at anchor.

Operations

Growing market monopolisation by major players and a 10% drop in oil and oil product prices on average year-on-year brought about a drop in fuel sales to third parties. Thus, the Bunkering Division mainly covered only FESCO's own demand for oil products.

The Bunkering Division's key operating indicators

Indicator, kt	2016	2017	2018	**2019**	YoY change, %
Bunkering volumes	109	77	72	**68**	(6)

Customers

More than 90% of total bunkering services were provided to the Group's companies, with the remaining volumes shipped to foreign vessel owners and charterers.

Extra-divisional Group

The Extra-divisional Group comprises investment holding and management companies that are not affiliated with a specific division and are in charge of consolidated operational and strategic management of the Group. The Extra-divisional Group includes FESCO Service Centre.

FESCO Service Centre

Overview

FESCO Service Centre (the "FSC") is an integrated servicing centre of FESCO Group with the key transaction centre in Vladivostok and front offices (centres to process paper documents) in Russia's nine cities located from St Petersburg to Petropavlovsk-Kamchatsky. The Centres are managed from Moscow and Vladivostok.

Today the FSC is responsible for internal and external document management, with electronic documents accounting for 50%.

The FSC is the first shared service centre in the Russian Far East. In 2019, the FSC won the Best Shared Service Centre contest in the Best Discovery category.

FESCO Service Centre in numbers

- 11 service areas: document management, accounting, HR services, treasury, legal support, IT support, centres of expertise, performance management, economics and planning, contractor management, and administrative services
- 64 types of services
- 25 FESCO companies serviced
- RUB 45 billion – turnover of the serviced companies
- 2.3 thousand employees using the services
- Over 30 thousand documents processed weekly
- More than 1.5 million documents processed in 2019

FINANCIAL OVERVIEW

Financial results

Indicator, RUB m	2018	2019	Change, %
Revenue	56,993	56,673	(1)
EBITDA	10,572	12,231	16
EBITDA margin	19%	22%	3 pp
CAPEX	5,304	3,838	(28)

Revenue

Indicator, RUB m	2018	2019	Change, %
Port Division	13,121	15,409	17
Rail Division	11,791	8,232	(30)
Liner and Logistics Division	35,875	37,944	6
Shipping Division	2,767	3,245	17
Bunkering Division	1,018	1,191	17
Eliminations	(7,579)	(9,348)	23
FESCO Group	**56,993**	**56,673**	**(1)**

In 2019, the Group's consolidated revenue stood at RUB 56,673 million (almost flat YoY) vs RUB 56,993 million in 2018. All business segments except for the Rail Division showed YoY growth of revenue. A decrease in the Rail Division's metric is due to worsened market conditions in grain transportation and steps taken by FESCO to divest from this business segment.

In 2019, the Port Division's revenue went up 17%, or RUB 2,288 million, to RUB 15,409 million vs RUB 13,121 million in 2018. The key drivers were growth in import and export turnover of container cargo by 17%, changes in rates and cargo structure along with an increase in general cargo turnover by 5%, and growth in vehicle and oil products turnover by 28% and 5%, respectively.

Worsened market conditions in grain transportation led to a decrease in the Rail Division's revenue by 30%, or RUB 3,559 million, to RUB 8,232 million. At the same time, revenue from the core fleet, including fitting platforms and box cars, grew by 46% both on the back of expansion and introduction of new routes for box cars.

The Liner and Logistics Division's revenue went up 6% YoY, or RUB 2,069 million, due to increased transportation driven by higher quality services and new routes.

The Shipping Division's revenue increased by 17%, or RUB 478 million, primarily on the back of charters (Antarctic expedition, contracts with the Russian Ministry of Defence) and higher rates post the fleet upgrade.

Operating expenses

Indicator, RUB m	2018	2019	YoY change, %
Port Division	5,618	6,753	20
Rail Division	6,758	3,788	(44)
Liner and Logistics Division	31,934	32,834	3
Shipping Division	1,944	2,180	12
Bunkering Division	960	1,140	19
Eliminations	(7,579)	(9,415)	24
FESCO Group	**39,634**	**37,279**	**(6)**

In 2019, FESCO's operating expenses went down 6% to RUB 37,279 million vs RUB 39,634 million in 2018, due to a decrease in grain transportation.

The Port Division's operating expenses went up 20%, or RUB 1,135 million, mainly due to higher variable expenses resulting from increased cargo turnover and repair and maintenance costs.

The Rail Division's operating expenses shrank by 44%, or RUB 2,970 million, on the back of lower grain transportation volumes, while those of the Liner and Logistics Division grew by 3%, or RUB 900 million, due to higher transportation volumes and railway tariff expenses on terminal services and road transportation. On top of that, FESCO saw its intra-group expenses related to fitting platform operating lease increase due to the relevant fleet expansion and higher lease rates.

The Shipping Division's operating expenses went up 12%, or RUB 236 million, largely due to an increase in charters (Antarctic expedition, contracts with the Russian Ministry of Defence).

Gross profit

In 2019, FESCO's gross profit stood at RUB 19,394 million vs RUB 17,359 million in 2018.

Administrative expenses

Indicator, RUB m	2018	2019	YoY change, %
Salary and other staff related costs	4,901	5,028	3
Professional fees	610	642	5
Office rent	333	347	4
Other administrative expenses	1,139	1,323	16
Total administrative expenses	**6,983**	**7,341**	**5**

In 2019, FESCO's administrative expenses grew 5% to RUB 7,341 million vs RUB 6,983 million in 2018, which is mainly attributable to higher payroll and staff grading expenses.

EBITDA

Indicator, RUB m	2018	2019	YoY change, %
Port Division	5,889	6,787	15
Rail Division	4,094	3,596	(12)
Liner and Logistics Division	1,259	2,309	83
Shipping Division	664	776	17
Bunkering Division	36	83	131
Extra-divisional Group	(1,372)	(1,319)	4
FESCO Group	**10,572**	**12,231**	**16**

EBITDA margin

Indicator, %	2018	2019	YoY change, pp
Port Division	45	44	(1)
Rail Division	35	44	9
Liner and Logistics Division	4	6	2
Shipping Division	24	24	0
Bunkering Division	4	7	3
FESCO Group	**19**	**22**	**3**

In 2019, the Group's consolidated EBITDA increased by 16% to RUB 12,231 million vs RUB 10,572 million in 2018. EBITDA margin went up 3 pp to 22% vs 19% in 2018. The Liner and Logistics Division together with the Port Division were the major contributors to the metric's growth.

The Port Division's EBITDA increased by 15%, or RUB 898 million, mainly driven by the market expansion in the reporting year and larger handling volumes for all cargoes. Thanks its strong commercial strategy, the Division's container handling volumes grew much faster than the market, which helped increase FESCO's share in the Russian Far East to an all-time high of 44%.

The Rail Division's EBITDA dipped by 12% YoY, or RUB 498 million, as the Division's performance was under pressure from negative trends in the grain railway transportation market.

The Liner and Logistics Division's EBITDA increased by 83%, or RUB 1,050 million, on the back of optimised rotation of international shipping lines from China and the Republic of Korea and better efficiency of Baltic lines. The Division saw the financial performance improve across all domestic transportation routes. Intermodal transportation expanded on the back of shorter cargo handling at all legs driven by accelerated customs transit clearance, improved railcar turnaround, and electronic records management.

The Shipping Division's EBITDA increased by 17%, or RUB 112 million, thanks to earnings from the Antarctic expedition, contracts with the Russian Ministry of Defence and improved fleet performance post upgrade.

Depreciation and amortisation

Indicator, RUB m	2018	2019	YoY change, %
Port Division	639	678	6
Rail Division	1,225	1,945	59
Liner and Logistics Division	107	285	166
Shipping Division	429	459	7
Bunkering Division	–	–	–
Extra-divisional group	80	118	47
FESCO Group	**2,480**	**3,485**	**41**

Depreciation and amortisation charges grew by 41% to RUB 3,485 million vs RUB 2,480 million in 2018 as a result of adopting new IFRS 16 standard effective from 2019.

Profit/(loss) from operating activity

In 2019, FESCO's profit from operating activity stood at RUB 8,304 million vs RUB 8,334 million in 2018.

Other financial expenses

FESCO's other financial expenses increased from RUB (441) million in 2018 to RUB (7,373) million in the reporting year due to exchange differences and interest expenses accrued in accordance with new IFRS 16 standard.

