ANNUAL FINANCIAL REPORT

2016

Key events in 2016

January

PJSC NCSP's primary union organization, the Water Transport Workers Union of the Russian Federation (PRVT RF) held a conference to report results and hold elections. PRVT RF members at PJSC NCSP number 2,861, or 86.7% of total employees.

February

Baltic Stevedoring Company for the first time received the Peterburg ferry, which conducts regular sailings on the route Baltiysk – Zasnits to provide transit of heavy haul vehicles bypassing Poland.

March

The Vikhr-MED-2016 comprehensive exercises were held for responding to an act of unlawful interference in the internal waters of the Novorossiysk seaport.

PJSC NCSP set an all-time record for average daily processing of freight cars – 774 freight cars per day.

An information system for management of cargo handling based on the ERP Microsoft Dynamics AX 2012 platform was put into operation, which will make it possible to reduce cargo processing times by 10% and increase productivity by 5%.

April

NCSP Group participated in the 22nd TransRussia International Transport and Logistics Exhibition.

An episode of the popular documentary series Sledstvie Veli was filmed at the Marine Terminal of Novorossiysk.

May

A new Collective Agreement to April 2019 went into effect at PJSC NCSP.

Port workers took part in the Immortal Regiment march.

June

NCSP Group raised a loan of $1.50 billion from VTB Bank in order to refinance debt to Sberbank. The credit period was extended, annual payments were decreased and the interest rate was reduced by 1.1 percentage points.

The General Meeting of PJSC NCSP shareholders approved dividends for the first quarter of 2016 in the amount of 1 billion rubles.

PJSC NCSP participated in the St. Petersburg International Economic Forum for the first time.

PJSC NCSP and Rosmorport signed a letter of intent to participate in a project to build a dry cargo area at the Port of Taman.

July

PJSC NCSP acquired 30.3% of shares in JSC NSRZ from entities of the United Shipbuilding Corporation.

PJSC NCSP container terminal handled the first vessel of the new joint Black Sea Service of Maersk Group's Seago Line and Arkas.

Dock engineers underwent training and received the right to operate the unique Liebherr LH 120 ETG material handler.

A mini asphalt and concrete plant was opened to provide road surfacing for cargo areas of the port.

August

The PJSC NCSP – Russian Railways Coordinating Council held a meeting in Novorossiysk and discussed measures to increase cargo handling volumes.

Dock No. 8 at the Primorsk port loaded its first vessel with deadweight of 65,000 tonnes, the Stena Premium tanker, which took on 57,000 tonnes of diesel fuel.

PJSC NCSP's team won first place in a kettlebell lifting competition at a workers' Spartakiade.

September

The General Meeting of PJSC NCSP shareholders approved dividends for the first half of 2016 in the amount of 8.99 billion rubles.

The management of Novorossiysk Commercial Sea Port held a meeting with Presidential Commissioner for Entrepreneurs' Rights Boris Titov at which they discussed the outlook for the development of PJSC NCSP.

Baltic Stevedoring Company completed the implementation of the SmartPath container positioning system on Kalmar RTG cranes.

October

Agreements were signed at the Sochi-2016 International Investment Forum with the Administration of Novorossiysk, the government of Leningrad Region and Novorossiysk Grain Plant.

PJSC NCSP participated in three-day national civil defense exercises.

November

PJSC NCSP celebrated the launch of Liebherr material handling equipment.

The NLE container terminal handled the first vessel of a new direct service between Tunisia and Novorossiysk.

December

A record handling rate of 39,989 tonnes of hot briquetted iron per day was achieved thanks to the introduction of a new organizational and process model for briquette handling at area No. 5 of NCSP's Eastern Pier. A shipment of 48,300 tonnes of briquettes was loaded in 44 hours.

NCSP GROUP ASSETS

Azov-Black Sea basin/Port of Novorossiysk

NSRZ

Metals

2% of Group cargo turnover in 2016

4% of Group revenue in 2016

Max. vessel deadweight
61,400 t

Cranes:
1, cap. 50-75 t
12, cap. 25-50 t
2, cap. 10-25 t
3, cap. up to 10 t

Forklifts:
11, cap. 25-50 t
6, cap. 10-25 t
10, cap. up 10 t

Tractors:
11, cap. 25-50 t

Roll trailers:
43, cap. 50-75 t

NCSP

All types of cargo

43% of Group cargo turnover in 2016

46% of Group revenue in 2016

Max. vessel deadweight
275,000 t
Oil terminal

85,000 t
Cargo area

Total storage capacity
5,300 TEU

Cranes:
15, cap. 75-100 t
11, cap. 50-75 t
19, cap. 25-50 t
19, cap. 10-25 t

Forklifts:
33, cap. 25-50 t
48 , cap. 10-25 t
107 , cap. up 10 t

Tractors:
53, cap. 25-50 t

Roll trailers:
87, cap. 50-75 t

NGT

Grain

2% of Group cargo turnover in 2016

6% of Group revenue in 2016

Max. vessel deadweight
64,000 t

Total storage capacity
163,000 m³

Loading:
2 x 800 t/hr

18 silos
for grain

Train receiving:
3 x 800 t/hr

Truck receiving:
2 x 200 t/hr
1 x 400 t/hr

IPP

Oil products and other liquid cargo

3% of Group cargo turnover in 2016

4% of Group revenue in 2016

Max. vessel deadweight
43,000 t

Total storage capacity
143,000 m³

13 tanks
for liquid cargo

4 receiving racks
total capacity 74 tank cars

NLE

Forest products, containers, nonferrous metals

2% of Group cargo turnover in 2016

8% of Group revenue in 2016

Max. vessel deadweight
60,000 t

Total storage capacity
11,100 TEU

Cranes:
3, cap. 75-100 t
6, cap. 25-50 t
11, cap. 10-25 t
5, cap. up to 10 t

Forklifts:
24, cap. 10-25 t
54, cap. up to 10 t

Tractors:
35, cap. up to 25 t

Roll trailers:
4, cap. 50-75 t

RMG cranes:
8, cap. 25-50 t

NFT

Oil products

3% of Group cargo turnover in 2016

Max. vessel deadweight
47,000 t

Total storage capacity
120,000 m³

5 tanks
for oil products

2 receiving racks
total capacity 108 tank cars

NCSP Fleet

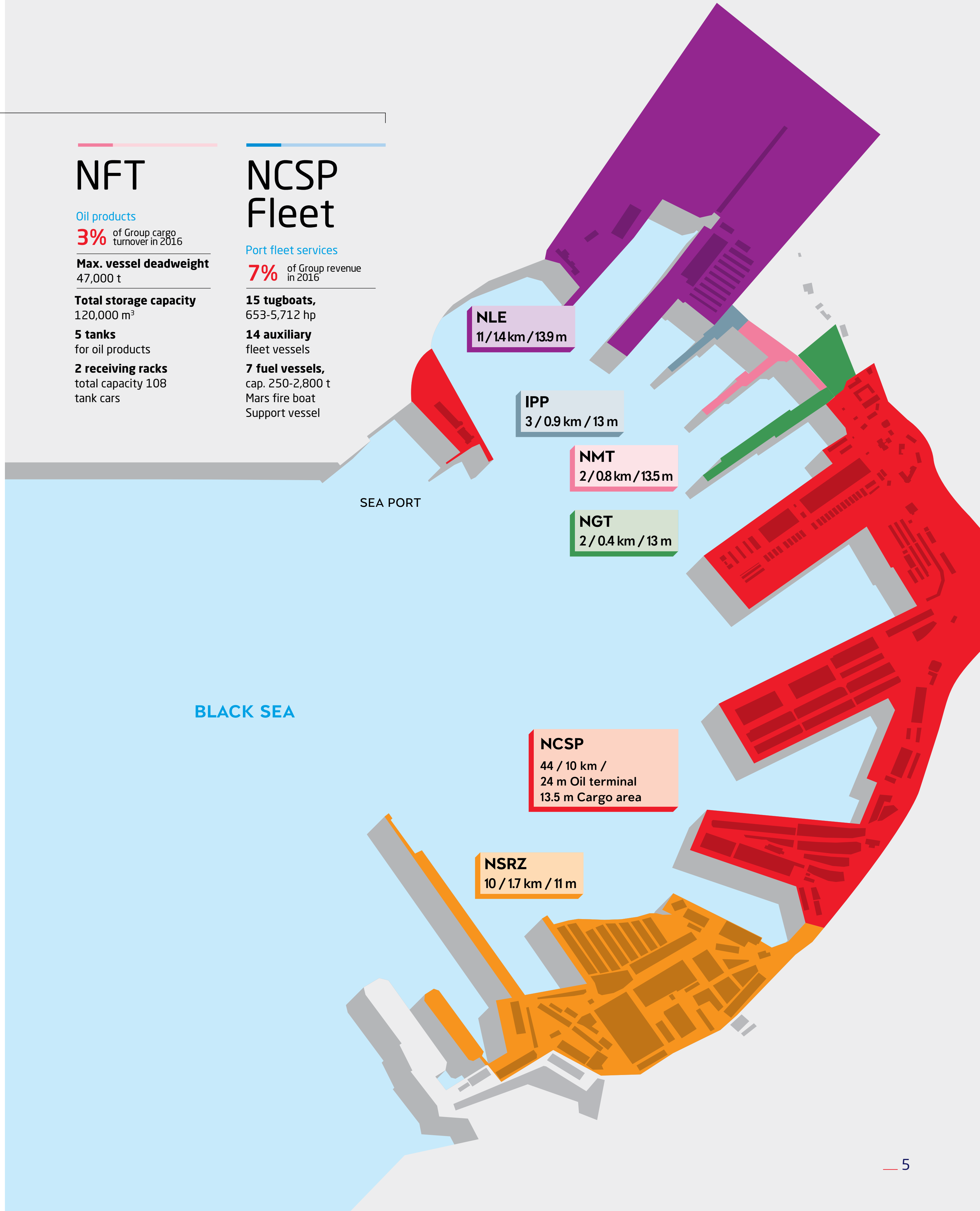
Port fleet services

7% of Group revenue in 2016

15 tugboats,
653-5,712 hp

14 auxiliary
fleet vessels

7 fuel vessels,
cap. 250-2,800 t
Mars fire boat
Support vessel



Port of Baltiysk

BSC

Containers

1% of Group cargo turnover in 2016

1% of Group revenue in 2016

Max. vessel deadweight
20,000 t

Simultaneous storage capacity 10,000 TEU

Cranes:
3, cap. 75-100 t
6, cap. 25-50 t

Loaders:
1, cap. 25-50 t
1, universal

Tractors:
12, cap. 25-50 t

Roll trailers:
16, cap. 25-50 t

RMG cranes:
3, cap. 25-50 t
2, cap. 10-25 t

SFP

Port fleet services

4% of Group revenue in 2016

7 azimuth tugboats built in 2004-2011 (3500 - 5500 hp), Arc4/Arc5 ice-class

Port of Primorsk

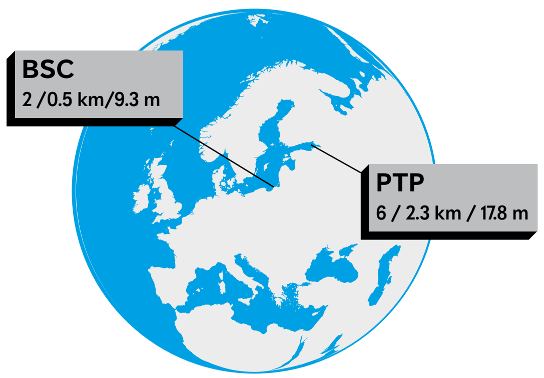
PTP

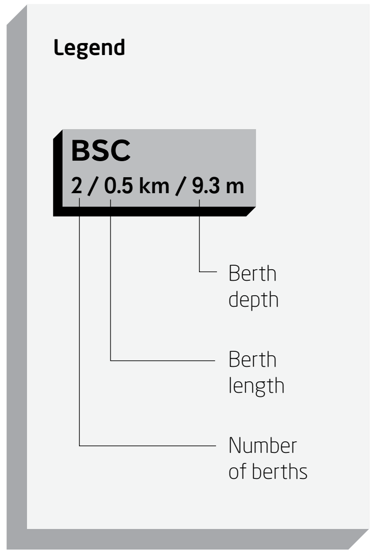
Crude oil, oil products

44% of Group cargo turnover in 2016

20% of Group revenue in 2016

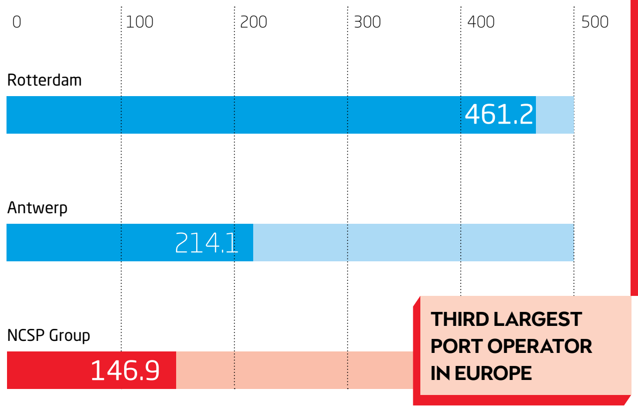
Max. vessel deadweight
150,000 t





KEY FACTS AND FIGURES

Largest ports in Europe by cargo turnover in 2016, mln t



THIRD LARGEST PORT OPERATOR IN EUROPE

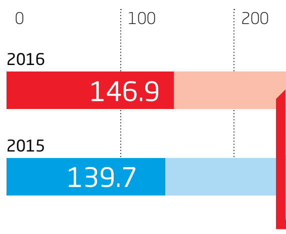
NCSP GROUP INCLUDES THE:

No. 1 port in Russia by cargo turnover **NOVOROSSIYSK** on the Black Sea

NO. 5 port in Russia by cargo turnover **PRIMORSK** on the Baltic Sea

NO. 5 container terminal by cargo turnover **PORT OF BALTIYSK** in Kaliningrad Region

Cargo turnover, mln t



+7.2 MLN T

NCSP GROUP CARGO TURNOVER IN 2016

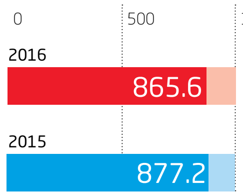
Prime location

NCSP Group ports are located at the crossroads of international transport corridors that link Russia to the Mediterranean, Middle East, Africa, South & Southeast Asia, and North & South America

Developed infrastructure

- Ample covered & open storage facilities
- State-of-the-art handling equipment
- Well-developed road, railway & pipeline infrastructure

Revenue, mln USD



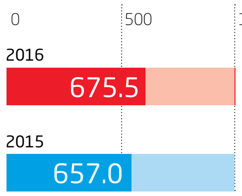
866 MLN USD

NCSP GROUP REVENUE IN 2016

Favorable natural conditions

Ice-free Tsemes Bay allows year-round operations, and the port's system of seawalls and breakwaters provides sufficient protection for port facilities, minimizing downtime due to weather conditions

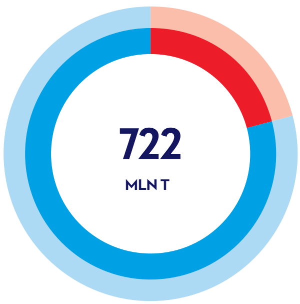
EBITDA, mln USD



+18.5 MLN USD

NCSP GROUP EBITDA IN 2016

Cargo turnover of Russian seaports in 2016



NCSP GROUP

20.3%

OF CARGO TURNOVER OF RUSSIAN SEAPORTS IN 2016

GEOGRAPHY OF NCSP GROUP CUSTOMERS

Our mission

- Develop and build new port facilities
- with the latest high-performance technology
- Provide world-class comprehensive stevedoring services
- Introduce innovative management methods
- Increase productivity
- Increase cargo handling volume
- Reduce costs
- Improve environmental performance
- and energy efficiency

Crude oil & oil products

Rosneft
Lukoil
Gazprom Neft
Tatneft
Surgutneftegas
Neftegazindustria

Ore & ferrous metals

Metalloinvest
NLMK
MMK
Evraz
Novorossmetall

Container lines

MSC
Arkas
MAERSK
ZIM
OOCL

Grain

RIF Trading House
Krasnodarzernoprodukt
Orsett Trading
Aston Trading House
Grainbow

NCSP

Chemical cargo

Gazpromtrans
Rossosh Minudobreniya
Nevinomyssky Azot
NLK Azot

Coal

Kuzbassrazrezugol Coal
Promugolservis
Mine Office Obukhovskaya

Nonferrous metals

Rusal
Kazzinc
Kazakhstan Electrolysis Plant
Kazakhmys Smelting

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CHAIRMAN STATEMENT

Dear shareholders!

PJSC NCSP achieved exceptional results in 2016, strengthened its leading positions in Russia's port industry and made strong progress in improving its corporate governance system and strategic planning.

Growing competition on the stevedoring services market in the Azov-Black Sea basin, as well as the need to tackle the national challenges of developing the country's transportation infrastructure demand great efforts on our part to expand and modernize our facilities.

Russian Prime Minister Dmitry Medvedev approved a roadmap in June 2016 for the development of seaports in the Azov-Black Sea basin, as well as the development of local and long-distance railway and road access to these ports in the period to 2020.

The roadmap was developed in cooperation with all stakeholders on orders from President Vladimir Putin and includes projects at the Port of Novorossiysk such as the reconstruction of Area 6, cargo docks and the NLE container terminal, expansion of NGT's grain handling terminal, and reconstruction of the container terminal and construction of a general cargo terminal at PJSC NCSP.

Also in June, PJSC NCSP and state company Rosmorport signed a letter of intent to participate in a project to build a dry cargo area at the Port of Taman.

Coordinating the development of NCSP Group with the federal Program for Development of Russia's Transportation System and its subprograms, as well as the development plans of other stevedoring companies, will make it possible to fully meet demand for port capacity in the Azov-Black Sea and Baltic Sea basins.

The Company also updated the Long-term Development Program for the Group to 2020, which calls for expanding the range of services provided and upgrading the equipment resources of port operations.

The estimated amount of investment in NCSP Group development projects in the period to 2020 was doubled, and the implementation of these projects will enable us to double dry cargo handling and increase oil products handling by 47%.

PJSC NCSP carried out the wishes of the Russian Federation, as a shareholder, and allocated almost 60% of consolidated net profit for payment of dividends in 2016, including dividends paid for the first quarter and first half of the year.

We would like to afford shareholders a comparable level of dividend returns in future provided the key parameters of the Group's business are maintained, including the ability to finance new projects, raise capital and set market prices for our services.

The Company's achievements did not go unnoticed by investors: the price of GDR on PJSC NCSP shares doubled in 2016 and has more than quadrupled in the past two years.

The Board of Directors devoted particular attention in the reporting year to work on improving the system of corporate governance. The Board approved the Regulation on Internal Audit and the Regulation on the Internal Control and Risk Management System, and decided to prepare quarterly reports on the implementation of the Long-term Development Program and achievement of key performance indicators.

Since 2015, PJSC NCSP has been implementing the recommendations of the Corporate Governance Code that the Bank of Russia approved in March 2014. In line with these recommendations, in 2016 we made amendments to the Charter, the Regulation on the General Shareholder Meeting, Regulation on the Chief Executive Officer and Regulation on the Management, and approved the Regulation on the Corporate Secretary.

A self-evaluation done by PJSC NCSP showed that the level of compliance with the recommendations of the Corporate Governance Code increased to 63% in 2016 from 45% in the previous year. This work was recognized in a letter of appreciation from the Bank of Russia, and it will be continued.

I would like to thank the members of the Board of Directors for their contribution to the Company's development and I am confident that their experience and expertise will help the Company to implement its plans for the future. I would also like to express my heartfelt gratitude to our shareholders, customers and partners, employees and investors for their support and confidence in NCSP Group.

Respectfully yours,

MAXIM GRISHANIN
Chairman, PJSC NCSP

CEO STATEMENT

Dear shareholders!

NCSP Group set new records for cargo turnover volume and cargo handling rates in 2016, continued extensive modernization of plant and equipment and achieved excellent financial results.

NCSP Group cargo turnover grew by 5.2% to a three-year high of 146.9 million tonnes. Amid a favorable climate on world markets, the Group handled 50.1% more iron ore products and 12.4% more coal, while transshipments of these products at Russian ports in general increased by respectively 29.6% and 10.5%. As a result, NCSP Group exceeded its cargo turnover target for 2016 by 12.2%. The Group's market share amounted to 20.3% of total cargo turnover at all Russian seaports in 2016.

This was in large part the result of the ongoing program to update port equipment, including replacement of cranes with material handlers, extensive introduction of magnetic grabs, installation of more precise, faster and higher capacity cranes and the introduction of joint freight car dispatching with Russian Railways. We also launched an ERP system at the beginning of the year to manage cargo handling in real time.

All this enabled us to increase the efficiency of handling bulk and general cargo when unloading freight cars and loading vessels by optimizing cargo feed, intensifying cargo operations by reducing manual labor, accelerating the work of cranes and enabling new equipment to operate in more difficult weather conditions.

Average daily processing of freight cars at the Novorossiysk port increased by 13.5% in 2016, with average daily unloading of cars with ferrous metals increasing by 15% year-on-year to 400 cars/day, and average daily unloading of ore cargo and coal surging by 52.6% and 21% respectively.

New specifications for maximum permissible draft and deadweight of vessels at the Primorsk port were approved in April 2016, making it possible to receive larger vessels and increase tanker shipments to 60,000 tonnes from 30,000-40,000 tonnes and opening up fundamentally new opportunities for exporting oil products. The first tanker with deadweight of 65,000 tonnes was loaded in August 2016.

We also made the strategic acquisition of a 33.08% equity interest in NSRZ, consolidating 98.26% of shares in this company. The Group plans to build a universal transshipment complex at NSRZ to handle various types of cargo.

Although NCSP Group's revenue decreased by 1.3% to $ 865.6 million in 2016, EBITDA grew by 2.8% to $ 675.5 million on the back of efficiency gains in the stevedoring business.

NCSP Group refinanced a Sberbank loan of $ 1.50 billion with VTB Bank in June 2016, extending the term of credit by seven years, lowering annual payments to $ 200 million and reducing the interest rate by 1.1 percentage points.

The Group's net debt to EBITDA ratio decreased to 1.72 in 2016 from 2.14 at the end of 2015, giving us a safety margin on financial obligations.

A stable cash flow and profit of $ 638.8 million for 2016 enabled us to pay record dividends that even exceeded the Russian Federation's recommendation for companies in which the state holds equity interest.

NCSP Group employees and management succeeded in meeting all of the objectives set before them in 2016, as well as laying the foundation for major future projects that will serve to develop Russia's transportation infrastructure. This enables us to confidently look to the future and work in the interests of shareholders and society.

Sincerely,

SULTAN BATOV
Chief Executive Officer, PJSC NCSP

RUSSIA'S CARGO PORT SERVICES **MARKET**

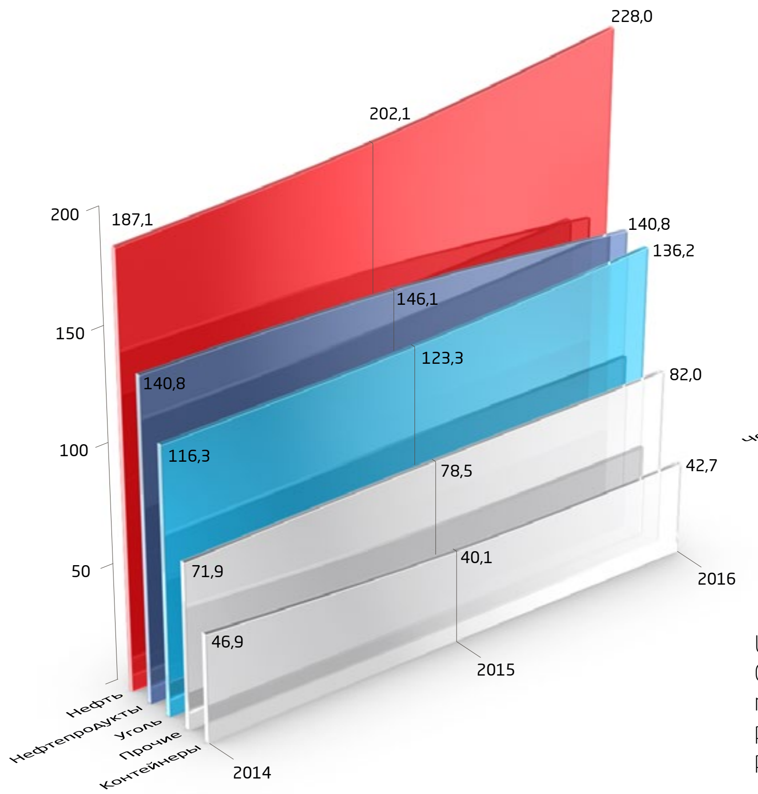
Export cargo makes up the bulk of cargo turnover at Russian seaports, accounting for 78.6% of the total in 2016,[1] so the external economic environment, as well as the dynamics of production and exports of commodities, the mainstay of Russian exports, have a decisive impact on the industry.

