NOVOROSSIYSK COMMERCIAL SEA PORT

Consolidated Financial Statements and Independent Auditor’s Report for the year ended 31 December 2019

NOVOROSSIYSK COMMERCIAL SEA PORT

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 31 December 2019, and the consolidated results of its operations, cash flows and changes in shareholder's equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 27 March 2020.

I.V. Terentyev
First Deputy Chief Executive Officer

N.V. Melnikov
Deputy Chief Executive Officer for Finance and Economics

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company Novorossiysk Commercial Sea Port:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port (the "Company") and its subsidiaries (together – 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).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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Our audit approach

Overview

Overall Group materiality: United States Dollars ("USD") 25,500 thousand, which represents 5% of average consolidated profit before tax for years 2017-2019 (excluding the gain on sale of the share capital of LLC NGT in 2019 in the amount of USD 449,224 thousand).

- We conducted audit work on all significant entities of the Group located in Russia. Additionally, we performed an audit in respect of the significant joint venture of the Group;
- The Group engagement team visited the following locations: PJSC Novorossiysk Commercial Sea Port, LLC Primorsk Trade Port, JSC Novoroslesexport, LLC IPP, JSC Novorossiysk Shiprepair yard, LLC Baltic Stevedore Company, JSC Fleet Novorossiysk Commercial Sea Port and LLC SoyuzFlot Port in Novorossiysk, Kaliningrad and Primorsk.
- Our audit scope addressed 97% of the Group's revenues and 97% of the Group's absolute value of underlying profit before tax.

- Compliance with debt covenants;
- Assessment of goodwill impairment.

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

Materiality

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

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

Overall Group materiality	USD 25,500 thousand
How we determined it	5% of average consolidated profit before tax for years 2017-2019 (excluding the gain on sale of the share capital of LLC NGT in 2019 in the amount of USD 449,224 thousand)
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We used average consolidated profit before tax for three years – 2019, 2018 and 2017 in order to reduce influence of foreign currency exchange rates volatility on the consolidated profit before tax. We excluded the gain on sale of the share capital of LLC NGT in 2019 because it was a one-off transaction. We chose materiality at level of 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Compliance with debt covenants *Refer to Note 26 "Borrowings" to the consolidated financial statements.* As at 31 December 2019, the Group's long-term debt amounts to USD 606,033 thousand. The relevant loan agreements contain financial and non-financial covenants that the Group must comply with. Breach of certain debt covenants would entitle the Group's lenders to demand early repayment of the borrowings. If one lender exercises its right to demand early repayment, it could trigger cross default clauses with certain other lenders. We focused on this matter because any non-compliance with the debt covenants may have a material impact on the Group's financial statements as a result of reclassification of long-term debt to short-term borrowings.	Our procedures for assessing the Group's compliance with the debts' covenants included the following: - We analysed the borrowing agreements in terms of any covenants included therein, the breach of which may result in early repayment of the borrowings; - We verified the compliance with financial covenants by recalculation and comparison of the results with the threshold levels set in the debt agreements; - We verified compliance with non-financial covenants by referencing to the facts of the Group's operations and the results of other audit procedures performed.

Also, any demand of early repayment of long-term borrowings may lead to other negative consequences including the risk of the Group not being able to continue as a going concern.

Assessment of goodwill impairment

Refer to Note 18 "Goodwill" to the consolidated financial statements.

As at 31 December 2019, the carrying value of goodwill recognised in prior periods amounted to USD 497,506 thousand.

Goodwill is subject to annual impairment assessment under the requirements of IFRS.

We focused on this matter due to the materiality of the carrying value of the goodwill and due to the fact that impairment assessment performed by the management involves applying significant judgments and estimates.

Management's assessment is based on several key assumptions, including, revenue, capital expenditure (cost of maintenance of the fixed assets) and operating expenses, steady growth rate after the five-year forecast period and discount rate.

Management performed the goodwill impairment assessment and provided us with the results of this assessment. Together with our valuation specialists, we tested management's impairment testing model that is based on forecasts of future cash flows related to each cash generating unit (CGU). As part of our audit, the following procedures were performed:

- We assessed whether the determination of CGU adopted by the Group's management is compliant with the requirements of IAS 36 "Impairment of Assets";
- We checked the mathematical accuracy of the goodwill allocation to the CGUs;
- In respect of all CGUs we performed the following procedures over assumptions applied by management in its assessment:
    - We compared discount rate to the weighted average cost of capital of the Group recalculated by us;
    - We verified the appropriateness of financial budgets of CGUs for projected periods through inquiries with Group's management, corroborating management's explanations, examining supporting documentation;
    - We evaluated management's analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in respect of the assumptions with the greatest potential effect on the test result, e.g. those relating to revenue, capital expenditure (cost of maintenance of the fixed assets) and operating expenses forecasts exchange rates forecast, steady growth rate after the five-year forecast period and discount rate;
    - We verified that the methodology underlying future cash flow forecasts complies with IAS 36 "Impairment of Assets", including the fact that the recoverable amount was determined based on the value in use concept and some other aspects;

- We compared forecast for sales prices growth rates with data from an independent analytical agency;
- We performed independent calculation of steady growth rate after the five-year forecast period based on data from an independent analytical agency.

We also analysed the information disclosed in Note 18 to the consolidated financial statements of the Group for completeness, accuracy and compliance with the requirements of IAS 36 "Impairment of Assets".

How we tailored our Group audit scope

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

We defined PJSC Novorossiysk Commercial Sea Port, LLC Primorsk Trade Port, JSC Novoroslesexport, LLC IPP, JSC Novorossiysk Shiprepair yard, LLC Baltic Stevedore Company, JSC Fleet Novorossiysk Commercial Sea Port and LLC SoyuzFlot Port being financially significant components based on their contribution to Group's consolidated financial statements and their inherent risk of material misstatement of the consolidated financial statements. Audit work was performed on each of the financially significant components. We also performed additional procedures in respect of other entities of the Group, which scope of activity would not have caused significant quantitative or qualitative effect on the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises *the Annual report 2019* and *the Issuer's Report for the 1 Quarter 2020* but does not include the consolidated financial statements and our auditor's report, which is expected to be made available to us after the date of the auditor's report.

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

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

When we read *the Annual Report 2019* and *the Issuer's Report for the 1 Quarter 2020*, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

The certified auditor responsible for the audit resulting in this independent auditor's report is V.V. Solovyev.

AO PricewaterhouseCoopers Audit

27 March 2020
Moscow, Russian Federation

V.V. Solovyev, certified auditor (licence No. 01-000269), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Novorossiysk Commercial Sea Port

Record made in the Unified State Register of Legal Entities on 23 August 2002 under State Registration Number 1022302380638

Taxpayer Identification Number: 2315004404

Building 14, Portovaya street, Novorossiysk, Krasnodar Kray, Russian federation, 353901

Independent auditor: AO PricewaterhouseCoopers Audit

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

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

Taxpayer Identification Number 7705051102

Member of Self-regulatory organization of auditors Association «Sodruzhestvo»

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 12006020338

NOVOROSSIYSK COMMERCIAL SEA PORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(in thousands of US Dollars, except as otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	16	1,253,388	1,097,213
Right-of-use assets	17	364,763	-
Goodwill	18	497,506	511,682
Mooring rights		-	1,885
Investment in joint venture	19	39,831	26,555
Deferred tax assets	14	36,260	71,884
Intangible assets other than goodwill		3,244	2,688
Receivables and prepayments	21	1,845	26,276
		2,196,837	1,738,183
CURRENT ASSETS:			
Inventories	20	20,762	19,256
Receivables and prepayments	21	45,884	40,371
VAT recoverable and other taxes receivable		21,012	18,346
Income tax receivable	13	85,024	3,579
Financial assets measured at fair value through profit or loss	22	2,045	-
Cash deposited in escrow account	13	206,766	-
Cash and cash equivalents	23	433,480	172,865
		814,973	254,417
TOTAL ASSETS		**3,011,810**	**1,992,600**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	24	10,471	10,471
Treasury shares	24	(422)	(422)
Foreign currency translation reserve		(459,022)	(581,781)
Retained earnings		2,088,821	1,294,292
Equity attributable to shareholders of the parent company		1,639,848	722,560
Non-controlling interests	25	11,980	9,444
TOTAL EQUITY		**1,651,828**	**732,004**
NON-CURRENT LIABILITIES:			
Borrowings	26	606,033	803,624
Lease liabilities	17	345,662	9,751
Deferred tax liabilities	14	130,956	116,710
Provisions for liabilities and charges	27	8,316	4,974
Trade and other payables	28	3,262	3,323
		1,094,229	938,382
CURRENT LIABILITIES:			
Borrowings	26	199,465	200,299
Lease liabilities	17	15,082	3,368
Provisions for liabilities and charges	27	19,673	10,171
Trade and other payables	28	24,629	99,513
Taxes payable, excluding income tax		4,030	4,223
Income tax payable		2,874	4,640
		265,753	322,214
TOTAL EQUITY AND LIABILITIES		**3,011,810**	**1,992,600**

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО НОВОРОССИЙСКИЙ МОРСКОЙ ТОРГОВЫЙ ПОРТ РОССИЙСКАЯ ФЕДЕРАЦИЯ КРАСНОДАРСКИЙ КРАЙ НОВОРОССИЙСК NCSP ОГРН 1022302380638 ИНН 2315004404

