PUBLIC JOINT STOCK COMPANY TRANSCONTAINER

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

31 December 2017

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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 2017

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of PJSC TransContainer (the "Company") and its subsidiaries (the "Group") as at 31 December 2017 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved on 26 March 2018 by:

P. V. Baskakov	**M. V. Usenko**
General Director	Chief Accountant

Independent Auditor's Report

To the Shareholders and Board of Directors of Public Joint Stock Company TransContainer:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company TransContainer (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2017, 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 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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Our audit approach

Overview

- Overall group materiality: 467 million Russian roubles (RR million), which represents 1% of an average between revenue and adjusted revenue, representing revenue net of third parties charges related to principal activities (providing of integrated freight forwarding and logistics services).

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

- Timing of revenue recognition

We designed our audit by determining materiality and assessing 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. 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 financial statements as a whole.

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Overall group materiality	RR 467 million
How we determined it	1% of an average between revenue and adjusted revenue determined as described above
Rationale for the materiality benchmark applied	We chose average between revenue and adjusted revenue, determined as described above, as the benchmark because, in our view, this combined measure reflects the Group's performance (due to the significant share of services of third parties in revenue, revenue taken alone does not reflect the full effectiveness of the business). We chose 1% which is consistent with quantitative materiality thresholds, used for profit-oriented companies.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Timing of revenue recognition	
See notes 3, 6 and 20 to the consolidated financial statements for relevant discloses, accounting policies, judgments and estimates. The Group's revenue for the year ended 31 December 2017 was RR 65,567 million, including RR 57,052 million of revenue from freight integrated forwarding and logistics services, RR 1,980 million of revenue from cargo transportation and handling services with involvement of third parties and RR 2,224 million of revenue from rail-based container shipping services. In practice, the above services are carried out over a long time and the Group has not completed its performance obligations under some of those services at the reporting date. For the above services, acts of works performed are prepared at the date of waybill issuance (i.e. on the date when the cargo is provided to the consignee at the destination point, delivered to a temporary storage	Our audit procedures for verifying appropriateness of the cut-off assumption for revenues from integrated freight forwarding and logistics services, cargo transportation and handling services with involvement of third parties and rail-based container shipping services included the following: • analysis of the average duration of transportation, resulting in confirmation of sufficiency of the period of services rendered being under evaluation of the Group's management; • recalculation of revenue related to outstanding transportation services at the reporting date based on acts of services rendered and applicable appendices signed in the following accounting period to assess the amount of revenue recognised in the Group's consolidated financial statements in accordance with management's estimations; • analysis of the Group's operating expenses, and accounts receivable and payable balances related to outstanding transportation services recognised in the Group's consolidated financial

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Key audit matter	How our audit addressed the Key audit matter
warehouse, transferred to a foreign railroad, or transferred for further transportation by other means of transport). In accordance with IAS 18 "Revenue" when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The Group's management estimates the stage of completion in respect of transportation services that are outstanding at the reporting date on the basis of information available at the date of the consolidated financial statements' authorisation. The accuracy of management's estimates depends on the analysed period, level of details used in calculations and on a number of judgments used. We paid special attention to determining the timing of recognition of revenue from integrated freight forwarding and logistics services, cargo transportation and handling services with involvement of third parties and rail-based container shipping services due to the fact that the process of assigning revenue from these services to the current period is complex and involves management's judgment.	statements in accordance with the management's estimations; • sample testing of the documents used by management in estimating the stage of transportation services completion, for example, acts on the services rendered and appendices to them that were issued in the following accounting period and confirm services rendered in prior accounting period; • obtaining written representations from management on correctness of the completion stage determined for transportation services outstanding as at the reporting date and correctness of corresponding revenue calculations. Furthermore, we assessed the adequacy of the related disclosures in Notes 3, 6 and 20 of the consolidated financial statements, and compared them with the disclosure requirements of IAS 18 "Revenue". The Group management's current estimate of the stage of completion of transportation services outstanding as at the reporting date in respect of revenue from integrated freight forwarding and logistics services, cargo transportation and handling services with involvement of third parties and rail-based container shipping services recognised in the consolidated financial statements for the year ended 31 December 2017 has been considered acceptable. As a result of our procedures we have not identified any facts that would indicate that significant adjustments are required to the amount of revenue from these transactions recognised in the accompanying consolidated financial statements.

How we tailored our group audit scope

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

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

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

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

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

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

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

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

Other information

Management is responsible for the other information. The other information comprises the PJSC TransContainer Annual Report for 2017 and the Issuer's Report of PJSC TransContainer for Q1 2018, but does not include the consolidated financial statements and our auditor's report thereon. PJSC TransContainer's Annual Report for 2017 and Issuer's Report of PJSC TransContainer for Q1 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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 (the Audit Committee) 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 Alexei Okishev.

26 March 2018
Moscow, Russian Federation

A.A. Okishev, certified auditor (licence no. 01-000170), AO PricewaterhouseCoopers Audit

Audited entity: PJSC TransContainer

Certificate of inclusion in the Unified State Register of Legal Entities issued on 4 March 2006 under registration № 1067746341024

Russian Federation, 125047, Moscow, Oruzheiniy pereulok, 19

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

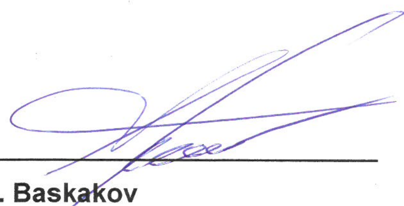
Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

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

ORNZ 11603050547 in the register of auditors and audit organizations

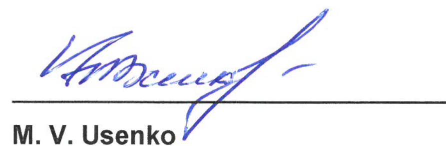
PJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Amounts in millions of Russian Roubles)

	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	41,701	37,317
Advances for acquisition of non-current assets	7	119	346
Investment property		294	115
Intangible assets	8	384	290
Investments in associates and joint ventures	9	3,403	2,685
Other non-current assets		82	69
Total non-current assets		**45,983**	**40,822**
Current assets			
Inventory		287	209
Trade and other receivables	10	1,323	1,605
Prepayments and other current assets	11	3,975	3,589
Short-term investments		-	78
Cash and cash equivalents	12	4,171	5,525
Total current assets		**9,756**	**11,006**
TOTAL ASSETS		**55,739**	**51,828**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	13,895	13,895
Reserve fund	13	703	697
Translation reserve		(468)	(340)
Other reserves, including investment property's revaluation reserve	13	(2,025)	(2,133)
Retained earnings		28,262	22,390
Total equity attributable to the Company's owners		**40,367**	**34,509**
Non-current liabilities			
Long-term debt	14	4,987	6,236
Finance lease obligations, net of current maturities	15	-	121
Employee benefit liability	16	1,103	1,067
Deferred tax liability	24	1,635	1,523
Financial guarantee for investment in joint venture	9	154	-
Total non-current liabilities		**7,879**	**8,947**
Current liabilities			
Trade and other payables	17	4,562	4,279
Current portion of long-term debt	14	1,425	2,762
Income tax payable		87	21
Taxes other than income tax payable	18	370	378
Finance lease obligations, current maturities	15	-	18
Accruals and other current liabilities	19	1,049	914
Total current liabilities		**7,493**	**8,372**
TOTAL EQUITY AND LIABILITIES		**55,739**	**51,828**



P. V. Baskakov

General Director



M. V. Usenko

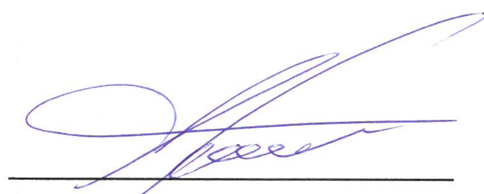
Chief Accountant

26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

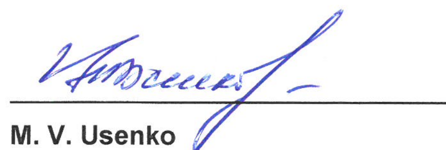
(Amounts in millions of Russian Roubles, unless otherwise stated below)

	Notes	2017	2016
Revenue	20	65,567	51,483
Other operating income	21	647	660
Operating expenses	22	(58,438)	(48,294)
Foreign exchange loss, net		(23)	(223)
Gain from early termination of finance lease	15	7	-
Interest expense	23	(634)	(492)
Interest income		301	276
Share of result of associates and joint ventures	9	704	669
Gain on disposal of associate	9	41	-
Profit before income tax		**8,172**	**4,079**
Income tax expense	24	(1,638)	(835)
Profit for the year attributable to the Company's owners		**6,534**	**3,244**
Other comprehensive (loss)/income (net of income tax)			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit plans liabilities	16	(9)	(127)
Remeasurements of investment property upon transfer from property, plant and equipment	13	111	7
Items that may be reclassified subsequently to profit or loss:			
Share of translation of financial information of associates and joint ventures to presentation currency	9	(142)	(490)
Exchange differences on translating of other foreign operations		14	(60)
Other comprehensive loss for the year		**(26)**	**(670)**
Total comprehensive income for the year attributable to the Company's owners		**6,508**	**2,574**
Earnings per share, basic and diluted (in Russian Roubles)		**470**	**235**
Weighted average number of shares outstanding	13	**13,894,778**	**13,821,562**



P. V. Baskakov

General Director



M. V. Usenko

Chief Accountant

26 March 2018

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

PJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in millions of Russian Roubles)