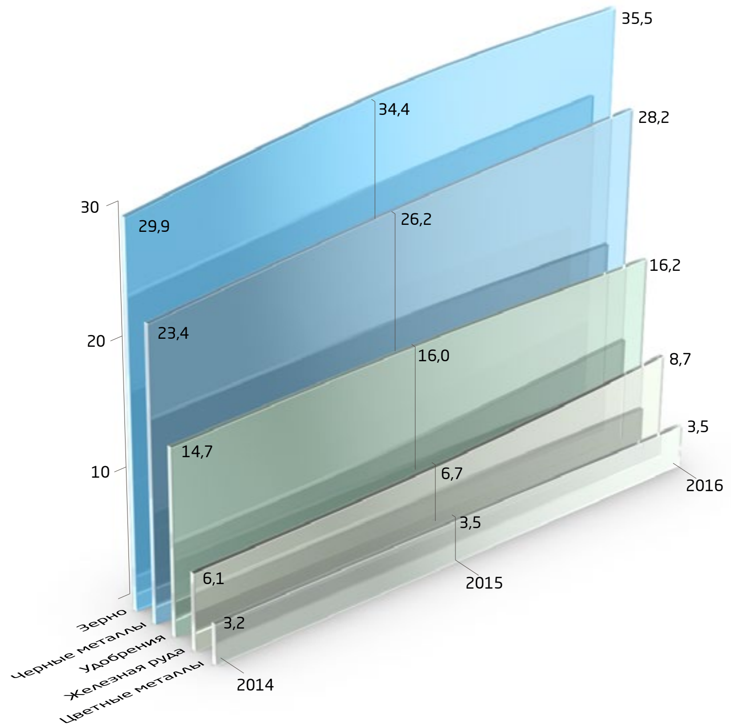
[1] Source: Association of Commercial Seaports of Russia (ASOP)

Cargo turnover at Russian seaports

722 MLN T

Transshipment of cargo at Russian seaports,
mln t



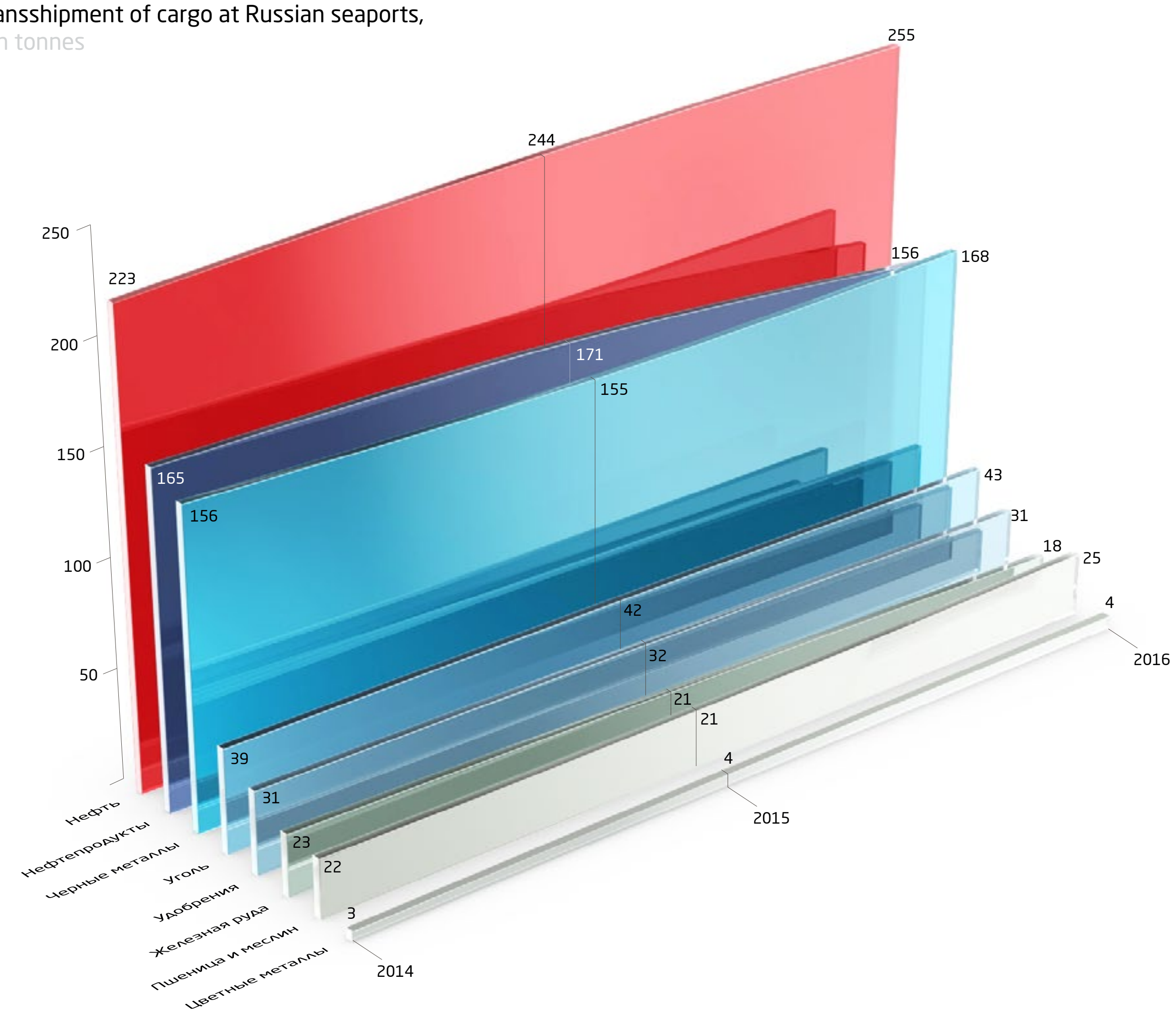


Under the pressure of macroeconomic and political factors, Russia's GDP contracted slightly in 2016, by 0.2%, while industrial production rose by 1.1%.[2] Production of mineral resources grew by 2.5%, and production in manufacturing sectors edged up by 0.1%.[3] Agricultural production grew by 4.8%.[4]

The ruble's depreciation against the U. S. dollar continued to give Russian exporters an edge on the world market. Russia's foreign

[2] Source: Federal Statistics Service of Russia (Rosstat)
[3] Source: Rosstat
[4] Source: Rosstat

Transshipment of cargo at Russian seaports,
mln tonnes



trade turnover shrank by 11.4%[5] in dollar terms, but the main reason for this was persistently low prices for commodities. Exports of key commodities grew by volume, leading to an increase in cargo turnover at Russian seaports.

While oil production in Russia grew by 14.1 million tonnes or 2.6% in 2016, 2.9 million tonnes or 1.0% less crude was shipped for refining than in 2015.[6] Crude exports by volume increased by 10.3 million tonnes or 4.2% in 2016, while exports of oil products fell by 15.5 million tonnes or 9.0%.[7] The change in the export mix was due to the tax maneuver in the oil industry. The leveling of duties on crude oil and dark oil products amid the depreciation of the ruble made exporting oil more lucrative than refining it or selling it on the domestic market.

Coal production grew by 12.7 million tonnes or 3.4%,[8] and coal exports increased by 13.3 million tonnes or 8.6%.[9] Iron ore production fell by 0.4 million tonnes or 0.6%[10] and iron ore exports dropped by 2.8 million tonnes or 13.1%.[11] Production of pig iron, steel pipes and rolled ferrous metal products decreased by 1.9 million tonnes or 1.5%,[12] while exports of ferrous metals rose by 1.2 million tonnes or 2.8%.[13] Exports of nonferrous metals — copper, nickel and aluminum — decreased by 0.1 million tonnes or 2.3%.[14]

Grain production jumped 14.3 million tonnes or 13.6%, and wheat exports surged by 4.1 million tonnes or 19.3%.[15]

Production of mineral fertilizers increased by 0.6 million tonnes or 3.0%,[16] but fertilizer exports decreased by 0.1 million tonnes or 0.3%.[17]

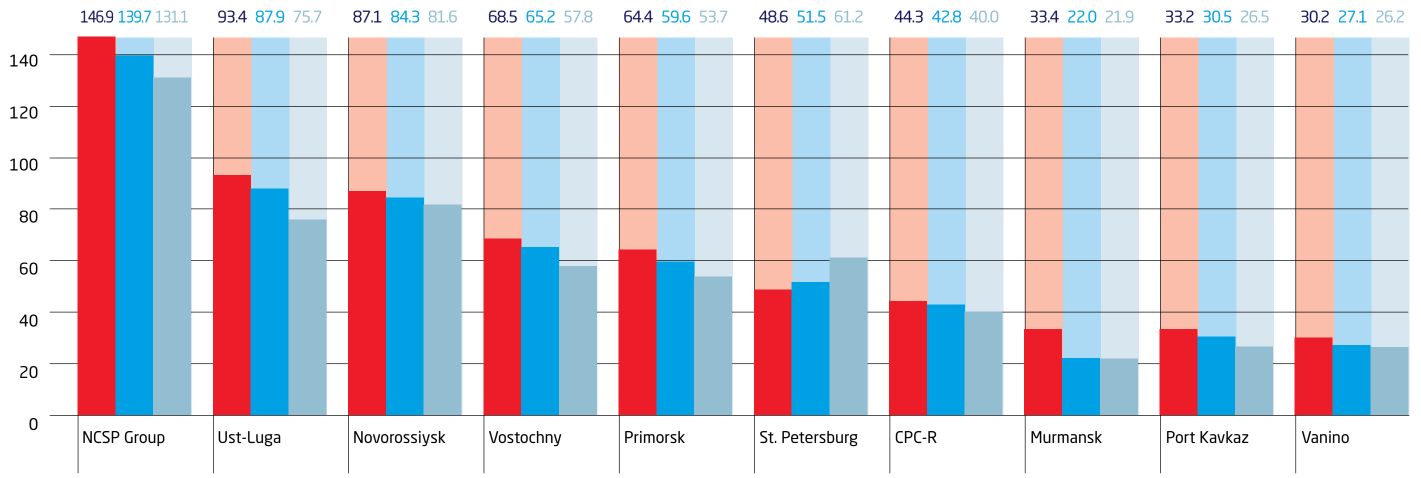
Cargo turnover at Russian seaports

Cargo handling at Russian seaports grew by 6.7% to 722.0 million tonnes in 2016, as the volume of liquid cargo increased by 6.0% to 386.2 million tonnes, dry cargo not including containers rose by 7.6% to 293.1 million tonnes, and cargo in containers grew by 2.6% to 42.7 million tonnes.[18]

The increase in dry cargo turnover was driven by the growth of coal transshipments by 12.9 million tonnes or 10.5%; iron ore by 2.0 million tonnes or 29.6%; ferrous metals by 2.0 million tonnes or 7.8%; and grain by 1.1 million tonnes or 3.3%. Transshipments of roll on/roll off (ro-ro) cargo surged by 80% or 2.0 million tonnes, and transshipments of dry cargo in coastal shipping grew by another 15.3%, including on

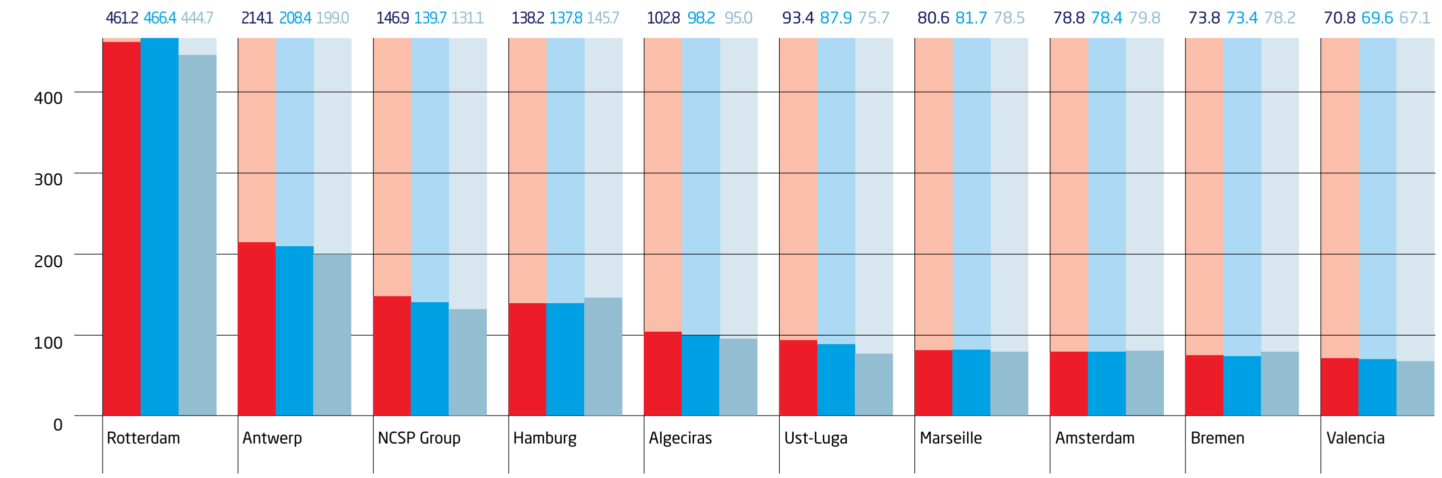
[5] Source: Central Bank of Russia
[6] Source: Economic Development Ministry of Russia
[7] Source: Federal Customs Service of Russia
[8] Source: Economic Development Ministry of Russia
[9] Source: Federal Customs Service of Russia
[10] Source: Economic Development Ministry of Russia
[11] Source: Federal Customs Service of Russia
[12] Source: Economic Development Ministry of Russia
[13] Source: Federal Customs Service of Russia
[14] Source: Federal Customs Service of Russia
[15] Source: Rosstat
[16] Source: Economic Development Ministry of Russia
[17] Source: Federal Customs Service of Russia
[18] Source: ASOP

Cargo turnover at Russian seaports, mln tonnes



Source: ASOP

Cargo turnover at European seaports, mln tonnes



Source: Data from foreign ports, ASOP

the back of shipments to the Crimean Peninsula. Transshipments of crude oil grew by 25.9 million tonnes or 12.8%, while handling of oil products fell by 5.3 million tonnes or 3.6%.[19]

Transshipment of containers at Russian seaports grew for the first time in three years, increasing by 1.4% to 4.00 million TEU in 2016 from 3.94 million TEU in 2015. In the weight equivalent, container cargo turnover increased by 6.5% or 2.6 million tonnes. Handling of container cargo is concentrated at the ports of St. Petersburg, Vladivostok and Novorossiysk, which accounted for respectively 43.6%, 16.1% and 15.3% of total container turnover at Russian seaports in 2016.[20]

Export cargo made up 78.6% of total cargo turnover at Russian seaports in 2016.[21]

Most cargo at Russian seaports is handled in the Baltic, Azov-Black Sea and Far East basins.

Cargo turnover at seaports in the Baltic basin grew by 2.5% to 236.6 million tonnes in 2016, as dry cargo turnover rose by 2.2% to 89.7 million tonnes and liquid cargo turnover increased by 2.8% to 146.9 million tonnes.[22]

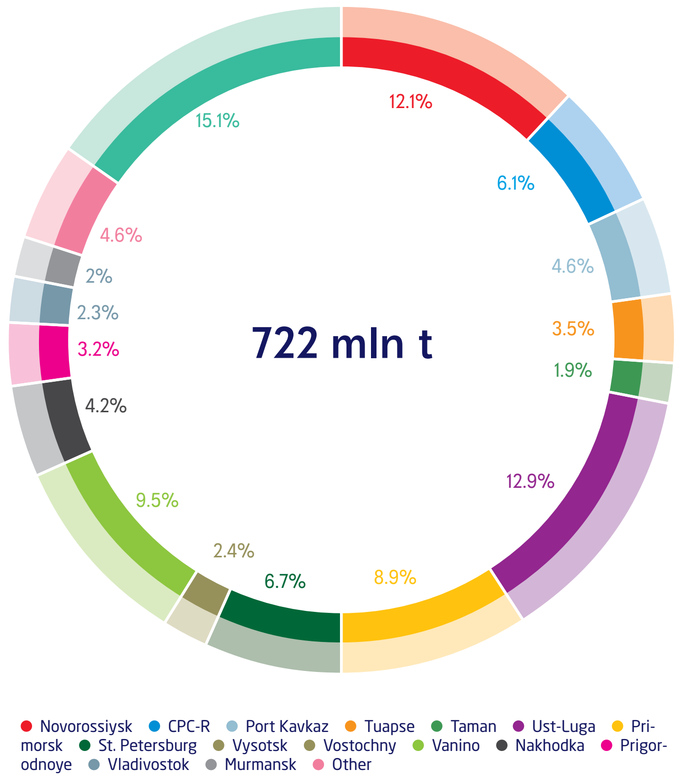
Dry cargo turnover increased on the back of 5.3% growth for coal, 4.3% for cargo in containers, 5.9% for ferrous metals, 9.5% for nonferrous metals, 16.5% for grain and 15.2% for ore. However, handling of ferry cargo and scrap metal fell by respectively 29.6% and 20.2%.[23]

Cargo turnover rose by 8.1% to 64.4 million tonnes at the Primorsk port and 6.2% to 93.4 million tonnes at the Ust-Luga port, but fell another 5.6% to 48.6 million tonnes at the St. Petersburg port. The Kaliningrad port dropped out of the list of Russia's 15 largest ports, as it saw cargo handling drop 7.8% to 11.9 million tonnes.[24]

Cargo turnover at seaports in the Azov-Black Sea basin grew by 4.8% to 244.0 million tonnes, as dry cargo handling increased by 7.1% to 105.3 million tonnes and liquid cargo rose by 3.1% to 138.7 million tonnes.[25]

[19] Source: ASOP
[20] Source: ASOP
[21] Source: ASOP
[22] Source: ASOP
[23] Source: ASOP
[24] Source: ASOP
[25] Source: ASOP

Market share of largest Russian seaports by cargo turnover in 2016



Source: ASOP

Cargo turnover at Novorossiysk port increased in 2016 by

3.3%

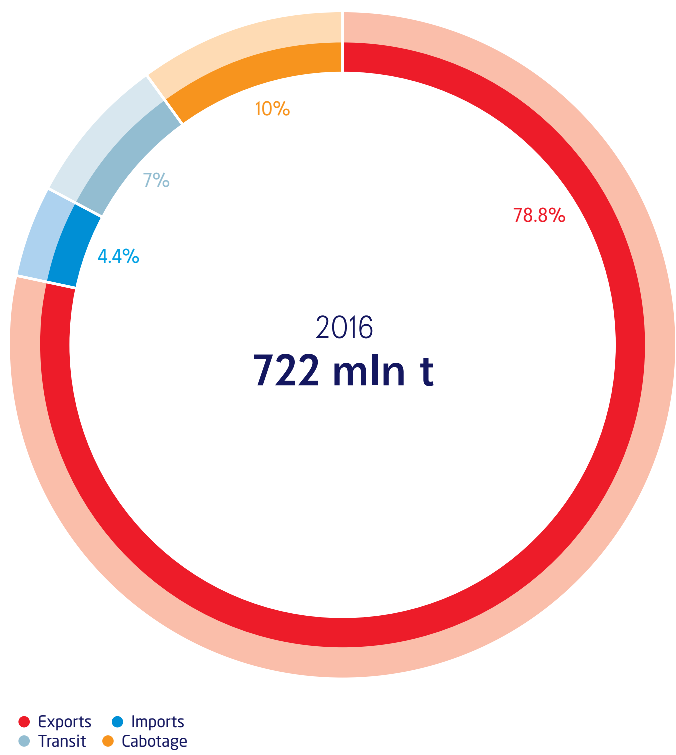
The growth of dry cargo transshipments was driven primarily by increases of 3.1% for grain, 12.9% for cargo on ferries, more than twofold for ro-ro cargo, 39.0% for ore, 4.7% for ferrous metals, 4.4% for coal and 8.4% for cargo in containers. Handling of fertilizer fell by 13.2%.[26]

Cargo turnover grew by 3.3% to 87.1 million tonnes at the port of Novorossiysk (excluding CPC); 3.6% to 44.3 million tonnes at the terminal of the Caspian Pipeline Consortium (CPC); 8.8% to 33.2 million tonnes at Port Kavkaz; and 9.1% to 13.5 million tonnes in Taman.[27]

Cargo turnover at seaports in Russia's Far East rose by 8.3% to 185.6 million tonnes in 2016. Dry cargo handling increased by 13.0%, primarily on the back of 15.1% growth for coal, 9.6% for cargo in containers and 20.1% for ferrous metals. Transshipments of liquid cargo grew by 2.1%.[28]

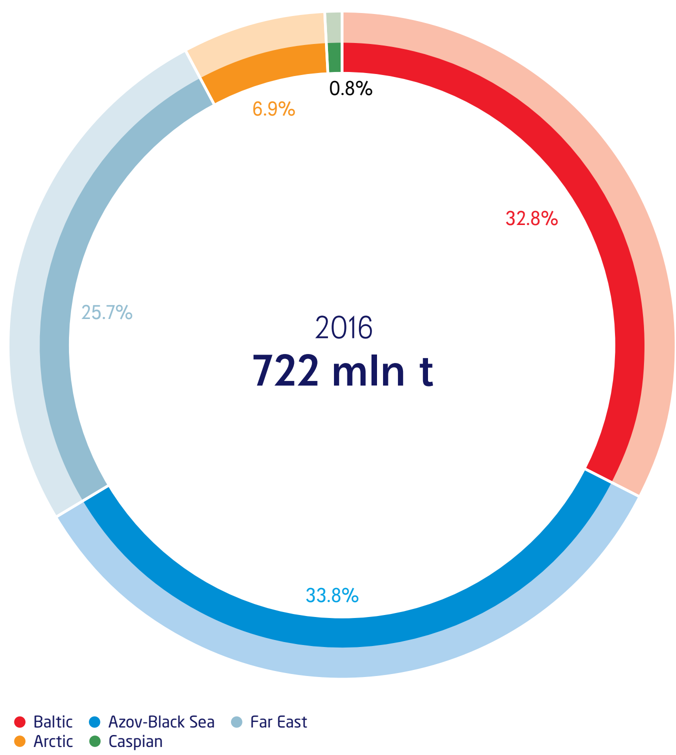
[26] Source: ASOP
[27] Source: ASOP
[28] Source: ASOP

Exports and imports at Russian ports in 2016



Source: ASOP

Transshipment of cargo at Russian ports by basin in 2016



Source: ASOP

The Vostochny, Vanino and Nakhodka ports saw strong cargo turnover growth of respectively 5.2%, 11.6% and 9.4%.

Seaports in the Arctic basin saw cargo turnover surge 40.7% to 49.8 million tonnes in 2016 with the start of operations at the Sabetta port and an offshore transshipment terminal based on the oil depot in Murmansk. Cargo turnover at seaports in the Caspian basin fell 9.6% to 6.0 million tonnes.[29]

Shipment of cargo to/from Russian seaports

Russian seaports took delivery of 652.1 million tonnes of cargo for shipment by sea in 2016, of which liquid cargo made up 57.6%.[30] Most cargo is delivered to ports by railways and pipelines.

Russian seaports received 59.1 million tonnes of cargo by sea in 2016, 83.8% of which was dry cargo.[31] Motor vehicles carry more than half of the cargo shipped out of seaports.

[29] Source: ASOP
[30] Source: ASOP
[31] Source: ASOP

Shipment of Russian cargo through foreign ports

Transshipment of Russian cargo through foreign ports fell for the second consecutive year in 2016, dropping by 24.4% to 47.2 million tonnes, which amounted to just 6.8% of total transshipments of Russian foreign trade cargo at seaports. Most of the decrease was due to the drop in shipments of crude oil and oil products through Baltic countries as Russian oil products exports decreased due the tax maneuver in the oil industry.