Share of profit of equity accounted investees

The Group's share of profit of equity accounted investees went down to RUB 77 million vs RUB 1,662 million in 2018 due to the disposal of investment in TransContainer in October 2018.

Profit/(loss) before income tax

In 2019, FESCO's profit before income tax stood at RUB 740 million vs RUB 9,954 million in 2018.

Income tax expense

Indicator, RUB m	2018	2019	YoY change, %
Current tax expense			
Current period	2,447	2,292	(6)
Deferred tax expense			
Origination and reversal of temporary differences	498	290	(42)
Total income tax expense	2,945	2,582	(12)

Income tax expense fell by 12% to RUB 2,582 million vs RUB 2,945 million in 2018. Current tax expense for the period decreased by 6% to RUB 2,292 million vs RUB 2,447 in 2018 mainly as a result of the Rail Division's poorer financial result.

Net profit/(loss)

Net loss stood at RUB (1,842) million vs net profit of RUB 7,009 million in 2018.

Debt obligations

Indicator, RUB m	31.12.2018	EBITDA	31.12.2019	EBITDA
(Cash and cash equivalents)	(3,313)	(0.3x)	(1,232)	(0.3x)
Debt obligations and finance lease liabilities[12]	45,647	4.7x	39,294	3.8x
Short-term	4,695		6,659	
Long-term	40,952		32,635	
Net debt	**42,334**	**4.4x**	**38,062**	**3.7x**

FESCO's liabilities as at 31 December 2019:
- RUB 32,632 million – loans and borrowings;
- RUB 6,410 million – lease liabilities;
- RUB 252 million – BO-01 and BO-02 series exchange-traded Russian bonds.

Net debt shrank from RUB 42,334 million as at 31 December 2018 to RUB 38,062 million.

Net debt / EBITDA ratio as at 31 December 2019 decreased to 3.7x (excluding IFRS 16 impact).

Capital expenditures

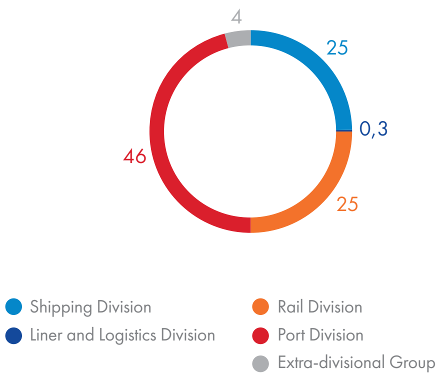
The Group's CAPEX stood at RUB 3,838 million, with 96% of this amount attributable to the Port, Shipping and Rail Divisions.

The Port Division accounted for 46%, or RUB 1,749 million, of FESCO's CAPEX, the bulk of which is associated with investments in port infrastructure and cranes and mechanisation (RUB 883 million and RUB 754 million, respectively).

The Shipping Division made up 25%, or RUB 976 million, of the Group's CAPEX. In 2019, FESCO added two 822 TEU ice-class container carriers, FESCO Magadan and FESCO Moneron, to its fleet. The vessels cost RUB 701 million, with dry docking expenses amounting to RUB 275 million.

The Rail Division accounted for 25%, or RUB 959 million, of CAPEX due to the purchase and repair of wheel sets.

2019 CAPEX by division (total amount – RUB 3,838 million), %



Source: Company data

[12] Loans and obligations do not include operating lease obligations, so to calculate ratios, EBITDA excluding the impact of the IFRS 16 adoption is also used.

CORPORATE GOVERNANCE

The corporate governance framework of FESCO is built to comply with the principles and requirements set out in the applicable laws of the Russian Federation, regulations of the Bank of Russia and the Listing Rules of the Moscow Exchange.

FESCO views corporate governance as a key to stability of the Company's operations, with the principles of corporate governance and business ethics placed at the heart of its business success and responsible behaviour.

The key role in the Company's governance belongs to the Board of Directors (the "BoD"), which regularly meets with the Company's management to make prompt strategic decisions on the most important matters for the Group.

The BoD has approved FESCO's action plan to improve corporate governance practices and procedures for 2019. This plan aims to ensure compliance with the Corporate Governance Code recommended by the Bank of Russia, and the Listing Rules of the Moscow Exchange, as well as to introduce best corporate governance practices.

It seeks to improve corporate procedures, including those regulating the activities of the Board of Directors. To this end, a schedule was adopted for it to follow, taking into account the strategic planning cycles for FESCO Group's projects and corporate events. A new format of materials was developed and introduced, together with improved procedures for approving documents to be submitted to the BoD. The Company also updated its by-laws and took steps towards better disclosure.

Governing and supervisory framework

General Shareholders Meeting

The General Shareholders Meeting is the supreme governing body through which shareholders exercise their right to participate in the Company's governance. The procedure for shareholders to participate in the governance of the Company and the General Shareholders Meeting's scope of authority are defined in FESCO's Articles of Association and Regulations on the General Shareholders Meeting.

On 20 June 2019, the Annual General Shareholders Meeting approved an updated version of FESCO's Articles of Association, Regulations on the Sole Executive Bodies and Regulations on the Executive Board, and elected the Board of Directors.

Board of Directors

The Board of Directors is responsible for the overall governance of the Company. It acts within the scope of authority defined in the Company's Articles of Association and consists of nine members.

The rules of procedure for the Board of Directors are set out in FESCO's Regulations on the Board of Directors.

In the reporting year, it held 22 meetings (two in person and 20 in absentia) and reviewed 89 matters related to the Company's economic and financial activities, strategy and HR policy.

The Board of Directors supervised the management by reviewing reports on the Company's results and fulfilment of the Board's and its committees' assignments.

Another focus of the Board of Directors was to ensure independence of the internal audit service and continuously monitor risks of the Company and its controlled entities and affiliates. To this end, it evaluated quarterly reports covering performance of the Internal Audit Department, approved the Group's material risk maps and implemented initiatives to manage such risks in the corresponding period.

In 2019, the Board of Directors made a number of important decisions on the restructuring of the Group's outstanding financial debt and the issuance of irrevocable public offers to the Company's bondholders. Please see the section on the capital market for more details.

Directors are elected by the General Shareholders Meeting for the period until the next Annual General Shareholders Meeting. In the reporting year, the composition of the Board of Directors and its committees remained unchanged.

Membership of the Board of Directors

As at the beginning of 2019, the following directors served on FESCO's Board of Directors:

- Leyla Mamedzadeh (Chair);
- Konstantin Kuzovkov (Deputy Chair);
- Shagav Gadzhiev;
- Mark Garber;
- Natalia Izosimova;
- Alexander Isurin;
- Denis Kant Mandal;
- Konstantin Kurlanov;
- Dmitry Shvets.

On 20 June 2019, the Annual General Shareholders Meeting re-elected the Company's Board of Directors in full.

Information on the directors

Leyla Mamedzadeh

Chair of the Board of Directors, member of the Strategy, Investment and General Affairs Committee, member of the Human Resources and Remuneration Committee

Born in 1975. Earned a Master's degree in Finance and Petroleum Engineering from Texas A&M University, USA.

Between 2010 and 2013, Leyla held management positions at Summa Group. In 2017–2018, she was its CEO.

Served as director at TransContainer, NCSP, YATEC and UGC.

Leyla was Executive Director of the APEC Business Advisory Council during a Russian presidency. Before joining Summa Group, she worked for international majors, including Halliburton (UK/USA) and Royal Dutch Shell HQ in Hague, Netherlands.

Konstantin Kuzovkov

Deputy Chair of the Board of Directors, member of the Audit Committee, member of the Strategy, Investment and General Affairs Committee

Born in 1981. Graduated from the Financial University under the Government of the Russian Federation in Moscow with a degree in State and Municipal Finance. Holds an MBA from Harvard University, Cambridge, USA.

In 2016–2018, Konstantin was Director for Finance and Economics at Summa Group.

In 2016–2019, he was a director at YATEC.

Before joining Summa Group, Konstantin held the position of Vice President for Development and Investments at FESCO. In 2004–2014, he worked for McKinsey & Company in Moscow providing customer advice on transportation and natural resources.

Shagav Gadzhiev

Director, member of the Audit Committee

Born in 1987. Graduated from Moscow State University with a degree in Law. In 2019, Shagav graduated from the UC Berkeley School of Law with a Master's degree in Law.

Since 2018, he has been Director at Caspian VC Partners Ltd.