	Notes	2017	2016
Cash flows from operating activities:			
Profit before income tax		**8,172**	**4,079**
Adjustments for:			
Depreciation and amortisation	22	2,668	2,528
Change in provision for impairment of receivables	21	(50)	(57)
Gain on disposal of property, plant and equipment	21	(240)	(267)
Reversal on impairment of property, plant and equipment	7,21	(15)	(36)
Share of result of associates and joint ventures	9	(704)	(669)
Gain on disposal of associate	9	(41)	-
Interest expense, net		333	216
Foreign exchange loss, net		23	223
Gain from early termination of finance lease	15	(7)	-
Loss on revaluation of other long-terms obligations to employees	16	4	28
Other expenses		13	17
Operating profit before working capital changes, paid income tax and interest and changes in other assets and liabilities		**10,156**	**6,062**
Working capital changes:			
Decrease in inventory		216	445
Decrease/(increase) in trade and other receivables		350	(25)
Increase in prepayments and other assets		(389)	(19)
Increase in employee benefit liabilities		21	6
Increase in trade and other payables		186	1,019
Decrease in taxes other than income tax		(32)	(256)
Increase in accrued expenses and other current liabilities		162	189
Net cash from operating activities before income tax and interest		**10,670**	**7,421**
Interest paid		(721)	(404)
Income tax paid		(1,483)	(781)
Net cash provided by operating activities		**8,466**	**6,236**
Cash flows from investing activities:			
Purchases of property, plant and equipment		(6,896)	(2,242)
Proceeds from disposal of property, plant and equipment		63	50
Acquisition of investment in joint venture		(10)	-
Proceeds from disposal of investments in associates	9	43	28
Sale of short-term investments		1,538	274
Purchases of short-term investments		(1,460)	(345)
Purchases of intangible assets		(141)	(85)
Dividends received from joint ventures	9	14	517
Interest received		281	239
Net cash used in investing activities		**(6,568)**	**(1,564)**
Cash flows from financing activities:			
Proceeds from sale of treasury shares		-	578
Proceeds from issuance of long-term bonds	14	-	4,999
Repayments of finance lease obligations	26	(132)	(5)
Dividends	13	(650)	(4,830)
Principal payments on short-term borrowings		-	(468)
Principal payments on short-term part of long-term bonds	26, 29	(2,500)	(1,250)
Net cash used in financing activities		**(3,282)**	**(976)**
Net (decrease)/increase in cash and cash equivalents		(1,384)	3,696
Cash and cash equivalents at beginning of the year		**5,525**	**2,110**
Foreign exchange effect on cash and cash equivalents		30	(281)
Net cash and cash equivalents at end of the year	12	**4,171**	**5,525**

P. V. Baskakov
General Director
26 March 2018

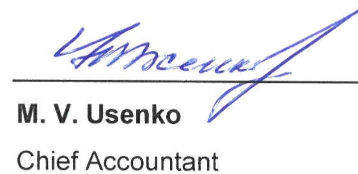
M. V. Usenko
Chief Accountant

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

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

	Notes	Share capital	Treasury shares	Reserve fund	Translation reserve	Equity-settled employee benefits reserve	Other reserves, including investment property's revaluation reserve	Retained earnings	Total equity attributable to the Company's owners
Balance at 1 January 2016		**13,895**	**(494)**	**697**	**210**	**240**	**(2,140)**	**23,779**	**36,187**
Profit for the year		-	-	-	-	-	-	3,244	3,244
Other comprehensive (loss)/income for the year		-	-	-	(550)	-	7	(127)	(670)
Total comprehensive (loss)/income for the year		**-**	**-**	**-**	**(550)**	**-**	**7**	**3,117**	**2,574**
Execution of share option plan		-	43	-	-	(240)	-	197	-
Sale of treasury shares		-	451	-	-	-	-	127	578
Dividends	13	-	-	-	-	-	-	(4,830)	(4,830)
Balance at 31 December 2016		**13,895**	**-**	**697**	**(340)**	**-**	**(2,133)**	**22,390**	**34,509**
Profit for the year		-	-	-	-	-	-	6,534	6,534
Other comprehensive (loss)/ income for the year		-	-	-	(128)	-	108	(6)	(26)
Total comprehensive (loss)/income for the year		**-**	**-**	**-**	**(128)**	**-**	**108**	**6,528**	**6,508**
Dividends	13	-	-	-	-	-	-	(650)	(650)
Allocation to reserve fund				6	-	-	-	(6)	-
Balance at 31 December 2017		**13,895**	**-**	**703**	**(468)**	**-**	**(2,025)**	**28,262**	**40,367**

P. V. Baskakov
General Director
26 March 2018



M. V. Usenko
Chief Accountant

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

1. NATURE OF THE BUSINESS

PJSC TransContainer (the "Company" or "TransContainer") was incorporated in Moscow, Russian Federation on 4 March 2006.

The Company was formed as a result of a spin-off by OJSC "Russian Railways" ("RZD"), which is 100% owned by the Russian Federation, of some of its activities and certain assets and liabilities related to container transportation into a separate legal entity. In connection with this spin-off RZD contributed to the share capital of the Company containers, flatcars, buildings and constructions in the amount of RUR 13,057m, VAT receivable related to these assets of RUR 104m, and cash of RUR 991m, in exchange for the ordinary shares of the Company.

Furthermore, certain employees previously employed by RZD were hired by the Company. The Company assumed related employee benefit liabilities from RZD. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a freight forwarding agent.

The Company's principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 42 container terminals along the Russian railway network. As at 31 December 2017, the Company operated 15 branches in Russia. The Company's registered address is 19 Oruzheiniy pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following major entities:

				Interest held, %		Voting rights, %	
Name of Entity	**Type**	**Country**	**Activity**	**2017**	**2016**	**2017**	**2016**
JSC TransContainer-Slovakia, a.s.	Subsidiary	Slovakia	Container shipments	100	100	100	100
TransContainer Europe GmbH	Subsidiary	Austria	Container shipments	100	100	100	100
TransContainer Asia Pacific Ltd.	Subsidiary	Korea	Container shipments	100	100	100	100
TransContainer Freight Forwarding (Shanghai) Co., Ltd.	Subsidiary	China	Container shipments	100	-	100	-
Oy ContainerTrans Scandinavia Ltd.	Joint venture	Finland	Container shipments	50	50	50	50
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture	China	Container shipments	49	49	50	50
JSC Kedentransservice (Note 9)	Joint venture	Kazakhstan	Container shipments	50	50	50	50
LLC Freight Village Kaluga Sever (FVK Sever Group) (Note 9)	Joint venture	Russia	Terminal operations	30	-	50	-
Trans-Eurasia Logistics GmbH (Note 9)	Associate	Germany	Container shipments	-	20	-	20
LLC SpecTransContainer (LLC TransContainer Finance)	Subsidiary	Russia	Special container transportation	100	100	100	100
Logistic Investment S.a r.l.	Subsidiary	Luxemburg	Investment activity	-	100	-	100
Helme's Operation UK Limited	Joint venture	Great Britain	Investment activity	-	50	-	50
Logistic System Management B.V.	Joint venture	Netherlands	Investment activity	50	50	50	50

Establishment of a subsidiary. On 12 May 2017 100% subsidiary - TransContainer Freight Forwarding (Shanghai) Co., Ltd was registered on the territory of the People's Republic of China in Shanghai.

1. NATURE OF THE BUSINESS (CONTINUED)

Termination of participation in Helme's Operation UK Limited. In September 2017 joint venture Helme's Operation UK Limited was liquidated. The liquidation had no significant impact on the Group's operating and financial activities.

Termination of participation in Logistic Investment S.a.r.l. In November 2017 subsidiary company Logistic Investment S.a.r.l. was liquidated with the transfer of assets (50% of Logistic System Management B.V. shares, which owns 100% of JSC Kedentransservice shares) in favor of PJSC TransContainer. The liquidation of Logistic Investment S.a.r.l had no significant impact on the Group's operating and financial activities.

The consolidated financial statements of PJSC TransContainer and its subsidiaries (the "Group") as at 31 December 2017 and for the year then ended were authorised for issue by the General Director of the Company on 26 March 2018.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Which principle to apply for measuring non-controlling interest is defined by the Group individually for each particular business combination.

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 excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt; and all other transaction costs associated with the acquisition are expensed.

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

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

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

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

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates (joint ventures) reduce the carrying value of the investment in associates (joint ventures). Other post-acquisition changes in the Group's share of an associate's (joint ventures') net assets are recognised as follows: (i) the Group's share of profits or losses of associates (joint ventures) is recorded in the consolidated profit or loss for the period as the share of financial result of associates (joint ventures), (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates (joint ventures) are recognised in consolidated profit or loss within the share of financial result of associates (joint ventures).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control, joint 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 subsequent 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 or joint venture 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 transactions and translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Russian Rouble is the functional currency of the Company and is also the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated into the functional currency at exchange rate as at the end of the reporting period. Exchange differences arising from such translation are included in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Russian Rouble at foreign exchange rates ruling at the dates the fair value was determined.

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

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

When control over a foreign operation is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal.

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

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

Construction in progress

Construction in progress includes, principally, capital expenditure incurred in relation to the construction of new container terminals and the reconstruction of existing terminals. Construction in progress is carried at cost,

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

less any recognised impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalised borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

Subsequent costs

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

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

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

Depreciation

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

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

	Number of years
Buildings	20-84
Constructions	5-70
Containers	10-20
Flatcars	28-38
Cranes and loaders	5-31
Vehicles	3-15
Other equipment	2-25

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

Leased assets

Capitalised leased assets held under finance lease and operating leasehold inseparable improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Gain or loss on disposal

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category. Earned rental income is recorded in profit or loss for the year within revenue. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes. If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer in another category is treated in the same way as a revaluation of property, plant and equipment.

Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

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

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

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

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

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

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

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

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

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

Financial instruments

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus or minus accrued interest, and for financial assets less any write-down for incurred impairment losses. 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 net 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.

Classification of financial assets

Financial assets have the following categories:

(a) loans and receivables;

(b) available-for-sale financial assets;

(c) financial assets held to maturity, and

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(b) those classified as held for trading.

The Group has the following financial assets.

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

Classification of financial liabilities

Financial liabilities have the following measurement categories:

(a) held for trading which also includes financial derivatives

(b) other financial liabilities.

Other financial liabilities are carried at amortised cost. As at 31 December 2017 and 31 December 2016 all financial liabilities are classified as other financial liabilities.

Initial recognition of financial instruments

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

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

Derecognition of financial assets and liabilities

The Group derecognises financial assets when:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents comprise cash in hand, deposits held at call with banks and short-term interest-bearing deposits with original maturities of not more than three months (not more than 91 days).

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

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

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

Defined benefit plans

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

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

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

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

Defined contribution plans

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Pension Plan

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

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

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

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

Rail-based container shipping services

Rail-based transportation services provided by the Group primarily include arranging the transportation of its own and third-party containers by rail by means of provision of flatcars and/or containers or leasing of flatcars and containers to third parties. For the purposes of recognising revenue, the Group charges its customers for provision of its own rolling stock while rail infrastructure charges are born by the customers directly or passed through to a provider of rail infrastructure services.

Revenues from these services are recognised in the accounting period in which the services are provided based on the stage of completion of the transaction at the end of the accounting period, net of reinvoiced rail infrastructure charges. Revenues from operating lease of rolling stock are recognised on a straight-line basis over the term of operating lease agreements.

Integrated freight forwarding and logistics services

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

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

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

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

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

Cargo transportation and handling services with involvement of third parties

Cargo transportation and handling services with involvement of third parties are container shipping services, handling on container terminals, truck deliveries, freight forwarding and logistic services, and services for trans-shipment and storage of cargo in the sea (river) ports, with involvement of third parties and possessing certain characteristics of agency services.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management believes that the Group acts as a principal providing these services as the Group's customers do not interact with third-parties having a contractual relationships with the Group and the Group bears the credit risk, controls the flow of receipts and payments and is independent in its own pricing policy.

Revenues from cargo transportation and handling services with involvement of third parties are recognised in the accounting period in which the services are provided based on the stage of completion of the transaction at the end of the accounting period.

Terminal services, bonded warehousing services and agency fees

Terminal services primarily include arrangements whereby the Group acts as a principal providing container handling services, such as loading and unloading operations, container storage and other terminal operations.

The Group acts as an agent on behalf of RZD in providing mandatory railroad services for all railway users at the Group's terminals, designated as the "sites of common use" by the legislation. In this capacity the Group provides some of its terminal services as a legal intermediary (agent) between clients and RZD and collects a commission. Commission fees collected from RZD for intermediary activities and revenue from other terminal operations are recognised in the accounting period in which the services are provided based on the stage of completion of the transaction at the end of the accounting period.

Bonded warehousing services are services related to storage of customers' containers in separate warehouses located at container terminals while pending customs clearance or payment of other applicable duties. Revenue from these services is recognised on the basis of the number of days during which the services are rendered.

Truck deliveries

Truck delivery services include transporting containers between the container terminals and client-designated sites using the Group's own truck fleet as well as third parties' trucks. The Group considers itself the principal in these arrangements, and therefore recognises revenue from truck deliveries on the gross basis in the accounting period in which the services are provided based on the stage of completion of the transaction at the end of the accounting period.

Other services

The Group provides other freight forwarding services, such as:

(i) preparation and ensuring of accuracy of shipping documentation required for the delivery process to be effected;

(ii) customs clearance brokerage by providing clients with customs documentation and services for Russian customs clearance;

(iii) cargo tracking services by providing clients with information about cargo location;

(iv) route optimisation and planning;

(v) cargo security services, including provision of insurance, special labels for hazardous cargo, special terms for transportation of hazardous cargo, and ensuring proper documentation for the transported cargo;

(vi) other services.

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

Dividend and interest income

(i) Dividends from investments are recognised in consolidated profit or loss when the shareholder's right to receive payment has been established;

(ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Finance leases

Assets under finance leases are recognised in the consolidated statement of financial position as assets at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating leases

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

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

Borrowing costs. Borrowing costs include:

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

(b) finance charges in respect of finance leases;

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following amended standards became effective from 1 January 2017, but did not have any material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). Amendments to IAS 7 require disclosure of changes in liabilities arising from financial activities. The Group has disclosed the information required in the note 26 to these consolidated financial statements.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 regarding the amendments to IFRS 12).

New standards and improvements mandatory for annual periods beginning on or after 1 January 2018 or later periods that are applicable for the Group's activity and approved for adoption in the Russian Federation (unless stated otherwise) and which the Group has not early adopted, are as follows:

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

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

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Group is expecting no significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Group has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the consolidated financial statements for the year-ending 31 December 2018 which will be the first year when the Group will apply IFRS 15.

The adoption of IFRS 15 will result in changes in accounting policies to be recognised in the consolidated financial statements. Based on the analysis of the Group's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date the management of the Group is expecting no significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018.

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

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

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when 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). The amendments have not been endorsed for application in the Russian Federation.
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 23 - Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- 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). The amendments have not been endorsed for application in the Russian Federation.
- 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). The amendments have not been endorsed for application in the Russian Federation.
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Provision for impairment of receivables. Management of the Group maintains a provision for impairment of short-term receivables in the form of an allowance account resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, Management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2017 and 31 December 2016, the provision for impairment of receivables was recognised in the amount of RUR 113m and RUR 169m, respectively (Notes 10 and 11).

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

As at 31 December 2016 and 31 December 2017 the Group reassessed the remaining useful lives of items of property, plant and equipment, the ranges of terms for each group of items of property, plant and equipment have not changed.

Were the estimated useful lives to differ by 10% from Management’s estimates, the impact on depreciation for the year ended 31 December 2017 would be to increase it by RUR 269m or decrease it by RUR 221m (for the year ended 31 December 2016: to increase by RUR 261m or decrease by RUR 214m).

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Compliance with tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all applicable taxes. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the Management, and the effect of such differences could be significant (Note 28).

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

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39, Financial Instruments: Recognition and Measurement, requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market conditions, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 25.

6. CRITICAL ACCOUNTING JUDGEMENTS

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

Accounting for leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as an operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise (Note 15).

6. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

Revenue from integrated freight forwarding and logistics services and from cargo transportation and handling services with involvement of third parties.

Critical accounting judgments in revenue recognition are used for the following types of the Group's services:

1) In case the Group provides integrated freight forwarding and logistic services the customers do not interact with other transportation organisations. A full service fee is charged by the Group to its customers for its services including rail-based container transportation, terminal handling, trucking, etc. and the full third-party charges, including railway tariff.

There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that railway tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by the transportation organisations.

However, the Group bears the credit risk as it controls the flow of receipts and payments and is independent in its own pricing policy.

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

2) In cases where Rail-based container shipping services are provided, the Group agrees with the customer the transport fee as above, excluding the railroad tariff which is paid by the Group and reinvoiced to the client as reimbursement of providing rail infrastructure and locomotive services. Management believes that railroad tariff should not be included in revenue and expenses, as any variation in the tariff will be borne by the client.

3) In 2015 the Group started to provide services (including third-party services) that have certain characteristics of agency services presented as revenue item "Cargo transportation and handling services with involvement of third parties" and correspondingly presented within expenses as "Third-party charges related to principal activities". Management believes that the Group acts as a principal providing these services as the Group's customers do not interact with third-parties having a contractual relationships with the Group and the Group bears the credit risk, controls the flow of receipts and payments and is independent in its own pricing policy.

Had the railway tariff and third-party services directly attributable to integrated freight forwarding and logistics services and other services that have certain characteristics of agency services been excluded from both revenue and expenses, then revenue from integrated freight forwarding and logistics services, and management of cargo transportation and handling with involvement of third parties and third-party charges related to principal activities would have decreased by RUR 37,785m for the year ended 31 December 2017 (including RUR 35,805m for integrated freight forwarding and logistics services, and RUR 1,980m for management of cargo transportation and handling with involvement of third parties). For the year ended 31 December 2016 this effect would be RUR 29,495m (including RUR 24,641m for integrated freight forwarding and logistics services, and RUR 4,854m for management of cargo transportation and handling with involvement of third parties).