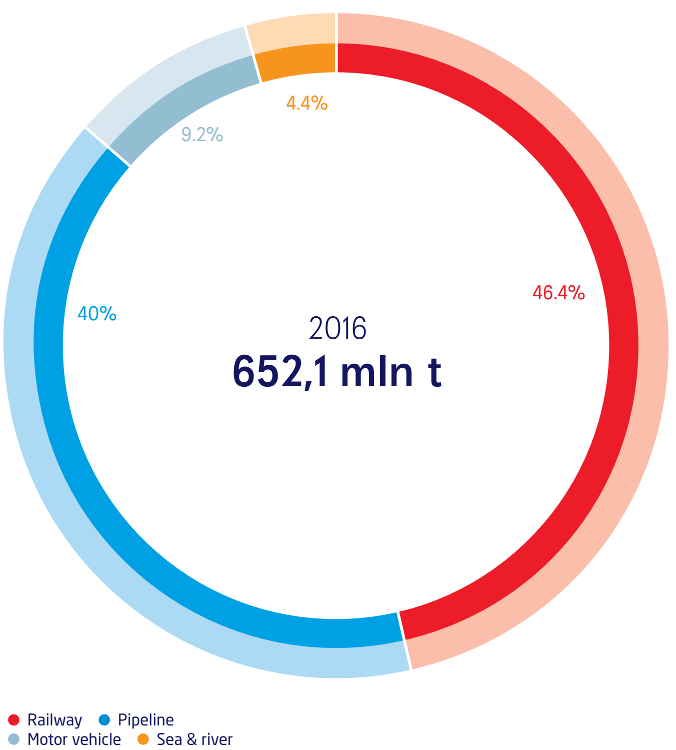
Ports in Baltic countries handled 42.5 million tonnes of Russian foreign trade cargo in 2016, and Ukrainian ports handled 4.7 million tonnes, of which dry cargo made up respectively 76.3% and 83.8%.[32]

Transshipment through Baltic ports decreased by 10.8 million tonnes or 20.3%, as oil and oil product volume fell by 9.8 million tonnes or 49.3% and dry cargo volume dropped by 1.0 million tonnes or 3.0%. Coal transshipments fell by 2.5 million tonnes or 13.3% while other dry cargo traffic grew. The strongest growth was 134.7% or 0.8 million tonnes in ore handling.[33]

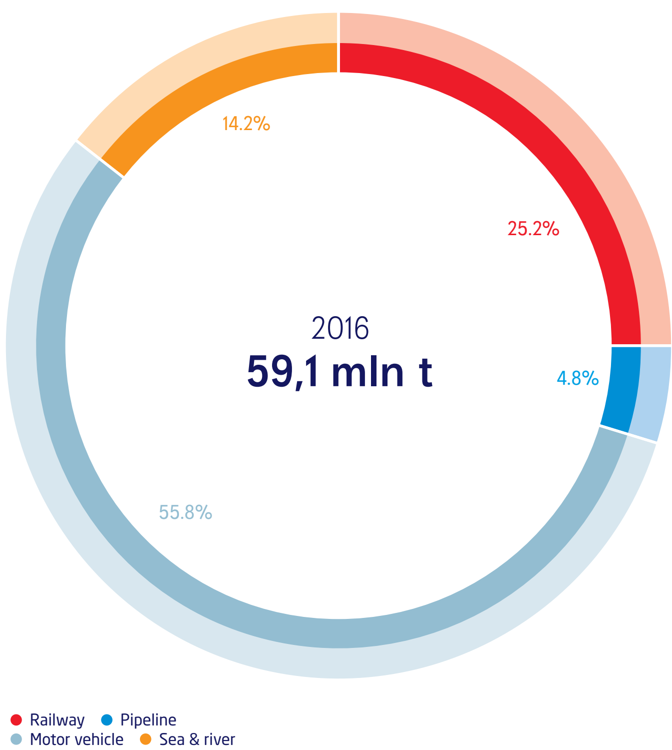
Transshipment through Ukrainian ports fell by 4.4 million tonnes or 48.4%, including by 1.0 million tonnes or 59.3% for oil products and by 3.6 million tonnes or 47.7% for dry cargo. There was a steep decline in transshipments for all categories of dry cargo.[34]

[32] Source: ASOP
[33] Source: ASOP
[34] Source: ASOP

Delivery of cargo to Russian seaports in 2016



Shipment of cargo from Russian seaports in 2016



NCSP Group market share of Russian sea ports cargo turnover

20.3%

In 2016 cargo turnover of NCSP Group amounted to

146.9 MLN T

Outlook for global economic growth and global trade to 2019[35]

Global economic growth slowed to 2.9% in 2016, the lowest figure since the financial crisis, according to the Forecast for the Social and Economic Development of the Russian Federation for 2017 and the Planning Period of 2018 and 2019 prepared by the Economic Development Ministry of Russia. The forecast scenarios assume that the global economy will continue to grow at moderate rates of up to 3.3% in 2017 and 3.6% in 2018-2019. However, the growth trajectory for global trade could be lower than these figures.

Global trade is being negatively impacted by weaker demand for industrial imports from manufacturing sectors of the U. S. economy, where manufacturing output and employment are shrinking, while the service sector, which uses far less imported resources, is growing. A similar transformation is also taking place in the structure of global trade, where trade in services overtook trade in goods for the first time in 2016, Unctad data show.

In the medium-term, global trade will remain under pressure from the decline of U. S. imports. A dramatic reduction of investment in the energy sector will have a negative impact on global production. On the other hand, the restoration of the balance between demand and supply on the hydrocarbon market and possible growth of prices will promote the revival of global economic activity.

Outlook for exports and imports in Russia to 2019[36]

The dynamics of world oil prices had a substantial negative impact on Russia's foreign trade turnover in 2016. Visible exports by value fell by 17.0% to $ 287.6 billion,[37] although exports of the main groups of commodities grew by volume.

In the subsequent years of the forecast period, oil prices are projected to stabilize at $ 40 per barrel, and the value of exports is expected to begin to gradually recover in 2017-2019 thanks to growth in the volume of exports. Exports are set to reach $297 billion by 2019. Visible export growth in real terms is expected to accelerate to 1-1.6% in the forecast period, with exports of fuel and energy exports growing by an average of 0.6%. Exports of non-fuel commodities in this period are expected to grow by an annual average of 1.8%. Growth of exports of non-resource, non-energy commodities in real terms is expected to be higher at 1.9% in 2017-2019.

[35] Source: Forecast for the Social and Economic Development of the Russian Federation for 2017 and the Planning Period of 2018 and 2019, Economic Development Ministry of Russia, November 24, 2016
[36] Source: Forecast for the Social and Economic Development of the Russian Federation for 2016 and the Planning Period of 2017 and 2018, Economic Development Ministry of Russia, October 26, 2015.
[37] Source: Federal Customs Service of Russia

Fuel and energy products as a share of exports are expected to shrink to 52.5% in 2019 from 59.2% in 2015, while the share of food goods in exports is expected to grow from 4.7% in 2015 to 6.2% by the end of the forecast period. The share of chemical products, metals and metal products, timber and pulp-and-paper products is also expected to grow.

Visible imports will continue to grow by an annual average of 2.5% in real terms in 2017-2019, the baseline forecast projects. Imports by value are expected to grow to $ 207 billion by 2019. The share of food goods in imports is expected to shrink throughout the forecast period, to 12.4% in 2019 from 14.5% in 2015, due to import substitution and the development of domestic production.

Outlook for production and exports of key Russian products to 2019[38]

In the current economic situation, with the global oil price environment and the tax maneuver in the oil industry making crude exports more attractive compared to oil products, oil production is expected to increase to 553 million tonnes in 2019. Amid the development of primary oil refining, with the gradual modernization of refineries and increase in the depth of refining, crude exports are expected to total 277.6 million tonnes in 2019. Oil exports to countries outside the CIS are forecast to grow to 252.2 million tonnes by 2019.

Taking into account the timetable for modernization of oil refineries aimed at increasing the depth of refining, oil refining is expected to decline somewhat to 265.5 million tonnes in 2019. Moderate growth of domestic demand and the falling profitability of exporting dark oil products will lead to oil product exports gradually decreasing to 145.5 million tonnes by 2019.

[38] Source: Forecast for the Social and Economic Development of the Russian Federation for 2016 and the Planning Period of 2017 and 2018, Economic Development Ministry of Russia, October 26, 2015

Coal production is expected to grow to 395 million tonnes by 2019, as the pace of modernization accelerates. Coal exports are forecast to increase to 170 million tonnes by 2019, or by 9% compared to 2015, thanks to the policy of developing seaport infrastructure in Russia. Coal companies have invested heavily in building their own port terminals to transship coal, optimized logistics for coal exports and established mutually beneficial cooperation with foreign partners. Coal imports are expected to decrease to 21 million tonnes by 2019, or by 12.7% compared to the 2015 figure.

Metallurgical production in Russia is expected to increase in the forecast period, with growth accelerating from 1.0% in 2017 to 1.8% in 2019. In the medium term, the share of imports in domestic consumption is expected to shrink, both due to the redirection of a portion of exports to the domestic market and the launch of modern facilities to manufacture products to replace imports. Russian exports of rolled steel products are expected to remain flat at the 2015 level of 27.5 million tonnes until 2019. Exports of nonferrous metals are expected to increase by 1-2% annually in 2016-2019.

Mineral fertilizer production is expected to be up by 15.6% in 2019 compared to 2015 on the back of demand on the domestic (agriculture, metallurgy, construction, etc.) and foreign markets. Mineral fertilizer exports are expected to be up by 10.4% in 2019 compared to 2015.

The baseline version of the forecast to 2019 projects that, compared to 2015, agricultural production will grow by 5.8% and the food industry will grow by 8.3%. Exports of agricultural products are expected to grow in the medium term, with exports of grain and grain legumes projected to be up by 10.7% in 2019 compared to 2015.

Production forecast for selected products in Russia

	2017	2018	2019
	Change from previous year in %		
Oil production	0.7%	0.9%	0.0%
Oil shipped for refining	-3.2%	-1.1%	0.2%
Coal production	-1.3%	0%	0.8%
Metallurgical production, production of finished metal products	1.0%	1.6%	1.8%
Nonferrous metallurgy	1.4%	1.9%	2.2%
Mineral or chemical fertilizer	3.6%	4.4%	4.9%
Grain (clean weight)	-7.9%	1.0%	0.9%

Russian transport sector trends and outlook to 2019[39]

Taking into account forecast rates of industrial production and GDP growth, the transport sector is projected to see strong growth in the medium term. Commercial freight shipments are expected to grow by 4.2% to 3,739.8 million tonnes in 2019 and freight turnover is expected to increase by 6.7% to 2,712.7 billion tonne-km.

In marine transport, the structure of domestic freight and, consequently, the structure of the marine fleet are not expected to change significantly in the next few years. Shipments by marine transport are to a large degree oriented toward the foreign market (exports/imports), so its results are very sensitive to changes in the world freight market and the global economy in general.

In addition to external factors, marine transport is quite dependent on the efficiency of Russian port infrastructure, as well as the efficiency of the commercial fleet registered under the Russian flag. Cargo shipments by the marine fleet are expected to gradually increase in the near future thanks to state support for shipbuilding and shipping provided under federal law No. 305-FZ, dated November 7, 2011, «On the Amendment of Selected Legislative Acts of the Russian Federation in Connection with the Implementation of Measures of State Support for Shipbuilding and Shipping,» the construction of new ships and registration of vessels in the Russian Maritime Register of Shipping.

In light of projected GDP growth in the medium term, marine cargo shipments are expected to grow to 25.3 million tonnes and 53 billion tonne-km, respectively, by 2019, or by 38.3% and 33.2% compared to 2015. Further development of port capacity will also help make foreign trade logistics more independent of the services of foreign seaports.

[39] Source: Forecast for the Social and Economic Development of the Russian Federation for 2016 and the Planning Period of 2017 and 2018, Economic Development Ministry of Russia, October 26, 2015

BUSINESS MODEL

As an operator of marine port terminals, NCSP Group provides a range of stevedoring services for transshipment of all types of cargo, including liquid, bulk, general cargo and container cargo. The Group also provides additional port services and auxiliary port fleet services.

The Group earns most of its revenue from providing stevedoring services, rates for which are set per unit of cargo (one tonne or one container).

The Group can grow the revenue and profitability of its core business by increasing the physical volume of cargo handling and related additional services, increasing the share of high-margin cargo in cargo turnover, and by means of a flexible tariff policy designed to attract maximum cargo traffic.

The Group is seeking to expand cargo handling volumes by building new and modernizing existing terminals, increasing labor productivity, optimizing logistics, introducing new transshipment technologies and automating business processes.

NCSP Group's clients include the leading Russian producers and exporters of resource commodities, including crude oil and oil products, ore, metals, coal and fertilizer; importers of manufactured goods and equipment; as well as leading international logistics companies and container lines.

NCSP Group generates added value for its clients by providing access to the most economically efficient mode of transport — marine — and optimization of costs at related links in the logistics chain.

The Group is increasing the overall throughput capacity of port facilities by dredging and modernizing docks for receiving large capacity vessels; modernizing terminal equipment to accelerate cargo loading/unloading; accelerating customs processing of cargo; providing additional services for processing cargo at port; optimizing

management of rolling stock; and introducing block train shipments.

Increasing the efficiency and throughput capacity of port facilities makes it possible to handle more cargo while optimizing shippers' expenditures on rail transport, cargo storage and shipment of cargo by sea. This is how we are increasing added value for both the Group and its clients.

The stevedoring business involves receiving cargo and shipping it from the port by pipeline, train and truck; assembling shiploads; and transferring cargo to ships using multipurpose and specialized equipment.

Additional port services include temporary storage of cargo, partial freight forwarding support, packing and repacking of cargo, packing/unpacking of containers and special processing of grain, among others. Auxiliary port services include tug and mooring services, firefighting support, waste collection and other services.

The Group also provides ship fueling services at berth and with bunkering tankers, as well as drinking water supply services for ships.

The Group's operational assets include docks with transshipment equipment; land parcels in the port zone with industrial and administrative buildings and installations, including storage yards, tanks

for oil products, elevators for grain and approach rail lines; as well as a fleet of cargo handling equipment and auxiliary fleet vessels. The Group owns the land parcels on which production facilities, transshipment equipment, buildings and installations are located, as well as the vessels of the auxiliary fleet.

The Group has long-term leases for docks that are federally owned at the Port of Novorossiysk, and is the owner of some docks at the Port of Primorsk. Lease payments for the use of docks are determined on the

basis of their book value and do not depend on the Group's volume of transshipments, revenue or profitability.

NCSP Group's terminals can accommodate tankers with deadweight up to 150,000 tonnes (the maximum displacement for vessels passing through the Bosporus and Dardanelles straits) and bulk carriers and container ships with deadweight up to 85,000 tonnes.

Group terminals receive and ship general, bulk and container cargo by train and truck, and receive liquid cargo by train and pipeline.

Bulk and general cargo are stored in warehouses, including frigerated, and outdoor yards. Refrigerated containers are hooked up to power.

The Group has its own tank farm and modern elevator for storing liquid cargo and grain cargo. Cargo is handled with multipurpose and specialized handling equipment: mobile wheeled cranes, gantry cranes, STS container cranes, grain loading conveyors, bucket loaders, forklifts, roll trailers and reach stackers.

HOW WE CREATE ADDED VALUE IN STEVEDORING SERVICES

Receiving cargo

Increasing throughput capacity for receiving cargo by water, pipeline, train and truck

- Reconstruction and expanding capacity of Transneft's Sever and Yug oil product pipelines
- Receiving cargo arriving by river-sea vessels at IPP terminal
- Integration of port and Russian Railways information systems
- Dispatching of trains together with Russian Railways at Novorossiysk station
- Ensuring even cargo feed
- Reconstruction of Novorossiysk station under federal program
- Expansion of approaches to Krymskaya-9 km station
- Construction of bypass road to Novorossiysk under federal program

Faster unloading of train cars, introduction of crane-less technology, increasing capacity of loaders, automation of cargo tracking and cargo control

Storing & assembling shiploads

Creation of modern specialized automated cargo handling complexes;
Intensification of cargo operation;
Higher berth and storage turnover rate

- Terminal for handling agricultural oils in Novorossiysk
- Expansion of IPP terminal
- Reconstruction of grain terminal at in Novorossiysk and Dock No. 3
- Universal transshipment complex at NSRZ
- Expansion of container terminals in Novorossiysk and Baltiysk
- Reconstruction of Terminal 6 of NLE
- Development of cargo terminal of PJSC NCSP

Modernization of cross functional cargo handling equipment: introcduction of higher capacity, higher precision multifunctional cranes

Loading on sea vessels

Development of marine infrastructure: Increasing ship's deadweight, accelerating loading, reducing waiting time.

- Reconstruction of Port of Primorsk
- Reconstruction of Sheskharis Oil Terminal in Novorossiysk
- Reconstruction of outer and inner harbour of Novorossiysk port

ENSURING LOWER PER-UNIT LOGISTICS COSTS FOR CUSTOMERS

DEVELOPMENT OUTLOOK

"In the next ten years we aim to become the most dynamically developing company in Russia's port industry. NCSP Group plans to expand dry cargo handling capacity by more than 80% by 2025."

Sultan Batov, CEO, PJSC NCSP

The Group's strategic goals include:

- strengthening positions of the largest logistics holding in Russia and one of the world's largest logistics holdings by developing high-tech cargo transhipment capacities;
- becoming a leader by quality and range of services, introduction of advance port technologies and sustainable development;
- becoming the most effective operator of port assets in Russia.

Key components and priorities of the Company's development are determined in:

- The Long-term Development Program to 2020. Approved by PJSC NCSP's Board of Directors on January 15, 2015 (Minutes No.07 SD NCSP);
- The PJSC NCSP Innovation Development Program to 2020. Approved by PJSC Board of Directors on February 28, 2017 (Minutes No.13 SD NCSP dated 03.03.2017).

While maintaining sufficient universal transshipment capacity, NCSP Group's priority will be to expand handling of high-margin cargo by building new and modernizing existing specialized terminals for containers, and liquid, bulk and general cargo.

Baltic basin

Reconstruction of Primorsk Trade Port. Transneft's expansion of the Sever (North) oil product pipeline will make it possible to increase diesel fuel transshipments at the Port of Primorsk to 23 million tonnes after 2018. The Group is overhauling facilities to support offloading of diesel fuel at Berths 3 and 4.

Russian Railways will lay a rail line to the Port of Primorsk in 2017. The development plan for Primorsk Trade Port includes building a terminal to handle liquid railway cargo. The project calls for building a terminal at minimal cost to transfer cargo from trains to ships with capacity of 4 million tonnes in 2017. There will be an option to expand capacity to 12.7 million tonnes after the completion of all work on the expansion of approach sections of the railway.

Reconstruction of container terminal in Baltiysk. The reconstruction of BSC's container terminal is continuing. The first phase involves building a specialized container terminal with throughput capacity of up to 300,000 TEU per year by 2018. The second phase calls for expanding the terminal's throughput capacity to 400,000 TEU per year by 2025. The second phase will move forward if planned projects to build automobile assembly plants in Kaliningrad Region are carried out.

Black Sea Basin

The Company is overhauling the NGT terminal and Dock No. 3, which will make it possible to increase grain handling by 4-5 million tonnes per year at NGT, and another 5 million tonnes from the expansion of the Novorossiysk Grain Plant terminal in Novorossiysk, owned by United Grain Company (UGC).

Reception of river-sea class vessels at the IPP terminal in Novorossiysk. The Docks No. 4 and 5 are being modernized which will provide for the receiving of oil products from river-sea class vessels to tanks with subsequent shipment to large-capacity vessels.

Reconstruction of Sheskharis oil terminal. The project will ensure stable and safe transshipment of both oil and oil products through the Sheskharis oil terminal in Novorossiysk. In the long term the project will ensure the transfer of part of the capacities for filling light oil products after the completion of all stages of the PJSC Transneft's South project aimed at increasing the transportation of petroleum products. The transfer of part of the volume of diesel fuel supplies from the railway to the pipeline will free up the capacities for other types of cargo, in particular base oil, low-viscosity marine fuel, naphtha and others.

Reconstruction of NLE container terminal in Novorossiysk.
By 2018 it is planned to complete the reconstruction of the berths, which will allow to process vessels with a capacity of up to 10,000 TEU and increase the terminal's capacity to 350,000 TEU.

Reconstruction of Area 6 at NLE.
The terminal is being reconstructed for the ability to handle ships with a capacity of up to 50,000 tonnes to increase the handling of general cargo: non-ferrous and ferrous metals, sawn timber, fast-port. The project will allow to maintain the existing cargo turnover at 1 mln tons per year and create the necessary infrastructure for transshipment of additional cargo amounting to 1 million tonnes per year.

In addition, the possibility of implementing the following projects is being considered:

Reconstruction of container terminal at PJSC NCSP.
The project will allow to expand transshipment to 300,000 TEU and process vessels with a capacity of up to 10,000 TEU – the largest that can come to the Azov-Black Sea basin.

Terminal for vegetable oils in Novorossiysk.
The project assumes construction of capacities and a plant for primary processing of vegetable oil on IPP's existing or adjacent territory. This will increase oil transshipment volumes to 1.5 million tonnes per year and ensure the processing of vessels with deadweight of 30,000 tonnes.

Universal transshipment complex at NSRZ.
It is planned to build a universal transshipment complex with a capacity of up to 12.5 million tonnes for a wide range of cargoes able to process ships with a capacity of up to 150,000 tonnes at NSRZ.

Port of Taman.
The project for the dry cargo area of the Taman port envisages creation of a Russian deep-sea port on the Black Sea on concession terms. On June 16, 2016, PJSC NCSP and Rosmorport signed the Basic terms of the agreement of the participants of RMP-Taman LLC, an agreement on intentions for the joint implementation of the project «Creation of dry cargo area of the Taman seaport «.

PJSC NCSP can become a strategic partner and controlling shareholder in the management company RMP-Taman LLC, which is proposed for the role of the concessionaire of the port. The concessionaire will be responsible for the construction and commissioning of publicly and privately owned infrastructure facilities at the port, as well as for attracting private investments for the implementation of the project.

The project will enable PJSC NCSP to transfer dry bulk cargoes to Taman: iron ore concentrate, iron ore, coal, mineral fertilizers, which will free the transshipment capacities of the Novorossiysk transport hub and will allow to increase the transshipment of other types of cargo in Novorossiysk.

The project assumes the construction and operation of the dry cargo area at the port with an aggregate capacity of 91.4 million tonnes of cargo per year in two stages. At the first stage in 2017-2020 it is planned to build port infrastructure facilities and cargo terminals providing cargo turnover of up to 46 million tonnes per year. The total volume of investment in concession facilities at the first stage is estimated at 60 billion rubles.

Renovation of the fleet. To increase the share in the market of auxiliary services, reduce the cost of repairs, improve efficiency, it is planned to purchase 12 vessels of different types for the renovation and replacement of old and leased vessels.

Taking into account the implementation of all these projects, NCSP Group can increase the handling capacity for dry cargoes by more than 80% by 2025. The development of the NCSP Group will be based on handling iron ore concentrate, iron ore, pig iron, coal, metals, mineral fertilizers, grain, sulfur, as well as a wide range of other cargoes.