Worked for major global law firms as a specialist in corporate law and M&As.

Mark Garber

Director, Chair of the Audit Committee, member of the Strategy, Investment and General Affairs Committee, member of the Human Resources and Remuneration Committee

Born in 1958. Graduated from the 2nd Pirogov Moscow State Medical Institute with a PhD.

Chairman of the Board of Directors at GHP Group. Mark is a director at Amber Beverage Group. Between 2013 and 2019, he served as a director at TransContainer, Summa Group and UC Rusal PLC.

In 1994, Mark co-founded UCB Bank, which went on to be acquired by Robert Fleming & Co, an international investment bank, in 1998. Until 2000, he was Partner and Head of Fleming UCB. In 2001, Mark teamed up with Roderick Fleming to establish Fleming Family & Partners, an international financial group. In 2012, he joined forces with an ex-head of J.P. Morgan Cazenove to buy some of the Fleming Family & Partners operations and use them as a foundation for GHP Group.

Natalia Izosimova

Director, Chair of the Human Resources and Remuneration Committee

Born in 1958. Graduated from Moscow State Pedagogical University with a Master's degree in English and German. Holds a diploma from Oxford School for Coaching and Mentoring and is a member of the European Mentoring and Coaching Council.

Member of Metinvest B.V.'s Supervisory Board. In 2014–2016, Natalia was an independent director and Chair of the Human Resources and Remuneration Committee at FESCO. She also served as a director at SUEK and Talent Tuning.

In 1998, Natalia was Head of Professional Development in Eastern Europe and Russia at McKinsey & Company. In 2005, she became Director for Corporate Restructuring at System Capital Management in Ukraine. In 2009–2013, Head of Foundation for Effective Governance in Ukraine. In 2007–2013, an independent director and Chair of the HR Committee at DTEK. Since 2014, Natalia has been an independent advisor focusing on corporate governance, optimisation of key governance processes, HR strategies and communications.

Alexander Isurin

President, Chair of the Executive Board[13], director, member of the Strategy, Investment and General Affairs Committee

Born in 1976. Graduated from Baltic International Academy in Riga, Latvia with a degree in Business Administration. Took a course in water and intermodal transportation management from Maersk Training in Denmark.

Has over 15 years' experience in transportation and container shipping.

Before joining FESCO in 2014, Alexander headed the Russian and Central Asian Office of MSC, a leader in container shipping. His career started at Maersk.

Alexander was Vice President and Senior Vice President for Commerce at FESCO. Between 2016 and March 2020, he served as its President and Chairman of the Executive Board. He is also a member of governing bodies at some of the Group's companies (e.g., Chair of the Supervisory Board at Commercial Port of Vladivostok).

[13] Until 5 March 2020.

Denis Kant Mandal

Director, member of the Audit Committee

Born in 1987. Graduated from the Russian Presidential Academy of National Economy and Public Administration, holds an MPA. Graduated from Schiller International University in London with a Master's degree in International Business and from London City College with a degree in Marketing.
Served as a director at Sistema Shyam Teleservices (SSTL, MTS India), TGC-5 and YATEC.

Konstantin Kurlanov

Director

Born in 1976. Graduated from Moscow State University with a degree in Law.
In 2018–2019, Konstantin was Project Director at YATEC.
He has over 15 years of experience at leading international law firms as a specialist in M&As and in creating joint ventures, including for the transportation and logistics industry.

Dmitry Shvets

Director, Chair of the Strategy, Investment and General Affairs Committee, member of the Human Resources and Remuneration Committee

Born in 1972. Earned his MBA degree from Emory University, USA. Graduated from Moscow State Institute of International Relations (MGIMO).

Members of the Board of Directors do not hold the Company's shares or stakes in the charter capital.

Committees of the Board of Directors

Committees play a key role in ensuring the efficiency of the Company's Board of Directors. The Company regulations set out committees' authority, rules of procedure, goals and objectives, which are:
- to provide expert opinions and review matters and materials before they are submitted to the Board of Directors;
- to prepare reports and proposals for the BoD to make informed decisions regarding the Group's activities.

In 2019, the committees of the Board of Directors held 24 meetings.

Membership of the committees in 2019

Committee	Committee composition
Audit Committee	Mark Garber (Chair) Shagav Gadzhiev Konstantin Kuzovkov Denis Kant Mandal
Human Resources and Remuneration Committee	Natalia Izosimova (Chair) Mark Garber Leyla Mamedzadeh Dmitry Shvets
Strategy, Investment and General Affairs Committee	Dmitry Shvets (Chair) Mark Garber Alexander Isurin Konstantin Kuzovkov Leyla Mamedzadeh

Corporate Secretary

The Company's Regulations on the Corporate Secretary were drafted in line with the Listing Rules of the Moscow Exchange applicable to FESCO as a publicly-traded company, as well as the Corporate Governance Code recommended by the Bank of Russia. In 2019, the Regulations on the Corporate Secretary were updated.

The Corporate Secretary is primarily responsible for:
- ensuring that the Company's governing bodies and officers comply with the Russian laws and the by-laws setting out the procedure for protecting the rights of shareholders;
- preparing and holding General Shareholders Meetings and meetings of the Board of Directors;
- disclosing information about FESCO as required by the laws on the securities market.

One of the Corporate Secretary's key tasks is to improve the Company's corporate governance practices.

The Office of the Corporate Secretary performs its functions under the Corporate Secretary's supervision.

Since April 2016, the position of Corporate Secretary and Secretary of the Board of Directors has been occupied by lawyer Anzhela Korzhevskaya, who holds a Master of Laws' degree from the University of East Anglia, UK.

In late 2019, the Board of Directors reviewed the Corporate Secretary's performance during the year and approved the corresponding report. Such assessments were introduced in 2018 to ensure compliance with the Corporate Governance Code and help the Board oversee the Company's corporate governance system.

In the reporting year, the Corporate Secretary concentrated on improving internal corporate governance procedures and ensuring consistency in the work of the Board of Directors and its committees with a focus on the Group's priorities.

Sole executive body

In line with the applicable Russian laws, FESCO relies on two sole executive bodies to streamline the management of its day-to-day operations – the President and the CEO, who act independently of each other within their respective scope of authority as prescribed by the Articles of Association.

Effective from 26 February 2016, the Company announced the appointment of Alexander Isurin, previously Vice President for Commerce, as its President.

Between 1 February 2018 and 26 November 2018, the position of CEO was held by Victor Shukshin. On 23 May 2019, Yury Plotnikov was elected the new CEO.

The reporting period saw both the President and the CEO of the Company sit on the Executive Board, FESCO's collegial executive body.

The Executive Board's membership changed once during 2019. As at 1 January 2019, the Executive Board was composed of the following people:

- Alexander Isurin (Chair);
- Ekaterina Grishkovets;
- Konstantin Kolesnikov;
- Maxim Sakharov;
- Konstantin Teterin;
- Aidemir Usakhov;
- Zairbek Yusupov.

Since Yury Plotnikov became a member on 2 September 2019, the Executive Board has been composed of the following people:

- Alexander Isurin (Chair);
- Ekaterina Grishkovets;
- Konstantin Kolesnikov;
- Yury Plotnikov;
- Maxim Sakharov;
- Konstantin Teterin;
- Aidemir Usakhov;
- Zairbek Yusupov.

Information on the members of the Executive Board

Alexander Isurin

President, Chair of the Executive Board[14]

See the section on the Company's Board of Directors for biographical details.

Ekaterina Grishkovets

Member of the Executive Board, Vice President for External Relations

Born in 1981. Graduated from the Financial University under the Government of the Russian Federation and the Moscow State Institute of International Relations (MGIMO).
Joined FESCO in 2018 as an advisor and was elected Vice President for External Relations and put in charge of the GR and PR services on 3 December 2018.

Konstantin Kolesnikov

Vice President for Human Resources[15]

Born in 1981. Graduated from the Gubkin Russian State University of Oil and Gas.
Konstantin was HR Director at NCSP in 2017–2018 and Head of HR at FSC in 2018–2019. Since 2019, he has been a director at FSC. Konstantin has been FESCO's Vice President for Human Resources since April 2018.

Yury Plotnikov

CEO, member of the Executive Board, Vice President for Security

Born in 1976. Graduated from the Russian Presidential Academy of National Economy and Public Administration, and Academy of the Russian Federal Security Service.
Since June 2019, Yury has been Vice President for Security at FESCO. Elected as the CEO of FESCO on 23 May 2019.