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

	Land, buildings and constructions	Containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in progress	Total
Cost						
1 January 2016	**11,482**	**36,206**	**2,119**	**2,893**	**1,207**	**53,907**
Additions	64	971	318	216	632	**2 201**
Transfers	906	38	447	7	(1,398)	**-**
Capitalised borrowing costs	-	-	-	-	45	**45**
Disposals	(64)	(600)	(192)	(225)	(13)	**(1,094)**
31 December 2016	**12,388**	**36,615**	**2,692**	**2,891**	**473**	**55,059**
Additions	87	6,137	393	178	381	**7,176**
Transfers	282	51	36	52	(421)	**-**
Transfer to investment property	(64)	-	-	-	-	**(64)**
Capitalised borrowing costs	-	-	-	-	14	**14**
Disposals	(17)	(458)	(62)	(287)	(36)	**(860)**
31 December 2017	**12,676**	**42,345**	**3,059**	**2,834**	**411**	**61,325**
Accumulated depreciation						
1 January 2016	**(2,276)**	**(11,059)**	**(1,080)**	**(1,856)**	**-**	**(16,271)**
Depreciation charge for the year	(271)	(1,733)	(160)	(315)	-	**(2,479)**
Reversal of impairment	-	29	7	-	-	**36**
Disposals	57	525	180	210	-	**972**
31 December 2016	**(2,490)**	**(12,238)**	**(1,053)**	**(1,961)**	**-**	**(17,742)**
Depreciation charge for the year	(285)	(1,882)	(184)	(265)	-	**(2,616)**
Transfer to investment property	16	-	-	-	-	**16**
(Impairment) / reversal of impairment	(6)	-	4	17	-	**15**
Disposals	30	415	56	202	-	**703**
31 December 2017	**(2,735)**	**(13,705)**	**(1,177)**	**(2,007)**	**-**	**(19,624)**
Net book value						
31 December 2016	**9,898**	**24,377**	**1,639**	**930**	**473**	**37,317**
31 December 2017	**9,941**	**28,640**	**1,882**	**827**	**411**	**41,701**

The item "Land, buildings and constructions" includes the amounts of RUR 112m and RUR 112m, which represent the net book value of land plots owned by the Group as at 31 December 2017 and 31 December 2016 respectively.

During the year ended 31 December 2017 the Group put into operation buildings and constructions at container terminals in Irkutsk, Krasnoyarsk, Novosibirsk and Yekaterinburg in the amount of RUR 122m, RUR 49m, RUR 47m and RUR 48m respectively, and crane equipment in the amount of RUR 169m and RUR 102m at container terminals in Novosibirsk and Chita, respectively.

During the year ended 31 December 2016 the Group put into operation buildings and constructions at container terminals in Krasnoyarsk, Yekaterinburg and Irkutsk in the amount of RUR 455m, RUR 240m and RUR 205m respectively, and crane equipment in the amount of RUR 212m, RUR 208m and RUR 27m at container terminals in Krasnoyarsk, Zabaykalsk and Magnitogorsk, respectively.

The item "Vehicles and other equipment group" includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 709m and RUR 714m as at 31 December 2017 and 31 December 2016 respectively.

During the year ended 31 December 2017 there were additions of flatcars and containers in the amount of RUR 4,893m and RUR 1,244m, respectively (during the year ended 31 December 2016 – RUR 160m and RUR 811m, respectively).

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

As at 31 December 2016, the Group reviewed the useful lives of certain property, plant and equipment. As a result, the amount of accrued depreciation for the year ended 31 December 2017 decreased by RUR 82m compared to that accrued under the previous useful lives, the range of useful life values for the objects of various groups had not change. Assessing the impact of revision on subsequent periods is impracticable.

The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RUR 1,142m and RUR 1,301m as at 31 December 2017 and 31 December 2016 respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2017 and 31 December 2016 comprised the following:

	2017	**2016**
Cost	59	44
Accumulated deprecation	(32)	(27)
Net book value	**27**	**17**

The carrying amount of property, plant and equipment not in use and not classified as held for sale as at 31 December 2017 and 31 December 2016 comprised the following:

	2017	**2016**
Cost	245	339
Accumulated deprecation	(109)	(152)
Impairment	(80)	(101)
Net book value	**56**	**86**

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

Construction in-progress as at 31 December 2016 consisted mainly of the capital expenditures incurred for the reconstruction and expansion of container terminals in Moscow, Irkutsk and Yekaterinburg amounting to RUR 158m, RUR 56m and RUR 31m, respectively, and RUR 90m for the construction of the new container terminal in Primorsky Region.

Additions of construction in-progress include capitalised interest expenses on bonds and other related proceeds from borrowed funds in connection with the construction and reconstructions of property, plant and equipment items. The total amount of interest capitalised for the year ended 31 December 2017 was RUR 14m at a rate of capitalisation of 8.58% and RUR 45m capitalised for the year ended 31 December 2016 at a rate of capitalisation of 8.77%.

In May 2017 the Group bought out non-residential premises in Moscow head office building, previously acquired under a finance lease agreement. The cost of the bought out building part was RUR 160m. As at 31 December 2017 premises are owned by the Company and included in the category land, buildings and constructions. As at 31 December 2016 these premises were held under finanse lease and were recognised in the same group. See Note 15 for further details regarding finance leases.

Advances for acquisition of non-current assets

As at 31 December 2017 and 31 December 2016, advances for the acquisition of non-current assets, net of VAT, consisted of advances for the acquisition of cranes and loaders (RUR 51m and RUR 153m, respectively), advances for the acquisition of containers (RUR 12m and RUR 183m, respectively), advances for the purchase of rolling stock (RUR 49m and RUR 0m, respectively) and advances for the acquisition of other non-current assets (RUR 7m and RUR 10m, respectively).

8. INTANGIBLE ASSETS

Company's intangible assets are comprised of software with initial cost of RUR 456m and accumulated depreciation of RUR 72m as at 31 December 2017 (RUR 352m and RUR 62m as at 31 December 2016 respectively).

Included in intangible assets are assets not ready for intended use with historical cost of RUR 257m as at 31 December 2017 (RUR 184m as at 31 December 2016), which are mostly comprised of ORACLE software development costs.

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

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.	Joint ventures LLC Freight Village Kaluga Sever	Other joint ventures	Associates	Total associates and joint ventures
Carrying amount as at 1 January 2016	**2,910**	**-**	**105**	**8**	**3,023**
Share of profit of associates and joint ventures	648	-	19	2	**669**
Dividends received from joint ventures	(511)	-	(6)	-	**(517)**
Share of translation to presentation currency	(463)	-	(25)	(2)	**(490)**
Carrying amount as at 31 December 2016	**2,584**	**-**	**93**	**8**	**2,685**
Share of profit/(losses) of associates and joint ventures	688	(9)	26	(1)	**704**
Fair value of net assets related to the acquisition of the joint venture	-	(179)	-	-	**(179)**
Goodwill arising on the acquisition of joint ventures	-	351	-	-	**351**
Dividends received from joint ventures	-	-	(14)	-	**(14)**
Disposal	-	-	-	(8)	**(8)**
Share of translation to presentation currency	(140)	-	3	1	**(136)**
Carrying amount as at 31 December 2017	**3,132**	**163**	**108**	**-**	**3,403**

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Acquisition of LLC Freight Village Kaluga Sever. In July 2017 the Company acquired ownership of 30% of share capital of joint venture LLC Freight Village Kaluga Sever (hereinafter, FVK Sever).

Under this transaction in July 2017, the Company fully paid RUR 1 for the shares and provided a guarantee in respect of obligations under the loan agreement of FVK Sever to the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank). 50% of principal debt of FVK Sever under this loan agreement in the amount of RUR 3.7bn plus 50% of the interest, commissions, penalties (fines) and other monetary obligations to be payable to Vnesheconombank in accordance with terms and conditions of the loan agreement. As at 31 December 2017 the debt of FVK Sever secured by the guarantee under the loan agreement amounted to RUR 2.1bn. As at 31 December 2017 the financial guarantee recognised in the consolidated statement of financial position for investment in joint venture was RUR 154m.Under the terms of the guarantee agreement, the Company has certain financial and non-financial covenants, including the maintenance of a certain level of debt ratio and interest coverage ratio or maintenance of a certain level of long-term credit rating. Vnesheconombank may require early repayment of obligations under the loan agreement if the Company or other entities providing security fails to fulfill covenants, and also violate the obligations of FVK Sever under this loan agreement.

As of 31 December 2017 and for 2017, the Company complied with covenants under the guarantee agreement.

Furthermore, as part of the transaction, the following pledge agreements, which the Company signed in July-August 2017 came into force, providing a number of obligations of the parties to each other:

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

Below is the aggregated financial information of FVK Sever by reference to fair value as at the date of acquisition:

	10 July 2017
Non-current assets	3,414
Current assets	455
Long-term liabilities	(3,904)
Short-term liabilities	(563)
Net assets	**(598)**
Net assets acquired (30%)	(179)
Goodwill	351
Cost of acquisition	**172**

Selling of Trans-Eurasia Logistics GmbH

In September 2017 the Company ceased to participate in an associate Trans-Eurasia Logistics GmbH by selling 20% of its shares to DB Cargo AG. Profit resulting from sell of the associates company is:

	12 September 2017
Proceeds from the sell	43
Carrying amount of disposed net assets	(8)
Exchange differences on translating foreign operations recycled from other comprehensive income to profit	6
Gain on sold of the associates company	**41**

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Summarised financial information of associates and joint ventures is as follows as at 31 December 2017 and 31 December 2016:

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever		Other joint ventures		Associates		Total associates and joint ventures	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Current assets	3,284	2,563	403	-	252	232	-	545	**3,939**	**3,340**
Non-current assets	3,652	3,561	3,567	-	9	11	-	20	**7,228**	**3,592**
Current liabilities	784	1,057	204	-	45	57	-	524	**1,033**	**1,638**
Non-current liabilities	386	422	4,394	-	-	-	-	-	**4,780**	**422**
Net assets	**5,766**	**4,645**	**(628)**	**-**	**216**	**186**	**-**	**41**	**5,354**	**4,872**
Revenue	9,493	9,811	512	-	761	456	2,455	3,413	**13,221**	**13,680**
Profit/(loss)	1,375	1,296	(29)	-	52	38	(5)	12	**1,393**	**1,346**

Net assets of Logistic System Management B.V. are RUR 6m as at 31 December 2017 (RUR 13m as at 31 December 2016) and are mainly comprised of cash and cash equivalents.