Project	Time period	Current status
Reconstruction of the Port of Primorsk (Docks No. 3 and 4)	2016-2019	The project is realized.
Reconstruction of the Port of Primorsk (transshipment complex)	2017-2020	Development of a declaration of intent, development of a business plan
Reconstruction of the container terminal in Baltiysk	2016-2018 Stage 1	The business plan is approved, the project has been approved by the General Board of State Expert Review (Glavgosekspertiza), construction and installation works are under way
Reconstruction of Novorossiysk grain terminal	2016-2018	Rosmorport has approved the declaration of intent, project works are under way
Processing of river-sea class vessels at IPP terminal	2016-2017	The project is being realized, construction and installation works are under way
Reconstruction of Sheskharis oil terminal	2016-2019	The project has been approved by the General Board of State Expert Review (Glavgosekspertiza), construction and installation works are under way
Reconstruction of NLE container terminal	2016-2018	The business plan is approved, the project has been approved by the General Board of State Expert Review (Glavgosekspertiza), construction and installation works are under way
Reconstruction of Area 6 at NLE	2016-2019	Rosmorport has approved the declaration of intent, project works are under way
Reconstruction of container terminal at PJSC NCSP	2016-2020	Rosmorport has approved the declaration of intent, business-plan is being developed
Terminal for vegetable oils in Novorossiysk	2017	Development of a declaration of intent, development of a business plan
Universal transshipment complex at NSRZ	2017-2020	The main parameters of the project have been revised. Declaration of intent and business plan are in development
Dry cargo area of the Taman port	2017-2021	An agreement defining the main project parameters was signed with Rosmorport. Pre-project work is under way.
Renovation of the fleet	2017-2020	Development of a business plan
Power supply to NCSP Group in Novorossiysk port	2016-2018	Development of a declaration of intent

NCSP Group SWOT-analysis

Internal environment

strengths

- The port has a well-developed network with sufficient capacity and a high level of coverage with safety systems for navigation
- Natural depths and year-round navigation
- Possibility of interaction with all modes of transport (railway, auto, river)
- Developed railway infrastructure
- Modern infrastructure
- Proximity of consumption and mass production centers to ports
- Growth of turnover
- Development of container transportation by creating modern container terminals
- Stable financial condition
- Skilled labor and management personnel
- Many years of experience
- Availability of public-private partnership mechanisms

weaknesses

- Geographic remoteness from the places of production of certain types of cargo
- Presence of bottlenecks in the approaches to the ports from the railways and highways
- Unsatisfactory technical condition of port facilities and equipment
- Growth rate of total transshipment volumes is below the world average
- Low speed of cargo handling
- Low degree of containerization of cargo flows
- Obsolete organizational structures
- Imperfection of legislation in the area of seaports
- A complicated procedure for customs clearance of goods
- Insufficient investments in updating the port infrastructure in the historical period
- Underdevelopment of the mechanisms of public-private partnership
- Low level of innovation and new port technologies
- High costs for power supply to ports
- Difficult ecological situation

External environment

opportunities

- Favorable geographical location - location at the intersection of international transportation corridors, as well as large transit potential
- Competitive tariffs
- Development of transport corridors
- Possibility of reducing transportation costs and delivery times compared to alternative routes

threats

- Low percentage of transit capacity utilization
- Inflexibility of the tariff policy
- Competition, primarily from ports
- Creation of container terminals in the ports of Bulgaria, Romania, Ukraine and the Baltic countries

Comparative analysis of development priorities of NCSP Group and competitors

Priorities / Competitors	NCSP Group	Ukrainian ports	Port of Tuapse	Port of Taman	Port Kavkaz	Port of Rostov	Big Port of St. Petersburg	Port of Ust-Luga	Port of Kaliningrad	Ports of Baltic nations
Automation of loading and unloading operations and related services	+	+	+	+	+	+	+	+	+	+
Uniform document management and accounting of cargo movement at port warehouses	+	+	+	+	+	+	+	+	+	+
Automation of cargo storage system in open and closed storage areas of the port	+	+	+	-	-	+	+	+	-	+
Automation of warehouse operations with cargoes	+	+	+	-	-	+	+	+	+	+
Automation of intra-port transportation of goods	+	+	+	+	-	+	+	+	+	+
Registration of transport and shipping documents for goods online	+	-	+	+	+	+	+	+	+	+
Automation of weighing and cargo measurement	+	-	-	+	+	+	+	+	-	+
Additional operations with cargo, the need for which occurs during the transshipment process	+	+	+	+	+	+	+	+	+	+
Receiving goods from railway rolling stock, road and sea transport	+	+	+	-	+	+	+	+	+	+
Transshipment of goods from one mode of transport to another	+	+	+	-	-	+	+	+	-	+
Registration of consignment notes for goods sent by rail and road	+	-	+	+	+	+	+	+	+	+
Towing services	+	-	+	-	+	-	+	+	+	+
Survey services	-	-	+	-	-	-	-	+	-	-
Ship power supply	+	-	+	-	-	+	+	+	+	+
Telephone and Internet services	+	-	+	-	-	-	+	+	+	+
Services in the field of ship repair	+	+	-	+	-	-	+	-	+	+
Automation of crane control	+	+	+	+/—	-	+/—	+	+	+	+
Robotic loading/unloading	+/—	-	-	-	-	-	+/—	+	+	+
Robotized movement of goods on the territory of the terminal	+/—	-	-	-	-	-	+/—	+	+	+
Video recognition of container numbers	-	-	-	-	-	-	-	+	-	-
Optimization of stacking containers on ships and platforms	+	+/—	+	+	+	+	-	+	+	+
Two-tier packing of containers on a platform wagon	-	-	-	-	-	-	-	-	-	-
Implementation of a comprehensive quality management system for all areas of the enterprise	-	+/—	-	-	-	+/—	+/—	-	+	+
Integration of the company's QMS, QMS clients and companies operating in the port. Introduction of quality principles into corporate culture, linking staff motivation to the quality of work performed	-	-	+	-	-	-	-	-	+	+
Organization of systematic work with the proposals of employees and the encouragement of such proposals	+/—	-	-	-	+/—	-	-	+/—	+	+
Formation of target financial funds and Innovation Development Programs	+	-	+	-	-	-	-	-	-	-
Joint research and development programs with leading educational institutions	+/—	-	-	-	-	-	+/—	-	-	+
Formation and support of a business incubator for young companies focused on the commercialization of scientific developments	-	-	-	-	-	-	-	-	-	-
Provision of port facilities as a test site for the development of new technologies	-	-	-	-	-	-	-	+	+	+
Subsidizing the introduction of innovative technologies in practice	-	-	-	-	-	-	-	-	-	+/—
Establishment of a permanent operating collegial body for research and development	+/—	-	+	-	-	-	+/—	-	+	+

Threats from competitors

Implementation of the OTEKO project of the dry cargo area of the port in Taman with capacity of 35 mln t

Maximum risk	Loss of cargo flows of bulk cargo by 11.8 million tonnes, including: • iron ore raw materials - 6.9 million tonnes • coal - 2.0 million tonnes • pig iron - 2.1 million tonnes • sulfur - 0.75 million tonnes
Realization period	Until 2018
Effects	Price war for the main cargo flows with the newest high-tech terminal which has significant storage areas and deep-water berths, modern reloading equipment. Lack of ability to work at high tariffs.
Risk of cargo flows losses	Iron ore raw materials: • Metalloinvest: Lebedinsky MPP and Mikhailovsky MPP • NLMK: Stoilensky MPP • Evraz: Kachkanarsky MPP NCSP Group remains with minimal / nominal volumes. Coal: NCSP remains with minimal / nominal volumes. Cast iron: Ural Steel, Tulachermet, NTMK, CMP, MMK and other customers, not receiving NLMK's volumes. NCSP remains with minimal / nominal volumes. Mineral fertilizers: reduction of additional volumes - 5 million tonnes of mineral fertilizers from Eurochem, Uralchem, Uralkaly and Phosagro. Loss of sulfur volumes (Gazpromtrans and other customers).
NCSP Group competitive solutions	1. The early implementation of own project to create a terminal for bulk cargo in the port of Novorossiysk. 2. Involvement in the participation in the project of the main (anchor) cargo owners. 3. Together with customers develop the principles of return on investment and the cost of stevedoring services before the emergence of a surplus of transshipment capacities in the region.

Port of Yuzhny (Ukraine)

Realization period	Is being realized
Risk of cargo flows losses	Significant loss of iron raw materials exports from Ukraine by Metalloinvest directed to China (processing CAPESIZE class vessels with deadweight of up to 200,000 tonnes at the berths of the port).

Port of Tuapse

Maximum risk	NLMK's cargo turnover decrease by 1 million tonnes
Risk of cargo flows losses	Transfer of a part of its own cargo volumes of ferrous metals (NLMK)
NCSP Group competitive solutions	1. Ensuring highly efficient maintenance of NLMK's cargo flow. 2. Replacement of the falling cargo traffic of NLMK with other cargo (cast iron at NLMK) or similar cargo traffic from other clients

NUTEP in Novorossiysk

Maximum risk	The loss of container traffic in the volume of up to 300,000 TEU
Realization period	Until 2018
Effects	Price competition for the major cargo flows. The competitor has an additional capacity of +300,000 TEU and the ability to process vessels on a new berth Cargo capacity up to 10,000 TEU
Risk of cargo flows losses	Transferring a significant part of the volumes, especially from remote regions (China, Southeast Asian countries, Mediterranean countries) due to the optimization of freight costs when stowed on a line of vessels with a capacity of up to 10,000 TEU
NCSP Group competitive solutions	1. Expansion of existing facilities 2. Increase of the storage areas and, possibly, storage time 3. Provision of additional processing services (filling / unloading)

The main challenges and risks for the development of the NCSP Group

Event	Risk	Impact	Probability	Solutions
Change in public policy of tariff regulation of port services (fixing tariffs in rubles amid decrease of RUR/USD exchange rate)	Loss of the Group's planned revenue level, difficulty with servicing of debt obligations	High	High	Linking the Group's tariffs as a percentage to the contractual value of the goods
Change in public policy in respect of railway transportation, change of railway tariffs, introduction of new legislation concerning railway transportation	Loss of existing and prospective cargo turnover of the Group, loss of planned revenue level	Medium	High	Improvement of tariff policy, provision of discounts to customers
Decrease in crude oil production and increase of oil refining in Russia	The loss of the Group's current oil cargo turnover	High	High	Development of transshipment of oil products
Active penetration of the European market by the Arabian suppliers of Iranian and North American (in case of removal of restrictions) oil	The loss of the Group's current oil cargo turnover	Low	Medium	Development of transshipment of oil products, possible competition for the attraction of cargo flows KTK
Construction of the main oil pipeline to the port of Ust-Luga	The loss of the Group's prospective oil products cargo turnover	High	Medium	Counteraction to the project as part of legal procedures
Increase of marginality and level of oil refining in Europe, expansion of supplies of Arab oil products to Europe, as a result, a decrease in export of Russian oil products to European countries	The loss of the Group's prospective oil products cargo turnover	High	Medium	Diversification of capacities for transshipment of various types of petroleum products (gasoline, liquefied hydrocarbon gases (LPG), etc.)
Further increase in the volumes of oil transshipment at Ust-Luga (due to the transfer of cargo from Primorsk)	The loss of the Group's current oil cargo turnover	Medium	High	Identification of cargoes prospective for transshipment in Primorsk, construction / expansion of terminals
Transfer of a part of petroleum products from IPP to NRS after realization of the project «South»	Loss of the Group's planned revenue level	High	High	Organization of processing cargoes from the river-sea class vessels
Decrease of the grain harvest in Russia due to weather conditions or the state of the country's agroindustrial complex	The loss of the Group's current and prospective grain cargo turnover	High	Low	Involvement of alternative crops for transshipment (maize, barley, rice), and transit from Kazakhstan
Increase in the domestic cost of grain, reducing the attractiveness of its exports	The loss of the Group's current and prospective grain cargo turnover	Medium	Medium	Improvement of tariff policy, provision of discounts to customers
Crises, protective duties and non-tariff import bans on the markets of foreign countries which are consumers of grain of Russian origin	The loss of the Group's current and prospective grain cargo turnover	Low	Medium	Diversification of shipments of grain cargoes will allow the Group to prevent a sharp decrease in transshipment volumes
Toughening sanctions on the supply of Russian grain to foreign markets, some of the exporters of multinational traders leaving the market	The loss of the Group's current and prospective grain cargo turnover	Medium	High	Attracting additional volumes from Russian traders for transshipment
The ban on the export of grain crops of Russian origin	The loss of the Group's current and prospective grain cargo turnover	High	Low	It is necessary to attract the maximum possible volumes of grain of Kazakhstan origin
Big grain harvest in exporting countries of grain crops (USA, Argentina, EU countries, Ukraine), grain supply growth in the market	The loss of the Group's current and prospective grain cargo turnover	Low	Medium	Improvement of tariff policy, provision of discounts to customers
The policy of competing grain terminals (Tuapse, Taman, KSK, etc.)	The loss of the Group's current and prospective cargo turnover	Medium	High	Improvement of the quality of services and improvement of transshipment technology (implementation of the NZT expansion project by 2.5 million tonnes and reconstruction of the Dock No. 3)
Intensification of price dumping on the part of the competitors - terminals for black (Tuapse) and non-ferrous metals (St. Petersburg, Ust-Luga, Temryuk), pig iron (Yeisk), ZhRS / ZhRK (Taman), coal (Tuapse)	The loss of the Group's current and prospective cargo turnover	Medium	High	Improving the quality of services and improving the transshipment technology (increasing the capacity of storage areas, increasing the intensity of cargo operations, handling large-capacity vessels, increasing the carrying capacity of handling equipment, etc.)
Construction of specialized terminals for transshipment of dry mineral fertilizers (EuroChem, PhosAgro, Uralchem, Uralkali)	The loss of the Group's prospective cargo turnover	High	Medium	Proposing services of the specialized terminal; Processing large-capacity vessels; Intensity of processing vessels at a competitive level; Harmonization of work on the terminal with dangerous goods (ammonium nitrate); Solution of the problem of external and internal infrastructural restrictions, including increasing the capacity of the railway on the approaches to Novorossiysk

Increased competition from the ports of Ukraine for Russian export cargoes is estimated as unlikely due to unfavorable political outlook for the relationship between Russia and Ukraine until 2020.

Evaluation and audit of the Long-Term Development Program

In accordance with paragraph 7.2 of the Regulations on the conduct of an audit of the implementation of the long-term development program of PJSC NCSP and the group of companies until 2020, the audit report is due to be submitted by the executor to the customer before June 1 of the year following the reporting one. In view of the above report on the results of the LDP audit for 2016 will be reflected in the corresponding period in the Company's report.

In 2016, an audit of the implementation of the LDP was completed for 2015. Based on the results of the auditor's work, a report was prepared, which contains proposals for adjusting the LDP.

The Auditor of the LLC Group Finance expressed an opinion on the reliability in all respects of the actual performance indicators of PJSC NCSP and the Group of Companies for the results of 2015 and the degree of achievement of their planned values reflected in the Long-Term Development Program of PJSC NCSP and the Group of Companies, the effectiveness of the targeted use by PJSC NCSP and the Group of companies of the funds of the respective budgets provided for by the NCSP Group until 2020, during 2015, and the reasons for the deviation of the actual values of business indicators of PJSC NCSP and the Group of Companies from the planned according to the LDP.

A system of key performance indicators (KPIs) was introduced to monitor and evaluate the quality of the implementation of the LDP, which also implies the connection of the remuneration of key management personnel of the NCSP Group to the achievement of targets. An annual audit of the implementation of the LDP and its actualization is also expected.

Changes in the development strategy and the LDP

According to the results of the LDP audit for 2015 received a report that indicated proposals for adjustment of the LDP. It is proposed to amend the composition of the LDP on the issues outlined below:

- To update the investment projects of the NCSP Group until 2020 in accordance with the Investment Program, and also to review the financing of investment projects within the LDP
- Delete EBITDA indicator from the list of KPIs and use EBITDA growth indicator to assess execution of the LDP
- Revise the specific weight of innovation development indicator by assigning it a weight of the excluded EBITDA indicator
- Establish responsibility at CEO level for the achievement of the ROE indicator
- Include in the ROE calculation formula an adjustment to the Company's net profit for the amount of exchange differences, impairment/restoration of impairment loss of assets, impairment of goodwill, loss on disposal of property, other extraordinary income and expenses
- Change the name of the indicator «Market share by general and bulk cargo in the Azov-Black Sea basin» to «Change in the market share for general and bulk cargo in the Russian segment of the Azov-Black Sea basin (without the ports of the Crimea and Kavkaz village)»
- To introduce a change in the algorithm for calculating the KPI «Reduction of energy costs», expressing as a ratio of energy consumption to freight turnover. Clarify that the indicator is calculated in regard to all companies of the Group of Companies and tie basis of calculation to the actual value in 2014
- Adjust the size of the indicator «EBITDA Growth» in accordance with the approved KPI map and adjust the planned values of the indicator for the period until 2020
- Eliminate indicator «The level of customer satisfaction» with the transfer of the weight of the indicator in the KPI LDP structure to the indicator «Market share by general and bulk cargo in the Azov-Black Sea basin»
- Replace the formula for calculating the KPI «Labor productivity» in accordance with the KPI of the operational director and assign the appropriate planned values for the period until 2020
- Correct the name and formula for calculating the indicator «Growth of gross intensity to the average value for all types of cargo by 2014» to «Growth of gross intensity to the average value for all types of cargo of the Cargo District by 2014».

Also it is proposed to include in the LDP projects which previously were not included in it: Reconstruction of Area 6 at NLE, provision for receiving of oil products from river-sea class vessels at IPP, Expansion of the IPP and construction of a specialized vegetable oil terminal in the port of Novorossiysk, Reconstruction of the outer and inner water area of Novorossiysk port, Construction of a universal transshipment complex in the port of Primorsk, Project «North» at PTP Primorsk, Energy supply of the NCSP group in the port of Novorossiysk, Dry cargo area at the Port of Taman.

Significant factors of the last two years, namely sanctions of the US and EU countries, Russian counter-sanctions, the program of import substitution of the Russian Federation and the crisis phenomena in the world economy can significantly affect the implementation of NCSP Group projects, and therefore it is required to update the marketing research of freight flows in the LDP.

When adjusting the LDP, it is proposed to develop a separate section on Current Production. In this section, it is planned to develop a program for maintaining the existing cargo traffic during the construction of new terminals and after commissioning of new specialized capacities. Within the framework of this section, it is also intended to describe the technical policy that was updated in PJSC NCSP in 2016.

Taking into account the instructions of the President (following the results of the meeting on August 20, 2015), the Company also proposes to include a separate section on Transport Approaches to the Port in the LDP.

Actual achievement of the performance indicators and the degree of achievement of planned values in the reporting year compared to the previous year.

Within the framework of the LDP, a system of key performance indicators (KPIs) has been approved and is functioning in PJSC NCSP.

The composition of KPIs and target values of KPI for the current and subsequent years is selected in accordance with the Guidelines for the application of key performance indicators by state corporations, state companies, state unitary enterprises, and companies in which share of the Russian Federation, the subject of the Russian Federation in total exceeds fifty percent.

Non-fulfillment of the Eenergy Saving indicator, which instead of contracting by 3.5% increased by 0.38%, is explained by an increase in energy costs due to low temperatures in the autumn-winter season of 2016 and an increase in heating costs.

The shortfall in the indicator Changes in the Market Share of the Group for General and Bulk Cargo in the Russian Segment of the Azov-Black Sea Basin is associated with a decrease in the volumes of grain transshipment by PJSC NCSP (–785,000 tonnes) due to the reorientation of part of the volumes to own/leased transshipment capacities of grain trading companies In the ports of the Azov Sea and additional loading of the expanded grain capacities of the KSK/Group Delo (+486,000 tonnes).

The remaining planned values of the key performance indicators were achieved or exceeded.

Coordination of development plans of NCSP Group with documents of a strategic nature in the field of transport adopted at the federal level

Following the results of the meeting under the President of Russia on the development of transport infrastructure of the south of Russia on August 20, 2015 the Government of Russia was instructed to do the following:

Develop jointly with interested organizations (shippers, port operators) and approve a road map for the development until 2020 (with the possibility of extending it until 2030) of seaports in the Azov-Black Sea basin (Roadmap).

The Roadmap project was developed with the participation of PJSC NCSP and other interested parties and approved by the prime minister on July 11, 2016. The roadmap is a larger plan combining all projects according to the terms is developed in the form of a schedule with the designation of tasks and the timing of their implementation and includes NCSP Group projects in the port of Novorossiysk. As declarations of intent to invest in the construction of facilities, business plans of projects and project documentation are being developed the Roadmap will become more detailed.

Documents defining the development of NCSP Group

The long-term development program of the NCSP Group until 2020, approved by the Board of Directors of PJSC NCSP on January 15, 2015, prepared pursuant to paragraph 4 of Section 1 of the minutes of the meeting of the Government of the Russian Federation dated January 30, 2014, on the preparation of long-term programs for the development of strategic enterprises.

Innovative Development Program of PJSC NCSP until 2020. Approved by the Board of Directors of PJSC NCSP on 28.02.2017 (Minutes No. 13-SD of NCSP dated 03.03.2017).

Agreement No. AD-17/556/13 between PJSC NCSP and Rosmorport on cooperation in the development of the project on Reconstruction and Modernization of the Novorossiysk Sea Port.

List of instructions of the President of the Russian Federation following the meeting «On the development of the transport infrastructure of the south of Russia» of August 20, 2015.

To include the NCSP Group projects in the development programs of the Ministry of Transport of Russia and in the relevant federal target programs, PJSC NCSP has developed Declarations of Intentions for investing in the construction of facilities for the Reconstruction and Modernization of the Novorossiysk Sea Port.

Key performance indicators of the Long-Term Development Program

LDP KPI	Fact 2015	Plan 2016	Fact 2016	Implementation
Change in the market share of the Group for general and bulk cargo in the Russian segment of the Azov-Black Sea basin by 2014	1%	5.0%	3.425%	68.5%
Reduction of energy costs per ton of cargo by 2014	2.33%	3.5%	-0.38%*	0%
The construction of a new management model with the introduction of the principles of staff motivation (in % of the execution plan)	100%	100%	100%	100%
Labor productivity, (revenue/number of employees)	7,598	3,765	8,119	215.6%
Level of customer satisfaction	92%	91%	95%	100%
ROE	29.5%	14.1%	44.2%	-
TSR	238.4%	13.6%	87.47%	643.16%
EBITDA, USD million	656.7	607	680.4	112.1%
Reducing the cost of providing services per ton of cargo by 2014	3.06%	2.4%	20%**	833.3%
The growth of the gross intensity of the loading time of vessels to the average value for all types of cargo by 2014	10.39%	12%	20.9%	174.2%
The indicator of implementation of the innovative development program	100%	100%	100%	100%
The growth of EBITDA to the average value of the indicator for three years (2012-2014)	18%	7.9%	22%	314.3%

* Energy costs are calculated taking into account the growth of transshipment relative to the base year

** Calculated at cost, expressed in US$.

According to the Roadmap for the Development until 2020 (with the possibility of extending until 2030) of the seaports of the Azov-Black Sea basin, as well as the development of near and far rail and road approaches to these seaports, approved by the Prime Minister of the Russian Federation on 11.07.2016 No. 5011p-P9, the plans of the group of companies of PJSC NCSP for the reconstruction of the Novorossiysk seaport include the following projects:

- Reconstruction of the Area 6 district and cargo berths No. 1-5 of Novoroslesexport
- Expansion of the specialized terminal at NZT for grain transshipment
- Reconstruction of the specialized container terminal at JSC Novoroslesexport
- Reconstruction of the specialized container terminal of PJSC «NCSP», wide pier 1
- 5. Construction of the general cargo terminal of PJSC «NCSP»

These projects are included in the second group (planned to be implemented by 2020 to cover the shortage of port capacities when carrying out the activities outlined in the Roadmap: preparation of financial models, conclusion of agreements with shippers, consideration of projects at the Governmental Transport Commission, conclusion of agreements (investment or concession) for the construction of federal property.

When developing and implementing investment projects of the Group, the existing agreements with Rosmorport and other state companies and agencies on interaction and participation in federal target programs for the reconstruction and modernization of the Novorossiysk seaport and the Novorossiysk transport hub, including co-financing of dredging and reconstruction of hydraulic structures, are taken into account.

Within the framework of the agreement with Rosmorport on reconstruction and modernization of the Novorossiysk seaport, in order to include the NCSP Group's projects in the development programs of the Ministry of Transport of Russia and in the relevant FTPs, the NCSP Group has commenced the development of a Petition (Declaration) on the intentions to invest in the construction of the Unified Scheme for the development of NCSP Group in the port of Novorossiysk.

Following the results of the meeting under the President of the Russian Federation in August 2015, the Government of the Russian Federation was also instructed to submit proposals for the implementation of measures aimed at increasing the capacity of the access infrastructure of the port of Novorossiysk to ensure the possibility of receiving large-displacement vessels.

The development objectives of the Port Development Scheme and the Declarations of Intentions for Investing in Construction

- Gathering and systematization of the principal data on the existing and planned maritime infrastructure of the port (list of terminals, cargo turnover, dimensions of operational and all-water areas, dimensions of settlement ships, etc.)
- Systematization of construction costs of the projected marine infrastructure facilities created from the federal budget (both separate facilities and individual structures within the terminals of the NCSP Group)
- Updating the layout scheme of the Novorossiysk port, graphical representation on the port of Novorossiysk map of the collected information and design decisions for the development of the NCSP Group
- Approval of the plan on Reconstruction and Modernization of the Novorossiysk Sea Port by Rosmorrechflot, Rosmorport, the Captain of Novorossiysk port and PJSC NCSP to further design and construction works for its implementation

Currently, railway and other access infrastructure of the port of Novorossiysk is used at 95% of its designed capacity. Therefore, the modernization of public access infrastructure is a prerequisite for the development and efficiency of port facilities. This task can be accomplished by implementing the road map and the following activities:

- modernization of the technology of processing wagons at Novorossiysk railway station and near approaches to it
- reconstruction of Novorossiysk station within the framework of FTP, sub-program of RTU, NTU project
- expansion of long-distance railway approaches to the Crimean station 9 km to increase capacity in the direction of Taman and the Crimean crossing
- increasing the capacity of the Novorossiysk station to 50 million tons per year through the above projects

construction of a bypass road to Novorossiysk in accordance with the Federal Target Program, a sub-program of the RTEC, a project of NTU

- the introduction into the FTP of the costs of deepening the water area and the reconstruction of the berthing facilities of Novorossiysk port in the amount of 13.6 billion rubles.