[14] Until 5 March 2020.
[15] Until 15 July 2020.

Maxim Sakharov[16]

Member of the Executive Board, Vice President for Finance

Born in 1982. Graduated from the Far Eastern Federal University and Russian Presidential Academy of National Economy and Public Administration.

Maxim has been working at FESCO Group since 2005, holding the position of Vice President for Finance between 2016 and March 2020.

Konstantin Teterin

Member of the Executive Board, Vice President for Liner and Logistics Division

Born in 1968. Graduated from the Taran Civil Aviation School in Sasovo and Russian Presidential Academy of National Economy and Public Administration.

Since March 2019, Konstantin has been Vice President for Liner and Logistics Division at FESCO.

He is also a member of governing bodies at several companies of the Group.

Zairbek Yusupov

Member of the Executive Board, Vice President for Port Division

Born in 1969. Graduated from Dagestan State Agricultural University.

Zairbek has been Vice President for Port Division at FESCO since 2016 and CEO of Commercial Port of Vladivostok since March 2016.

Aidemir Usakhov

Member of the Executive Board, Vice President for Rail Division

Born in 1976. Graduated from Dagestan State Pedagogical University.

Aidemir was Director of the Rail Division between April 2017 and April 2018 and has been Vice President for Rail Division since 2 April 2018.

He is also a member of governing bodies at several companies of the Group.

Members of the Executive Board do not hold the Company's shares or stakes in the charter capital.

The Company's sole executive body and its Executive Board members are remunerated in the amount, in the manner and within the time specified in their employment contracts, Company by-laws and resolutions adopted by the Board of Directors. The members of the Company's Board of Directors are remunerated and paid compensation as prescribed by the Regulations on Remuneration and Compensation for Members of FESCO's Board of Directors.

Remuneration and compensation paid to the members of the Company's governing bodies in 2019, RUB '000

Total amount paid	Remuneration paid to the members of the Company's governing bodies in 2019		Expenses reimbursed to the members of the Company's governing bodies in 2019	
	Board of Directors (for their service as directors)	Executive Board (total amount paid to all members of the Executive Board in 2019 for their service as members of the Executive Board and remuneration for their work under employment contracts with the Company)	Board of Directors	Executive Board (total compensation paid to all members of the Executive Board in 2019)
290,596	41,625	246,405	1,667	900

[16] Appointed as FESCO's President on 6 March 2020.

Control and audit

Internal controls

FESCO established the Internal Audit Department to perform internal audit functions and provide governing bodies with complete and accurate information on the Company's operations.

The Internal Audit Department is responsible for:
- improving the effectiveness and efficiency of corporate governance practices and business processes;
- reducing costs;
- overseeing safe and sustainable use of assets;
- ensuring compliance with corporate governance principles.

The Department is governed by the FESCO Internal Audit Policy.

In the reporting year, FESCO fine-tuned its risk management system to comply with the updated 2018 version of Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995. The Company developed and approved Regulations on Risk Management to define the goals, objectives, basic principles and common approaches of the Group's risk management system and set the requirements for risk governance methodologies, rules and approaches.

The Regulations provide a framework for internal methodological documents and by-laws governing FESCO's risk management system.

The Company is developing a dedicated IT solution for risk governance, with all business processes to be gradually automated in 2020.

Audit Commission

The Company's financial and operating performance is monitored by the Audit Commission, which acts in the interests of shareholders and reports directly to the General Shareholders Meeting. The Commission's activities are governed by the Company's Regulations on the Audit Commission.

The Annual General Shareholders Meeting elected the following officers as members of the Audit Commission:
- Artem Belsky;
- Konstantin Kostenevsky;
- Aleksandr Lobankov;
- Alexey Maximov;
- Evgeny Timofeev.

External audit

The Annual General Shareholders Meeting appointed AO KPMG as the Company's external auditor for 2019. The external auditor is responsible for auditing the Company's financial and operating performance as prescribed by the applicable laws of the Russian Federation and pursuant to the contract signed between the Company and the auditor. According to clause 4, article 5 of Federal Law No. 307-FZ On Audit Activities dated 30 December 2008, no open tender is required to select the issuer's external auditor.

The issuer shall select the external auditor through a tender procedure (Russian laws on procurement do not apply to said tender procedures). The Company shall select its external auditor by collecting and comparing bids submitted by the auditors. The proposed nominee for the external auditor role shall be approved by the General Shareholders Meeting.

Risk management

Risk management system

In 2019, FESCO continued to develop its risk management system (RMS). The following steps were taken to improve the efficiency of risk management and introduce a comprehensive risk-based approach to decision-making:

- the Regulations on Risk Management developed and approved;
- risk experts selected from among the Company's employees;
- automated risk management database launched.

Key stages of the risk management system

Stage	Process	RMS participants
Risk identification	Initial risk identification in business processes	All employees
	Risk confirmation	Risk expert
	Preparation of risk profiles, specifying the following: • business process; • risk type; • risk owner; • person in charge of assessment; • risk coordinator	Risk expert; risk owner
Risk assessment	Probability and impact assessment (qualitative or quantitative)	Risk owner
	Approval of risk profile	Risk expert; chief risk manager
Development of risk management measures	Development of action plan, determination of indicators and persons responsible for monitoring them	Risk owner
	Approval of risk management action plan	Chief risk manager
Monitoring and reporting	Preparation of quarterly risk management reports, including: • recording the indicators; • updating the status of initiatives; • updating risk assessment scores.	Person responsible for monitoring
	Approval of risk management report	Risk owner
	Preparation of risk maps	Chief risk manager

To improve the efficiency of the risk management system, in 2019 FESCO developed and launched an automated risk management database. The first three stages of the RMS have been automated, with the fourth stage automation planned for 2020.

In line with the Company's policy, the Group's consolidated corporate risk map is subject to annual review by the Executive Board and the Audit Committee followed by consideration and approval by the Board of Directors.

FESCO's corporate risk map includes:

- assessment of materialised risks;
- assessment of budget target achievement probability under materialised risks;
- losses forecasts in optimistic and pessimistic risk materialisation scenarios;
- analysis of the changes in the risk management system.

The approved risk map is made available to the Company's executive bodies and business units responsible for risk management.

FESCO identifies and monitors risks on an ongoing basis, assessing the effectiveness of its risk management measures and using the emerging opportunities for business development and value growth. The Group informs its shareholders and regulators that certain risks with significant potential impact on the Company's financial results and valuation cannot be managed.

Description of material risks

Detailed description	Impact assessment / probability	Comment	Risk management
Financial risks			
The most material financial risks for FESCO are liquidity and credit risks. Other financial risks have limited impact on the Company's business	High/low	The risk did not materialise in 2019. It continues into 2020 with a higher probability	The cash flow budget, including short- and medium-term planning tools, is the key instrument for managing liquidity risks. Credit risks are managed by capping new receivables and analysing counterparty contract risks
Commercial risks			
FESCO's commercial risks are risks of losses arising from external (demand, competition, market changes, etc.) and internal (quality and price of services provided, etc.) volatility	High/medium	In 2019, these risks did not have a significant impact on the Group's operating results. In 2020, the risks remain due to the volatility of target markets and bigger macroeconomic threats, especially the global ones	The Group mitigates commercial risks through a balanced pricing policy with discounts and preferences to reliable counterparties. The management of commercial risks is based on long-term partnerships with counterparties designed to increase the Company's financial stability in the hostile economic environment. Another tool is optimisation of internal business processes in order to respond efficiently to market changes
Political risks			
Political risks are associated with the internal government policies in the regions of operations, which can impact the Group's companies and potentially hurt the Group's business	Medium/medium	In 2019, the impact of risk materialisation was assessed as insignificant	The Company operates in strict compliance with the applicable laws of the Russian Federation and keeps track of all regulatory changes which affect its operations. The Company is able to adjust its operations in a timely manner, and seeks to maintain an ongoing dialogue with regulatory authorities on compliance-related matters
Operational risks			
Given the Group's significant transport assets (rail cars, containers, ships), the management of operational risks was one of the key priorities in 2019 due to their sheer number	Medium/high	In 2019, the impact of risk materialisation was assessed as insignificant. The risk remains in 2020	As part of its risk mitigation initiatives, FESCO upgrades container terminals, invests in repairs and new equipment, streamlines shipment structure and refines its management and control quality system

CAPITAL MARKETS

Share capital

As at 31 December 2019, the Company's charter capital amounted to RUB 2,951,250,000.