During the year ended 31 December 2016, Logistic System Management B.V. paid dividends to shareholders in the amount of RUR 1,022m (50% to PJSC TransContainer and 50% to JSC KTZ).

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

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever		Other joint ventures		Associates		Total associates and joint ventures	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net assets	5,766	4,645	(628)	-	216	186	-	41	**5,354**	**4,872**
Interest held, %	50%	50%	30%	-	49%,50%	49%,50%	-	20%	**-**	**-**
Goodwill	249	261	351	-	-	-	-	-	**600**	**261**
Investments in associates and joint ventures	**3,132**	**2,584**	**163**	**-**	**108**	**93**	**-**	**8**	**3,403**	**2,685**

Additional financial information of joint ventures JSC Kedentransservice, Logistic System Management B.V. and LLC Freight Village Kaluga Sever is as follows:

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Joint venture LLC Freight Village Kaluga Sever	
	2017	2016	2017	2016
Cash and cash equivalents	1,091	525	208	-
Current financial liabilities (excluding trade and other payables and provisions)	20	20	14	-
Non-current financial liabilities (excluding trade and other payables and provisions)	40	77	4,207	-
Depreciation and amortisation	298	320	62	-
Interest income	28	45	3	-
Interest expense	8	12	216	-
Income tax expense	351	337	(47)	-

10. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2017			
Trade receivables	1,247	(25)	1,222
Other receivables	187	(86)	101
Total current trade and other receivables, classified as financial assets	**1,434**	**(111)**	**1,323**
31 December 2016			
Trade receivables	1,508	(78)	1,430
Other receivables	265	(90)	175
Total current trade and other receivables, classified as financial assets	**1,773**	**(168)**	**1,605**

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 215m and RUR 212m as at 31 December 2017 and 31 December 2016, respectively, which are past due at the respective reporting date and which the Group considers to be not impaired. The Group holds collateral over part of these outstanding balances (Note 29).

As at 31 December 2017 long-term accounts receivable of JSC RZD Logistics amounted to RUR 0m (RUR 15m as at 31 December 2016). As at 31 December 2017 receivables of JSC RZD Logistics in the amount of RUR 15m were recognised in short-term other receivables (Note 25).

As at 31 December 2016 receivables of JSC RZD Logistics in the amount of RUR 247m were recognised in short-term trade receivables (Note 25).

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2017		31 December 2016	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Neither past due nor impaired	1 ,056	52	1,306	87
Total neither past due nor impaired	**1,056**	**52**	**1,306**	**87**
Past due but not impaired				
- less than 90 days	136	14	83	36
- 90-180 days	12	4	22	21
- more than 180 days	18	31	19	31
Total past due but not impaired	**166**	**49**	**124**	**88**
Individually impaired				
- less than 90 days	-	-	-	86
- 90-180 days	1	-	-	-
- more than 180 days	24	86	78	4
Total individually impaired	**25**	**86**	**78**	**90**
Less impairment provision	**(25)**	**(86)**	**(78)**	**(90)**
Total	**1,222**	**101**	**1,430**	**175**

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2017	2016
Balance at beginning of the year	**(168)**	**(257)**
Additional provision, recognised in the current year	(10)	(100)
Release of provision	59	121
Utilisation of provision	6	39
Foreign currency translation	2	29
Balance at end of the year	**(111)**	**(168)**

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	2017	2016
VAT receivable	2,928	1,818
Advances to suppliers (net of provision)	939	1,668
Other current assets	108	103
Total prepayments and other current assets	**3,975**	**3,589**

As at 31 December 2017 and 31 December 2016 provision for impairment of advances to suppliers was recognised in the amount of RUR 2m and RUR 1m, respectively.

12. CASH AND CASH EQUIVALENTS

	2017	2016
Foreign currency denominated current accounts with banks	2,324	1,496
Russian Rouble denominated bank deposits	1,067	1,637
Cash and Russian Rouble denominated current accounts with banks	780	2,392
Total cash and cash equivalents	**4,171**	**5,525**

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

Six Russian Rouble denominated short-term bank deposits in the amount of RUR 1,629m bearing interest at annual rates in a range from 9.30% to 10.35% were placed with PJSC Bank Otkritie Financial Corporation, PJSC JSCB Absolut Bank, PJSC Bank VTB, a related party as at 31 December 2016. Total amount of accrued interest on Russian Rouble denominated short-term bank deposits amounted to RUR 8m. The deposits matured in January - February 2017.

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's long-term ratings or equivalents of Moody's or Fitch ratings as follows as at 31 December 2017 and 31 December 2016:

	2017		2016	
	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
- A- to A+ rated	34	-	335	-
- BBB to A- rated	107	-	174	-
- Lower than BBB rated	2,963	1,067	3,377	1,637
- Unrated	-	-	2	-
Total	**3,104**	**1,067**	**3,888**	**1,637**

13. EQUITY

Share Capital

The Company's authorised, issued and paid share capital as at 31 December 2017 and 31 December 2016 comprises:

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

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

During the year ended 31 December 2017 the weighted average number of outstanding ordinary shares, excluding treasury shares amounted to 13,894,778 shares (13,821,562 during the year ended 31 December 2016).

Treasury shares

During the year ended 31 December 2016 options were exercised and treasury shares were repurchased by the Group under share option plan for the total amount of RUR 43m, and thereafter treasury shares were sold for the total amount of RUR 451m.

Other Reserves, including investment property's revaluation reserve

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

As at 31 December 2017 Other Reserves, including investment property's revaluation reserve amounted to RUR 2,025m (RUR 2,133m as at 31 December 2016).

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

Due to the transfer of part of property, plant and equipment to the investment property during the year ended 31 December 2017 the investment property's revaluation was recognised in other comprehensive income for the amount of RUR 108m (RUR 88m during the years 2016 - 2013).

Retained Earnings, Dividends

In accordance with the Russian legislation, dividends may only be declared from the Company's accumulated undistributed and unreserved earnings as shown in the Company's statutory financial statements, which are prepared in accordance with Russian Accounting Rules. As at 31 December 2017 and 31 December 2016 the Company had RUR 20,985m and RUR 16,192m of undistributed earnings, respectively, including undistributed and unreserved earnings of the Company in the amount of RUR 5,986m and RUR 1,324m, respectively.

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

Dividends of RUR 251.84 per share from retained earnings of the previous years and dividends of RUR 95.76 per share relating to the Company's results for the six-month period ended 30 June 2016 (RUR 4,830m in total) were approved at the annual shareholders' meeting on 9 September 2016. In October 2016 the dividends have been fully paid.

13. EQUITY (CONTINUED)

Reserve Fund

According to its charter, the Company is required to establish a legal reserve fund through the allocation of 5 percent of net profit as computed under the Russian Accounting Rules. The total amount of the reserve fund is limited to 5 percent of the nominal registered amount of the Company's issued share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem issued bonds or purchase treasury shares and cannot be distributed to shareholders. As at 31 December 2017 reserve fund was RUR 703m (RUR 697m as at 31 December 2016).

14. LONG-TERM DEBT

Long-term debt

	Effective interest rate	2017	2016
Bonds, series 4	8,40%	-	1,249
Bonds, series BO-02	9,45%	4,987	4,987
Total		**4,987**	**6,236**

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

Five-year RUR bonds, series BO-02

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

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

As at 31 December 2017 the carrying value of the bonds amounted to RUR 5,117m (RUR 5,116m as at 31 December 2016), including the amount of accrued interest of RUR 130m (RUR 129m as at 31 December 2016). The amount of accrued interest has been included as current portion of long-term debt in the consolidated statement of financial position.

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

Current portion of long-term debt

	Effective interest rate	2017	2016
Bonds, series 4	8,40%	1,295	2,633
Bonds, series BO-02	9,45%	130	129
Total		**1,425**	**2,762**

Five-year RUR bonds, series 4

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

The series 4 bonds will be redeemed in four equal semi-annual installments within the fourth and fifth years. The Company made repayment of its obligation under the first, second and third installment in July 2016 year, January and in July 2017 year.

14. LONG-TERM DEBT (CONTINUED)

As at 31 December 2017 the carrying value of the bonds amounted to RUR 1,295m (RUR 3,882m as at 31 December 2016), including the amount of accrued interest of RUR 45m (RUR 133m as at 31 December 2016), that has been included as current portion of long-term debt in the consolidated statement of financial position.

15. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2017	**2016**	**2017**	**2016**
Due within one year	-	19	-	18
Due after one year but not more than five years	-	139	-	121
	-	158	-	139
Less future finance charges	-	(19)	-	-
Present value of minimum lease payments	**-**	**139**	**-**	**139**

During the year ended 31 December 2012 the Group entered into a finance lease agreement on the acquisition of non-residential premises in a Moscow office building. The lease agreement is for a six-year period with an effective interest rate of 9.65%.

In May 2017, the Group bought back the non-residential premises of the building and redeemed its obligation in the amount of RUR 130m in advance that resulted in recognition of a gain from early termination of finance lease obligations for a total amount of RUR 7m in the consolidated profit or loss.