I.V. Terentyev
First Deputy Chief Executive Officer

N.V. Melnikov
Deputy Chief Executive Officer for Finance and Economics

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of US Dollars, except as otherwise stated)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	9	866,431	951,253
Other operating income / (loss)		761	(1,384)
Operating expenses net of amortisation and depreciation	10	(238,345)	(292,917)
Operating profit before amortisation and depreciation		**628,847**	**656,952**
Amortisation and depreciation		(71,556)	(72,361)
Impairment of construction in progress	16	-	(495)
OPERATING PROFIT		**557,291**	**584,096**
Finance income	11	29,734	13,597
Finance costs	11	(88,924)	(73,095)
Foreign exchange gain / (loss), net	12	99,794	(201,579)
Share of profit in joint venture	19	7,173	6,091
Other income		9,066	4,363
Gain on sale of the subsidiary	13	449,224	-
PROFIT BEFORE INCOME TAX EXPENSE		**1,063,358**	**333,473**
Income tax	14	(120,078)	(65,362)
PROFIT FOR THE YEAR		**943,280**	**268,111**
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX			
Items that may be subsequently reclassified to profit or loss:			
Effect of translation to presentation currency		123,972	(157,892)
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit liability		(2,111)	197
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX		**121,861**	**(157,695)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,065,141**	**110,416**
Profit for the year attributable to:			
Equity shareholders of the parent company		939,630	264,271
Non-controlling interests		3,650	3,840
		943,280	**268,111**
Total comprehensive income attributable to:			
Equity shareholders of the parent company		1,060,299	108,369
Non-controlling interests		4,842	2,047
		1,065,141	**110,416**
Weighted average number of ordinary shares outstanding		18,482,934,068	18,481,869,991
Basic and diluted earnings per share, US Dollars		0.05	0.01

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

NOVOROSSIYSK COMMERCIAL SEA PORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of US Dollars, except as otherwise stated)

	Notes	Attributable to shareholders of the parent company						
	Notes	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
At 1 January 2018		**10,471**	**(423)**	**(425,688)**	**1,248,040**	**832,400**	**10,404**	**842,804**
Profit for the year		-	-	-	264,271	**264,271**	3,840	**268,111**
Other comprehensive loss for the year, net of tax		-	-	(156,093)	191	**(155,902)**	(1,793)	**(157,695)**
Total comprehensive income for the year		**-**	**-**	**(156,093)**	**264,462**	**108,369**	**2,047**	**110,416**
Dividends declared	15	-	-	-	(218,357)	**(218,357)**	(3,007)	**(221,364)**
Sale of treasure shares		-	1	-	147	**148**	-	**148**
At 31 December 2018		**10,471**	**(422)**	**(581,781)**	**1,294,292**	**722,560**	**9,444**	**732,004**
Profit for the year		-	-	-	939,630	**939,630**	3,650	**943,280**
Other comprehensive income for the year, net of tax		-	-	122,759	(2,090)	**120,669**	1,192	**121,861**
Total comprehensive income for the year				**122,759**	**937,540**	**1,060,299**	**4,842**	**1,065,141**
Dividends declared	15	-	-	-	(142,987)	**(142,987)**	(2,297)	**(145,284)**
Acquisition of non-controlling interests		-	-	-	(24)	**(24)**	(9)	**(33)**
At 31 December 2019		**10,471**	**(422)**	**(459,022)**	**2,088,821**	**1,639,848**	**11,980**	**1,651,828**

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

NOVOROSSIYSK COMMERCIAL SEA PORT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of US Dollars, except as otherwise stated)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Profit for the year		**943,280**	**268,111**
Adjustments for:			
Gain on sale of the subsidiary	13	(449,224)	-
Finance income	11	(29,734)	(13,597)
Finance costs	11	88,924	73,095
Share of profit in joint venture, net	19	(7,173)	(6,091)
Foreign exchange (gain) / loss, net	12	(99,794)	201,579
Income tax	14	120,078	65,362
Amortisation and depreciation		71,556	72,361
Change in credit loss allowance	21	3,886	1,151
Creating a reserve for the restoration of leased property	27	5,881	-
Change in other provisions for liabilities and charges		2,823	721
Other adjustments		337	5,358
		650,840	**668,050**
Working capital changes:			
(Increase) / decrease in inventories		(1,431)	1,621
Increase in receivables and prepayments		(2,000)	(19,311)
(Decrease) / increase in liabilities		(6,548)	6,445
Cash flows from operating activities		**640,861**	**656,805**
Income tax paid		(163,743)	(68,066)
Interest paid		(90,772)	(72,015)
Net cash from operating activities		**386,346**	**516,724**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		259	248
Purchases of property, plant and equipment		(79,574)	(85,069)
Proceeds from disposals of investments in deposits		101,540	-
Purchases of investments in deposits		(106,423)	-
Proceeds from sale of the subsidiary, net of cash disposed	13	538,276	-
Funds placed in escrow account	13	(196,233)	-
Interest received		21,059	13,240
Dividends received from joint venture, net of dividend tax		-	2,264
Other investment proceeds / (fees)		340	(10,147)
Net cash generated by / (used in) investing activities		**279,244**	**(79,464)**
Cash flows from financing activities			
Proceeds from borrowings	26	-	10,732
Repayments of borrowings	26	(200,000)	(202,285)
Increase of ownership in subsidiary		(33)	-
Dividends paid to the shareholders of the parent company	15	(219,257)	(145,784)
Dividends paid to non-controlling interests	15	(2,414)	(3,171)
Repayment of lease obligations (2018: Advances paid under lease contracts)		(13,748)	(13,825)
Sale of treasury shares		-	148
Net cash used in financing activities		**(435,452)**	**(354,185)**
Net increase in cash and cash equivalents		**230,138**	**83,075**
Cash and cash equivalents at the beginning of the year	23	172,865	121,528
Effect of exchange rate changes on the balance of cash held in foreign currencies		30,477	(31,738)
Cash and cash equivalents at the end of the year	23	**433,480**	**172,865**

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

(in thousands of US Dollars, except as otherwise stated)

1. GENERAL INFORMATION

Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP" or "Company") was founded in 1845. NCSP was transformed from a state-owned enterprise to a joint-stock company in December 1992. The Company's registered office is located in Novorossiysk, Krasnodar region, Russian Federation. NCSP's principal activities include stevedoring services, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation. The principal activities and significant subsidiaries of the Group as at 31 December 2019 were as follows:

	Effective ownership % held*	
Significant subsidiaries	**31 December 2019**	**31 December 2018**
Stevedoring and additional port services*		
LLC Primorsk Trade Port	100.00%	100.00%
LLC Novorossiysk Grain Terminal	-	99.9986%
JSC Novoroslesexport	91.38%	91.38%
LLC IPP	100.00%	99.99%
JSC Novorossiysk Shiprepair yard	98.26%	98.26%
LLC Baltic Stevedore Company	100.00%	100.00%
Fleet services, including mooring, and bunkering		
JSC Fleet Novorossiysk Commercial Sea Port	95.19%	95.19%
Fleet services, including mooring		
LLC SoyuzFlot Port	100.00%	99.99%

* The effective ownership is calculated based on the total number of shares owned by the Group as at the reporting dates including voting preferred shares.
** Additional port services also include ship repair services provided by JSC Novorossiysk Shiprepair yard.

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

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

NCSP has seven significant subsidiaries (excluding LLC "Novorossiysk Grain Terminal" disposed in 2019), primary activities of which are as follows:

LLC Primorsk Trade Port ("PTP")

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

JSC Novoroslesexport ("NLE")

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

LLC IPP ("IPP")

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

JSC Novorossiysk Shiprepair yard ("NSY")

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

1. GENERAL INFORMATION (CONTINUED)

LLC Baltic Stevedore Company ("BSC")

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

JSC Fleet Novorossiysk Commercial Sea Port ("FNCSP")

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

LLC SoyuzFlot Port ("SFP")

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

Golden share

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

Going concern assumption

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

Price Monitoring

Some activities of the Group fall within the scope of the law "Act on natural monopolies" and, as a result, all prices on cargo-loading services until 2020 are subject to price monitoring by the Federal Antimonopoly Service of Russia ("FAS").

In 2016, FAS initiated a return to state price regulation of the stevedoring services tariffs (i.e. FAS will approve the fixed maximum rates for such services in Russian Roubles). At the same time, according to the methodology drafted by FAS, the maximum profitability of stevedoring operations will be set and FAS will repeal the Federal Tariff Service of Russia orders on cancellation of price regulation in ports.

At the same time, on 12 January 2020 the Russian Government decree № 1923 of 27 December 2019 "On amendments to certain acts of the Government of the Russian Federation concerning state regulation of prices (tariffs, fees) for services of natural monopolies in ports and services for the use of inland waterway infrastructure" came into force, which excluded cargo handling and storage services in seaports from the list of services that are subject to state price regulation (except for services for transshipment of oil and petroleum products, incoming to ports via oil and oil product pipelines). In addition, the list of regulated services excluded towing services, providing berths, providing pilotage for ships, passenger services, and ensuring environmental safety in the port.

2. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation economy displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 30). The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2019. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") receivables and similar assets the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Note 32 provides more information of how the Group incorporated forward-looking information in the ECL models.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 "Leases" effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated (Notes 5 and 6). The principal accounting policies applied to leases until 31 December 2018 are presented in Note 5.