It is divided into 2,951,250,000 common registered uncertificated shares with a face value of RUB 1 per share.

All common shares have the same face value, are registered uncertificated securities and provide equal rights to their holder (shareholder).

In accordance with the Articles of Association, the Company is entitled to place 737,812,500 common shares with a face value of RUB 1 each in addition to the outstanding shares.

As at 31 December 2019, FESCO's key indirect shareholders were Mr Ziyavudin Magomedov (32.5%), TPG Group (17.4%) and GHP Group (23.8%).

Share price performance (MOEX)

FESCO shares are traded on the Moscow Exchange and included in the Level 3 quotation list (ticker: FESH). In 2019, FESCO share price surged by 84.3% from RUB 4.78 as at 3 January 2019 to RUB 8.81 as at 30 December 2019.

FESCO's market capitalisation increased from RUB 14.10 billion (USD 203.06 million) at the beginning of the year to RUB 26.00 billion (USD 419.15 million) at the year-end.

Exchange-traded bonds

On 12 July 2019, the Group made an irrevocable public tender offer to repurchase BO-01 and BO-02 series bonds issued in 2015 and 2013, respectively[17]. The offer resulted in a buy-back of 6,658 bonds of BO-01 series from 22 investors and 29,942 bonds of BO-02 series from 112 investors. At present, 3,758 BO-01 series and 34,424 BO-02 series bonds that are not challenged in court proceedings remain outstanding for a total of up to RUB 38 million, or 0.54% of the initial issue volume.
The Group completed settlements with creditors under the public offer. The Company is ready to repurchase the remaining outstanding bonds from investors under the terms of the public offer, i.e. for the sum of face value and outstanding coupon payments.

[17] BO-01 series interest-bearing documentary non-convertible exchange-traded bonds payable to bearer subject to centralised deposit, identification number: 4B02-01-00032-A dated 5 May 2010, BO-02 series, identification number: 4B02-02-00032-A dated 5 May 2010.

Credit ratings

As at the end of 2019, the Company maintained an RD rating from Fitch Ratings Limited.

In June 2020, Fitch revised FESCO's credit rating upwards by four notches, from RD to CCC.

Please see the rating action commentary at

Payout of the declared (accrued) dividends

Pursuant to the Company's Articles of Association, resolutions on the payout of dividends are made by the General Shareholders Meeting following a recommendation of the Board of Directors. The General Shareholders Meeting makes a resolution based on the Company's current financial position, taking into account its development plans. In 2019, no dividends were accrued or paid.

APPENDICES

For appendices to this Report, please see FESCO website, Investor Relations section (Disclosures page).

Appendix 1
Report on the Company's Compliance with the Principles and Recommendations of the Corporate Governance Code.

Appendix 2
Report on Major and Interested-Party Transactions Made by FESCO in 2019.

Appendix 3
Information on the Company's Use of Energy Resources in 2019.

Appendix 4
Annual financial statements for the year ended 31 December 2019 and Independent Auditor's Report.

FINANCIAL STATEMENTS

Consolidated financial statements for the year ended 31 December 2019 and Independent Auditor's Report

Independent Auditors' Report

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

Opinion

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

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

Basis for Opinion

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

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

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

Moscow, Russia

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

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

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

KPMG

FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)
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Key Audit Matters

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

Valuation of goodwill

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

The key audit matter	How the matter was addressed in our audit
The Group has significant goodwill which is material to the consolidated financial statements as at 31 December 2019. Due to current market conditions and continuing market volatility, volatility of import and export volumes and exchange rates there is a risk that the above may be not recoverable in full. The risk is associated with goodwill of Vladivostok Sea Trade Port ("VMTP") cash generating unit ("CGU"). As at the reporting date management determines the recoverable amount of the Group's assets and cash generating units as their value in use. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.	We evaluated the reasonableness of the expected cash flow forecasts by comparing them with externally derived data as well as our own assessments in relation to key inputs such as forecasts for volumes of containers throughput and other cargos, forecasted container charge out and general cargo rates, costs projections, discount and terminal growth rates. We challenged: - the key assumptions for short and long term growth rates in the forecasts by comparing them with economic and industry forecasts; - the discount rates used. Specifically, we recalculated the Group's weighted average cost of capital using market comparable information. We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group.

Going concern considerations related to the COVID-19 outbreak

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

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

FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)
Independent Auditors' Report
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The key audit matter	How the matter was addressed in our audit
Russian government authorities has taken a number of measures to counter the effects of the outbreak, including border closures, quarantine, limitations imposed on cross-border and domestic transportation. As a result, during February and March 2020, the Group experienced a reduction in transportation volumes to and from China partially counterbalanced by increase in the volumes of internal transportation and goods loading services. The Group's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Group will have sufficient resources to continue in operational existence for the foreseeable future. The forecasts reflected a number of scenarios, considered by management to be plausible, such as prolonged transportation volumes decrease for import and export directions. As part of the assessment, management also considered a number of actions aimed at alleviating the potential disruption to the Group's business and liquidity position as discussed in Note 2. The Group's use of the going concern basis of accounting is a key audit matter due to high level of management judgment required and inherent uncertainty involved in forecasting and evaluating financial impact of current economic environment and measures planned by the Group.	inquiries of the Group's president and vice-president on finance and CFO. We tested the reasonableness expected cash flow forecasts by performing the following: - Challenging the key assumptions used in the determination of the forecast financial information under various scenarios. This primarily included challenging the forecast sales volumes, charge-out rates and costs projections based on our understanding of the Group's activities and by reference to publicly available industry/market reports; - Performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment. We evaluated the adequacy of the Group's disclosures in respect of the going concern assessment and any related uncertainties in the consolidated financial statements.

KPMG

FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)
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Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

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

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
КПМГ
KPMG
МОСКВА

Ludmila Klimanova

JSC "KPMG"

Moscow, Russia

20 May 2020

Consolidated Statement of Financial Position As at 31 December 2019

	Note	31.12.19	31.12.18
			RUB mln
ASSETS			
Non-Current Assets			
Fleet	5	4,982	5,677
Rolling stock and other tangible fixed assets	6	24,067	29,827
Goodwill	4	6,418	8,493
Investments in associates and joint ventures	7	68	141
Other non-current assets	9	1,584	1,042
Total non-current assets		**37,119**	**45,180**
Current Assets			
Inventories	8	1,046	1,085
Accounts receivable	9	10,542	10,367
Other current assets	9	52	665
Cash and cash equivalents	9	1,232	3,313
Assets classified as held for sale	19	11,336	217
Total current assets		**24,208**	**15,647**
Total assets		**61,327**	**60,827**
Equity and liabilities			
Shareholders' Equity			
Share capital	12	2,951	2,951
Share premium		23,697	23,697
(Accumulated losses)/retained earnings		(908)	1,312
Reserves		(22,255)	(26,518)
Equity attributable to owners of the Company		**3,485**	**1,442**
Non-controlling interests		2,124	1,734
Total equity		**5,609**	**3,176**
Non-current liabilities			
Long-term debt obligations and finance lease liabilities	10	26,741	40,952
Long-term lease liabilities	2, 10	2,881	-
Deferred tax liability	11	1,496	1,348
Other long term liabilities		192	200
Total non-current liabilities		**31,310**	**42,500**
Current Liabilities			
Accounts payable	9	10,666	10,456
Short-term debt obligations and finance lease liabilities	10	6,145	4,695
Short-term lease liabilities	2, 10	343	-
Liabilities classified as held for sale	19	7,254	-
Total current liabilities		**24,408**	**15,151**
Total liabilities		**55,718**	**57,651**
Total equity and liabilities		**61,327**	**60,827**

M.V. Sakharov, President
L.G. Zvyagintsev, Vice President and CFO
Date: 20 May 2020