Operational development in 2016

In March 2016, NCSP Group launched a new information management system for transshipment of goods created on the ERP platform of Microsoft Dynamics AX 2012. The system operates in real-time mode with the most data on the state of the warehouse economy and promptly processes client applications in conditions of large cargo traffic. The introduction of this system can reduce the processing time of cargo up to 10% and increase the productivity of port capacities up to 5%.

In the future, the development of the production information portal will ensure the transition to electronic document circulation with customers through the automated development of acceptance documents, loading orders, applications for the processing of fleets, orders for the receipt of imported goods.

In August 2016 a meeting of the joint coordinating council of PJSC NCSP and JSC Russian Railways took place in Novorossiysk where the measures on operational interaction between the two companies were discussed with the aim of increasing the volume of cargo transshipment.

In 2016, as part of the reconstruction of the Primorsky Commercial Port (berths No. 3, No. 4), PTP completed the technical re-equipment of the berths, including hydraulic structures, port facilities, guard rails, industrial sewerage, automatic electricity metering, and the modernization of the communication system. In February 2017, technical re-equipment of oil loading berths No. 3, No. 4 was completed.

As part of the reconstruction of the container terminal in Baltiysk, in 2016, BSK built trestles for refrigerated containers, truck scales, a container inspection site, a point of in-depth inspection of containers with a detainee warehouse, treatment facilities, a fire fighting station, and a parking lot for road trains. In September 2016 BSK completed the implementation of the SmartPath container positioning system at the RTG Kalmar warehouse crane loaders.

In 2016, NSRZ modernized storage areas to increase the capacity of the warehouse and the intensity of warehouse operations with cargo, carried out the reconstruction and overhaul of the railway track to ensure the transshipment of the freight traffic of non-ferrous metals.

The reconstruction of the container terminal of NLE in 2016 completed the reconstruction of storm sewerage, the boiler house, completed the construction of two road bridges over the Tsemes River, reconstructed the overpass, reconstruction of the berths 28A, 28, 29, 30.

In 2016, in accordance with the development program, the Group continued the modernization of the fleet of reloading equipment and the replacement of equipment with a more modern, energy efficient and multifunctional, allowing to increase the weight of one load capture by 1.5-2 times.

PJSC NCSP put into operation in 2016:

- 3 Liebherr LH 120 ETG electrohydraulic grab loaders with a lifting capacity of 15 tonnes, on the rail portal;
- 2 Liebherr LH 150 ETG electrohydraulic grab hoists with a lifting capacity of 20 tonnes, on the rail portal;
- 1 Liebherr LH 150 M electrohydraulic grab bucket loader on a 20-tonne-wheel drive;
- 6 Toyota 8FD50N loaders with a lifting capacity of 5 tonnes;
- 1 Liebherr A944CHD clamshell loader with a lifting capacity of 20 tonnes;
- 6 port tractors Terberg RT 223 with reinforced load table;
- 1 CVS FERRARI F500-RS5M loader with magnetic gripper for 45 tonnes;
- 2 CVS FERRARI F33 loaders with magnetic grip for 33 tonnes;
- 1 CVS FERRARI F42 loader with magnetic grip for 42 tonnes;
- 3 container loader CVS FERRARI F500-RS6, equipped with a spreader with an upper grip for reloading loaded containers up to 40 tonnes.

Also, an asphalt concrete mini-plant was commissioned, which will serve the road surface of the cargo areas of the port.

JSC «NLE» received, among other equipment, in 2016:

- 2 container loaders with a carrying capacity of 25-50 tonnes;
- 1 container loader with lifting capacity up to 25 tonnes;
- 5 forklifts with a lifting capacity of 10-25 tonnes;
- 3 forklifts with lifting capacity up to 10 tonnes;
- 2 container tractors with a carrying capacity of 30 tonnes;
- 2 trucks with a lifting capacity of 15 tonnes;
- 2 cargo trailers with a lifting capacity of 15 tonnes.

JSC NSRZ purchased in 2016 among others:

- 1 bridge double-girder crane with a cargo trolley, carrying capacity of 30 tonnes with a load-gripping device in the form of an electromagnet;
- 2 tick crane grabs with a carrying capacity of 25 and 32 tonnes to load steel rolls in the «on the butt» position;
- 1 cantilever of steel rolls with lifting capacity of 36 tonnes;
- 5 forklift and auto loaders with a carrying capacity from 7 to 33 tonnes;
- 1 terminal tractor with the carrying capacity of 32 tonnes;
- 4 roll-trailers with lifting capacity of 50-75 tonnes.

The Group's capital investments in 2016 amounted to $ 101.6 million, including machinery and equipment worth $ 38.0 million, vehicles worth $ 3.0 million, ships worth $ 0.9 million.

OPERATING RESULTS

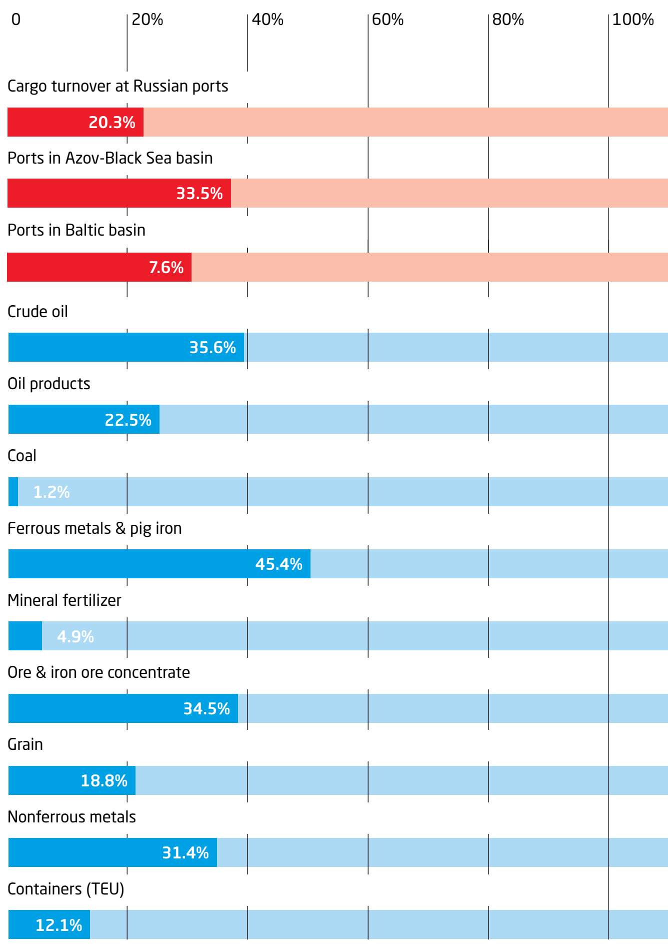
Consolidated cargo turnover

NCSP Group's cargo turnover grew by 5.2% to 146.9 million tonnes in 2016.

The Group demonstrated strong growth in cargo handling in the course of the year and significantly exceeded average industry dynamics in a number of key cargo categories. For example, growth of iron ore handling, at 50.1%, exceeded the industry average of 29.6%[1] by 1.7 times. Transshipment of oil products at Russian ports fell by 3.6%,[2] but at the Group's terminals it remained at the previous year's level.

[1] Source: ASOP
[2] Source: ASOP

NCSP Group market share in Russia in 2016



NCSP Group's cargo turnover in 2016 grew by

+5.2%

This was to a large extent the result of the ongoing program of modernization, including replacement of cranes and manipulators, deployment of magnetic grabs, installation of more precise and faster lifting cranes and the introduction of joint railcar dispatching with Russian Railways (RZD).

This made it possible to increase productivity in handling bulk and general cargo when unloading freight cars and loading vessels by optimizing cargo feed, reducing slinging operations and other manual labor, accelerating crane work and allowing new equipment to operate in more difficult weather conditions.

For grain cargo, we began to use simultaneous unloading of truck and trailer, and set up an express lab with pneumatic feed of samples for analysis of grain quality at the unloading station.

The Group's cargo turnover grew by 2.9% to 81.7 million tonnes at terminals at the Port of Novorossiysk and 8.1% to 64.5 million tonnes at the Port of Primorsk in 2016. Container turnover at the Baltiysk Port increased to 708,100 tonnes (by 5.7%), or by 104,300 TEU (by 11,2%).

NCSP Group handled 20.3%[3] of total cargo turnover at all Russian seaports in 2016, including 33.2%[4] of cargo at ports in the Azov-Black Sea basin and 27.5%[5] of cargo at ports in the Baltic basin.

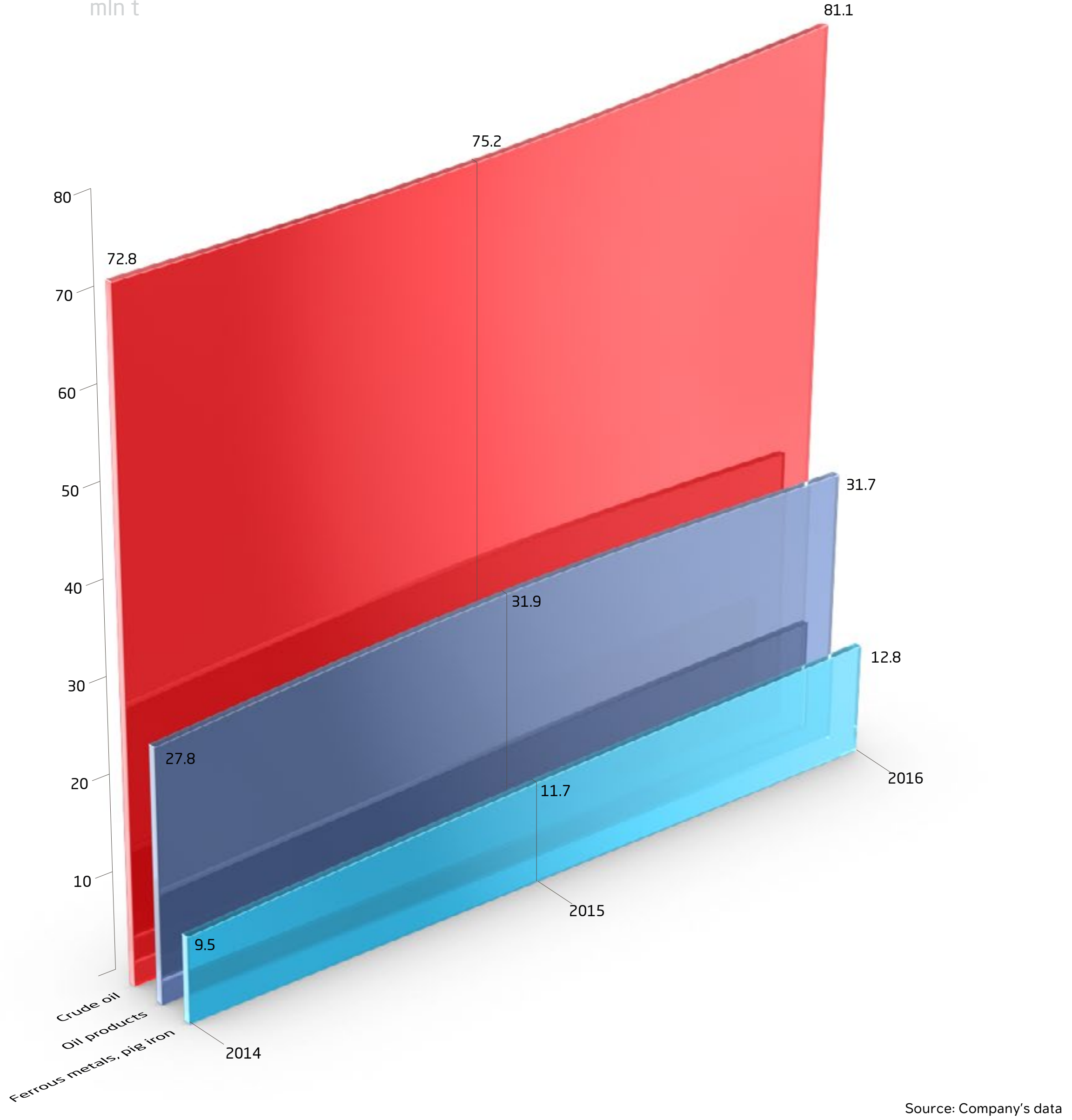
The Group's market share in handling of selected types of cargo was 35.6% for crude oil, 22.0% for oil products, 45.1% for ferrous metals, 31.2% for nonferrous metals, 35.4% for iron ore and 18.8% for grain.[6]

The Group's overall market share was almost unchanged in 2016, decreasing by 0.3 percentage points (pp). A decrease of 1.6 pp in market share in handling of crude oil was partially offset by a 0.5 pp increase in market share of oil products. The Group's market share grew by 2.1 pp in handling of ore and 0.4 pp for ferrous metals, but decreased by 2.9 pp for nonferrous metals, 2.2 pp for mineral fertilizer, 0.6 pp for grain and 0.4 pp for containers.

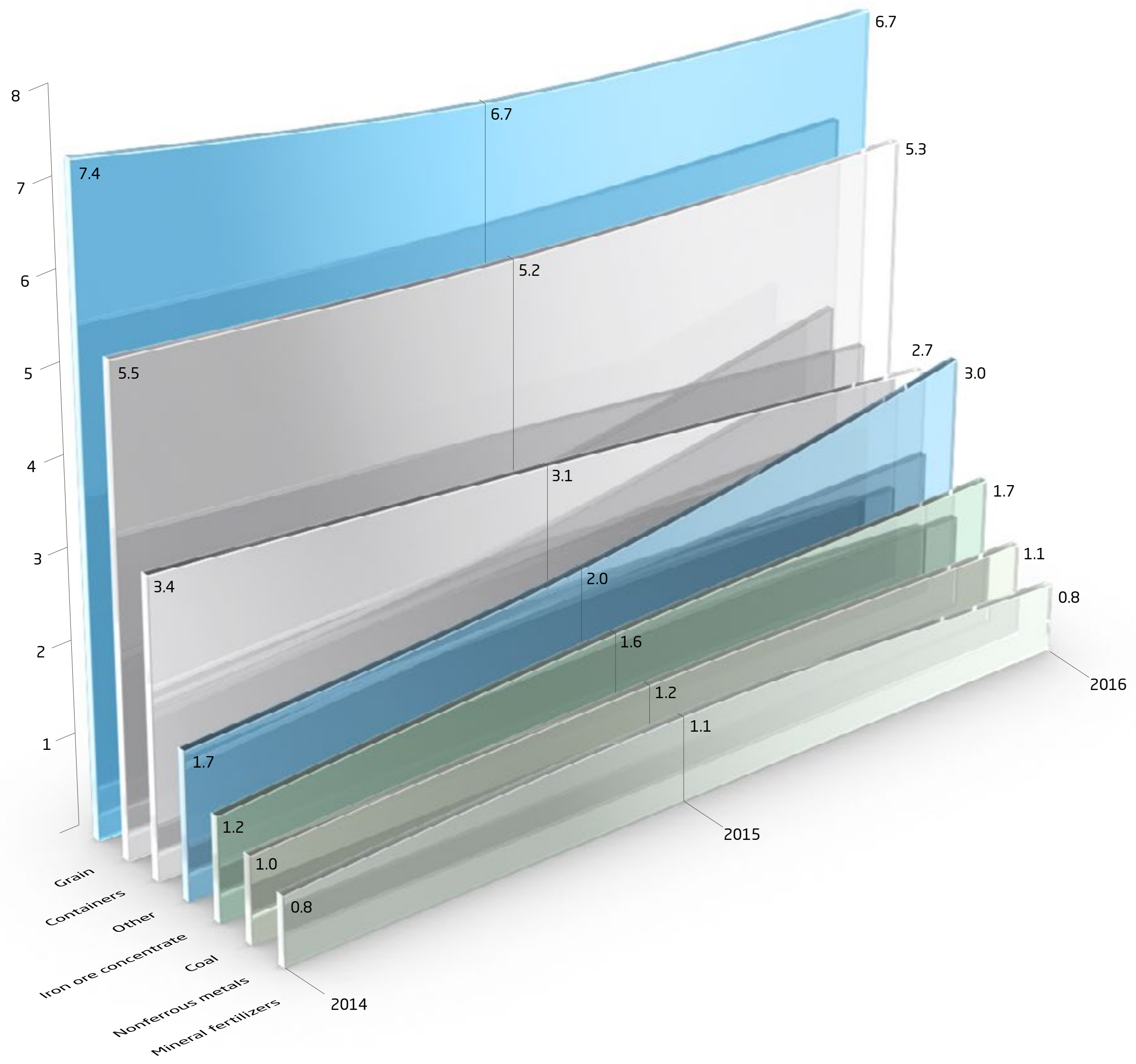
NCSP Group's export cargo turnover totaled 142.4 million tonnes in 2016, or 96.9% of the total amount of cargo handled by the Group.

[3] Calculated based on ASOP data
[4] Calculated based on ASOP data
[5] Source: ASOP
[6] Source: ASOP

NCSP Group transshipment of main cargos & cargo turnover structure
mln t



Source: Company's data



Source: Company's data

There were no significant changes in the structure of export cargo. The main destination for export cargo is Europe, which accounted for 74.6% or 106.2 million tonnes of total export cargo in 2016. Primarily crude oil, oil products, ferrous metals and ore are shipped to Europe. The second most important export destination is Asia, with 14.6% or 20.8 million tonnes of export cargo in 2016, including crude oil and oil products, grain, ferrous and nonferrous metals, coal, containers and iron ore. Africa accounted for 6.9% or 9.9 million tonnes of export cargo in 2016, which included grain, oil products, ferrous metals, containers, timber and fertilizer. Import cargo traditionally consists of cargo in containers, raw cane sugar and perishable goods.

NCSP Group cargo turnover in 2016 by type of cargo:

- Crude oil — 81.1 million tonnes
- Oil products — 31.7 million tonnes
- Coal — 1.7 million tonnes
- Ferrous metals and pig iron — 12.8 million tonnes
- Mineral fertilizer — 0.8 million tonnes
- Ore cargo — 3.0 million tonnes
- Grain — 6.7 million tonnes
- Nonferrous metals — 1.1 million tonnes
- Containers — 5.3 million tonnes or 483,600 TEU
- Other cargo — 2.7 million tonnes

The combined decrease in turnover of cargo, handling of which declined, amounted to 1.2 million tonnes in 2016, including decreases of 0.2 million tonnes for oil products, 0.3 million tonnes for raw cane sugar grain, 0.3 million tonnes for mineral fertilizer, 0.1 million tonnes for nonferrous metals, 0.1 million tonnes for perishable goods, 0.1 million tonnes for timber and 0.1 million tonnes for other cargo.

The combined increase in turnover of cargo for which there was growth totaled 8.4 million tonnes, as the Group handled 5.9 million tonnes more crude oil; 1.1 million tonnes more ferrous metals and pig iron; 1.0 million tonnes more ore; 0.2 million tonnes more coal; 0.1 million tonnes more containers; and 0.1 million tonnes more other cargo.

There were no major changes in the structure of NCSP Group's cargo turnover by type of cargo in 2016. The most significant change was a 1.4 pp increase in the share of crude oil and 1.3 pp decrease in the share of oil products; there was also a 0.5 pp drop in the share of ore.

NCSP Group cargo turnover by cargo compared to competitors

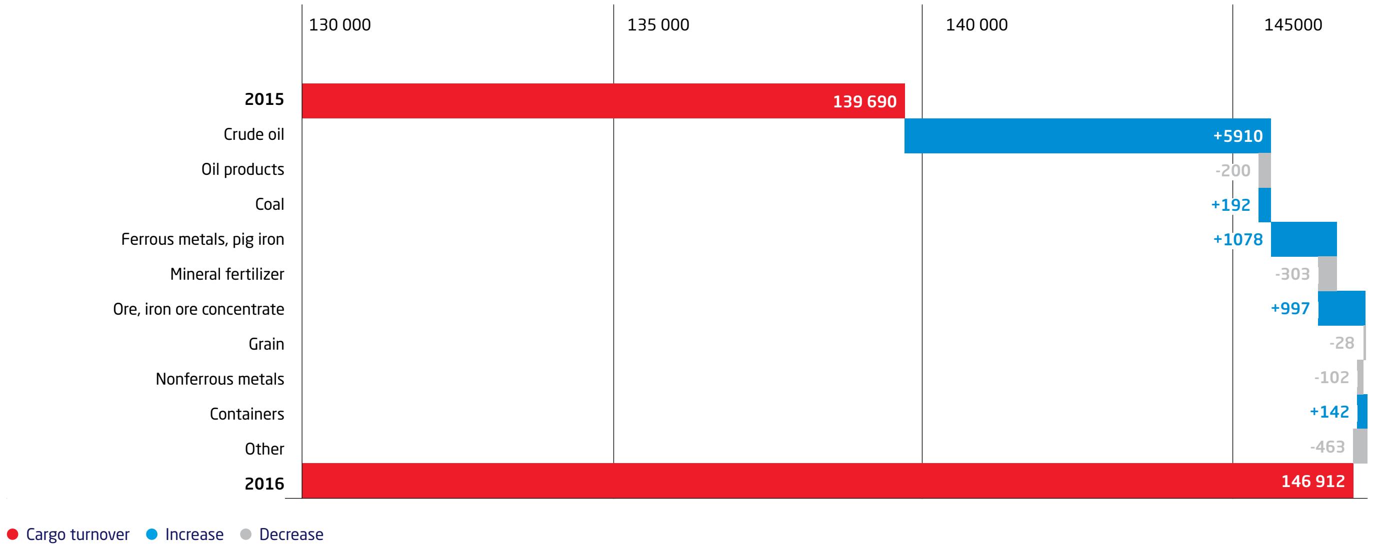
The external economic situation and dynamics of commodity exports, which make up the bulk of cargo traffic at Russian seaports, had a decisive impact on the cargo turnover at NCSP Group ports and the country's port industry as a whole last year.

The main external factors that impacted the Group's cargo turnover in 2016 included:

- The decrease in transshipment of Russian cargo through foreign ports. Russian cargo traffic through ports in the Baltic countries and Ukraine fell by 15.2 million tonnes or 24.4% to 47.2 million tonnes in 2016. The biggest decrease, by 9.8 million tonnes, was in shipments of crude oil and oil products through Baltic countries as Russian oil products exports decreased due the tax maneuver in the oil industry.[7]

7 Source: Federal Customs Service of Russia

Changes in NCSP Group cargo turnover in 2016, '000 t



- Transshipment of grain throughout the year was negatively affected by a number of factors, including:
- Low global prices and appreciating ruble at the end of 2015/2016 grain season;
- Increasing competition on the Mediterranean market from exports from Argentina, which lifted restrictive export duties;
- Disruptions in shipments to Egypt due to a zero tolerance requirement for ergot in September;
- The high export duty on wheat that was in effect until September 23, 2016.
- Growth of coal exports due to a better market appeal for Russian coal in the Middle East and EU while RSA and Columbia suppliers concentrated on Asian markets where Chinese supply shortened.
- Growth of ore and finished ferrous metals exports on the back of higher prices for iron ore commodities and ferrous metal products due to a decline in ore production and increase of domestic demand in China.
- The congestion of adjoining transport infrastructure at the Port of Novorossiysk, particularly on the North Caucasus Railway, significantly constrains the port's ability to handle liquid and dry cargo delivered by railway.
- Internal factors that facilitated the growth of cargo turnover included equipment upgrades and measures to optimize operating processes.

Crude oil

Crude oil handling at NCSP Group terminals demonstrated maximum growth in absolute figures in 2016, increasing by 5.9 million tonnes or 7.9% to 81.1 million tonnes. Oil transshipments at Russian ports overall grew by 12.8%.[8]

Oil transshipments in Novorossiysk increased by 0.4 million tonnes or 1.2% to 31.8 million tonnes in 2016, while oil transshipments at Russian ports in the Azov-Black Sea basin rose by 2.6%. In Primorsk, meanwhile, crude transshipments grew by 5.5 million tonnes or 12.3% to 50.7 million tonnes, while oil transshipments at Russian ports in the Baltic basin increased by 12.1%.