16. EMPLOYEE BENEFIT LIABILITY

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

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

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

Defined contribution plans

The total amount recognised as an expense in respect of payments to defined contribution plans for the years ended 31 December 2017 and 31 December 2016 consisted of the following:

	2017	**2016**
Pension Fund of the Russian Federation	715	634
Defined contribution plan Blagosostoyanie	24	21
Total expense for defined contribution plans	**739**	**655**

16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Defined benefit plans

There were 105 employees as at 31 December 2017 (as at 31 December 2016: 137) eligible for defined benefit pension plan with benefits depending on salary and years of service. In addition, there were 72 and 74 retired employees eligible for the post-retirement benefit program of the Group through Fund Pochet as at 31 December 2017 and 31 December 2016, respectively. Other retirement and post-employment defined benefit plans cover substantially all employees of the Group.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2017 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income in Payroll and related charges for the year ended 31 December 2017 and 31 December 2016 in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Service cost	32	26	141	112	173	138
Net interest on obligation	58	58	11	12	69	70
Remeasurements of the net defined benefit	-	-	4	28	4	28
Net expense recognised in the consolidated profit or loss	**90**	**84**	**156**	**152**	**246**	**236**

Net loss recognised in other comprehensive income for post-employment benefits related mainly to remeaseruments of the net defined benefit and amount to RUR 9m and RUR 127m for the years ended 31 December 2017 and 31 December 2016, respectively.

The amounts recognised in the consolidated statement of financial position as at 31 December 2017 and 31 December 2016 in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Present value of defined benefit obligation	875	855	294	275	1,169	1,130
Fair value of plan assets	(66)	(63)	-	-	(66)	(63)
Net employee benefit liability	**809**	**792**	**294**	**275**	**1,103**	**1,067**

16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

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

	Post-employment benefits	Other long-term benefits	Total
Present value of defined benefit obligation as at 1 January 2016	**690**	**269**	**959**
Service cost:	26	112	138
Current service cost	*26*	*112*	*138*
Interest on the defined benefit liability	64	12	76
Actuarial losses/(gain):	127	28	155
from changes in financial assumptions	*128*	*4*	*132*
other	*(1)*	*24*	*23*
Losses arising on transfer of employees*	6	-	6
Settlement of liability	(58)	(146)	(204)
Present value of defined benefit obligation as at 31 December 2016	**855**	**275**	**1,130**
Service cost:	32	141	173
Current service cost	*32*	*141*	*173*
Interest on the defined benefit liability	63	11	74
Actuarial losses/(gain):	9	4	13
from changes in demographic assumptions	*(6)*	*-*	*(6)*
from changes in financial assumptions	*(25)*	*3*	*(22)*
other	*40*	*1*	*41*
Losses arising on transfer of employees*	5	-	5
Settlement of liability	(89)	(137)	(226)
Present value of defined benefit obligation as at 31 December 2017	**875**	**294**	**1,169**

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

	2017	2016
Fair value of plan assets as at 1 January	**(63)**	**(55)**
Income on plan assets:	(7)	(12)
interest on the plan assets	*(5)*	*(6)*
the return on plan assets, excluding amounts included in net interest on the net defined benefit liability	*(2)*	*(6)*
Contributions from the employer (funded plans)	(41)	(24)
Settlement of liability (funded plans)	45	28
Fair value of plan assets as at 31 December	**(66)**	**(63)**

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

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

16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

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

	Share in total plan assets	
	2017	**2016**
Corporate bonds and stock of Russian legal entities	69%	72%
Shares in closed investment funds	24%	18%
Bank deposits	1%	5%
Other	6%	5%
	100%	**100%**

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

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

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

	2017	**2016**
Discount rate	7.5%	8.3%
Average rate of employee turnover	Based on the industry average rates	Based on the industry average rates
Projected average annual growth of consumer prices	4.1%	4.5%
Life expectancy table	Russia, 2016, with probability corrected to 82% of the initial level	Russia, 2015, with probability corrected to 84% of the initial level

As at 31 December 2017 the Group assumed that wage and salary growth will be in line with the growth of consumer prices.

Results of sensitivity analysis of defined benefit obligation at 31 December 2017 and 31 December 2016:

	Change in assumption	Change in liabilities	
		2017	**2016**
Discount rate	-1%	68	61
	+1%	(58)	(53)
Rate of employee turnover	-1%	23	24
	+1%	(24)	(21)
Projected average growth of consumer prices	-1%	(67)	(60)
	+1%	76	70
Average life expectancy after retirement	-1 year	(4)	(3)
	+1 year	4	3

Weighted average duration of the defined benefit obligation is 6.2 years (2016: 5.9 years).

The maturity profile of the defined benefit obligation as at 31 December 2017:

	Before year	**1 to 2 years**	**2 to 5 years**
Post-employment benefits	112	103	231
Other long-term benefits	129	74	116
	241	**177**	**347**

17. TRADE AND OTHER PAYABLES

	2017	2016
Trade payables	704	829
Amounts payable for the acquisition of property, plant and equipment	139	61
Amounts payable for the intangible assets	13	8
Total financial liabilities within trade and other payable	**856**	**898**
Liabilities to customers (advances)	3,706	3,381
Total trade and other payables	**4,562**	**4,279**

18. TAXES OTHER THAN INCOME TAX PAYABLE

	2017	2016
Social insurance contribution	216	208
Property tax	113	110
VAT	-	22
Personal income tax	35	33
Other taxes	6	5
Total taxes other than income tax payable	**370**	**378**

19. ACCRUALS AND OTHER CURRENT LIABILITIES

	2017	2016
Settlements with employees	1,023	846
Provisions for liabilities	2	38
Other liabilities (financial liabilities)	11	30
Other liabilities	13	-
Total accruals and other current liabilities	**1,049**	**914**

Settlements with employees as at 31 December 2017 and 31 December 2016 comprised accrued salaries and bonuses of RUR 838m and RUR 657m, respectively, and accruals for unused vacation of RUR 185m and RUR 189m, respectively.

20. REVENUE AND SEGMENT INFORMATION

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

Analysis of revenue by category

	2017	2016
Integrated freight forwarding and logistics services	57,052	38,767
Terminal services, bonded warehousing services and agency fees	3,580	2,596
Rail-based container shipping services	2,224	4,061
Cargo transportation and handling services with involvement of third parties	1,980	4,854
Truck deliveries	386	875
Other	345	330
Total revenue	**65,567**	**51,483**

20. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Analysis of revenue by location of customers

	2017	2016
Revenue from external customers		
Russia	56,315	43,941
Korea	3,816	2,729
Germany	1,596	1,440
China	1,118	539
Great Britain	981	842
Latvia	443	599
Kazakhstan	426	767
Finland	361	176
Belarus	142	107
Other	369	343
Total revenue	**65,567**	**51,483**

During the year ended 31 December 2017, RZD and its subsidiaries accounted for RUR 5,747m or 9% of the Group’s total revenue (for the year ended 31 December 2016: RUR 3,704m or 7% of the Group’s total revenue).

During the year ended 31 December 2017, UNICO LOGISTICS CO. LTD accounted for RUR 3,469m or 5% of the Group’s total revenue (for the year ended 31 December 2016: RUR 2,489m or 5% of the Group’s total revenue).

21. OTHER OPERATING INCOME

	2017	2016
Gain from disposal of property, plant and equipment	240	267
Gain from the sale of inventory and from the reuse of spare parts	186	136
Change in provision for impairment of receivables	50	57
Change in provision for impairment of property, plant and equipment	15	36
Other operating income	156	164
Total other operating income	**647**	**660**

22. OPERATING EXPENSES

	2017	2016
Third-party charges related to principal activities	37,785	29,495
Freight handling and transportation services	6,549	5,972
Payroll and related charges	5,809	5,244
Materials, repair and maintenance	3,182	2,605
Depreciation and amortisation	2,668	2,528
Taxes other than income tax	581	543
Rent	279	311
Consulting and information services	232	157
Security	192	207
Fuel costs	155	170
Charity	134	254
License and software	130	156
Communication costs	69	73
Other expenses	673	579
Total operating expenses	**58,438**	**48,294**

23. INTEREST EXPENSE

	2017	2016
Interest expense on RUR bonds	628	460
Interest expense on finance lease obligations	6	13
Interest expense on bank loans and borrowings	-	19
Total interest expense	**634**	**492**

24. INCOME TAX

	2017	2016
Current income tax expense	(1,551)	(782)
Deferred income tax expense	(87)	(53)
Income tax expense	**(1,638)**	**(835)**

The statutory tax rate applied to the profit of the Group was 20% for the years ended 31 December 2017 and 31 December 2016.