The preparation of consolidated financial statements in conformity with requires the use of certain critical accounting estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidated financial statements

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated financial statements (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Investments in joint ventures

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disposals of subsidiaries, associates or joint ventures

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

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

Foreign currency translation

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

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

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

The translation from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 “The Effect of Changes in Foreign Exchange Rates”.

Transactions and balances

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss as other gains / (losses), net. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

(in thousands of US Dollars, except as otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions and balances (continued)

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Exchange rates

	2019	2018
Year-end rates		
RUR / 1 USD	61.91	69.47
RUR / 1 EUR	69.34	79.46
Average rates		
RUR / 1 USD	64.74	62.71
RUR / 1 EUR	72.50	73.95

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment.

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

Additions to property, plant and equipment are recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs of disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

Depreciation

Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation (continued)

	Number of years
Buildings and constructions	3-75
Machinery and equipment	2-40
Marine vessels	4-25
Motor transport	3-15
Other	2-30
Leasehold improvements	Shorter of useful life and the term of the underlying lease

Right-of-use assets

The Group leases land, vessels, mooring installations and equipment.
Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

	Number of years
Land	2-20
Buildings and constructions	1-48
Equipment	5-20
Marine vessels	4

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units. Such units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of the cash-generating unit containing goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets other than goodwill

The Group's intangible assets other than goodwill have definite useful lives and primarily include computer software, patents, trademarks and licences.

Acquired computer software licences, patents and are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include employee benefits expense of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives.

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

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Financial instruments – key measurement terms

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy (Note 33) as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments – key measurement terms (continued)

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

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

Financial instruments – initial recognition

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

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

Financial assets – classification and subsequent measurement – measurement categories

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets – classification and subsequent measurement – cash flow characteristics

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

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

Financial assets – reclassification

Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

Financial assets impairment – credit loss allowance for ECL

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC, trade and other receivables are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

Financial assets – write-off

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

Financial assets – derecognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities – measurement categories

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

Financial liabilities – derecognition

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

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

Financial liabilities designated at FVTPL

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Trade and other receivables

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

The Group initially recognises receivables on the date that they are originated at the price of the transaction. The Group uses the practical expedient provided for in paragraph 63 of the IFRS 15 and does not adjust the amount of the receivable if the period between the transfer of the promised goods or services by the Group to the buyer and the buyer's payment for such goods or services is not more than one year. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less any impairment losses. The Group recognises lifetime expected credit losses (ECL) for trade receivables. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables (continued)

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

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised at transaction price and are subsequently carried at AC using the effective interest method.

Borrowings

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

Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

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

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease liabilities (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise assets with value of 5 or less.

Income taxes

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

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

Uncertain tax positions

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

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and a liability. Where provision has been made for ECL of receivables, the impairment loss includes the amount of debt with VAT.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on the normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares

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

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

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

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense within finance costs.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.
Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Revenue recognition

Revenue is income arising in the course of the Group’s ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, returns and value added taxes, export duties, excise taxes, and other similar mandatory payments.

Sale of goods

The Group sells petroleum products.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sale of goods (continued)

Sales are recognised when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, less estimated volume discounts. No element of financing is deemed present as the sales of goods are made with a credit term of 35 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sale of services

The Group provides following services:

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

Contracts for the provision of services in most cases provide for advances of up to 100% of the cost. No element of financing is deemed present as the sales of services are made with a credit term of 10 days, which is consistent with market practice.

The Group provides services under fixed remuneration agreements. For these contracts revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

If the contracts include several obligations to perform, the transaction price is allocated to each individual obligation to perform based on the ratio of prices for their individual sale.

In the case of contracts with fixed remuneration, the buyer pays a fixed amount in accordance with the volume of services provided. If the cost of services provided by the Group exceeds the payment amount, the asset is recognised under the contract with the buyer. If the amount of payments exceeds the cost of services rendered, an obligation under the contract with the buyer is recognised.

Finance income and costs

Finance income and costs is recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of finance income and costs, all fee received between the parties to the contract that are an integral part of the effective interest rate, all other premiums or discounts. Interest income on debt instruments at FVTPL calculated at nominal interest rate is presented within "Finance income" line in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Finance income and costs (continued)

Fees integral to the effective interest rate include origination fees received or paid by the Group relating to the creation or acquisition of a financial asset and issue of financial liability (for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents).

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired, for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Employee benefits

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

Defined contribution plan

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

In the Russian Federation, all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes of 0% to 30%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 22%. When the annual gross remuneration of an employee exceeds 1,150 thousand RUR (USD 18 thousand) (in 2018: 1,021 thousand RUR (USD 16 thousand)), the 10% tax rate is applied to the exceeding amount.

Defined benefit plans

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations performed at the end of each reporting period presented. Actuarial assumptions are company’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions include the financial assumptions dealing with items such as taxes paid by the plan in respect of services-related contributions to the balance sheet date, or in respect of remuneration granted in connection with the services. Remeasurement comprising actuarial gains and losses are recognised immediately in the balance sheet with a charge or credit to other comprehensive loss in the period in which they occur. Remeasurement recorded in the other comprehensive loss is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation.

Segment reporting

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

(in thousands of US Dollars, except as otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in presentation

During the year, the Group has changed its classification within the consolidated statement of financial position. The Group believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2018:

	Initial value	Correction	Corrected value
Consolidated statement of financial position as at 31 December 2018			
NON-CURRENT ASSETS			
Spare parts	8,160	(8,160)	-
Other non-current assets	26,276	(26,276)	-
Receivables and prepayments	-	26,276	26,276
CURRENT ASSETS			
Inventories	11,096	8,160	19,256
Advances to suppliers	10,378	(10,378)	-
Trade and other receivables, net	29,993	(29,993)	-
Receivables and prepayments	-	40,371	40,371
TOTAL ASSETS	**85,903**	**-**	**85,903**
NON-CURRENT LIABILITIES			
Defined benefit obligation	5,841	(5,841)	-
Provisions for liabilities and charges	-	4,974	4,974
Other non-current liabilities	3,323	(3,323)	-
Trade and other payables	-	3,323	3,323
CURRENT LIABILITIES			
Trade and other payables	9,131	(9,131)	-
Advances received from customers	15,027	(15,027)	-
Accrued expenses	84,659	(84,659)	-
Provisions for liabilities and charges	-	10,171	10,171
Trade and other payables	-	99,513	99,513
TOTAL LIABILITIES	**117,981**	**-**	**117,981**

The third statement of financial position as at 1 January 2018 was not presented in these consolidated financial statements due to the absence of a significant impact of these classification changes on the presentation as at 1 January 2018.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year disclosed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the macro-economic developments on the operations of the Group.

Estimated impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 18.

Deferred income tax asset recognition

The recognised deferred tax assets represent income taxes recoverable through future deductions from taxable profits and are recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. This includes temporary difference expected to reverse in the future and the availability of sufficient future taxable profit against which the deductions can be utilised.

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

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 29.

Expected credit losses measurement

Measurement of ECLs is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 32. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between ECL estimates and actual credit loss experience.

The Group used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Useful lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2019 would increase it by 3,376 or decrease it by 3,352 (2018: increase by 5,860 or decrease by 5,209).

Depreciation of right-of-use assets

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of buildings, lands, equipment, constructions and constructions, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group extends (or not terminate) the lease.
- If any leasehold improvements are expected to have a significant remaining value, the Group extends (or not terminate) the lease.
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Extension and termination options

Extension and termination options are included in a number of leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Discount rates used for determination of lease liabilities

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group's incremental borrowing rate is used, which at the date of initial application, depending on the term of borrowing, ranged from 7.48% to 11.77%.

A 10% increase or decrease in discount rate at 31 December 2019 would result in an increase or decrease in lease liabilities by 20,236 (1 January 2019: 19,180).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Post-employment benefit obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

Additional information is disclosed in Note 27.

5. ACCOUNTING POLICY APPLIED FOR PERIODS BEFORE 1 JANUARY 2019

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

6. NEW AND REVISED STANDARDS

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)

The Group decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

(in thousands of US Dollars, except as otherwise stated)

6. NEW AND REVISED STANDARDS (CONTINUED)

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019) (continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease".

The incremental borrowing rates applied by the Group to the lease obligations on 1 January 2019 ranged from 7.48% to 11.77%.

A reconciliation of the operating lease commitments to the recognised liability is as follows:

Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018 (VAT excluded)	745,442
Finance lease liabilities recognised as at 31 December 2018	13,042
Effect of discounting to present value	(416,917)
Less lease with variable payments	(11,081)
Total lease liabilities recognised as at 1 January 2019	**330,486**
Of which are:	
Short-term lease liabilities	12,809
Long-term lease liabilities	317,677

* Non-cancellable leases include those cancellable only:

(a) upon the occurrence of some remote contingency;

(b) with the permission of the lessor;

(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or

(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

(in thousands of US Dollars, except as otherwise stated)

6. NEW AND REVISED STANDARDS (CONTINUED)

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019) (continued)

As at 1 January 2019, the impact of the application of IFRS 16 on the consolidated financial statements of the Group is presented in the table below:

		The impact of the application of IFRS 16 in order to:			
	Presented at 31 December 2018	**Operating lease IAS 17**	**Finance lease IAS 17**	**Mooring rights IFRS 3**	**Presented at 1 January 2019**
Property, plant and equipment	1,097,213	-	(24,983)	-	1,072,230
Right-of-use asset	-	316,275	24,983	1,885	343,143
Advances to suppliers	10,378	(168)	-	-	10,210
Lease liabilities	-	(317,444)	(13,042)	-	(330,486)
Obligations under finance leases	(9,751)	-	9,751	-	-
Current portion of obligations under finance leases	(3,368)	-	3,291	-	(77)
Trade and other payables	(9,131)	1,337	-	-	(7,794)

Other amendments to IFRSs effective from 1 January 2019

The following new standards and pronouncements that became effective did not have any material impact:

- IFRIC 23 — Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);
- Annual Improvements to IFRSs 2015-2017 cycle – Amendments to IFRS 3, IFRS 11, IAS 12 an IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 "Employee Benefits" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

7. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early adopted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The amendments don't have any impact on consolidated financial statements of the Group.

7. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021)

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. The implement of the new standard doesn't have any impact of the consolidated financial statements of the Group.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020)

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term "outputs" is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a "concentration test". The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020)

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments don't have any impact on consolidated financial statements of the Group.

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020)

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ("IBORs"). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be "highly probable". Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer.

7. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020) (continued)

Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. Hedging deals are currently missing from the Group.

Classification of liabilities as short-term and long-term - Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022)

These amendments specify that liabilities are classified as current or long-term depending on the rights existing at the end of the reporting period. Liabilities are long-term if the entity has the substantive right to defer repayment by at least twelve months at the end of the reporting period. Management no longer requires the right to be unconditional. Management's expectations as to whether they will subsequently exercise the right to defer settlement do not affect the classification of liabilities. The right to deferment exists only if the company is in compliance with any relevant conditions at the end of the reporting period. An obligation is classified as current if any condition has been violated at or before the reporting date, even if the waiver of this condition was received from the creditor after the end of the reporting period. Conversely, a loan is classified as long-term if the loan agreement is violated only after the reporting date. In addition, the amendments include clarification of the classification requirements for debt, which the company can repay by converting it into equity. Amount is defined as the repayment of a liability in cash, other resources embodying economic benefits, or the entity’s own equity instruments. There is an exception for convertible instruments that can be converted into equity, but only for those instruments where the option to convert is classified as an equity instrument as a separate component of a complex financial instrument. The Group is currently assessing the impact of these amendments on its financial statements.

8. SEGMENT INFORMATION

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

(in thousands of US Dollars, except as otherwise stated)

8. SEGMENT INFORMATION (CONTINUED)

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

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

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

Significant differences also relate to the implementation of IFRS 16 "Leases". No lease assets and liabilities are recognised in the Russian statutory accounting standards, and all expenses are recorded immediately through profit and loss as incurred.

Segment revenue and segment results

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

The segment revenue and results for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Stevedoring and additional port services	844,358	929,906	1,840	2,420	495,626	567,305
Novorossiysk	628,240	738,215	1,558	2,176	357,854	462,623
Primorsk	197,044	173,985	282	244	126,085	93,835
Baltiysk	19,074	17,706	-	-	11,687	10,847
Fleet services	14,818	13,292	61,275	63,182	26,043	25,770
Novorossiysk	2,878	1,289	34,133	35,157	17,841	17,545
Primorsk	11,940	12,003	27,142	28,025	8,202	8,225
Total reportable segments	**859,176**	**943,198**	**63,115**	**65,602**	**521,669**	**593,075**
Other	7,255	8,055	12,633	10,239	1,903	2,336
Total segments	**866,431**	**951,253**	**75,748**	**75,841**	**523,572**	**595,411**
Unallocated amounts (see following table)					539,786	(261,938)
Profit before income tax					**1,063,358**	**333,473**

During the year ended 31 December 2019, there were no counterparties whose revenue amounted to more than 10% of revenue from stevedoring and additional services for respective period.

(in thousands of US Dollars, except as otherwise stated)

8. SEGMENT INFORMATION (CONTINUED)

Segment revenue and segment results (continued)

Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

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

	Year ended	
	31 December 2019	**31 December 2018**
Total segment profit	**523,572**	**595,411**
Differences between management accounts and IFRS:		
Depreciation and amortisation	18,526	(5,494)
Finance lease	-	4,615
Rent	47,516	-
Depreciation of right-of-use assets	(26,412)	-
Credit loss allowance	(3,886)	(1,151)
Other	(2,134)	(7,589)
Unallocated operating income and expenses:		
Defined benefit obligation expense	(652)	(312)
Finance income	29,734	13,597
Finance costs	(88,924)	(73,095)
Foreign exchange gain / (loss), net	99,794	(201,579)
Share of profit in joint venture, net	7,173	6,091
Gain on sale of the subsidiary	449,224	-
Other income, net	9,827	2,979
Profit before income tax	**1,063,358**	**333,473**

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2019	**31 December 2018**	**31 December 2019**	**31 December 2018**
Stevedoring and additional port services	60,825	57,731	85,074	100,647
Novorossiysk	40,771	49,404	78,937	98,786
Primorsk	18,651	6,457	4,324	1,384
Baltiysk	1,403	1,870	1,813	477
Fleet services	3,417	4,224	2,523	2,496
Novorossiysk	1,312	2,326	1,659	1,394
Primorsk	2,105	1,898	864	1,102
Total reportable segments	**64,242**	**61,955**	**87,597**	**103,143**
Other	1,457	1,896	4,272	738
Total segments	**65,699**	**63,851**	**91,869**	**103,881**
Unallocated amounts	5,857	8,510	16,558	7,973
Consolidated	**71,556**	**72,361**	**108,427**	**111,854**

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid for the period (Note 16).

(in thousands of US Dollars, except as otherwise stated)

9. REVENUE

	Year ended 31 December 2019	Year ended 31 December 2018
Stevedoring services	685,335	732,604
Additional port services	159,023	197,302
Fleet services	14,818	13,292
Other	7,255	8,055
Total	**866,431**	**951,253**

Revenue of 15,027 recognised in the current reporting period, relates to the contract liabilities as at 1 January 2019, of which 15,027 relates to advances received.

10. OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Year ended 31 December 2019	Year ended 31 December 2018
Employee benefit	84,348	83,656
Fuel for resale and own consumption	37,174	39,869
Third-party services related to the transhipment process	36,076	40,776
Social funds contribution	20,485	20,513
Repair and maintenance services	17,588	19,077
Materials	6,108	8,572
Energy and utilities	5,905	6,658
Rent	5,331	45,104
Security services	4,240	4,092
Property tax and other taxes, except for income tax	4,192	7,776
Charitable donation	2,573	5,228
Professional services	1,840	1,840
Insurance	1,604	1,439
Other expenses	10,881	8,317
Total	**238,345**	**292,917**

11. FINANCE INCOME AND COSTS

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income:		
Cash and cash equivalents	21,329	13,597
Escrow account (Note 13)	7,994	-
Total interest income	**29,323**	**13,597**
Net gain from financial instruments measured at fair value through profit or loss	411	-
Total finance income	**29,734**	**13,597**
Finance costs:		
Borrowings	58,874	72,633
Lease liabilities	30,050	462
Total finance costs	**88,924**	**73,095**

(in thousands of US Dollars, except as otherwise stated)

12. FOREIGN EXCHANGE GAIN / (LOSS), NET

	Year ended 31 December 2019	Year ended 31 December 2018
Foreign exchange gain / (loss) on debt financing	112,918	(212,432)
Foreign exchange (loss) / gain on cash and cash equivalents	(12,235)	9,266
Foreign exchange (loss) / gain on other assets and liabilities	(889)	1,587
Total	**99,794**	**(201,579)**

13. SALE OF THE SUBSIDIARY

The Group sold to LLC "Demetra 1" (the company of the VTB Group) 99.9968% of the share in the subsidiary of LLC Novorossiysk Grain Terminal ("NGT") for 553,166. Ownership of the share passed to LLC "Demetra 1" on 6 May 2019.

The assets and liabilities that have been disposed, as well as the remuneration for the sale, are as follows:

Goodwill	73,401
Property, plant and equipment	13,775
Deferred tax assets	6,756
Other intangible assets	46
Inventories	1,712
Receivables and prepayments	287
VAT recoverable and other taxes receivable	1,141
Cash and cash equivalents	9,505
Total	**106,623**
Trade and other payables	1,883
Taxes payable, excluding income tax	169
Income tax payable	330
Provisions for liabilities and charges	299
Total	**2,681**
Net assets of the subsidiary, including goodwill attributable to it	**103,942**
Carrying value of disposed net assets	**103,942**
Compensation received from the sale of the subsidiary	**547,781**
Less cash and cash equivalents of the disposed subsidiary	(9,505)
The cash inflow from the sale	**538,276**

The Group recognised profit from the sale of the subsidiary in the amount of 449,224 separately in the consolidated statement of comprehensive income.

	Gain on sale of the subsidiary
Compensation received from the sale of the subsidiary	547,781
Effect of translation to presentation currency	5,385
Compensation from the sale of the subsidiary	**553,166**
Carrying value of sold net assets less non-controlling interest	(103,942)
Gain on sale of the subsidiary	**449,224**

(in thousands of US Dollars, except as otherwise stated)

13. SALE OF THE SUBSIDIARY (CONTINUED)

An escrow account was opened to ensure fulfillment of the obligation under the transaction aimed at alienating a share in the share capital of NGT. Cash deposited in escrow account amounted to 206,766. According to the agreement, the funds are restricted in use until 23 January 2020. The interest income until 31 December 2019 was accrued on the balance on the escrow account at the rate of 6.2% per annum, from 1 January 2020 - at the rate of 4.7% (Note 11). The amount of accrued interest as at 31 December 2019 is recorded in the consolidated statement of financial position "Receivables and prepayments" in current assets. The Group prepared an appropriate package of documents to unlock the account. On 28 January 2020 funds from the escrow account with interest due in the amount of 214,372 were transferred to the account of the Company.