The main factors that led to the changes in oil transshipment volumes at Russian ports in 2016 were:

- The tax maneuver in the oil industry, under which the export duty on oil is supposed to decrease to 30% in 2017 from 59% in 2014. Similarly, differentiated export duty rates have been set for oil products depending on their type. Due to the leveling of duties on oil and dark oil products, it became more lucrative to export oil than to refine or sell on the domestic market. While oil production in Russia grew by 14.1 million tonnes or 2.6%, 2.9 million tonnes or 1.0% less crude was shipped for refining in 2016.[9] Meanwhile, crude oil exports grew by 10.3 million tonnes or 4.2%[10] in 2016.
- Ports in the Arctic basin increased transshipments almost threefold or by 13.0 million tonnes.[11] This growth was due to the start of oil shipments from Gazprom Neft's Novoport field through a terminal near the Sabetta port with subsequent offshore transshipment at the Murmansk port through a storage tanker. The Sabetta port therefore handled its first 2.8 million tonnes of oil, while the Murmansk port increased oil handling by 8.8 million tonnes in 2016. In addition, shipments through Lukoil's terminal at the Varandey port increased by 1.4 million tonnes in 2016.[12]
- Oil transshipments at ports in the Far East basin grew by 5.9% or 2.7 million tonnes,[13] but according to Transneft the Eastern Siberia — Pacific Ocean oil pipeline is operating at full capacity. The Transneft pipeline system has a small reserve of transport capacity on routes to the ports of Primorsk, Ust-Luga and Novorossiysk, but the main reserve of capacity is on the Druzhba pipeline.
- NCSP Group's Primorsk port handled 5.5 million tonnes or 12.3% more oil in 2016, despite the repurposing of one of the two lines of the Baltic Pipeline System-1 (BPS-1) to carry diesel fuel. The Ust-Luga port increased oil handling by 3.3 million tonnes or 12.4% to 30.1 million tonnes.[14]

In 2016 NCSP Group's cargo turnover grew by

7.2 MLN T

Transneft expects to ship 483.3 million tonnes of oil through its pipeline system in 2017, about the same as in 2016.[15] Oil exports through Transneft's system, according to requests from oil companies, will drop by 2.1% to 232 million-233 million tonnes in 2017.[16] However, these requests for shipping and exporting oil through Transneft's system were received before Russia decided to join the agreement with OPEC to reduce oil production, so these figures can be expected to be revised.

The Caspian Pipeline Consortium (CPC) plans to complete a project to expand the Tengiz-Novorossiysk oil pipeline system to 67 million tonnes per year in 2017. The company increased transshipment in Novorossiysk by 3.5% to 44.3 million tonnes in 2016, and plans to pump 65.7 million tonnes through the Tengiz-Novorossiysk pipeline in 2017, according to requests from shippers.

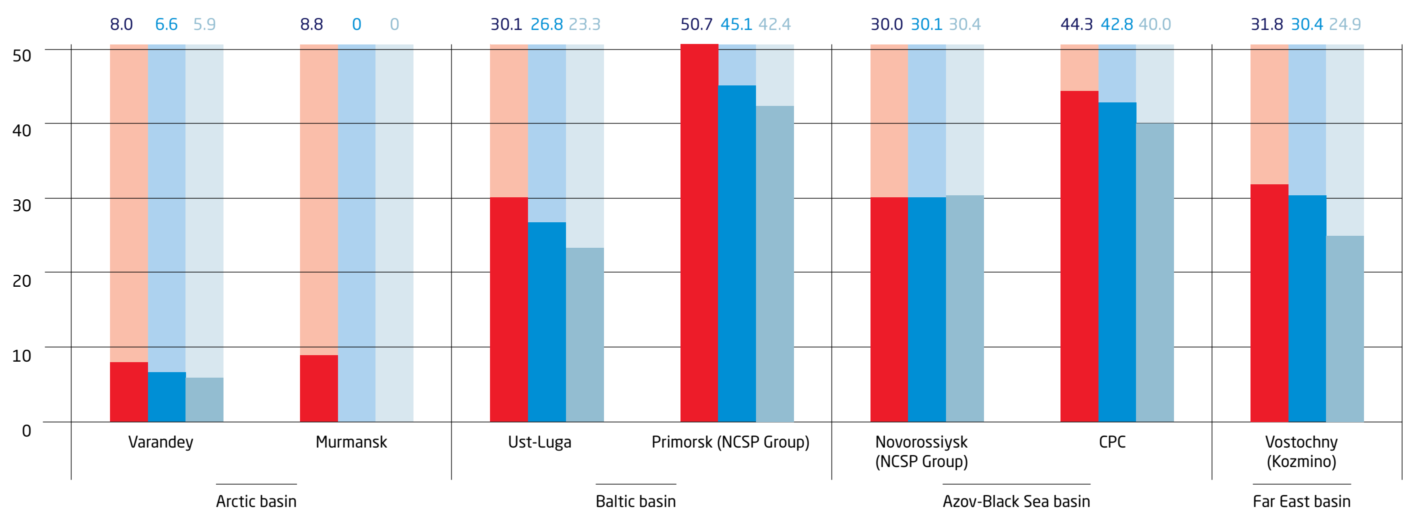
Oil products

The Group's oil product transshipments decreased by 0.2 million tonnes or 0.6% to 31.7 million tonnes in 2016. This decrease was far smaller than the 3.7% overall drop in oil product handling at Russian ports.[17]

The Group handled 17.9 million tonnes of oil products in Novorossiysk in 2016, 0.5 million tonnes or 3.0% more than in 2015, and 13.8 million tonnes in Primorsk, 0.7 million tonnes or 4.9% less. Total oil product transshipments at Russian ports, meanwhile, grew by 3.1% in the Azov-Black Sea basin, but fell 7.7% in the Baltic basin.[18]

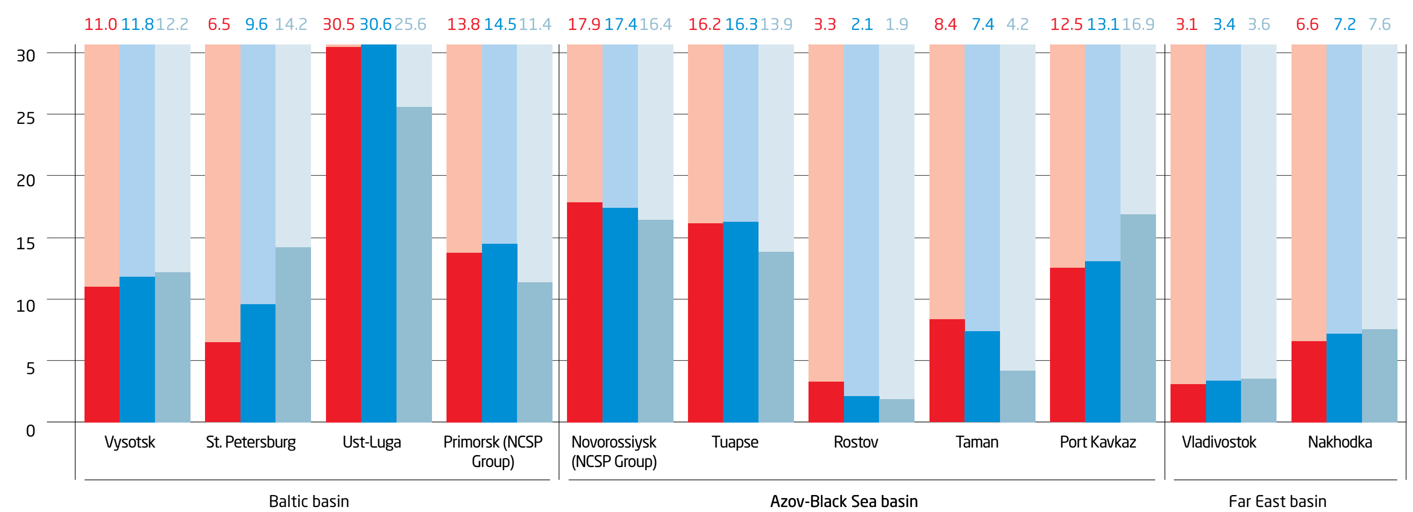
8 Source: ASOP
9 Source: Economic Development Ministry of Russia
10 Source: Rosstat
11 Source: ASOP
12 Source: ASOP
13 Source: ASOP
14 Source: ASOP
15 Source: Transneft
16 Source: Transneft
17 Source: ASOP
18 Source: ASOP

Transshipment of crude oil at NCSP ports and other major Russian ports, mln t



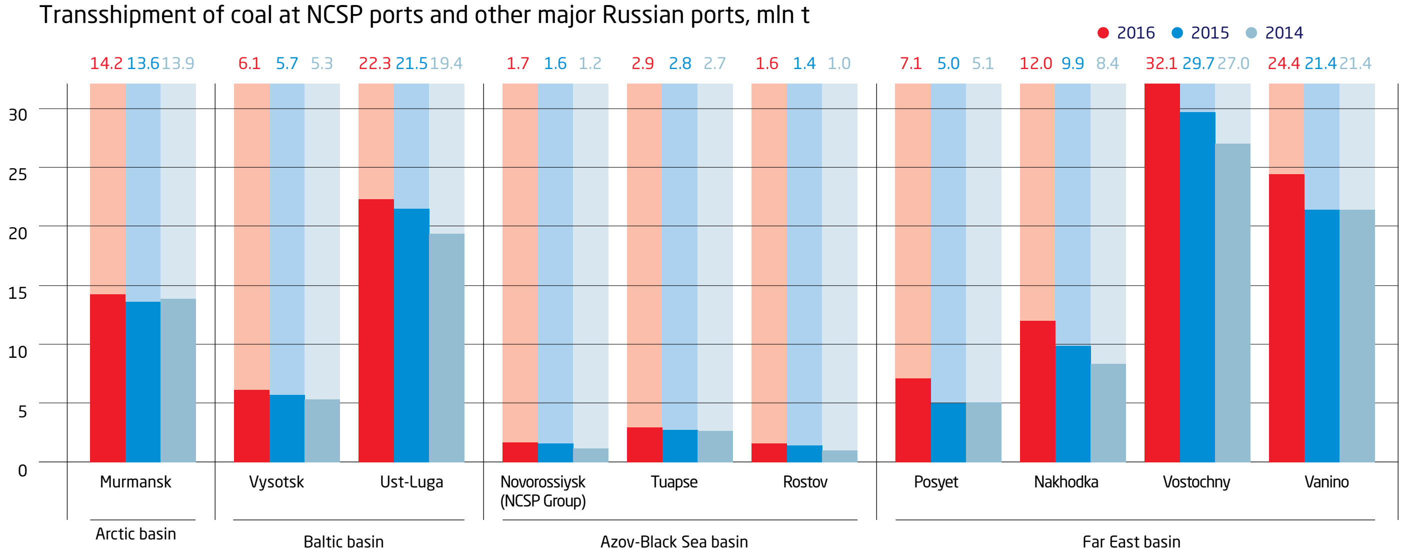
Source: ASOP

Transshipment of oil products at NCSP ports and other major Russian ports, mln t



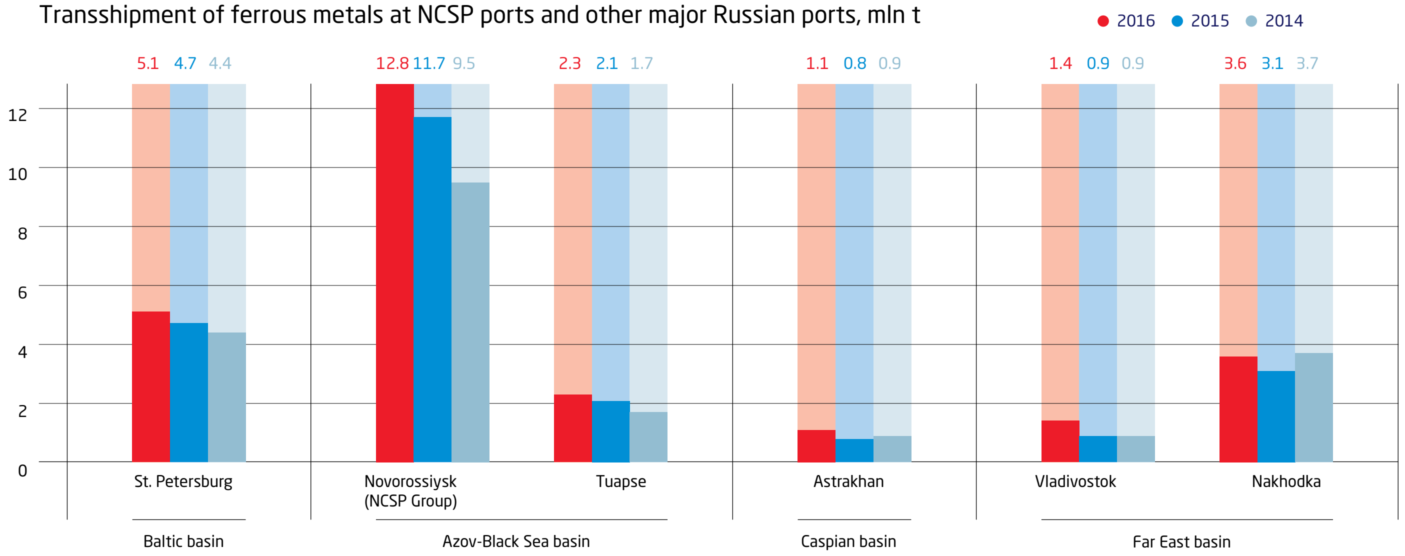
Source: ASOP

Transshipment of coal at NCSP ports and other major Russian ports, mln t



Source: ASOP

Transshipment of ferrous metals at NCSP ports and other major Russian ports, mln t



Source: ASOP

Crude oil shipments to Russian oil refineries through Transneft's pipeline system decreased by 5.2 million tonnes or 4.5% in 2016,[19] and oil product exports from Russia fell by 15.5 million tonnes or 9.0%.[20] This was due to the overall decline in the appeal of oil product exports (particularly fuel oil) due to the tax maneuver and a drop in production volumes due to the increase in the depth of refining.

In the Baltic basin, there was a redistribution of some shipments from ports in the Baltic countries to Russian ports. Transshipments of Russian crude oil and oil products fell by 9.8 million tonnes or 49.3% at ports in the Baltic countries, and decreased by 5.3 million tonnes or 7.7% at Russian ports on the Baltic.[21]

NCSP Group handled 0.7 million tonnes or 4.9% less oil products in Primorsk in 2016, as Lukoil reduced diesel fuel shipments after it started shipping to its own terminal in Vysotsk through a branch of the Sever pipeline system (1.4 million tonnes in 2016).

The Group handled 0.5 million tonnes or 3.0% more oil products in Novorossiysk in 2016 primarily as fuel oil shipments from oil refineries in southern Russia increased while diesel fuel shipments, primarily by Rosneft, decreased due to redirection of shipments to Port Kavkaz (0.6 million tonnes). The decline in diesel fuel shipments was partially offset by the acquisition of new cargo: naphtha in the amount of 0.2 million tonnes in September-December.

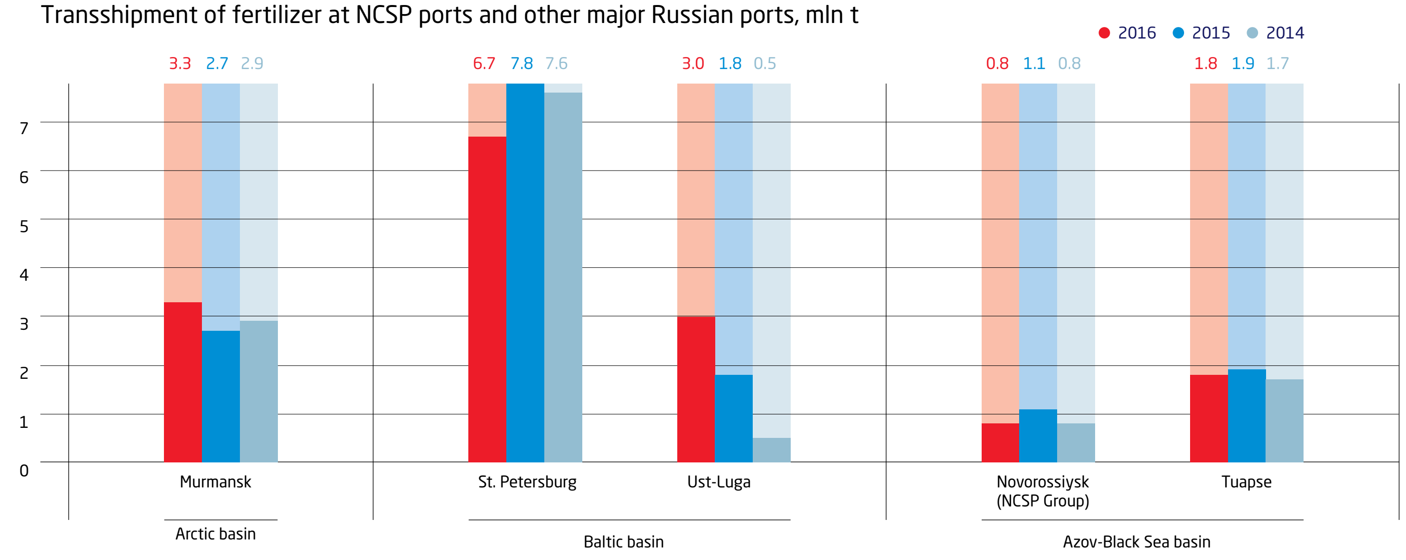
Attraction of a new cargo traffic (naftha, amounting t 0.2 million tonnes since September to December 2016)allowed to compensate for the decreasing diesel fuel shipments.

The Rostov port, where Yug Rusi ships oil products from its Novoshakhtinsk Oil Refinery for transshipment through its own terminal, increased transshipments by 1.2 million tonnes or 58% to 3.3 million tonnes.[22] The refinery's capacity was doubled to 5 million tonnes of oil per year at the beginning of 2016 with the launch of a new crude distillation unit.

In addition, in the Azov-Black Sea basin, Port Kavkaz reduced cargo handling due to a decline in river exports and roadstead transshipment.

[19] Source: Transneft
[20] Source: Federal Customs Service of Russia
[21] Source: ASOP
[22] Source: ASOP

Transshipment of fertilizer at NCSP ports and other major Russian ports, mln t



Source: ASOP

Transneft announced the completion of a phase to expand the capacity of the Sever pipeline system to 15 million tonnes, including cleaning and repurposing part of the BPS oil pipeline on the Yaroslavl-Kirishi section. The last phase of the modernization, which calls for increasing capacity to 25 million tonnes per year, is expected to be completed in 2018, by which time the company plans to finish overhauling certain sections of the linear part of the pipeline from Ufa to Yaroslavl. The forecast for capacity utilization at Primorsk in 2017 is that volumes will grow to 14.6 million tonnes. Part of the capacity of the Sever system will be used by Lukoil to ship diesel fuel to its own terminal in Vysotsk. The capacity of the oil product pipeline will initially be 3 million tonnes, with the possibility of expansion to 5 million tonnes. Transneft expects it to carry 2.2 million tonnes in 2017.

Coal

The Group's coal transshipments grew by 0.2 million tonnes or 12.4% to 1.7 million tonnes in 2016, while overall coal transshipments at Russian ports rose by 10.5% and coal handling at ports in the Azov-Black Sea basin increased by 4.4%.[23] The growth was due to equipment upgrades at the Novorossiysk port and optimization of operating processes, as well as thanks to decreased competition in the EU, Turkey, and the Middle East markets due to reduced supply from Mozambique and concentration of the RSA and Columbia suppliers on Asian markets where Chinese supply shortened.

Coal prices began to rise in February 2016 due to a decline in production in China. Russian coal exports increased by 8.6% to 13.3 million tonnes overall,[24] with ports in the Far East increasing transshipments by 15.1% to 10.7 million tonnes.[25]

Coal exports continue to be shipped through Ukrainian ports due to insufficient throughput capacity of transport and port infrastructure in southern Russia. Their coal cargo turnover fell by 0.8 million tonnes or 27.3% in 2016, but remained high at 2.2 million tonnes,[26] which represents potential to increase cargo turnover at Russia's Black Sea ports in future.

Ferrous metals

The Group handled 12.8 million tonnes of ferrous metals and pig iron in 2016, 1.1 million tonnes or 9.2% more than in 2015. This exceeded the 7.8% growth of ferrous metal transshipments at Russian ports in general in 2016.[27]

The growth of ferrous metal cargo turnover was due to an increase in shipments by NLMK Group and (Ural Steel) and acquisition of pig iron cargo traffic from Ilyichevsk from Tulachermet, earlier processed at the Ukrainian port of Ilyichevsk.

With the expansion of the throughput capacity of transport infrastructure at approaches to Novorossiysk, up to 1.5 million tonnes of the Russian pig iron that is exported through ports in the Baltic and Ukraine annually could be handled in Novorossiysk.

Mineral fertilizer

Transshipment of mineral fertilizer through the Port of Novorossiysk decreased by 0.3 million tonnes or 27% to 0.8 million tonnes in 2016, while such cargo transshipments at Russian ports in general grew by 1.1% in 2016.[28]

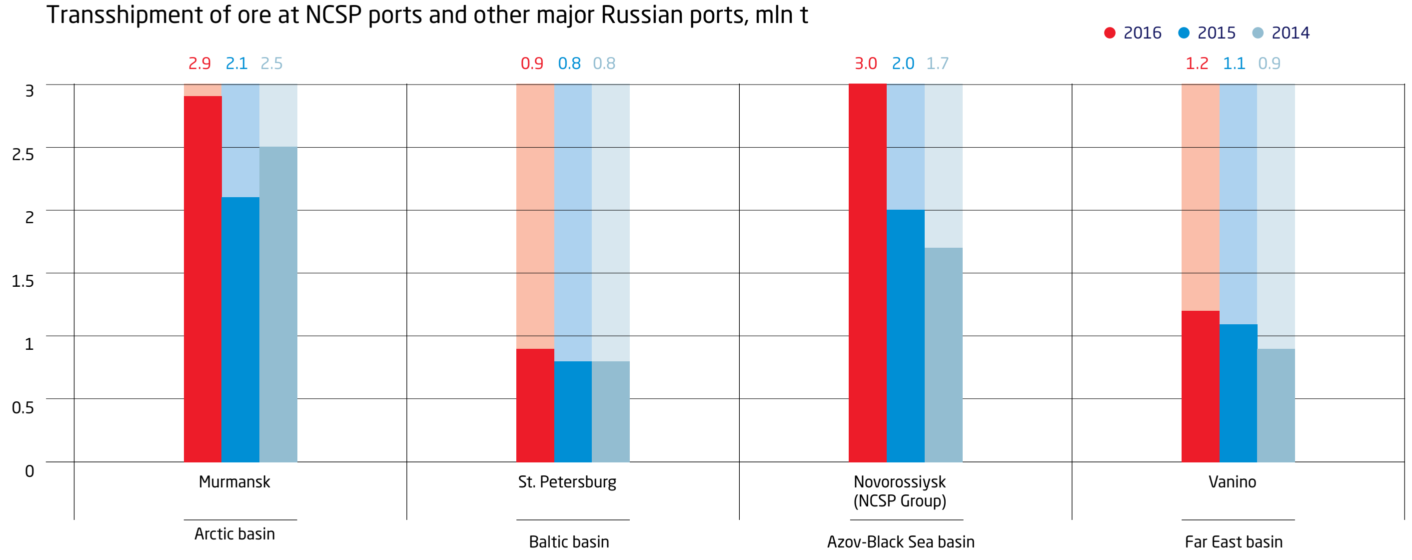
The main reason for the redistribution of mineral fertilizer traffic was the high degree of consolidation by major producers at their own specialized terminals: EuroChem at Tuapse, UralChem in Riga, PhosAgro at the Ust-Luga port (operator of the Smart Bulk Terminal) and Uralkali in St. Petersburg.

Fertilizer shipments also decreased through ports in the Azov-Black Sea basin due to the temporary ban on ammonium nitrate sales in Turkey (from June 2016 to February 2017) over concerns that it could be used for terrorism.

PJSC NCSP plans to build an additional terminal in Novorossiysk to handle mineral fertilizer with throughput capacity of 5 million tonnes per year by 2021.

[23] Source: ASOP
[24] Source: Federal Customs Service of Russia
[25] Source: ASOP
[26] Source: ASOP
[27] Source: ASOP
[28] Source: ASOP

Transshipment of ore at NCSP ports and other major Russian ports, mln t



Source: ASOP

Transshipment of iron ore and iron ore concentrate increased in 2016 by

36.4 MLN T

Ore

The Group handled 3.0 million tonnes of iron ore concentrate in 2016, 1.0 million tonnes or 50.1% more than in the previous year, while iron ore transshipments at Russian ports in general grew by 29.6%[29] in 2016.

The growth was driven by an upturn in the market. The increase in prices for iron ore commodities and finished ferrous metal products that began in March 2016, after the Chinese New Year, due to a decline in ore production and pick up in domestic demand in China and Chinese Government's measures to stimulate domestic demand continued virtually to the end of the year.

Russian ore shipments through Ukraine fell by 0.7 million tonnes or 40.1%, while shipments through Baltic ports surged by 0.8 million tonnes or 130%.[30]

NCSP Group's development strategy calls for attracting some of the traffic that is leaving Ukrainian and Baltic ports to Novorossiysk, including with the construction of a specialized terminal given the expansion of the throughput capacity of transport access to Novorossiysk.