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

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

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

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

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

	Share capital (Note 12)	Share premium
Balance at 1 January 2018	**2,951**	**23,697**
Profit for the year	–	–
Other comprehensive loss		
Effect of foreign currency translation	–	–
Share of other comprehensive loss of associates	–	–
Revaluation of fleet	–	–
Disposal of fleet revaluation reserve	–	–
Deferred tax on fleet revaluation	–	–
Total other comprehensive loss	–	–
Total comprehensive loss for the year	**–**	**–**
Transactions with owners, recorded directly in equity		
Acquisition of non-controlling interest	–	–
Total transactions with owners	–	–
Balance at 31 December 2018	2,951	23,697
Balance at 1 January 2019	**2,951**	**23,697**
Loss for the year	–	–
Other comprehensive income		
Effect of foreign currency translation	–	–
Revaluation of fleet	–	–
Disposal of fleet revaluation reserve	–	–
Depreciation of fleet revaluation reserve	–	–
Deferred tax on fleet revaluation	–	–
Total other comprehensive income	–	–
Total comprehensive income for the year	**–**	**–**
Transactions with owners, recorded directly in equity		
Dividends paid	–	–
Total transactions with owners	–	–
Balance at 31 December 2019	2,951	23,697

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

					Attributable to equity holders of the Company
(Accumulated losses)/ retained earnings	Revaluation reserve	Translation reserve	Total	Non-controlling interests	Total equity
					RUB mln
(5,483)	**32**	**(18,828)**	**2,369**	**785**	**3,154**
6,723	–	–	6,723	286	7,009
–	26	(7,877)	(7,851)	–	(7,851)
56	–	–	56	–	56
–	196	–	196	–	196
28	(28)	–	–	–	–
–	(39)	–	(39)	–	(39)
84	155	(7,877)	(7,638)	–	(7,638)
6,807	**155**	**(7,877)**	**(915)**	**286**	**(629)**
(12)	–	–	(12)	663	651
(12)	–	–	(12)	663	651
1,312	187	(26,705)	1,442	1,734	3,176
1,312	**187**	**(26,705)**	**1,442**	**1,734**	**3,176**
(2,232)		–	(2,232)	390	(1,842)
–	(17)	4,347	4,330	–	4,330
–	(52)	–	(52)	–	(52)
–	(11)	–	(11)	–	(11)
14	(14)	–	–	–	–
–	10	–	10	–	10
14	(84)	4,347	4,277	–	4,277
(2,218)	**(84)**	**4,347**	**2,045**	**390**	**2,435**
(2)	–	–	(2)	–	(2)
(2)	–	–	(2)	–	(2)
(908)	103	(22,358)	3,485	2,124	5,609

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

	Note	2019	2018
			RUB mln
Cash flows from operating activities			
(Loss)/profit for the year		**(1,842)**	**7,009**
Adjustments for:			
Depreciation and amortisation		3,485	2,480
Impairment/(impairment reversal)		141	(124)
Gain on disposal of tangible fixed assets		(123)	(605)
Foreign exchange loss/(gain)		2,713	(4,391)
Other finance costs, net		4,660	4,832
Result on disposal of subsidiaries and associates		-	(816)
Share of profit of equity accounted investees		(77)	(1,662)
Income tax expense		2,582	2,945
Other income and expense		(77)	132
Cash from operating activities before changes in working capital and provisions		**11,462**	**9,800**
Change in inventories		39	(314)
Change in trade and other receivables		448	(2,829)
Change in trade and other payables		(387)	1,028
Cash flows from operations before income taxes paid		**11,562**	**7,685**
Income tax paid		(2,688)	(1,787)
Cash flows generated from operating activities		8,874	5,898
Cash flows from investing activities			
Expenditure on rolling stock and other fixed assets	6	(2,862)	(4,657)
Proceeds on disposal of other fixed assets		1,588	1,798
Vessels acquired	5	(701)	(411)
Proceeds on disposal of fleet	5	610	88
Expenditure on dry-docking	5	(275)	(236)
Acquisition of subsidiary, net of cash acquired		-	(732)
Disposal of subsidiary, net of cash disposed		-	234
Disposal of associated company		-	14,625
Other investments disposal/ (acquisition), net		514	(561)
Dividends received		92	912
Restricted deposits		-	614
Interest received		51	75
Net cash (used in)/generated from investing activities		(983)	11,749
Cash flows from financing activities			
Proceeds from borrowings		-	500
Repayment of borrowings		(3,731)	(10,140)
Lease liabilities repayments		(1,139)	-
Redemption of bonds		(120)	(3,997)
Finance charges		(4,872)	(6,060)
Dividends paid		(2)	-
Acquisition of non-controlling interests		-	(28)
Net cash used in financing activities		(9,864)	(19,725)
Effect of exchange rate fluctuations on cash and cash equivalents		108	(320)
Net decrease in cash and cash equivalents		(2,081)	(2,398)
Cash and cash equivalents at the beginning of the year		3,313	5,711
Cash and cash equivalents at the end of the year	9	1,232	3,313

Notes to the Consolidated Financial Statements For the year ended 31 December 2019

1. Organisation and Trading Activities

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

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

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

2. Basis of Preparation

(a) Basis of preparation

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

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

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

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

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

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

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

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

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

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

Leases – The Group is Lessee

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

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

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

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

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

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

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

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

Lease Liabilities

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

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

The lease liabilities as at 31 December 2019 comprise:

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

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

	2019
	RUB mln
Depreciation of right-of-use assets	1,359
Interest expenses on lease liabilities	1,454
Short-term lease and low value lease contracts expenses that are exempt from the recognition under IFRS 16 “Leases”	2,083
	31 December 2019
	RUB mln
Operating lease commitment at 31 December 2018 as disclosed in the Group’s consolidated financial statements	9 130
Discounted using the incremental borrowing rate at 1 January 2019	(4 375)
Lease liabilities recognised as at 31 December 2018	6 448
Recognition exemption for leases with less than 12 months of lease term at transition	(152)
Lease liabilities recognised at 1 January 2019	11 051

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

Estimates
The Group makes the following judgments in assessing:

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

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

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

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.
- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.
- Interest Rate Benchmarking Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

(b) Basis of consolidation

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

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

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

The principal subsidiaries of the Group are as follows:

Name	Country of Incorporation	Percentage Holding as at 31.12.19 and 31.12.18	Activity
Bodyguard Shipping Company Limited	Cyprus	100%	Ship owning
Diataxis Shipping Company Limited	Cyprus	100%	Ship owning
Yerakas Shipping Company Limited	Cyprus	100%	Ship owning
Marview Shipping Company Limited	Cyprus	100%	Ship owning
Astro-Moon Shipping Company Limited	Cyprus	100%	Ship owning
Anouko Shipping Company Limited	Cyprus	100%	Ship owning
Seamore Shipping Company Limited	Cyprus	100%	Ship owning
FESCO China Logistics	China	100%	Transport and forwarding services
Firm Transgarant LLC	Russia	100%	Holding company for transportation services group
FIT LLC	Russia	100%	Transport and forwarding services
VMTP PJSC	Russia	95%	Commercial Port
Dalreftrans Co, Ltd	Russia	100%	Transport and forwarding services
FESCO Ocean Management Limited	Cyprus	100%	Shipping operations

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

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

Management bases its judgements and estimates on historical experience and various other factors that are believed to be appropriate and reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:
1. Impairment of goodwill and tangible fixed assets, see Note 4 and Notes 5, 6;
2. Determination of the fair value of the Group's fleet, see Note 5;
3. Going concern, see Note 2(d);
4. Use of estimates to determine right-of-use assets and lease obligations, see Note 2(a).

(d) Going concern

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

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

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

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

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

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

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

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

3. Accounting Policies

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

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

(a) Functional and presentation currency

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

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

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

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

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

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

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

4. Goodwill

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

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

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

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

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

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

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

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

	31.12.19	31.12.18
		RUB mln
FIT LLC and its subsidiaries	115	115
FESCO ESF Limited and its subsidiaries	324	371
Commercial Port of Vladivostok (VMTP)	5,979	5,979
Trans - Grain LLC (Note 19)	-	2,028
	6,418	8,493

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

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

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

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

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

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

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

5. Fleet

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

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

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

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

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

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

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

	Carrying value	
	31.12.19	31.12.18
		RUB mln
Fleet	4,342	5,035
Deferred dry docking expenses	640	642
	4,982	**5,677**
Total deadweight tonnage	**292**	**303**

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

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

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

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

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

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

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

Movements during the period on deferred dry docking expenses were:

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

6. Rolling Stock and Other Tangible Fixed Assets

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

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

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

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

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

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

a) Rolling stock

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

The Group has not identified any impairment indicators in respect of rolling stock which is primarily allocated to Firm Transgarant and its subsidiaries CGU as at 31 December 2019 The turbulence of global economy and other factors described in Note 2(d) may potentially result in the impairment of the Group's rolling stock in future periods in case of continuing negative disbalance of export and import is maintained and the market developments in terms of railway transportation volumes and rates do not meet the Group's expectations.