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

	2017	2016
Profit before income tax	**8,172**	**4 079**
Theoretical tax charge at statutory rate of 20%	(1,634)	(816)
Tax effect of items which are not deductible or assessable for taxation purposes and other effects:		
Benefits in-kind and other non-deductible payments to employees	(22)	(21)
Non-deductible post-employment benefits	(14)	(11)
Non-deductible charitable donations	(27)	(51)
Income tax adjustments for prior periods	-	15
Non-taxable income of result of associates and joint ventures	131	133
Other effects, net	(72)	(84)
Income tax expense	**(1,638)**	**(835)**

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

	1 January 2017	Charged to profit or loss	Charged to other comprehensive income	31 December 2017
Investment property	23	9	27	59
Loans and borrowings	3	-	-	3
Intangible assets	(12)	8	-	(4)
Finance lease obligations	(28)	28	-	-
Property, plant and equipment	1,845	45	-	1,890
Employee benefits liability	(96)	-	(2)	(98)
Trade and other receivables	17	(191)	-	(174)
Trade and other payables	(224)	196	-	(28)
Other	(5)	(8)	-	(13)
Total net deferred tax liability	**1,523**	**87**	**25**	**1,635**
Deferred tax assets	**(6)**	**-**	**-**	**(6)**

24. INCOME TAX (CONTINUED)

	1 January 2016	Charged to profit or loss	Charged to other comprehensive income	31 December 2016
Investment property	21	-	2	23
Loans and borrowings	1	2	-	3
Intangible assets	(10)	(2)	-	(12)
Finance lease obligations	(29)	1	-	(28)
Property, plant and equipment	1,796	49	-	1,845
Employee benefits liability	(97)	3	(2)	(96)
Trade and other receivables	(65)	82	-	17
Trade and other payables	(140)	(84)	-	(224)
Other	(11)	6	-	(5)
Total net deferred tax liability	**1,466**	**57**	**-**	**1,523**
Deferred tax assets	**(2)**	**(4)**	**-**	**(6)**

The Group did not recognise a deferred tax liability for temporary differences of RUR 1,651m (31 December 2016: RUR 438m) in respect of investments in subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

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

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

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

The nature of the related-party relationships for those related parties with which the Group has entered into significant transactions, or had significant balances outstanding as at 31 December 2017 and 31 December 2016, are disclosed below:

Related party	Nature of relationship	
	31 December 2017	**31 December 2016**
OJSC Russian Railways (RZD)	Ultimate parent company	Ultimate parent company
JSC UTLC (Note 13)	Immediate parent company	Immediate parent company
JSC Kedentransservice	Joint venture of the Company	Joint venture of the Company
Oy ContainerTrans Scandinavia Ltd.	Joint venture of the Company	Joint venture of the Company
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture of the Company	Joint venture of the Company
Trans-Eurasia Logistics GmbH	-	Associate of the Company
LLC Freight Village Kaluga Sever (FVK Sever Group) (Note 9)	Joint venture of the Company	-
Far East Land Bridge Ltd.	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 1	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 2	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 3	Subsidiary of RZD	Subsidiary of RZD
JSC RZD Logistics	Subsidiary of RZD	Subsidiary of RZD
PJSC Bank VTB	State-controlled entity	State-controlled entity
Fund Blagosostoyanie	Post-employment benefit plan for Company employees	Post-employment benefit plan for Company employees
FAR-EASTERN SHIPPING COMPANY PLC	Significant shareholder	Significant shareholder

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

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

Relationships with RZD, its subsidiaries, joint ventures and associates

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

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

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Ultimate parent company (RZD)	Other RZD group entities	Group's Joint ventures	Other related parties	Total
ASSETS					
Current assets					
Cash and cash equivalents	-	-	-	3,632	**3,632**
Trade receivables	352	195	20	-	**567**
Other receivables	10	17	2	47	**76**
Advances to suppliers	798	40	46	4	**888**
Total assets	**1,160**	**252**	**68**	**3,683**	**5,163**
LIABILITIES					
Current liabilities					
Trade payables	10	39	20	10	**79**
Liabilities to customers (advances)	-	37	93	25	**155**
Other payables	-	1	-	17	**18**
Total liabilities	**10**	**77**	**113**	**52**	**252**
Revenue					
Rail-based container shipping services	339	20	19	98	**476**
Terminal services and agency fees	2,597	11	-	5	**2,613**
Integrated freight forwarding and logistics services	3	2,840	846	291	**3,980**
Cargo transportation and handling services with involvement of third parties	-	36	-	4	**40**
Other services	6	17	1	8	**32**
Interest income on deposits	-	-	-	96	**96**
Other interest income	-	-	-	4	**4**
Dividends received from joint ventures	-	-	14	-	**14**
Other operating income	34	93	19	3	**149**
Total income	**2,979**	**3,017**	**899**	**509**	**7,404**
Operating Expenses					
Freight and transportation services	4,417	-	173	1	**4,591**
Third-party charges related to principal activities	30,980	12	2,613	115	**33,720**
Repair services	479	1,399	3	6	**1,887**
Rent of property and equipment	25	3	-	3	**31**
Other expenses	137	41	16	143	**337**
Total expenses	**36,038**	**1,455**	**2,805**	**268**	**40,566**
Purchases of property, plant and equipment	4	14	-	109	**127**
Purchases of inventory	-	238	-	13	**251**
Contributions to non-state pension funds	-	-	-	68	**68**
Total other transactions	**4**	**252**	**-**	**190**	**446**

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

In 2017, the Company acted as a guarantor for the execution of FVK Sever obligations under the loan agreement with Vnesheconombank. As at 31 December 2017 the debt of FVK Sever secured by the guarantee under the loan agreement amounted to RUR 2.1bn. As at 31 December 2017 the financial guarantee recognised in the consolidated statement of financial position for investment in joint venture was RUR 154 (Note 9).

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and outstanding balances with related parties as at and for the year ended 31 December 2016 are shown below:

	Ultimate parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties	Total
ASSETS						
Non-current assets						
Trade and other receivables	-	15	-	-	-	**15**
Current assets						
Cash and cash equivalents	-	-	-	-	2,504	**2,504**
Trade receivables	221	421	3	16	-	**661**
Other receivables	24	22	-	3	96	**145**
Advances to suppliers	1,251	86	-	59	2	**1,398**
Total assets	**1,496**	**544**	**3**	**78**	**2,602**	**4,723**
LIABILITIES						
Current liabilities						
Trade payables	13	64	3	33	9	**122**
Liabilities to customers (advances)	-	38	2	67	23	**130**
Other payables	-	-	-	-	13	**13**
Total liabilities	**13**	**102**	**5**	**100**	**45**	**265**
Revenue						
Rail-based container shipping services	116	42	1	51	59	**269**
Terminal services and agency fees	1,915	20	-	-	7	**1,942**
Integrated freight forwarding and logistics services	1	1,560	210	906	46	**2,723**
Cargo transportation and handling services with involvement of third parties	-	59	1	-	11	**71**
Other services	14	32	3	1	17	**67**
Interest income on deposits	-	-	-	-	114	**114**
Other interest income	-	-	-	-	6	**6**
Dividends received from joint ventures	-	-	-	517	-	**517**
Other operating income	61	175	-	2	3	**241**
Total income	**2,107**	**1,888**	**215**	**1,477**	**263**	**5,950**
Operating Expenses						
Freight and transportation services	4,064	4	-	134	8	**4,210**
Third-party charges related to principal activities	23,874	16	-	1,667	152	**25,709**
Repair services	329	1,054	-	-	9	**1,392**
Rent of property and equipment	29	3	-	-	3	**35**
Other expenses	140	47	-	-	76	**263**
Total expenses	**28,436**	**1,124**	**-**	**1,801**	**248**	**31,609**
Purchases of property, plant and equipment	2	-	-	-	74	**76**
Purchases of inventory	-	152	-	-	13	**165**
Contributions to non-state pension funds	-	-	-	-	49	**49**
Total other transactions	**2**	**152**	**-**	**-**	**136**	**290**

As at 31 December 2017 provision for impairment of accounts receivable of Far East Land Bridge Ltd., subsidiary of RZD, in respect of trade receivables balance was RUR 0m (as at 31 December 2016 RUR 59m).

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Dividends

Dividends payable in respect of 2017 to JSC UTLC and FAR-EASTERN SHIPPING COMPANY PLC. amounted to RUR 325m and RUR 163m, respectively, and were paid in July 2017.

Dividends payable in respect of 2016 to JSC UTLC and FAR-EASTERN SHIPPING COMPANY PLC. amounted to RUR 2,415m and RUR 1,165m, respectively, and were paid in October 2016.

Compensation of key management personnel

Key management personnel consist of members of the Company's Board of Directors, as well as the General Director and his deputies, and comprised 19 and 20 persons as at 31 December 2017 and 31 December 2016, respectively. Total gross compensation, including insurance contributions and before withholding of personal income tax, to key management personnel amounted to RUR 447m (including total social insurance contributions of RUR 60m) and RUR 374m (including total social insurance contributions of RUR 50m) for the years ended 31 December 2017 and 31 December 2016, respectively. This compensation is included under payroll and related charges in the consolidated profit and loss and comprises primarily short-term benefits. Major part of compensation for Key management personnel is generally sort-term excluding contributions under pension plans with defined benefits. Defined benefits to Key management of the Group are calculated based on the same terms as for the other employees.

As at 31 December 2017 liabilities in respect of Key management personnel on accrued expenses and other current assets amounted to RUR 249m, and on employee benefit liability amounted to RUR 24m (RUR 177m and RUR 19m respectively as at 31 December 2016).

26. LIABILITIES ARISING FROM FINANCING ACTIVITIES

	As at 1 January 2017	Cash flow	Reclassification of current portion of long-term debt	Non-monetary changes	As at 31 December 2017
Long-term debt	6,236	-	(1,249)	-	4,987
Current portion of long-term debt	2,762	(3,229)	1,249	643	1,425
Finance lease obligations	139	(132)	-	(7)	-
Total	**9,137**	**(3,361)**	**-**	**636**	**6,412**

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

27. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2017, the Group leased container terminal Dobra in Slovakia. The remaining period of agreements validity is 7 years.

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

27. COMMITMENTS UNDER OPERATING LEASES (CONTINUED)

Future minimum lease payments under contracted operating leases, including VAT, are as follows:

	2017	2016
Within one year	123	117
Within two to five years	213	234
After five years	38	111
Total future minimum lease payments	**374**	**462**

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

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's capital commitments as at 31 December 2017 and 31 December 2016 consisted of the following, including VAT:

	2017	2016
Acquisition of containers and flatcars	2,906	2,339
Construction of container terminal complexes and modernisation of existing assets	133	108
Acquisition of lifting machines and other equipment	132	229
Total capital commitments	**3,171**	**2,676**

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This 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.