Competition among ports in the Azov-Black Sea basin is growing. The OTEKO Group is expected to open an ore handling terminal at the Taman port in 2018 with capacity of 5 million tonnes per year.

Grain

Transshipment of grain at Russian ports increased by 3.3% in 2016. NCSP Group's grain transshipments the Novorossiysk port remained flat at 6.7 million tonnes in 2016 due to external factors such as low world prices and oversupply, the strengthening of the ruble starting in the second half of 2016, an export duty on wheat that was in effect until September 23, 2016, and disruptions in exports to Egypt due to a zero tolerance requirement for ergot that was lifted in late September.

Competition in transshipment of grain among ports in sourthern Russia is intensifying. NCSP Group is carrying out a project to expand the grain cargo handling capacity of NGT, including additional 4-5 million tonnes of its own capacity at NGT and 5 million tonnes with the expansion of the Novorossiysk Grain Plant terminal in Novorossiysk, which is owned by United Grain Company (UGC). The KSK grain terminal at the Port of Novorossiysk plans to expand capacity from 3.5 million tonnes to 5.0 million tonnes.

The OTEKO Group plans to build a grain terminal at the Taman port in 2019 with capacity to handle 12.5 million tonnes of grain exports (wheat, barley and corn) and imports of 2 million tonnes of other agricultural commodities such as raw cane sugar, soybeans and meal. In addition, a tender has been announced for the development of plans to expand grain handling at the Tuapse port from 2 million to 3 million tonnes.

Nonferrous metals

The Group's transshipment of nonferrous metals decreased by 0.1 million tonnes or 8.5% to 1.1 million tonnes in 2016, while handling of this cargo at Russian ports in general remained flat.[31]

The decline in nonferrous metal handling by NCSP Group was due to a decrease in shipments from Central Asian countries, as well as shipments of transit nonferrous metals and aluminum from key client Rusal.

Container cargo

Handling of container cargo at NCSP Group companies grew by 1.6% or 7,600 TEU in 2016, while transshipments at Russian ports in general increased by 1.4%.[32] The growth was due to the general recovery of the economy and start of industrial production growth.

NCSP Group's container turnover in Novorossiysk decreased by 2,900 TEU to 379,300 TEU. Back in 2015, due to the decline in cargo traffic, container shipping lines changed the rotation of services to Black Sea ports. Shipments by large-capacity vessels are being made to hubs in the Mediterranean with subsequent transshipment by feeder vessels to ports on the Black Sea.

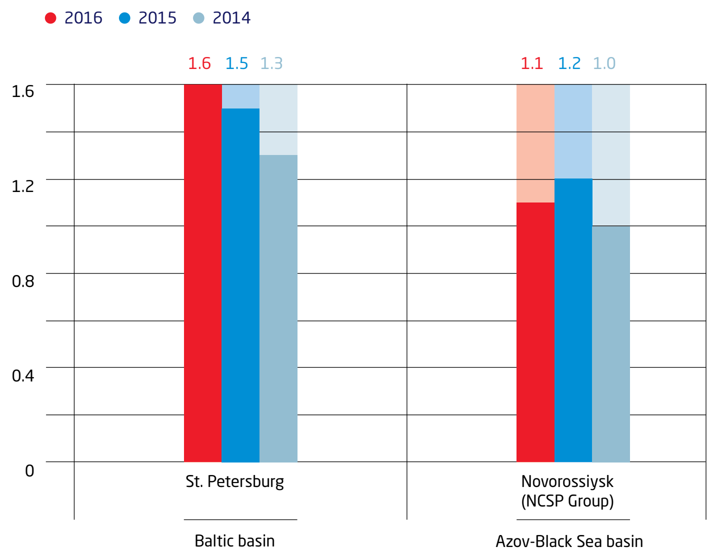
[29] Source: ASOP

[30] Source: ASOP

[31] Source: ASOP

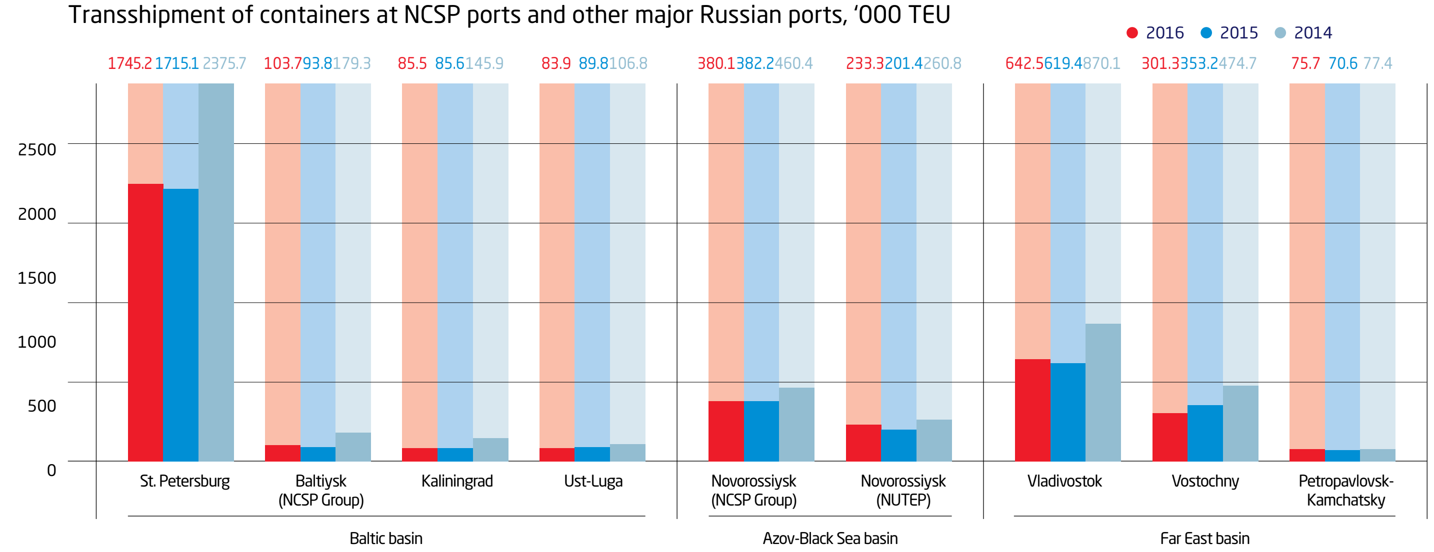
[32] Source: ASOP

Transshipment of nonferrous metals at NCSP ports and other major Russian ports, mln t



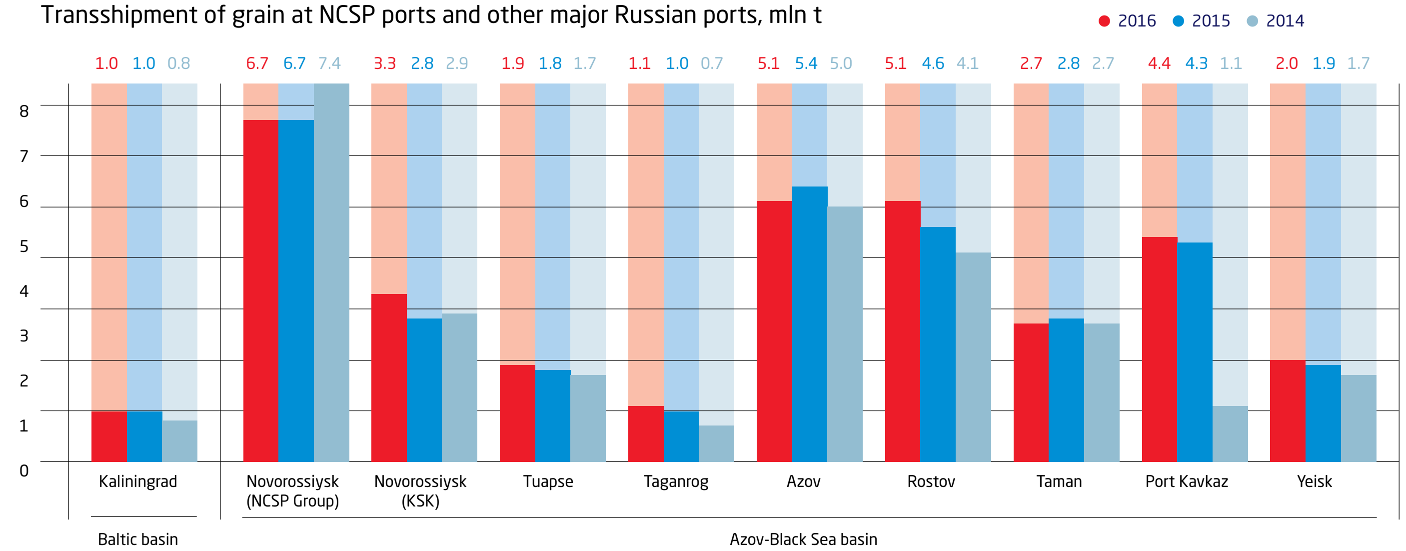
Source: ASOP

Transshipment of containers at NCSP ports and other major Russian ports, '000 TEU



Source: Interfax, January 12, 2017

Transshipment of grain at NCSP ports and other major Russian ports, mln t



Source: ASOP

NCSP Group's container turnover at Baltiysk increased by 10,500 TEU to 104,300 TEU in 2016, primarily because of growth in cargo traffic from key client Avtotor. The Kaliningrad-based automaker increased production to 94,400 vehicles in 2016 from 92,200 in 2015.[33]

The Group is refurbishing its container terminals in order to increase their competitiveness. There are plans to expand throughput capacity to 400,000 TEU per year in Baltiysk by 2020, and in Novorossiysk the Group intends to expand capacity to 300,000 TEU per year at the PJSC NCSP terminal and to 500,000 TEU per year at the NLE terminal by 2021.

Customers

NCSP Group's main customers are major industrial companies in the resource and manufacturing sectors. The largest shippers of liquid cargo include Russian oil companies Rosneft, Lukoil, Gazprom Neft, Surgutneftegas and Bashneft, NefteGazIndustria and oil traders Surguteks and Somitekno. Leading shippers of general cargo are NLMK Group, Metalloinvest, Magnitogorsk Iron & Steel Works (MMK), Rusal and Novorosmetall, and the biggest shippers of bulk cargo are Metalloinvest, Evraz, Gazpromtrans, Minudobreniya, Nevinomyssky Azot, Kuzbassrazrezugol, Promugolservis and Obukhovskaya Mining.

The largest grain operator in 2016 was Rif Trading Housing. Container lines MSC, MAERSK, Arkas and ZIM, as well as Kaliningrad automaker Avtotor accounted for the largest share of container turnover.

Despite a competitive environment that makes it possible to redirect cargo through various Russian ports, there are infrastructure connections, as well as natural geographic and logistical advantages that encourage customers to choose the ports of NCSP Group.

NCSP Group's customer base by main cargo categories is fairly diversified and does not depend on any single shipper.

Additional port services and ship repair

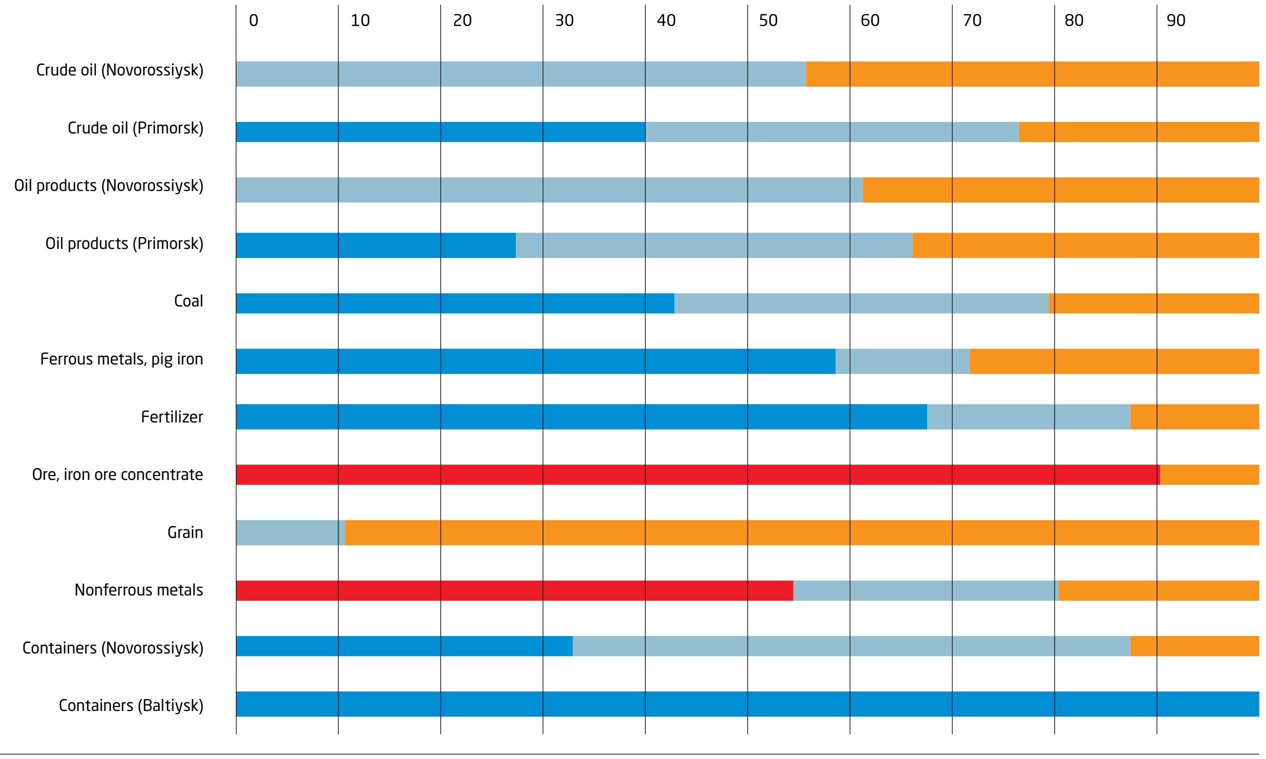
NCSP Group provides a broad range of additional port services, including storage and repacking of cargo, processing of customs and forwarding documentation, as well as auxiliary port fleet services such as tug and towing services, firefighting services, waste collection and ship fueling services.

Towing and firefighting services (in nominal total volume of vessels) provided by Group companies in 2016 amounted to respectively 380.7 million m^3 and 127.5 million m^3. Waste collection, bunkering and drinking water supply services amounted to respectively 4.6 million m^3, 108,900 tonnes and 1,300 tonnes.

The Company decided at the end of 2015 to cease ship repair operations at the NSRZ shipyard. The shipyard carried out one ship repair contract in 2016, thereby meeting all obligations on ship repair contracts not completed as of December 31, 2015. NSRZ did not enter into other contracts in 2016. The decision to close ship repair operations will make it possible to fully develop the stevedoring business at NSRZ. The Group increased its interest in NSRZ from 65.18% to 95.45% in 2016 by buying out the stake held by United Shipbuilding Corporation.

[33] Source: Interfax, January 12, 2017

Diversification by cargo shippers in 2016, %



- Main shipper, accounting for over 50% of cargo turnover
- Major shippers, each accounting for 25% to 50% of cargo turnover
- Significant shippers, each accounting for 10% to 25% of cargo turnover
- Other shippers, with less than 10% of cargo turnover

In January 2017, NCSP Group increased its ownership of NSRZ to 98.26% as a result of a mandatory buyout. There are plans to build a multipurpose transshipment complex at NSRZ to handle various types of bulk cargo.

Industry regulation

Russia's Federal Antimonopoly Service (FAS) presented draft rules for regulating prices at Russian ports to stakeholders on July 7, 2016. The draft FAS Order On Approval of Methodological Guidelines for Setting Tariffs for Cargo Loading, Unloading and Storage Services and Tug Services at Seaports of the Russian Federation was the result of the regulator's suspicions that Russian stevedoring companies were setting monopolistically high prices for their services. In light of this, a proposal was made to again impose government regulation of prices for the services of stevedoring companies at Russian ports.

On August 2, 2016, FAS published a draft Russian government Resolution On Approval of Rules for Nondiscriminatory Access to the Services of Natural Monopolies at Sea and River Ports and Transport Terminals, as well as Infrastructure Used by these Natural Monopolies Directly to Provide Services at Sea and River Ports and Transport Terminals, which proposed to include cargo handling in the list of natural monopoly services.

The Association of Russian Seaports, the Federal Marine and River Transport Agency (Rosmorrechflot), most stevedoring companies, and the Russian Transport Ministry opposed the FAS proposal. The ministry's position was also included in the revised version of FAS's August 4 report On the State of Competition in the Russian Federation:

In the opinion of the Transport Ministry of Russia, it is necessary to support the position that there is a need for further deregulation of services at sea and river ports. FAS has proposed a number of initiatives aimed at curtailing deregulation of services at sea and river ports and expanding the list of such services subject to price regulation by FAS, as well as ending the setting of prices (tariffs) for cargo loading, unloading and storage services provided at Russian seaports in foreign currency or conditional units.

In the option of the Transport Ministry of Russia, the consequence of this policy will be a critical decrease in the revenues of stevedoring companies, difficulties with servicing and obtaining loans, including in foreign currency, and the termination of port construction and reconstruction projects with the subsequent formation of a shortage of transshipment capacity. Furthermore, the decrease in the revenues of ports will foremost ensure the growth of the revenues of their clients — international traders, and will lead to dumping on Russian goods amid the conditions of a 'buyer's market.' The cessation of the development of port infrastructure will create advantages for ports in neighboring countries.

The artificial reduction of the profitability of stevedoring activities will lead to the reduction of the tax base of marine terminal operators that are the main taxpayers in the corresponding regions and, consequently, to a significant reduction of tax revenues for the budget. In addition, the return to price regulation of cargo handling and storage services will lead to a situation where some stevedoring services provided at ports will be provided in the form of additional services.

NCSP Group increased its ownership of NSRZ shipyard to

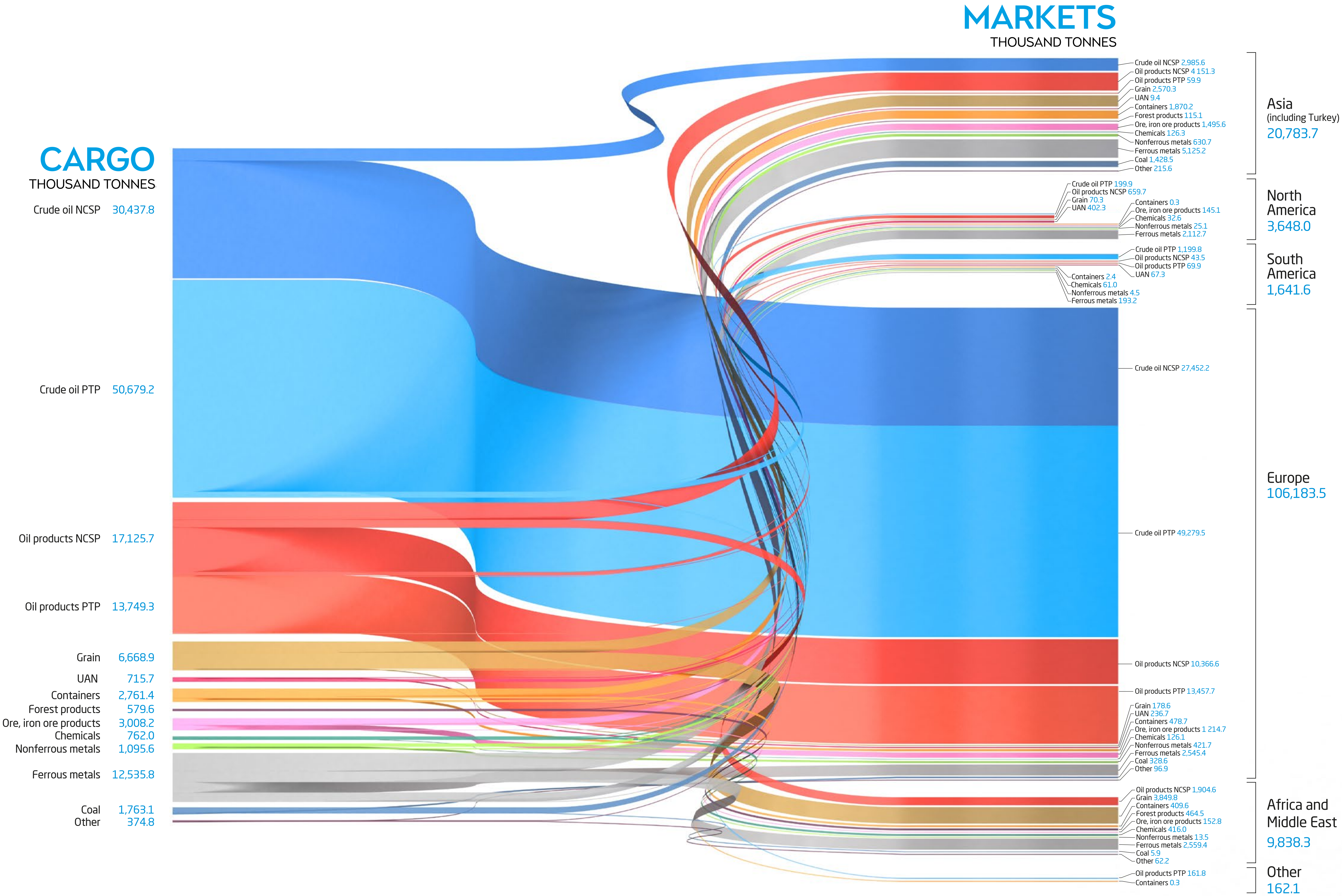
98.26%

Furthermore, it can be affirmed that there will not be a corresponding increase in the tax base of other economic agents. This is because the beneficiaries of the reduction in prices (tariffs) for loading, unloading and storage services at ports will be nonresidents. The abandonment of setting prices for port services in foreign currency proposed by FAS will have a negative impact on foreign investment in port infrastructure in the Russian Federation, as well as the ability to finance such major infrastructure projects by foreign and Russian banks in foreign currency due to currency risks arising as a result of unpredictable changes in foreign currency exchange rates against the ruble.

The Transport Ministry's position was laid out in a letter to the Russian government dated August 1, 2016 (№ VO-10/9818). Therefore, the implementation of the initiatives proposed by FAS to tighten regulation of services at seaports will lead to the reduction of investment in the sector and, consequently, a decline in cargo handling at Russian ports and the redirection of cargo traffic to ports in neighboring countries, including the Baltic countries and Ukraine.

In light of the above, the Transport Ministry believes it is necessary to continue carrying out the Russian government's earlier decisions to deregulate services at sea and river ports.

[As of the date of this report, there were no further decisions by government authorities on the drafts of the published documents.]


MARKETS
THOUSAND TONNES
CARGO
THOUSAND TONNES
Crude oil NCSP 30,437.8
Crude oil PTP 50,679.2
Oil products NCSP 17,125.7
Oil products PTP 13,749.3
Grain 6,668.9
UAN 715.7
Containers 2,761.4
Forest products 579.6
Ore, iron ore products 3,008.2
Chemicals 762.0
Nonferrous metals 1,095.6
Ferrous metals 12,535.8
Coal 1,763.1
Other 374.8
Crude oil NCSP 2,985.6
Oil products NCSP 4 151.3
Oil products PTP 59.9
Grain 2,570.3
UAN 9.4
Containers 1,870.2
Forest products 115.1
Ore, iron ore products 1,495.6
Chemicals 126.3
Nonferrous metals 630.7
Ferrous metals 5,125.2
Coal 1,428.5
Other 215.6
Asia
(including Turkey)
20,783.7
Crude oil PTP 199.9
Oil products NCSP 659.7
Grain 70.3
UAN 402.3
Containers 0.3
Ore, iron ore products 145.1
Chemicals 32.6
Nonferrous metals 25.1
Ferrous metals 2,112.7
North America
3,648.0
Crude oil PTP 1,199.8
Oil products NCSP 43.5
Oil products PTP 69.9
UAN 67.3
Containers 2.4
Chemicals 61.0
Nonferrous metals 4.5
Ferrous metals 193.2
South America
1,641.6
Crude oil NCSP 27,452.2
Crude oil PTP 49,279.5
Oil products NCSP 10,366.6
Oil products PTP 13,457.7
Grain 178.6
UAN 236.7
Containers 478.7
Ore, iron ore products 1 214.7
Chemicals 126.1
Nonferrous metals 421.7
Ferrous metals 2,545.4
Coal 328.6
Other 96.9
Europe
106,183.5
Oil products NCSP 1,904.6
Grain 3,849.8
Containers 409.6
Forest products 464.5
Ore, iron ore products 152.8
Chemicals 416.0
Nonferrous metals 13.5
Ferrous metals 2,559.4
Coal 5.9
Other 62.2
Africa and Middle East
9,838.3
Oil products PTP 161.8
Containers 0.3
Other
162.1

FINANCIAL RESULTS

NCSP Group key financial results

('000 USD)	2016	2015	2014	Change (2016/2015)	Change (2016/2015), %
Revenue	865 591	877 191	955 645	- 11 601	-1.3%
Stevedoring services	684 751	681 928	752 499	2 823	0.4%
Additional port services	99 030	111 017	106 896	- 11 987	-10.8%
Fleet services	74 111	77 642	81 553	- 3 531	-4.5%
Other	7 699	6 604	14 697	1 095	16.6%
Cost of sales	(214 954)	(237 643)	(372 709)	-22 689	-9.5%
Selling, general & administrative expenses	(50 549)	(44 815)	(71 598)	5 734	12.8%
EBITDA*	675 481	657 018	569 122	18 463	2.8%
EBITDA margin (%)*	78.0%	74.9%	59.6%		
Profit (loss) for period	632 834	(83 427)	(414 663)	716 261	
	31.12.2016	**31.12.2015**	**31.12.2014**	**Change (2016/2015)**	**Change (2016/2015), %**
Debt (including finance lease)*	1 395 835	1 511 516	1 741 365	-115 681	-7.7%
Cash & cash equivalents	234 138	108 671	310 723	125 467	115.5%
Net debt*	1 161 697	1 402 845	1 430 642	-241 148	-17.2%
Net debt/EBITDA*	1.72	2.14	2.51		

* According to management reporting data

NCSP Group's revenue decreased by 1.3% to $865.6 million in 2016, despite 5.2% growth in cargo turnover and a significant improvement in crude oil dynamics.