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

b) Other Tangible Fixed Assets

	Buildings and infrastructure	Plant, machinery and other	Assets under construction	**Total**
				RUB mln
Cost **At 1 January 2018**	7,890	9,030	2,072	**18,992**
Additions	481	880	632	**1,993**
Transfers from AUC	18	11	(29)	**-**
Additions through business combination	87	-	39	**126**
Disposals	(25)	(178)	(4)	**(207)**
Translation difference	348	649	51	**1,048**
At 31 December 2018	8,799	10,392	2,761	**21,952**
IFRS 16 application (Note 2(a))	1,291	586	-	**1,877**
At 1 January 2019	10,090	10,978	2,761	**23,829**
Additions	567	954	292	**1,813**
Transfers from AUC	392	27	(419)	**-**
Transfer to assets classified as held for sale (Note 19)	-	(8)	-	**(8)**
Disposals	(259)	(183)	(36)	**(478)**
Translation difference	(200)	(424)	(60)	**(684)**
At 31 December 2019	10,590	11,344	2,538	**24,472**

	Buildings and infrastructure	Plant, machinery and other	Assets under construction	**Total**
				RUB mln
Depreciation At 1 January 2018	2,093	5,723	-	**7,816**
Depreciation charge for the year	212	497	-	**709**
Disposal	(4)	(119)	-	**(123)**
Translation difference	291	611	-	**902**
At 31 December 2018	2,592	6,712	-	**9,304**
Depreciation charge for the year	275	755	-	**1,030**
Transfer to assets classified as held for sale (Note 19)	-	(7)	-	**(7)**
Disposal	(28)	(156)	-	**(184)**
Translation difference	(181)	(334)	-	**(515)**
At 31 December 2019	2,658	6,970	-	**9,628**
Net book value				
At 1 January 2018	5,797	3,307	2,072	**11,176**
At 31 December 2018	6,207	3,680	2,761	**12,648**
At 31 December 2019	7,932	4,374	2,538	**14,844**

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

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

7. Investments in Associates and Joint Ventures

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

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

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

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

Equity accounted investments represent investments in joint ventures and associates.

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

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

	31.12.19	31.12.18
		RUB mln
Balance as at 1 January	141	14,325
Group's share of results of equity accounted investees	77	1,662
Group's share of other comprehensive loss of equity accounted investees	-	56
Disposals	(59)	(14,825)
Dividends received	(77)	(1,091)
Translation differences	(14)	14
Balance as at 31 December	68	141

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

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

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

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

8. Inventories

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

	31.12.19	31.12.18
		RUB mln
Bunkers	370	461
Stores and spares	440	436
Other stocks and raw materials	236	188
	1,046	**1,085**

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

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

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

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

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

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

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

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

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

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

a) Other Non-Current Assets

	31.12.19	31.12.18
		RUB mln
Restricted cash	9	10
Lease right	-	74
Prepayments for fixed assets, at cost	877	438
Prepayments for investment (Note 24)	106	-
Other intangible assets	248	228
Other equity investments	38	60
Guarantees	70	80
Other non-current assets	236	152
	1,584	**1,042**

b) Other Current Assets

	31.12.19	31.12.18
		RUB mln
Restricted deposits	41	28
Prepayments for investment	-	622
Assets held for sale	-	217
Other non-current assets	11	15
	52	**882**

c) Accounts Receivable

	31.12.19	31.12.18
		RUB mln
Trade debtors	4,255	3,540
VAT receivable	2,795	2,660
Prepayments to OJSC "Russian Railways"	761	1,028
Amounts due from associates and joint ventures	-	11
Amounts due from subsidiaries	-	4
Current tax assets	1,110	530
Other debtors and prepayments	2,252	3,090
Allowance for impairment	(631)	(496)
	10,542	**10,367**

d) Cash and Cash Equivalents

	31.12.19	31.12.18
		RUB mln
Bank accounts and cash in hand	1,232	1,510
Restricted cash not available for the Group	-	1,803
	1,232	**3,313**

e) Accounts Payable

	31.12.19	31.12.18
		RUB mln
Trade creditors	3,814	3,508
Taxes payable, other than income tax	1,128	1,070
Interest payable	364	491
Amounts due to subsidiaries	-	7
Current tax liabilities	997	843
Other creditors and accruals	4,363	4,537
	10,666	**10 456**

10. Debt Obligations

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

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

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

(a) Loans payable

	31.12.19	31.12.18
		RUB mln
Loans and other obligations comprise:		
Secured loans		
At fixed rate 10%–15%	16	56
At variable rates 7%–12% above Libor/ Russian Central bank	32,117	38,264
	32,133	**38,320**
Unsecured loans		
At fixed rate 5%–10%	501	501
	501	**501**
Bonds		
Russian rouble bonds at interest rate 11%–19% p.a.	252	378
	252	**378**
Obligations under finance leases at fixed rate 12%–20% (Note 2 (a))	-	6,448
	-	6,448
	32,886	45,647
Repayable within the next twelve months	6,145	4,695
Long term balance	26,741	40,952
	32,886	**45,647**

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

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

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

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

Comparative information for the year 2018:

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

11. Current and Deferred Tax

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

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

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

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

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

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

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

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

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

	31.12.19	31.12.18
		RUB mln
Profit before income tax	740	9,954
Income tax (benefit)/expense at applicable tax rate of 20% (2018: 20%)	148	1,991
Effect of income taxed at different rates	821	352
Income tax on dividends	-	123
Non-taxable income/(non-deductible expenses), net	1,166	302
Change in unrecognised deferred tax asset	447	177
	2,582	**2,945**

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

Movements in temporary differences were the following:

	Balance 1 January 2019	Recognised in profit or loss	Transfer to liabilities classified as held for sale (Note 19)	Translation differences	Other compre-hensive income	Balance 31.12.19
						RUB mln
Vessels	(437)	60	-	45	10	(322)
Other fixed assets and assets under construction	(2,692)	5	642	6	-	(2,039)
Accounts receivable	147	34	(1)		-	180
Accounts payable	370	(95)	27	(3)	-	299
Loans and borrowings	564	28	(584)		-	8
Other	404	(213)	-	-	-	191
Tax loss carry-forwards	296	(109)	-	-	-	187
	(1,348)	**(290)**	**84**	**48**	**10**	**(1,496)**

	Balance 1 January 2018	Recognised in profit or loss	Acquisition	Disposal	Translation differences	Other comprehensive income	Balance 31.12.18
							RUB mln
Vessels	(308)	(26)			(69)	(34)	(437)
Other fixed assets and assets under construction	(1,198)	(1,096)	(391)	1	(8)	-	(2,692)
Accounts receivable	228	(81)	1	-	(1)	-	147
Accounts payable	207	157	-	-	6	-	370
Loans and borrowings	-	564	-	-	-	-	564
Other	318	86	-	-	-	-	404
Tax loss carry-forwards	397	(101)	-	-	-	-	296
	(356)	**(497)**	**(390)**	**1**	**(72)**	**(34)**	**(1,348)**

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

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

12. Shareholders' Equity

	31.12.19	31.12.18
		RUB mln
Authorised number of shares (1 Rouble per share)	3,643 593,000	3,643 593,000
Issued number of shares	2,951 250,000	2,951 250,000
Share capital (RUB mln)	2,951	2,951

13. Business Segmental Analysis

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

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

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

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

	Shipping	Liner and logistics	Railway services
External sales	1,971	37,613	5,466
Inter-segment sales	1,274	331	2,766
Segment revenue	3,245	37,944	8,232
Segment expenses[1]	(2,557)	(35,471)	(4,612)
Segment result	688	2,473	3,620
Segment non-cash items:			
Depreciation and amortization	(459)	(285)	(1,945)
Impairment of assets	(102)	-	(39)
Other material items of income/expense:			
Other financial expenses, net	(25)	46	(1,472)
Other income, net	(17)	(83)	320
Share of profit of equity accounted investees	77	-	
Income tax expense	59	(732)	(263)
Segment net result	**221**	**1,419**	**221**

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

	Shipping	Liner and logistics	Railway services
External sales	1,757	35,779	9,767
Inter-segment sales	1,010	96	2,024
Segment revenue	2,767	35,875	11,791
Segment expenses[18]	(2,247)	(34,462)	(7,685)
Segment result	520	1,413	4,106
Segment non-cash items:			
Depreciation and amortization	(429)	(107)	(1,225)
Impairment reversal	124	-	-
Other material items of income/expense:			
Other financial income, net	(7)	(81)	(672)
Other income, net	112	(124)	655
Result of disposal of subsidiaries and associates	-	-	290
Share of profit of equity accounted investees	42	19	-
Income tax expense	(47)	(421)	(1,217)
Segment net result	**315**	**699**	**1,937**

[18] Segment expenses include operating expenses and administrative expenses.