In connection with the payment of income tax on income received as a result of the NGT sale taxable at the rate of 0 percent, an overpayment of income tax was formed in the amount of 81,698, which is reflected in the consolidated statement of financial position under the line "Income tax receivable". The legality of the Company's application of the 0 percent tax rate was confirmed by the tax desk audit.

14. INCOME TAX

	Year ended	
	31 December 2019	**31 December 2018**
Current income tax expense	84,379	63,885
Deferred income tax expense	35,699	1,477
Total	**120,078**	**65,362**

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

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

	Year ended	
	31 December 2019	**31 December 2018**
Profit before income tax	**1,063,358**	**333,473**
Tax at the Russian Federation statutory rate of 20%	212,672	66,695
Other non-deductible expenses	2,677	2,989
Impairment of construction in progress	-	99
Effect of different tax rates of subsidiaries	(5,426)	(4,421)
Effect of 0% tax rate on gain on sale of the subsidiary	(89,845)	-
Total	**120,078**	**65,362**

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

	31 December 2019	**31 December 2018**
Net balance at the beginning of the year	**44,826**	**52,456**
Expense recognised during the year	35,699	1,477
Deferred tax asset disposed on the sale of the subsidiary	6,752	-
Effect of translation to presentation currency	7,419	(9,107)
Net balance at the end of the year	**94,696**	**44,826**

(in thousands of US Dollars, except as otherwise stated)

14. INCOME TAX (CONTINUED)

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

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

	31 December 2019	31 December 2018
Deferred tax assets		
Rights of claim to a credit institution in liquidation	58,146	57,313
Provisions for liabilities and charges	9,860	10,909
Tax loss carried forward	5,643	35,961
Expected credit losses	1,068	829
Inventory allowance	423	303
Unused vacation reserve	169	-
Total	**75,309**	**105,315**
Deferred tax liabilities		
Property, plant and equipment	162,670	144,667
Revaluation of investments	5,974	3,535
Borrowings	1,361	1,562
Mooring rights	-	377
Total	**170,005**	**150,141**
Net deferred tax liability	**94,696**	**44,826**

Claim rights to a credit institution in liquidation will be recognised as an expense for profit tax purposes after the completion of bankruptcy proceedings.

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

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

	31 December 2019	31 December 2018
Deferred tax assets	36,260	71,884
Deferred tax liabilities	130,956	116,710
Net deferred tax liability	**94,696**	**44,826**

At 31 December 2019 and 31 December 2018, The Group has not recorded any deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the legislation allows zero tax on dividends from subsidiaries under certain conditions. The Group meets such conditions.

15. DIVIDENDS

Dividends declared by the Group during the years ended 31 December 2019 and 31 December 2018 were 145,284 and 221,364, respectively, including dividends to non-controlling interest. Dividends declared by the parent company per share for the year ended 31 December 2019 and 31 December 2018 were US cents 0.77 and 1.18, respectively. The total dividends paid during the years ended 31 December 2019 and 31 December 2018 were 221,671 and 148,955, respectively.

As at 31 December 2019, the Group restored the dividends that were not claimed in due time to retained earnings in the amount of 291.

As at 31 December 2019, the dividend liability of the Group amounted to 1,701 (31 December 2018: 72,092). It is recorded in the consolidated statement of financial position "Trade and other payables" in current liabilities as at 31 December 2019 and 31 December 2018 (Note 28).

(in thousands of US Dollars, except as otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Transport	Other	Construction in progress	Total
Net book value at 1 January 2018	**681,993**	**264,641**	**198,222**	**45,033**	**9,952**	**2,376**	**77,913**	**1,280,130**
Cost	681,993	423,694	411,277	94,454	24,408	13,143	79,854	1,728,823
Accumulated depreciation and impairment provision	-	(159,053)	(213,055)	(49,421)	(14,456)	(10,767)	(1,941)	(448,693)
Depreciation	-	(25,777)	(35,230)	(6,045)	(2,405)	(1,382)	-	(70,839)
Addition (including prepayments)	-	13	-	-	-	-	111,841	111,854
Transfers from assets under construction	150	24,857	52,860	4,713	1,722	3,938	(88,240)	-
Disposals: cost	-	(3,104)	(5,771)	(3,151)	(1,234)	(250)	(2)	(13,512)
Disposals: accumulated depreciation and impairment provision	-	2,401	4,885	2,101	1,169	247	-	10,803
Impairment of construction in progress	-	-	-	-	-	-	(495)	(495)
Effect of translation to presentation currency	(116,547)	(45,062)	(35,500)	(5,773)	(1,627)	(655)	(15,564)	(220,728)
Net book value at 31 December 2018	**565,596**	**217,969**	**179,466**	**36,878**	**7,577**	**4,274**	**85,453**	**1,097,213**
Cost	565,596	370,949	383,503	82,665	20,678	14,226	87,511	1,525,128
Accumulated depreciation and impairment provision	-	(152,980)	(204,037)	(45,787)	(13,101)	(9,952)	(2,058)	(427,915)

(in thousands of US Dollars, except as otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Transport	Other	Construction in progress	Total
Net book value at 31 December 2018	**565,596**	**217,969**	**179,466**	**36,878**	**7,577**	**4,274**	**85,453**	**1,097,213**
Cost	565,596	370,949	383,503	82,665	20,678	14,226	87,511	1,525,128
Accumulated depreciation and impairment provision	-	(152,980)	(204,037)	(45,787)	(13,101)	(9,952)	(2,058)	(427,915)
Adjustment for initial adoption of IFRS 16	-	-	(24,983)	-	-	-	-	(24,983)
Reclassifications between categories	-	-	(739)	(74)	813	-	-	-
Net book value at 1 January 2019	**565,596**	**217,969**	**153,744**	**36,804**	**8,390**	**4,274**	**85,453**	**1,072,230**
Depreciation	-	(18,042)	(18,718)	(4,579)	(1,329)	(1,023)	-	(43,691)
Addition (including prepayments)	-	7	-	-	-	-	108,420	108,427
Transfers from assets under construction	8,420	43,346	20,589	2,857	1,105	752	(77,069)	-
Disposal of subsidiary: cost	(796)	(24,651)	(15,680)	-	(288)	(302)	(1,669)	(43,386)
Disposal of subsidiary: accumulated depreciation	-	18,568	10,597	-	183	273	-	29,621
Disposals: cost	-	(1,522)	(4,220)	(2,727)	(563)	(117)	(1,587)	(10,736)
Disposals: accumulated depreciation and impairment provision	-	994	4,461	2,676	556	115	-	8,802
Effect of translation to presentation currency	69,465	27,491	18,652	3,269	1,009	507	11,728	132,121
Net book value at 31 December 2019	**642,685**	**264,160**	**169,425**	**38,300**	**9,063**	**4,479**	**125,276**	**1,253,388**
Cost	642,685	434,244	401,302	90,717	24,553	16,312	127,584	1,737,397
Accumulated depreciation and impairment provision	-	(170,084)	(231,877)	(52,417)	(15,490)	(11,833)	(2,308)	(484,009)

(in thousands of US Dollars, except as otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2019, the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 28,204 (31 December 2018: 20,040).

As at 31 December 2019, the cost of fully depreciated fixed assets in use was 128,017 (31 December 2018: 146,620).

During the years ended 31 December 2019 and 31 December 2018, net losses from disposal of property, plant and equipment were 667 and 2,027, respectively.

During the year ended 31 December 2019, interest expense was capitalised in the amount of 3,861 (during the year ended 31 December 2018: 0).

At 31 December 2018, included in property, plant and equipment are assets held under finance leases with a carrying value of 26,414 (Note 26).

17. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group leases various lands, marine vessels, mooring constructions and equipment. Rental contracts are typically made for fixed periods of 2 to 49 years, which may have extension options.

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases (Notes 16, 26 and 30).

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Group.

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Total
Carrying amount at 1 January 2019	**10**	**289,942**	**53,061**	**130**	**343,143**
Additions	6	514	6,235	234	6,989
Depreciation charge	(1)	(17,276)	(9,055)	(80)	(26,412)
Effect of translation to presentation currency	1	34,664	6,354	24	41,043
Carrying amount at 31 December 2019	**16**	**307,844**	**56,595**	**308**	**364,763**

The Group recognised lease liabilities as follows:

	31 December 2019	1 January 2019
Short-term lease liabilities	15,082	12,809
Long-term lease liabilities	345,662	317,677
Total lease liabilities	**360,744**	**330,486**

Interest expense included in finance costs of 2019 was 30,050.