Transfer pricing. The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. This legislation provides for the possibility of additional tax liabilities under controlled transactions (transactions with related parties and equivalent to those), provided that the transaction price is not arm's length. Management has implemented internal controls to comply with the transfer pricing 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 the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

Because of the ambiguity of formulation of current legislation, the Group can use the provisions of the tax law in the interpretation that differs from the applicable by regulatory authorities. While management currently estimates that it is probable that the tax positions and interpretations that it has taken can be sustained, there is a possible risk that an incremental outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot

28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

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

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

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

29. RISK MANAGEMENT ACTIVITIES

Capital Risk Management

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

The Group's objectives when managing capital is to maintain an optimal capital structure to reduce the cost of capital and to provide the shareholders with an acceptable level of return respecting the interests of other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2017 was RUR 40,367m (as at 31 December 2016: RUR 34,509m).

The capital structure of the Group consists of issued capital, reserves and retained earnings as disclosed in Note 13.

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

Major Categories of Financial Instruments

The Group's financial assets include trade and other receivables, cash and cash equivalents, short-term investments and other non-current assets. All financial assets fall into the loans and receivables category under IAS 39 "Financial instruments: recognition and measurement".

	2017	2016
Financial assets		
Loans and receivables		
Cash and cash equivalents (note 12)	4,171	5,525
Trade and other receivables	1,340	1,621
Short-term investments	-	78
Other non-current assets	6	3
Total financial assets	**5,517**	**7,227**

29. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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

	2017	2016
Financial liabilities		
Trade and other payables	856	898
Other current liabilities	11	30
Long-term debt	4,987	6,236
Current portion of long-term debt	1,425	2,762
Finance lease obligations	-	139
Financial guarantee for investment in joint venture	154	-
Total financial liabilities	**7,433**	**10,065**

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations as they fall due. The Group also raises confirmed credit lines with Russian banks to reduce the risk of cash gaps in the event of unforeseen circumstances. In September 2017, the Group entered into an agreement with PJSC VTB Bank on the provision of a non-revolving credit line for up to RUR 2.5 billion and for a period of 6 months. As of 31 December 2017, the Group has not used any funds within the credit line. Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures.

In 2017 the Company repaid a part of a bond loan of series 4 in the amount of RUR 2,500m which was classified as current portion of long-term debt in the consolidated statement of financial position as at 31 December 2016 and affected current liquidity ratio of the Group.

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

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

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

	Effective interest rate	On demand	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Total
2016							
Non-interest bearing liabilities (including trade and other payables and other liabilities)	-	-	669	240	19	-	**928**
Bonds	8.40% - 9.45%	-	1,406	235	1,588	7,825	**11,054**
Finance lease liabilities	9.65%	-	2	3	14	139	**158**
Financial guarantee for investment in joint venture	-	-	-	-	-	-	**-**
Total		**-**	**2,077**	**478**	**1,621**	**7,964**	**12,140**

29. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has export revenue, and purchases third party transportation services, which are denominated in foreign currencies. Certain receivable and payable balances, related primarily to settlements with customers, are denominated in currencies other than the Russian Rouble, the functional currency of the Company.

As at 31 December 2017 and 2016 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities.

As at 31 December 2017 there was the strengthening of the Russian Rouble against the USD by 5%, and depreciated of the Russian Rouble against EUR by 8% (as at 31 December 2016 was the strengthening of the Russian Rouble against the USD by 17% and against the EUR by 20%). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

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

	USD		EUR		Other	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Assets						
Cash and cash equivalents	1,710	880	610	613	4	3
Trade and other receivables	39	93	85	24	8	15
Total assets	**1,749**	**973**	**695**	**637**	**12**	**18**
Liabilities						
Trade and other payables	157	113	36	33	6	4
Total liabilities	**157**	**113**	**36**	**33**	**6**	**4**

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

	USD – impact		EUR – impact	
	2017	**2016**	**2017**	**2016**
Total	**(478)**	**(258)**	**(197)**	**(181)**

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

Interest rate risk

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

As at 31 December 2017 and 31 December 2016 the Group's borrowed funds consist of long-term debt, current portion of long-term debt (Note 14) and finance lease liabilities (Note 15).

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

29. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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

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

Credit risk

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

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

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

The carrying amount of accounts receivable, net of provision for impairment of receivables (Note 10), and carrying amount of cash and cash equivalents (Note 12), short-term investments and financial part of other non-current assets represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, Management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

The Group's concentration of credit risk is dependent on a few large key customers. As at 31 December 2017 68% of the total net amount of trade and other receivables related to eight largest counterparties of the Group (as at 31 December 2016: 63% related to seven largest counterparties) of which the two largest counterparty accounts for related parties and accounts for 42% of the total amount of trade receivables and other receivables (as at 31 December 2016: 41% related to two largest counterparties).

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

	Outstanding balance, net	
	2017	**2016**
RZD	362	245
JSC RZD Logistics	196	419
Fintrans GL LLC	128	-
DB Cargo Logistics GmbH (DB Schenker Rail Automotive GmbH)	113	131
PJSC Chelyabinsk Pipe-Rolling Plant	57	48
JSC Kuznetskie Ferrosplavy	30	33
UNICO LOGISTICS	23	92
JSC Vyksa Steel Works	8	60
Total	**917**	**1,028**

As at 31 December 2017 and 31 December 2016 no impairment of accounts receivable has been identified for all these customers.

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

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

29. RISK MANAGEMENT ACTIVITIES (CONTINUED)

As at 31 December 2017 the Group received financial guarantees in the total amount of RUR 344m in order to ensure the proper performance of contractual obligations and minimise risks of collecting receivables (as at 31 December 2016: RUR 200m).

The Group's Management monitors past due balances of receivables and provides ageing analysis as disclosed in Note 10.

Credit risk on liquid funds is limited because these funds are placed only with financial organisations with minimal level if defolt risk. As at 31 December 2017 87% of total cash and cash equivalents were held with one bank which is related to the Group (as at 31 December 2016: 45%).

As part of the financial guarantee issued by the Company for FVK Sever under a loan agreement with the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank), as of 31 December 2017, the credit risk is represented by a maximum amount of RUR 2.1 billion (as of 31 December 2016: RUR 0m.), which the Company will have to pay in the event that the obligations under the guarantee are discharged (Note 9).

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

Fair value of assets and liabilities

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

For financial assets and liabilities not measured at fair value but for which fair value is disclosed, Management believes that the fair value of the following assets and liabilities approximates their carrying value: cash and cash equivalents, trade and other receivables, other financial assets, trade and other payables. These financial assets and liabilities, except for cash and cash equivalents, and financial guarantee for the investment in joint venture, relate to Level 3 in the fair value hierarchy.

The fair value of the financial guarantee for the investment in joint venture at initial recognition was determined based on an analysis of the possible characteristics for long-term project financing for a similar loan. To this end, the terms of the guarantee, market interest rates with surety and without it were analysed. The most significant variable indicator affecting the fair value of the obligation is the difference between the market loan rate under the contract with the surety and the market loan rate under the contract without surety. Based on the analysis, it was determined that the rate for a similar loan without the guarantee of the Company is estimated at 1% -1.5% more than the market rate. Thus, in determining fair value, this indicator was accepted at a rate of 1.25%.

The following table shows the sensitivity analysis of the fair value of the liability to this indicator:

Considerable premium to contract without surety	Fair value of obligation
0.75%	97
1.00%	126
1.25%	154
1.50%	181
1.75%	208

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

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

29. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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

	2017	2016
Financial liabilities		
Bonds	6,493	8,750
Total	**6,493**	**8,750**

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

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

30. SUBSEQUENT EVENTS

Bond redemption. In January 2018 the Company fully redeemed the residual principal amount of five-year amortised bonds series 04 of RUR 1,250m and the final coupon in the amount of RUR 52m.

Bond issue. In January 2018, the Company placed five-year amortised exchange-traded bonds series BO-01 for the amount of RUR 6 billion on the Moscow Exchange with a coupon rate of 7.5% per annum.

Dividends. The dividends of JSC Kedentranservice in the amount of EUR 5.4m (RUR 376m at the Central Bank of the Russian Federation exchange rate as at the date of the meeting) were approved on 7 March 2018 by the decision of the sole shareholder Logistic System Management B.V., 50% of which belongs to the Company.

Acquisition of containers. In January - March 2018 the Group obtained under the previously signed agreements 221 containers from Taicang CIMC special logistic equipment Co.,Ltd for the total amount of RUR 66m (at the Central Bank of the Russian Federation exchange rate as at the date of purchase), net of VAT.

Acquisition of flatcars. In January - March 2018 the Group obtained under the previously signed agreement 70 flatcars from OJSC Transportnoye Mashinostroyeniye for the total amount of RUR 164m (plus VAT in the amount of RUR 30m).

Agreement on acquisition of flatcars. In January - March 2018 the Group entered into the following agreements with:

- JSC Novozybkovsky mashinostroitelny zavod on the purchase of 328 flatcars for the total amount of RUR 858m (plus VAT in the amount RUR 154m). Delivery is expected no later than 31 August 2018.
- JSC Roslavlskiy vagonoremontniy zavod on the purchase of 728 flatcars for the total amount of RUR 1,601m (plus VAT in the amount RUR 288m). During the period 40 flatcars were delivered for the total amount of RUR 88m (plus VAT in the amount RUR 16m). Delivery is expected no later than September 2018.