Ports	Bunkering	Corporate	Eliminations / adjustments	Total
				RUB mln
11,512	111	-	-	**56,673**
3,897	1,080	-	(9,348)	**-**
15,409	1,191	-	(9,348)	**56,673**
(8,614)	(1,158)	(2,519)	10,311	**(44,620)**
6,795	33	(2,519)	963	**12,053**
(678)	-	(118)	-	**(3,485)**
-	-	-	-	**(141)**
1,477	(20)	(5,802)	(1,577)	**(7,373)**
(127)	51	736	(1,003)	**(123)**
-	-	-	-	**77**
(1,344)	(13)	(289)	-	**(2,582)**
6, 123	**51**	**(8,260)**	**(1,617)**	**(1,842)**

Ports	Bunkering	Corporate	Investment in Trans-Container	Eliminations / adjustments	Total
					RUB mln
9,674	16	-	-	-	**56,993**
3,447	1,002	-	-	(7,579)	**-**
13, 121	1,018	-	-	(7,579)	**56,993**
(7,085)	(981)	(2,406)	-	8,249	**(46,617)**
6,036	37	(2,406)	-	670	**10,376**
(639)	-	(80)	-	-	**(2,480)**
-	-	-	-	-	**124**
425	(6)	386	-	(486)	**(441)**
(188)	(1)	562	-	(702)	**314**
-	-	-	526	-	**816**
-	-	-	1,601	-	**1,662**
(912)	(5)	(344)	-	1	**(2,945)**
4,714	**25**	**(2,291)**	**2, 127**	**(517)**	**7,009**

Segmental assets and liabilities

	Assets		Liabilities	
	31.12.19	31.12.18	31.12.19	31.12.18
				RUB mln
Shipping (Global)	8,107	7,128	723	958
Liner and logistics (Global)	9,150	8,021	5,467	4,147
Railway services (Russia)	23,427	23,442	9,046	9,404
Ports (Russia)	13,556	11,473	36,535	41,430
Bunkering (Russia)	104	100	133	143
Total of all segments	**54,344**	**50,164**	**51,904**	**56,082**
Goodwill	6,418	8,493	-	-
Other items not attributable to a specific segment	565	2,170	3,814	1,569
Consolidated	61,327	60,827	55,718	57,651

Other segmental information

	Acquisition of segment assets		Investments in equity accounted investees	
	31.12.19	31.12.18	31.12.19	31.12.18
				RUB mln
Shipping (Global)	987	746	50	59
Liner and logistics (Global)	402	113	18	82
Railway services (Russia)	1,103	13,271	-	-
Ports (Russia)	1,231	1,738	-	-
	3,723	**15,868**	**68**	**141**

14. Revenue

The Group derives revenue from the following main sources:
- “freight and hire” revenue from sea transportation;
- agency fees for arranging transportation;
- provision of transportation services using own and leased wagons (operators’ business);
- revenue from stevedoring services;
- revenue from rentals;
- bunkering.

There are 2 types of transportation contacts entered into by the Group with the customers:
- The contracts where the Group fully controls the pricing, including railway tariff and the fees of subcontractors and bears credit and price risk in full. In this case the transaction price comprises full charge out rate invoiced to the customer.
- The contracts where the customer additionally reimburses the Group for the railway tariff paid. In this case the transaction price comprises only the fee charged by the Group to the customer net of railway tariff reimbursed.

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

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

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

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

	31.12.19	31.12.18
		RUB mln
Contract assets included in Trade and other receivables	805	419
Contract liabilities included in Trade and other payables	(1,776)	(1,927)

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

15. Operating Expenses

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

16. Administrative Expenses

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

17. (Impairment)/Impairment Reversal, net

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

18. Other Finance Income and Costs, net

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

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

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

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

19. Disposal Group Held For Sale

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

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

	2019 RUB mln
Assets classified as held for sale	
Goodwill	2,028
Fixed assets	9,121
Accounts receivable	178
Cash and cash equivalents	9
	11,336

	2019 RUB mln
Liabilities classified as held for sale	
Accounts payable	150
Deferred tax liability	84
Leases liabilities	7,020
	7,254

20. (Loss)/Earnings Per Share

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

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

	31.12.19	31.12.18 RUB mln
(Loss)/profit for the year	(2,232 000,000)	6,723 000,000
Weighted average number of shares in issue (Note 12)	2,951 250,000	2,951 250,000
(Loss)/earnings per share	(0.756)	2.278

21. Contingencies and Commitments

(a) Taxation Contingencies

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

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

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

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

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

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

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

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

(b) Business environment

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

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

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

22. Fair Value and Risk Management

Fair Values

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

Capital Risk Management

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

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

Major categories of financial instruments

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

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

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

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

(a) Credit risk

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

Trade and other receivables

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

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

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

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

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

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

	31.12.19	31.12.18
		RUB mln
Accounts receivable	4,607	3,857
Other currents assets	52	15
Cash and cash equivalents	1,232	3,313
	5,891	**7,185**

The ageing profile of trade receivables was:

	31.12.19		31.12.18	
				RUB mln
	Total book value	Allowance for impairment	Total book value	Allowance for impairment
Current	2,947	-	2,563	-
Overdue 90 days	418	(2)	331	-
Overdue 91 days to one year	518	(146)	462	-
Overdue more than one year	372	(372)	184	(184)
	4,255	**(520)**	**3,540**	**(184)**

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

	31.12.19	31.12.18
		RUB mln
Balance as at 1 January	184	191
Change in allowance	336	(7)
Balance as at 31 December	520	184

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

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

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

(b) Market risk

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

Currency risk

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

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

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

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

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

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

Other currencies comprise mostly Euro.

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

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

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

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

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

Structure of interest rate risk

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

	Carrying amount	
	31.12.19	31.12.18
		RUB mln
Fixed rate instruments		
Cash and cash equivalents	698	624
Other investments	-	587
Long-term deposits	9	10
Debt and lease liabilities	(3,741)	(7,005)
	(3,034)	**(5,784)**
Variable rate instruments		
Debt and lease liabilities	(32,369)	(38,642)
	(32,369)	**(38,642)**

Interest rate sensitivity analysis

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

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

	LIBOR impact		Key CBR impact	
	31.12.19	31.12.19	31.12.19	31.12.19
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
	RUB mln	RUB mln	RUB mln	RUB mln
Profit/(loss)	(198)	198	(133)	133

(c) Liquidity risk

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

Loans, borrowings, finance lease and other payables

RUB mln	Carrying value	Contractual cash flows			
		Minimum future payment	Less than 12 months	1–5 years	Later than 5 years
As at 31 December 2019					
Debt and interest payable	33,250	38,717	8,631	30,086	-
Leases	3,224	8,510	758	2,305	5,447
Trade and other payables	7,108	7,108	7,108	-	-
Total	**43,582**	**54,355**	**16,497**	**32,391**	**5,447**
As at 31 December 2018					
Debt and interest payable	39,690	49,655	7,694	41,961	-
Finance Leases	6,448	12,059	1,248	5,869	4,942
Trade and other payables	7,746	7,746	7,746	-	-
Total	**53,884**	**69,460**	**16,706**	**47,830**	**4,942**

23. Related Party Transactions

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

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

	31.12.19	31.12.18
		RUB mln
Salaries	274	215
Bonuses accrual	169	147
	443	**362**

	31.12.19	31.12.18	Nature of transactions
		RUB mln	
Consolidated statement of financial position			
Subsidiaries	-	4	Trade receivables
Subsidiaries	-	(7)	Trade payables
Associates	-	11	Trade receivables
Related through common shareholder	(103)	-	Other services
Consolidated statement of profit or loss			
Associates purchases	(7)	(282)	Agency services, rent and security services
Associates sales	-	68	Agency services, rent and security services
Related through common shareholder	(323)	(251)	Other income and expense, net

24. Events Subsequent to The Reporting Date

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

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

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

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