	Future cash outflows for leases				
31 December 2019	**Total**	**12 months or less**	**1-2 years**	**2-5 years**	**Over 5 years**
Lease liabilities	**808,885**	45,681	45,461	131,142	586,601

(in thousands of US Dollars, except as otherwise stated)

18. GOODWILL

	31 December 2019	31 December 2018
Cost	700,298	692,391
Accumulated impairment loss	(202,792)	(180,709)
Carrying amount	**497,506**	**511,682**
Cost		
Balance at the beginning of the year	692,391	835,081
Disposal of subsidiary (Note 13)	(76,704)	-
Effect of translation to presentation currency	84,611	(142,690)
Balance at the end of the year	**700,298**	**692,391**
Accumulated impairment loss		
Balance at the beginning of the year	(180,709)	(217,950)
Effect of translation to presentation currency	(22,083)	37,241
Balance at the end of the year	**(202,792)**	**(180,709)**

Goodwill is allocated to cash-generating units ("CGUs"), which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment as follows:

	Carrying amount	
	31 December 2019	31 December 2018
PTP	293,237	261,306
NGT	-	68,351
NLE	61,901	55,160
IPP	13,342	11,889
NSY	4,518	4,027
BSC	1,381	1,230
SFP	88,175	78,573
FNCSP	34,952	31,146
Total	**497,506**	**511,682**

Annual impairment test information

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

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

Business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

- Cash flows were presented in the Russian Roubles and were projected using the inflation set by Global Insight.
- The growth rate for a period of more than 5 years consisted 4.22% per year.
- Discount rate was adjusted for tax effect and consisted of 12.13% (prior year estimate – 12.63%).

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

(in thousands of US Dollars, except as otherwise stated)

18. GOODWILL (CONTINUED)

Sensitivity analysis

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

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

19. INVESTMENT IN JOINT VENTURE

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

The Group owns 50% of NFT and its share in profit of the joint venture for the years 2019 and 2018 recognised in the consolidated statement of comprehensive income amounted to 7,173 and 6,091, respectively.

Summarised financial information of NFT is represented below:

	31 December 2019	**31 December 2018**
Current assets	46,006	25,188
Non-current assets	37,162	35,195
Total assets	**83,168**	**60,383**
Current liabilities	(2,045)	(1,197)
Non-current liabilities	(1,460)	(1,567)
Total liabilities	**(3,505)**	**(2,764)**
Net assets	**79,663**	**57,619**
Group's share of joint venture net assets	**39,831**	**28,810**
Elimination of unrealised profit	-	(2,255)
Carrying value of investment	**39,831**	**26,555**

The above amounts of assets and liabilities include the following:

	31 December 2019	**31 December 2018**
Cash and cash equivalents	10,696	21,650

	Year ended	
	31 December 2019	**31 December 2018**
Revenue	47,950	43,185
Operating profit	14,065	10,774
Profit for the year	14,345	12,182
Group's share in profit for the year at 50%	7,173	6,091
Effect of translation to presentation currency	7,699	(11,429)

Contingent liabilities and contingent assets that could materially affect the measurement of financial the state, cash flow or performance of the organization as at reporting date are missing.

(in thousands of US Dollars, except as otherwise stated)

20. INVENTORIES

	31 December 2019	31 December 2018
Materials	9,670	8,468
Spare parts	8,853	8,905
Goods for resale	3,752	3,064
Fuel	2,038	1,443
Less: inventory write-down to net realizable value	(3,551)	(2,624)
Total	**20,762**	**19,256**

21. RECEIVABLES AND PREPAYMENTS

	31 December 2019	31 December 2018
Long-term receivables		
Financial assets		
Trade receivables	1,845	1,569
Other receivables	-	24,707
Total long-term receivables	**1,845**	**26,276**
Short-term receivables		
Financial assets		
Trade receivables	33,561	29,560
Other receivables	19,179	9,203
Less credit loss allowance	(13,362)	(8,770)
Total financial assets in short-term receivable	**39,378**	**29,993**
Non-financial assets		
Advances and prepayments	6,506	10,378
Total short-term receivables	**45,884**	**40,371**

Average credit term provided to the Group's customers is 13 days. During this period, no interest is charged on the outstanding balances. Thereafter, interest is charged according to the contracts determined on a customer specific basis, based on size, volume and history of operations with the Group at rates from 0.3% to 15% per month on the outstanding balance.

The Group uses an internal credit system to assess potential customer's credit quality. The Group's 6 largest customers (2018: 6) in total represent 34% (2018: 41%) of the outstanding trade receivables balance at the end of the year.

A maturity analysis of trade and other receivables at 31 December 2019 is as follows:

In % of gross value	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**
Trade receivables			
- current	0.5%	19,920	100
- less than 45 days overdue	3.8%	5,538	210
- 45 to 90 days overdue	27%	419	113
- 91 to 180 days overdue	74%	2,100	1,554
- 181 to 360 days overdue	99%	3,254	3,221
- over 360 days overdue	100%	2,330	2,330
Total trade receivables (gross carrying amount)		**33,561**	
Credit loss allowance		(7,528)	
Total trade receivables from contracts with customers (carrying amount)		**26,033**	

(in thousands of US Dollars, except as otherwise stated)

21. RECEIVABLES AND PREPAYMENTS (CONTINUED)

In % of gross value	Loss rate	Gross carrying amount	Lifetime ECL
Other receivables			
- current	1%	10,927	109
- less than 45 days overdue	2%	387	8
- 45 to 90 days overdue	11%	1,418	156
- 91 to 180 days overdue	33%	78	26
- 181 to 360 days overdue	47%	696	327
- over 360 days overdue	91.8%	5,673	5,208
Total other receivables		**19,179**	
Credit loss allowance		(5,834)	
Total other receivables (carrying amount)		**13,345**	

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

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

	Year ended	
	31 December 2019	**31 December 2018**
As at beginning of the year	**8,770**	**11,243**
New originated during the year	3,886	1,151
Receivables written-off during the year as uncollectable	(522)	(1,761)
Effect of translation to presentation currency	1,228	(1,863)
As at end of the year	**13,362**	**8,770**

Trade and other receivables with a balance of 13,362 (2018: 8,770) were individually impaired.

A maturity analysis of trade and other receivables at 31 December 2018 is as follows:

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

(in thousands of US Dollars, except as otherwise stated)

22. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The analysis of the financial assets at fair value through profit or loss by fair value hierarchy is disclosed in the table below.

Financial instrument	31 December 2019	31 December 2018
Equity securities (Level 2)	2,045	-

Financial assets at fair value through profit or loss represent investment purchase of 12.01978 units by LLC NCSP-Capital of an additional issue of the closed mutual investment fund “Conservative” in the amount of 1,615. During the reporting period, these units were revalued to fair value in the amount of 430. The fair value was calculated as a share of the net asset value of the unit investment Fund as at 31 December 2019.

23. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash on hand	22	17
Bank balances payable on demand	4,824	5,223
Term deposits with original maturity of less than three months	428,634	167,625
Total	**433,480**	**172,865**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2019.

Master scale credit risk grade	Corresponding ratings of external international rating agencies	Bank balances payable on demand	Term deposits	Total
Excellent	- Baa2	116	-	116
Excellent	- Baa3	4,653	400,516	405,169
Good	- Ba1	-	28,118	28,118
Good	- Ba2	49	-	49
Satisfactory	Unrated	6	-	6
Total cash and cash equivalents, excluding cash on hand				**433,458**

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

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

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

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

(in thousands of US Dollars, except as otherwise stated)

23. CASH AND CASH EQUIVALENTS (CONTINUED)

The Group uses lifetime ECL approach to measure ECL for most of its financial assets.

As at 31 December 2019 and 31 December 2018, no credit loss allowance for impairment in respect of these assets was recognised by the Group.

24. SHARE CAPITAL

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

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

The number of shares outstanding (except for own shares purchased from shareholders) is 18,482,934,068 as at 31 December 2019 and 31 December 2018.

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

25. NON-CONTROLLING INTEREST

	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
Name of subsidiary	**31 December 2019**	**31 December 2018**	**2019**	**2018**	**31 December 2019**	**31 December 2018**
NSY	1.74%	1.74%	205	315	608	529
FNCSP	4.81%	4.81%	785	649	1,549	1,068
NLE	8.62%	8.62%	2,686	2,849	9,380	7,360
Other subsidiaries with non-controlling interests					443	487
Total					**11,980**	**9,444**

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
Year ended 31 December 2019								
NSY	12,539	36,881	(3,132)	(11,332)	37,500	11,788	11,788	949
FNCSP	20,813	16,513	(4,598)	(525)	65,058	16,311	16,311	8,273
NLE	25,559	102,347	(4,868)	(14,225)	75,945	31,162	31,162	(165)
Other subsidiaries with non-controlling interests	2,341	9,207	(1,580)	-	1,382	714	714	1,512
Year ended 31 December 2018								
NSY	9,425	24,248	(2,478)	(807)	47,206	18,129	18,129	4,098
FNCSP	12,093	14,192	(3,854)	(233)	63,808	13,499	13,499	(1,180)
NLE	21,006	69,275	(3,733)	(1,169)	70,451	33,055	33,055	5,406
Other subsidiaries with non-controlling interests	39,646	48,940	(6,384)	(3,930)	89,013	34,930	34,930	21,800

(in thousands of US Dollars, except as otherwise stated)

26. BORROWINGS

	31 December 2019	31 December 2018
Total borrowings	805,498	1,003,923
Less: current portion of non-current borrowings	(199,465)	(200,299)
Total non-current borrowings	**606,033**	**803,624**

The Group's non-current borrowings are repayable as follows:

31 December 2019	Principal amount	Contractual interest liability	Total
Between 1 and 2 years	205,436	32,467	237,903
Between 2 and 5 years	405,436	26,479	431,915
Total	**610,872**	**58,946**	**669,818**
31 December 2018			
Between 1 and 2 years	200,000	50,898	250,898
Between 2 and 5 years	609,688	67,499	677,187
Total	**809,688**	**118,397**	**928,085**

As at 31 December 2019, total borrowings are disclosed net of unamortised expense for raising a loan in the amount of 6,804 (31 December 2018: 7,810), including unamortised expense on non-current borrowings in the amount of 4,839 (31 December 2018: 6,064).

The fair value of borrowings is presented below:

Category of borrowings	Mature in	Currency	Interest rate	31 December 2019 Carrying value	31 December 2019 Fair value	31 December 2018 Carrying value	31 December 2018 Fair value
Special-purpose loans	2022	RUB	Fixed	10,874	9,240	9,690	7,686
Bank loan	2023	USD	Floating LIBOR	794,624	810,570	994,233	1,022,144

For borrowings with variable rates, contractual interest liability for future periods was calculated based on effective borrowing rate relating to the Group's variable rate borrowings as at 31 December 2019 of 5.92% (31 December 2018: 6.78%).

The sensitivity analysis is performed in Note 32.

Major part of financial liabilities of the Group are nominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2019, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 112,918 (during the year ended 31 December 2018 the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 212,432).

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants at 31 December 2019 and 31 December 2018.

(in thousands of US Dollars, except as otherwise stated)

26. BORROWINGS (CONTINUED)

Finance leases

Minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments as at 31 December 2018	Present value of minimum lease payments as at 31 December 2018
Less than one year	3,557	3,368
In the second and fifth year	13,379	9,751
Less: future financing costs	(3,817)	-
Present value of minimum lease payments	**13,119**	**13,119**

Leased assets with a carrying amount disclosed in Note 16 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

Reconciliation of liabilities arising from financing activities

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

	1 January 2019	Financing cash flows (i)	Other changes (ii)	31 December 2019
Bank loans	994,233	(200,000)	391	794,624
Special-purpose loans	9,690	-	1,184	10,874
Lease liabilities (Note 17)	330,563	(13,748)	43,929	360,744
	1,334,486	**(213,748)**	**45,504**	**1,166,242**

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

(i) The cash flows from bank loans, special-purpose loans and loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.

(ii) Other changes include interest accruals and payments 1,265 (2018: 1,941), foreign exchange loss / (gain), net 40,125 (2018: (4,362)) and additions of property, plant and equipment under lease 4,114 (2018: 28,416).

(in thousands of US Dollars, except as otherwise stated)

27. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2019	31 December 2018
Employee benefit obligations	8,316	4,974
Total long-term portion of provisions for liabilities and charges	**8,316**	**4,974**
Employee benefit obligations	1,127	867
Provision for restoration of leased facilities	6,150	-
Provisions for employee benefits	10,745	8,836
Legal claim reserve	1,641	79
Lease change reserve	-	386
Other reserves	10	3
Total short-term portion of provisions for liabilities and charges	**19,673**	**10,171**

The provision for restoration of leased facilities was created in 2019 in connection with the obligations to restore the leased property (bulk of the vessel at the berth) in NCSP in the amount of 5,356 and in PTP in the amount of 794.

BSK has accrued legal claim reserve with Leasetec GmbH (Germany, registry number HRB 700368) in the amount of 1,641.

Provision in accordance with IAS 19

Employee benefit obligations are fixed benefit pension plans for NCSP and some of its subsidiaries. According to these plans, one-time benefits to employees are provided, as well as regular payments of pensions upon reaching a certain age. In addition, the remuneration after retirement depends on the term of the employee in the company and his qualifications.

In accordance with the principles in IAS 19 "Employee Benefits", the net present value of these obligations was estimated.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2019. The present value of the defined benefit obligation, the related current service cost and the past service cost were all measured using the projected unit credit method.

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

	Valuation at	
	31 December 2019	31 December 2018
Discount rate	6.4%	8.8%
Employees turnover per annum	5.0%	5.0%
Expected annual rate of salary increase	6.0%	6.2%
Expected annual rate of post retirement benefits increase	0.0%	0.0%
Average residual period of work	8 years	7 years

The defined benefit obligation charge for the year has been included in cost of services.

The amount of actuarial losses / (gains) recognised during the years ended 31 December 2019 and 31 December 2018 relates to changes in discount rate used as principal assumptions for actuarial valuation.

In 2019, the number of retired employees who received benefits was 2,491 (2018: 2,465).

As at 31 December 2019 and 31 December 2018, the weighted average duration of the defined benefit obligation is 12.5 years.

(in thousands of US Dollars, except as otherwise stated)

27. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Provision in accordance with IAS 19 (continued)

Movements of the defined benefit obligations:

	Year ended 31 December 2019	Year ended 31 December 2018
Opening defined benefit obligation	**5,841**	**6,920**
Included in cost of service	**1,090**	**721**
Current service cost	217	216
Interest cost	552	483
Past service cost	321	22
Benefits paid	(437)	(409)
Actuarial losses / (gains) in other comprehensive income	2,111	(198)
Effect of translation to presentation currency	838	(1,193)
Closing defined benefit obligation	**9,443**	**5,841**
including the short-term part	**1,127**	**867**

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate increases by 1%, the defined benefit obligation would decrease by 468.
- If the expected salary growth increases by 1%, the defined benefit obligation would increase by 119.

28. TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Long-term payables		
Trade payables	82	154
Liabilities for purchase of property, plant and equipment and construction in progress	3,099	3,169
Other payables	81	-
Total financial payables	**3,262**	**3,323**
Total long-term payables	**3,262**	**3,323**
Short-term payables		
Trade payables	3,494	4,059
Liabilities for purchase of property, plant and equipment and construction in progress	5,956	3,560
Dividends payable	1,701	72,092
Other payables	2,884	3,837
Total financial payables	**14,035**	**83,548**
Advances received	10,410	15,027
Other	184	938
Total short-term payables	**24,629**	**99,513**

The average credit period for trade payables relating to the purchase of inventories (e.g. fuel) and services (e.g. utilities) is 11 days. No interest is charged on the outstanding balance for payables during the credit period. Thereafter, interest may be charged from 0.3% to 15% per month on the outstanding balance.

(in thousands of US Dollars, except as otherwise stated)

29. RELATED PARTY TRANSACTIONS

As at 31 December 2019, the controlling shareholder of NCSP is PJSC Transneft, which directly controls 50.1% of NCSP shares.

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

In September 2018, PJSC Transneft acquired 50% of the share capital of OMIRICO LIMITED under indirect control of which is a 50.1% stake in NCSP. As a result of the transaction, the share of PJSC Transneft in OMIRICO LIMITED increased to 100%. The effective share of PJSC Transneft in NCSP increased from 37.07% to 63.08% and PJSC Transneft obtained control over NCSP and its subsidiaries. In January 2019, PJSC Transneft obtained direct ownership in NCSP from Novoport Holding Ltd.

As at 31 December 2019 and 31 December 2018, the Federal Agency for State Property Management directly owned 20% interest in NCSP and was the controlling shareholder of PJSC Transneft. Due to the fact that the Federal Agency for State Property Management had control over NCSP as at 31 December 2019 and 31 December 2018, respectively, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended 31 December 2019 and 31 December 2018, the Group transacted with PJSC Sberbank, VTB Bank, PJSC Rosneft Oil Company, OJSC Russian Railways and other state-controlled entities (apart from PJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees in regards to related parties have been given or received during the reporting period.

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

	Year ended	
	31 December 2019	**31 December 2018**
Sales		
Compensation received from the sale of the subsidiary	547,781	-
Sales of goods and services	105,677	92,459
Interest income	27,943	13,022
Purchases		
Services and materials received	15,628	17,808
Finance costs and commission for early repayment of debt	58,874	72,490

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

	31 December 2019	**31 December 2018**
Cash and cash equivalents		
Cash and cash equivalents	349,144	162,686
Receivables and prepayments		
Long-term receivables	1,824	1,512
Trade and other receivables, less credit loss allowance	9,963	1,589
Advances to suppliers	343	468
Trade and other payables		
Trade and other payables	234	216
Advances received from customers	262	574
Financial liabilities		
Borrowings	805,498	1,003,923

(in thousands of US Dollars, except as otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions with PJSC Transneft and its subsidiaries:

	Year ended	
	31 December 2019	**31 December 2018**
Sales		
Sales of goods and services	84,644	90,412
Purchases		
Services and materials received	69,036	64,657
Other selling expenses	-	2,558

Balances with PJSC Transneft and its subsidiaries:

	31 December 2019	**31 December 2018**
Financial assets measured at fair value		
Financial assets	2,045	-
Receivables and prepayments		
Trade and other receivables, less credit loss allowance	714	1,348
Advances to suppliers	1,337	3,020
Trade and other payables		
Trade and other payables	1,062	1,707
Advances received from customers	2,571	1,541
Lease liabilities	228,178	-

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

Transactions with NFT:

	Year ended	
	31 December 2019	**31 December 2018**
Sales and income		
Sales of goods and services	12,141	8,956
Purchases		
Services and materials received	210	1,441
Interest expense	-	139

Balances with NFT:

	31 December 2019	**31 December 2018**
Receivables and prepayments		
Trade and other receivables, less credit loss allowance	244	168
Trade and other payables		
Trade and other payables	96	8
Advances received from customers	13	31

Compensation of key management personnel

The short-term remuneration paid to the key management personnel of NCSP and its subsidiaries includes payments determined by the terms of employment contracts in connection with the performance of their duties. Remuneration to members of the Board of Directors is approved by the Annual General Meeting of Shareholders. In accordance with the requirements of Russian law, the Group makes contributions to the Pension fund of the Russian Federation under a defined contribution plan with payments for all employees, including key management personnel of the Company and its subsidiaries.

29. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel (continued)

The amounts of accrued remuneration for 2019 and 2018 amounted to 6,318 and 10,466, respectively. The accrued remuneration contains:

- short-term remuneration in the amount of 5,130 and 8,632, respectively;
- termination benefits in the amount of 236 and 248, respectively;
- taxes directly attributable to salaries accrued on the remuneration of key management personnel in the amount of 952 and 1,586, respectively.

The key management personnel, the information of the payments of which are disclosed in the consolidated financial statements, recognised the members of the Board of Directors and the Management Board of the Group companies, the general directors of NCSP and its subsidiaries, as well as their deputies, who are authorized and responsible for planning, management and control of activities organizations.

30. COMMITMENTS AND CONTINGENCIES

Legal proceedings

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. Management believes that resolution of such matters will not have a material adverse effect on the Group's financial performance and liquidity ratios based on information currently available, except as disclosed in Note 27.

In 2017, FAS found NCSP and PTP guilty for breaking the Federal Law № 135-FZ "On Protection of Competition", upon the fact of imposing monopolistically high prices for transshipment in 2015 in the port of Novorossiysk and Primorsk, respectively. FAS issued an order for NCSP and PTP to transfer certain proceeds from their activities in the amount of 157,385 and 2,991, respectively (using the exchange rate as at 31 December 2019) to the federal budget. In addition, FAS ordered to set economically justified tariffs. The Law Courts (which includes the Presidium of the Supreme Court of the Russian Federation) had confirmed the legal position of NCSP and PTP and annulled the order of FAS. Similar cases are also being conducted with respect to the transshipment tariffs during 2016-2017. These cases for both companies were suspended until the completion of the legal actions under the transshipment tariffs for 2015. Tariff Litigation for 2015 resulted in favor of NCSP and PTP, however, currently there is no information on the resumption or cancellation of the cases in respect of 2016 – 2017.

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

Taxation contingencies in the Russian Federation

Management of the Group currently estimates that the tax position and applied interpretations can be confirmed with sufficient level of probability.

However, the Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions with related parties and (or) with tax incompliant counterparties and activities of controlled foreign companies. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about the review was made. Under certain circumstances, reviews may cover longer periods. Management of the Group, based on its interpretation of tax legislation, believes that all applicable taxes have been accrued. However, tax authorities may interpret differently provisions of the current tax legislation and differences in interpretation may significantly affect the consolidated financial statements of the Group. The impact of this development cannot be reliably estimated.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Taxation contingencies in the Russian Federation (continued)

Russian transfer pricing ("TP") legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis according to the tax authority. The management has implemented internal controls of transactions to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be a subject of tax audit.

The Group includes companies incorporated outside of Russia and related to controlled foreign companies. The Controlled Foreign Company legislation introduced Russian taxation of profits of foreign companies controlled by Russian tax residents (controlling parties). The tax liabilities of the Group are determined on the assumption that profits of controlled foreign companies exceeding the threshold established by law and not paid in the form of dividends to the Group is subject to Russian profits tax under the legislation of the Russian Federation.

Insurance

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

Environmental matters

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

31. CAPITAL COMMITMENTS

At 31 December 2019, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and construction in progress totaling 62,352 (31 December 2018: 41,988).

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing borrowings.

Within the framework of capital management for the purpose of maintaining major debt parameters at the optimal level, the Group's management monitors its key financial indicators, such as Total debt / EBITDA, Total debt / Equity and Cash from operating activities / Total debt; that allows the Group to keep its credit rating at the maximum level available for Russian companies.

(in thousands of US Dollars, except as otherwise stated)

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Major categories of financial instruments

For the purposes of measurement, IFRS 9 "Financial Instruments" classifies financial assets into the following categories: (a) financial assets at FVTPL and (b) financial assets at AC.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2019 and 31 December 2018.

	FVTPL		AC	
Financial assets	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Financial assets measured at fair value through profit or loss	2,045	-	-	-
Cash deposited in escrow account	-	-	206,766	-
Cash and cash equivalents	-	-	433,480	172,865
Trade and other receivables (Note 21)	-	-	41,225	56,269
Total financial assets	**2,045**	**-**	**681,471**	**229,134**

As at 31 December 2019 and 31 December 2018, all of the Group's financial liabilities were carried at AC.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set allowed risk limits and appropriate control mechanisms, and to monitor risks and adherence to limits. Risk management policies and system are reviewed regularly to reflect changes in market conditions and the Group's activities.

The fair value of financial instruments is disclosed in Note 33.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions nominated in foreign currencies.

The carrying amount of the Group's US Dollar nominated financial assets and liabilities as at the reporting date are as follows:

	31 December 2019	**31 December 2018**
Assets		
Cash and cash equivalents	64,496	40,206
Receivables and prepayments	4,988	8,369
Total assets	**69,484**	**48,575**
Liabilities		
Borrowings (not including expense for raising a loan)	(801,428)	(1,002,043)
Lease liabilities	-	(77)
Trade and other payables	(33)	(30)
Total liabilities	**(801,461)**	**(1,002,150)**
Total net liability position	**(731,977)**	**(953,575)**

(in thousands of US Dollars, except as otherwise stated)

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk (continued)

The table below details sensitivity of the Group's financial instruments to a 20% (2018: 20%) depreciation of the RUR against the US Dollar if all other variables are held constant. The analysis was applied to monetary items nominated in USD at the year-end dates. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A 20% appreciation of the RUR against the USD would have an equal and opposite impact:

	31 December 2019	31 December 2018
Loss	(117,116)	(152,572)

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

	31 December 2019	31 December 2018
Assets		
Cash and cash equivalents	207	1,004
Receivables and prepayments	847	-
Total assets	**1,054**	**1,004**
Liabilities		
Trade and other payables	(242)	(726)
Total liabilities	**(242)**	**(726)**
Total net assets / position	**812**	**278**

The table below details the Group's sensitivity to a 20% (2018: 20%) depreciation of the RUR against the EUR if all other variables are held constant. The analysis was applied to monetary items at the year-end dates nominated in the EUR. A 20% appreciation of the RUR against the EUR would have an equal and opposite impact:

	31 December 2019	31 December 2018
Gain	130	45

Interest rate risk

Loan received by the Group under variable interest rate expose the Group to the risk of changes in the cash flows under borrowings. The Group capitalised the part of borrowing cost.

An increase / decrease of 1% in interest rate for the year ended 31 December 2019 would have decreased / increased after tax profit for the year and equity by 7,056 (year ended 31 December 2018 – 9,133). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Credit risk

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

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

32. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

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

Expected credit losses measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: probability of default, exposure at default, loss given default and discount rate.

For purposes of measuring probability of default, the Group defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- international rating agencies have classified the borrower in the default rating class;
- the borrower meets the unlikeliness-to-pay criteria listed below:
    - the borrower is deceased;
    - the borrower is insolvent;
    - the borrower is in breach of financial covenant(s);
    - it is becoming likely that the borrower will enter bankruptcy; and
    - the loans were purchased or originated at a deep discount that reflects the incurred credit losses.

The Group considers a financial instrument to have experienced an significant increase in credit risk, when one or more of the following quantitative, qualitative or backstop criteria have been met.

For trade and other receivable and contract assets:

- 30 days past due;
- relative threshold defined on individual basis for debtors with existing scoring models.

The assessment of significant increase in credit risk and the calculation of ECLs both incorporate supportable forward-looking information. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") provide the best estimate of the expected macro-economic development over the next five years.

Liquidity risk

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

For a maturity analysis of financial liabilities, see Notes 17 and 26.

(in thousands of US Dollars, except as otherwise stated)

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2019 and 2018, management believes that the carrying values of financial assets (Notes 21 and 23) and financial liabilities recorded at amortised cost (Note 26 and 28) and also finance lease liability (Note 26) in the consolidated financial statements approximate their fair values, due to the fact that they are short-term, except for liabilities under credit agreement (see disclosure below).

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

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organisations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of CBRF. As at 31 December 2019, the discount rate used for obligations under agreement comprised 5.24% (31 December 2018: 5.63%).

The fair value compared to the carrying value of long-term financial liabilities as at 31 December 2019 and 2018 is as follows:

	31 December 2019		31 December 2018	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Variable rate based on LIBOR (Level 2)	794,624	810,570	994,233	1,022,144
Fixed rate financial liabilities (Level 2)	10,874	9,240	9,690	7,686

34. EVENTS AFTER THE BALANCE SHEET DATE

In January 2020, the Group partially refinanced existing financial debt in the amount of 400,000, that has improved credit conditions, namely, reduce the interest rate on the loan.

In March 2020, under the obligations of LLC Terminal Mega and OJSC Mega secured by pledge of property of OJSC Mega, the Group retained the subject of the pledge and took the collateral property in the amount of 8,142.

In addition, in the first months of 2020 significant turbulance was observed in global markets caused by an outbreak of coronavirus (COVID-19). These circumstances together with other factors led to a reduction in energy consumption, decline in oil prices, decrease in global economic activity and devaluation of the Russian ruble. Mentioned events objectively increase the level of uncertainty in the Russian economy and could negatively impact financial results of the Group in the subsequent period.