The Group's EBITDA grew by 2.8% to $675.5 million* in 2016, driven primarily by an increase in margin in the stevedoring business.

The EBITDA margin rose by 3.1 percentage points to 78.0%.*

The net debt to EBITDA ratio decreased to 1.72 from 2.14 in 2015.

The Group had a profit of $632.8 million in 2016 compared to a loss of $83.4 million in 2015.

The following factors had a significant impact on NCSP Group's financial results in 2016:

- The strengthening of the ruble against the U.S. dollar, from 72.88 rubles/$1 as of December 31, 2015 to 60.66 rubles as of December 31, 2016
- The growth of cargo handling at NCSP Group ports by 5.2% compared to 2015
- The 53.6% decrease in bunkering services provided by NCSP Fleet
- The decrease in additional port services, fleet and other services provided

Revenue

NCSP Group's consolidated revenue decreased by 1.3% or $11.6 million year-on-year to $865.6 million in 2016.

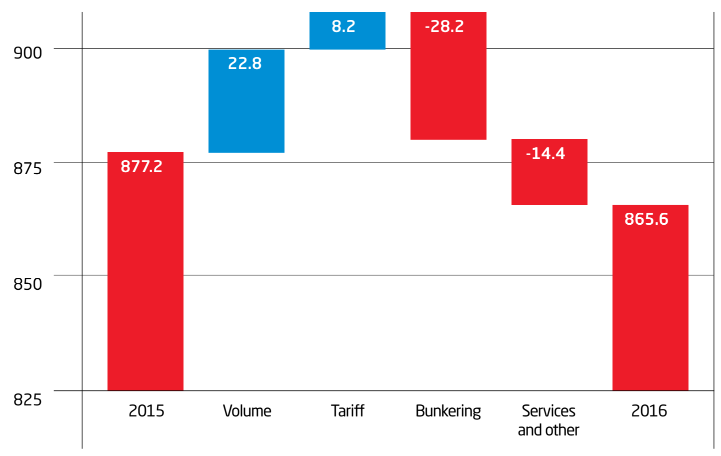
Revenue from stevedoring services was affected by the following factors:

- Due to mixed changes in handling volume and a change in cargo mix, revenue increased by $22.8 million*
- Due to a change in per-unit revenue for some categories of cargo as a result of changes in cargo mix within the category, as well as changes in the ruble's exchange rate against the U.S. dollar, stevedoring revenue grew by $8.2 million*
- Revenue from bunkering within the context of stevedoring services decreased by 56.5%* or $28.2 million,* as bunkering volume at NCSP Fleet fell to 108,900 tonnes in 2016 from 234,500 in 2015.
- Revenue from fleet and port services, and other revenue decreased by 7.4% or $14.4 million, in proportion to the decrease in the amount of services provided

By type of cargo, NCSP Group stevedoring revenue changed as follows:

- Revenue from handling crude oil increased by $13.0 million* or 6.6%,* as volumes grew by 5.9 million tonnes or 7.9%

Changes in NCSP Group revenue in 2016 by factor



Source: Company's data, IFRS statements

NCSP Group's revenue from handling crude oil in 2016 increased by

6.6%

- Revenue from handling oil products increased by $2.6 million* or 2.0%* thanks to changes in the cargo mix, while overall volumes decreased by 0.2 million tonnes or 0.6%
- Revenue from handling ferrous metals and pig iron increased by $13.4 million* or 13.5%,* as volumes grew by 1.1 million tonnes or 9.2% and the cargo mix changed
- Revenue from handling grain decreased by $7.2 million* or 9.4%,* as the average per-unit tariff at the NGT terminal was reduced while volumes remained stable
- Revenue from handling containers grew by $1.5 million* or 2.6%,* as container turnover increased by 7,600 TEU or 1.6%
- Revenue from handling iron ore products grew by $3.7 million* or 45.9%,* as volumes increased by 1.0 million tonnes or 50.1% and the cargo mix changed
- Revenue from handling coal increased by $0.7 million* or 5.6%,* as volumes grew by 0.2 million tonnes or 12.4%
- Revenue from handling nonferrous metals and chemical cargo – fertilizer and sulphur – decreased by $1.0 million* or 7.9%* and $1.4 million or 17.4%, respectively, in proportion to the decline in volumes
- Revenue from handling other cargo decreased by $3.9 million* or 15.5%

Costs

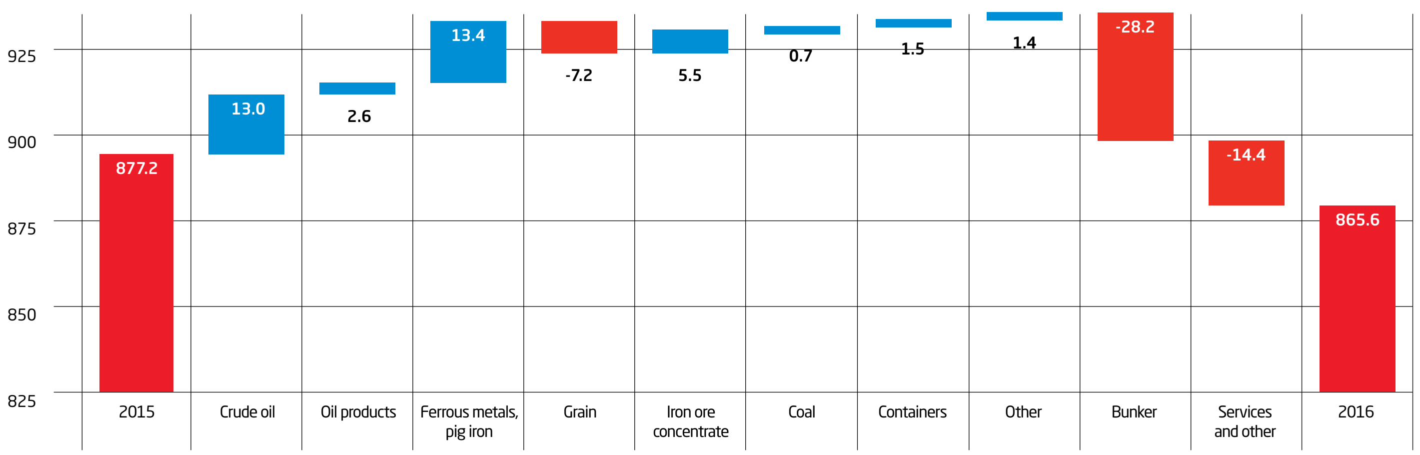
NCSP Group's cost of sales decreased by 9.5% or $22.7 million in 2016. Selling, general and administrative expenses increased by 12.8% to $50.5 million.

The cost of fuel for bunkering services and for the Group's own needs, which accounted for 9.7% of total cost of sales, fell by 48.7% or $24.4 million.

Cost of sales changed only slightly in ruble terms.

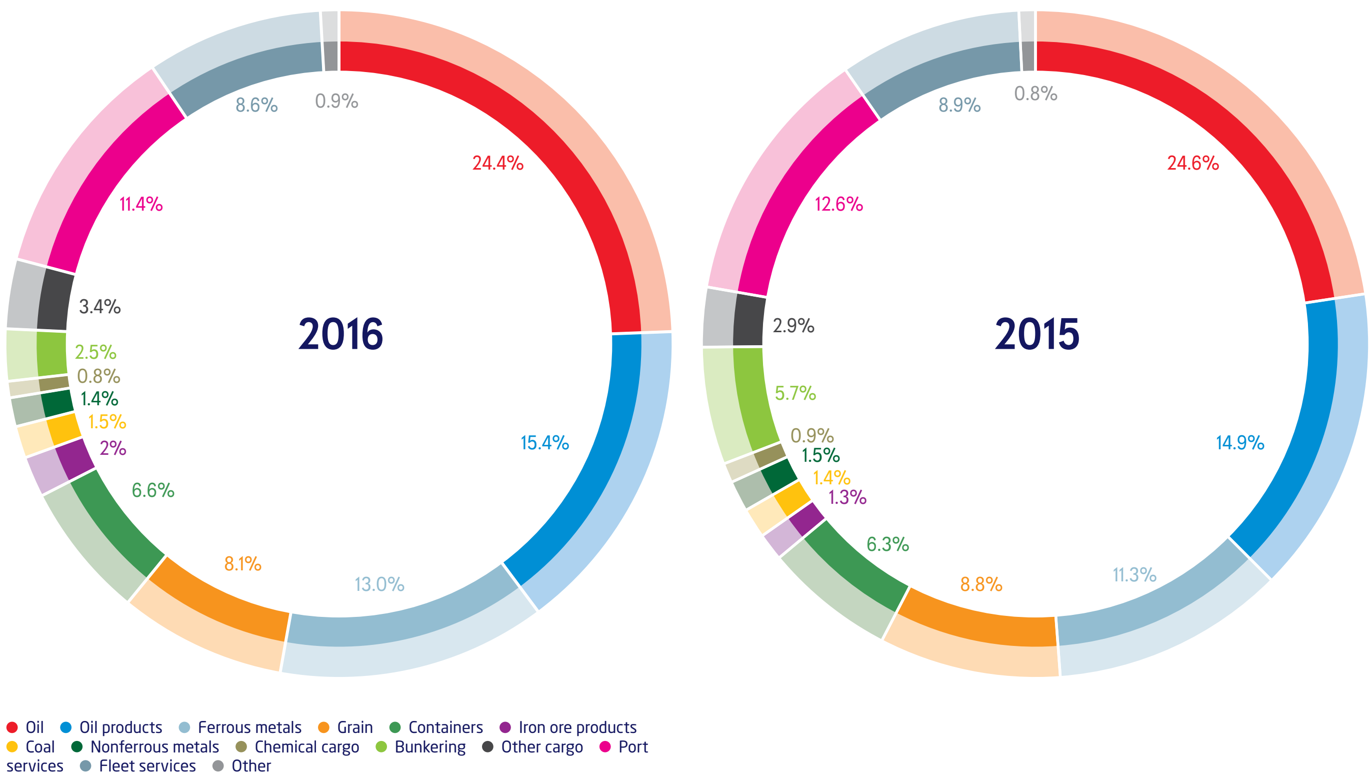
* According to management accounting data

Changes in NCSP Group revenue in 2016 by cargo, USD mln

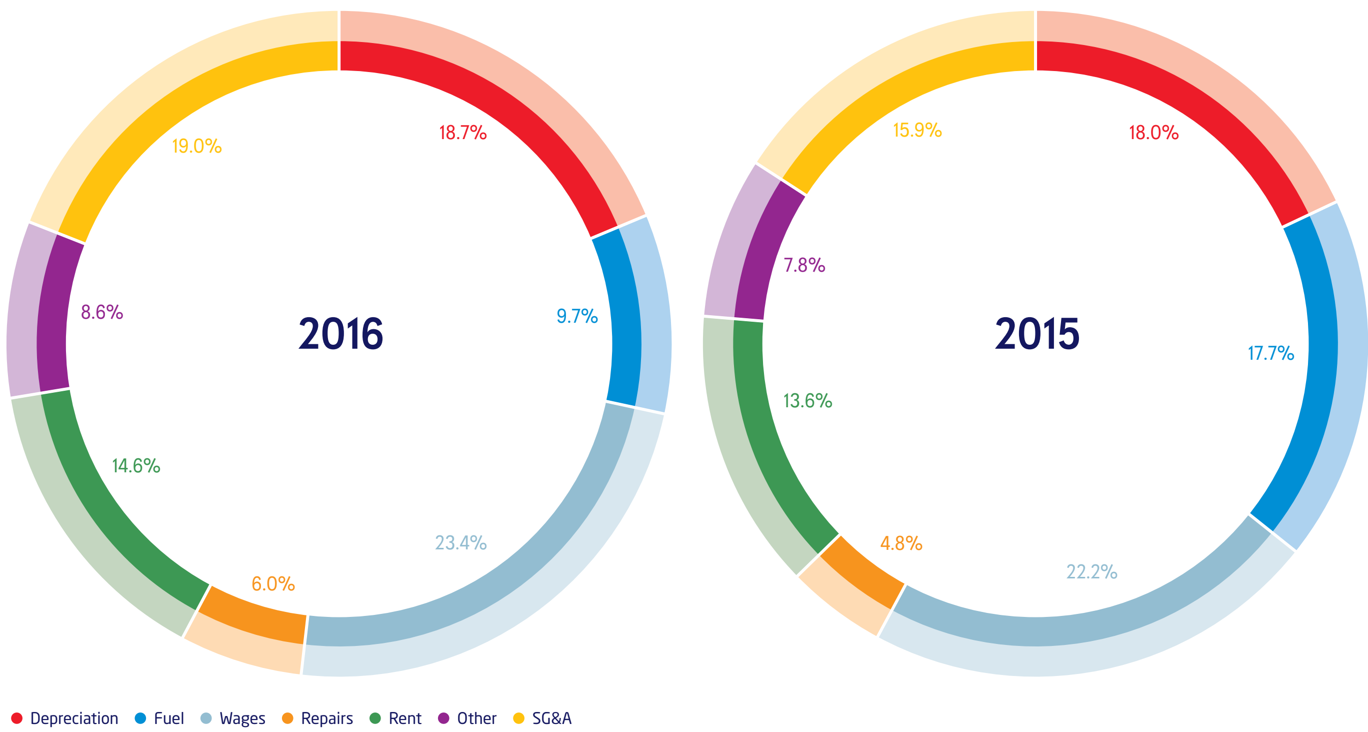


Source: Company's data, IFRS financial results

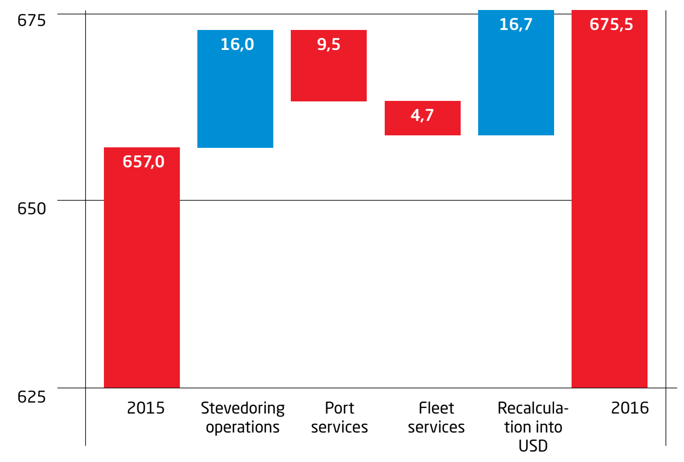
NCSP Group revenue structure



NCSP Group cost structure



Changes in NCSP Group EBITDA by factor



Source: Company's data

EBITDA

NCSP Group's EBITDA grew by 2.8%* or $18.5 million* to $675.5 million* in 2016. The EBITDA margin rose by 3.1 percentage points compared to 2015, to 78%.*

- Group EBITDA increased by $16.0 million* on the back of stevedoring operations, that is, changes in revenue, tariffs and margins on certain cargos
- EBITDA decreased by $9.5 million* due to a decline in revenue from additional port services and other services
- EBITDA decreased by $4.7 million* due to a decline in revenue from fleet services
- The positive effect of recalculation into the presentation currency was $16.7 million

The Group's EBITDA is calculated without taking into account the effect of asset impairment according to the conditions of loan agreements.

Net profit

NCSP Group earned a net profit of $632.8 million in 2016, compared to a loss of $83.4 million in 2015.

The following factors had a significant impact on net profit growth compared to 2015:

- Accrual of income on exchange rate differences in 2016 in the amount of $247.8 million due to the strengthening of the ruble against the U.S. dollar from 72.88 rubles/$1 as of December 31, 2015 to 60.66 rubles/$1 as of December 31, 2016, compared to losses in the amount of $375.7 million in 2015 resulting from the ruble's depreciation against the U.S. dollar from 56.26 rubles/$1 as of December 31, 2014 to 72.88 rubles/$1 as of December 31, 2015
- The absence of one-off expenses not related to core activities in 2016, such as the impairment loss in 2015 on cash held in deposits at Vneshprombank in the amount of $305.8 million

In 2016 NCSP Group EBITDA inreased by

$18.5 MLN

Liquidity and debt burden

NCSP Group received a seven-year loan of $1.5 billion from VTB Bank in June 2016 in order to refinance debt to Sberbank.

The loan is secured by independent guarantees of LLC PTP and JSC SFP, as well as an indemnity bond from Novoport Holding Ltd and a guarantee from LLC PTP.

The loan is subject to a floating interest rate in the amount of the three-month LIBOR plus 3.99%, and has a comfortable repayment schedule with equal payments of $100 million each twice per year.

The Sberbank loan, which matured in January 2018, had an interest rate equivalent to the three-month LIBOR plus 5%, and the repayment schedule called for a one-time payment in the amount of $800 million at the end of the term. The security for the loan included collateral in the form of 50.1% of shares in PJSC NCSP owned by Novoport Holding Ltd.

The average annual effective interest rate on the Group's credit and loans was 4.98% as of December 31, 2016, down by 0.59 percentage points from 5.57% as of December 31, 2015.

The Group's debt, including finance lease, shrank by 7.7% to $1,395.8 million as of December 31, 2016 from $1, 511.5 million as of December 31, 2015.

The Group's cash and cash equivalents grew to $234.1 million in 2016 from $108.7 million at the end of 2015. The following items accounted for the most significant changes in cash in financial activities:

- Receipt of long-term credit and loans in the amount of $1,487.0 million
- Repayment of credit and loans in the amount of $1,600 million
- Payment of dividends to shareholders in the amount of $163.8 million
- Purchase of own shares under a mandatory buyback in the amount of 262,912,311 at a price of $0.13 (8.22 rubles), for a total of $34.2 million
- Increase in ownership interest in subsidiary in the amount of $17.1 million related to the purchase of 30.27% of shares in NSRZ

The net increase in the Group's cash position in 2016 amounted to $92.8 million, not including a gain of $32.7 million from recalculation of cash into the presentation currency.

The Group's net debt decreased by 17.2%,* to $1,161.7 million as of December 31, 2016 from $1,402.8 million as of December 31, 2015. The net debt to EBITDA ratio improved to 1.72 from 2.14 at the end of 2015 on the back of EBITDA growth.

* According to management accounting data

SOCIAL RESPONSIBILITY

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Approach to sustainable development

NCSP Group, as the largest port operator in Russia, plays an important role in the social and economic development of regions where it has a presence. The Company works successfully in the interests of a broad range of stakeholders, including, foremost, its partners and employees.

NCSP Group is building an integrated system for managing sustainable development, adhering to international standards for quality management (ISO 9001:2008), occupational health and safety (OHSAS 18001:2007) and environmental management (ISO 14001:2004).

The Company complies with all requirements of Russian legislation in the area of relations with employees, occupational health and safety, and environmental safety, and is committed to conforming to progressive standards of corporate social responsibility.

NCSP Group's main areas of sustainable development:

- Contributing to maintaining conditions for the effective development of marine transport businesses and realizing the country's transport potential
- Minimizing the industry's negative impact on the environment, resource conservation, and compliance with international environmental protection standards
- Ensuring the safety, health and professional development of employees, responsibility for the social and economic wellbeing of residents in regions of operation, supporting local communities and philanthropy

Participation in professional forums and conferences	
April 2016 • 22nd TransRussia International Transport and Logistics Exhibition	Participation in the exhibition made it possible to discuss plans for future cooperation with Russian and foreign partners, as well as find new ways to tackle the challenges of improving the quality of work and provided services.
• Meeting of customs officials, representatives of container lines and participants in foreign economic activities	Consideration of pressing issues concerning cooperation, screening, and reducing paperwork processing times for container cargo by introducing e-document management.
June 2016 • Partner of 20th St. Petersburg International Economic Forum	At the forum, PJSC NCSP and state company Rosmorport signed a letter of intent on the joint implementation of a project to create a dry cargo area at the Port of Taman.
August 2016 • Coordinating Council of PJSC NCSP and Russian Railways	Discussion of issues concerning the formation of a joint venture to operate freight cars at approach lines to NCSP terminals. Growth factors include replacement of locomotive fleet, and a system to incentivize operating staff of integrated dispatch shifts at the stations of Novorossiysk and the port.
September - October 2016 • Sochi-2016 International Investment Forum	Documents signed: Agreement on social and economic cooperation with the Administration of the City of Novorossiysk Agreement on social and economic cooperation with the government of Leningrad Region Agreement on cooperation with Novorossiysk Grain Plant

HUMAN RESOURCES POLICY AND RELATIONS WITH EMPLOYEES

NCSP Group's HR policy is aimed at strengthening the Group's positions on the port and stevedoring services market by building a highly professional and competitive workforce that can support the realization of the Company's strategic goals and ensure high efficiency in all key areas of the business.

The goal of the Group's HR policy is to establish a system of relations that helps motivate employees to more fully realize their potential, as well as to foster and maintain a strong corporate culture and comfortable working conditions.

The Group had an average of 7,158 employees in 2016, 144 or 2.05% more than in 2015.

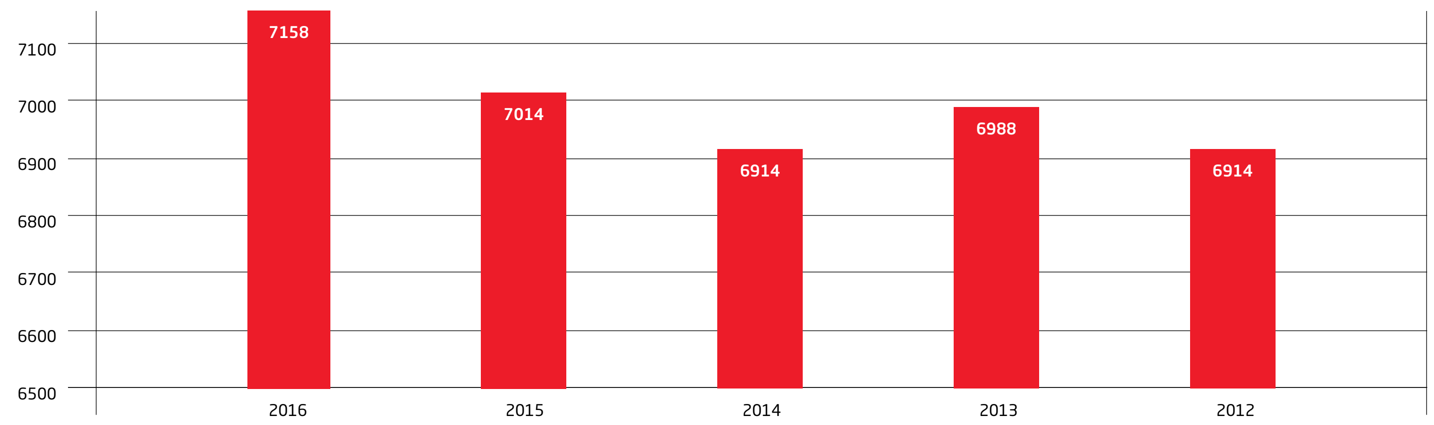
Operational staff and specialists made up 89% of NCSP Group's workforce in 2016, and administrative staff made up 11%.

The average age of the Group's employees was 43.9 years in 2016.

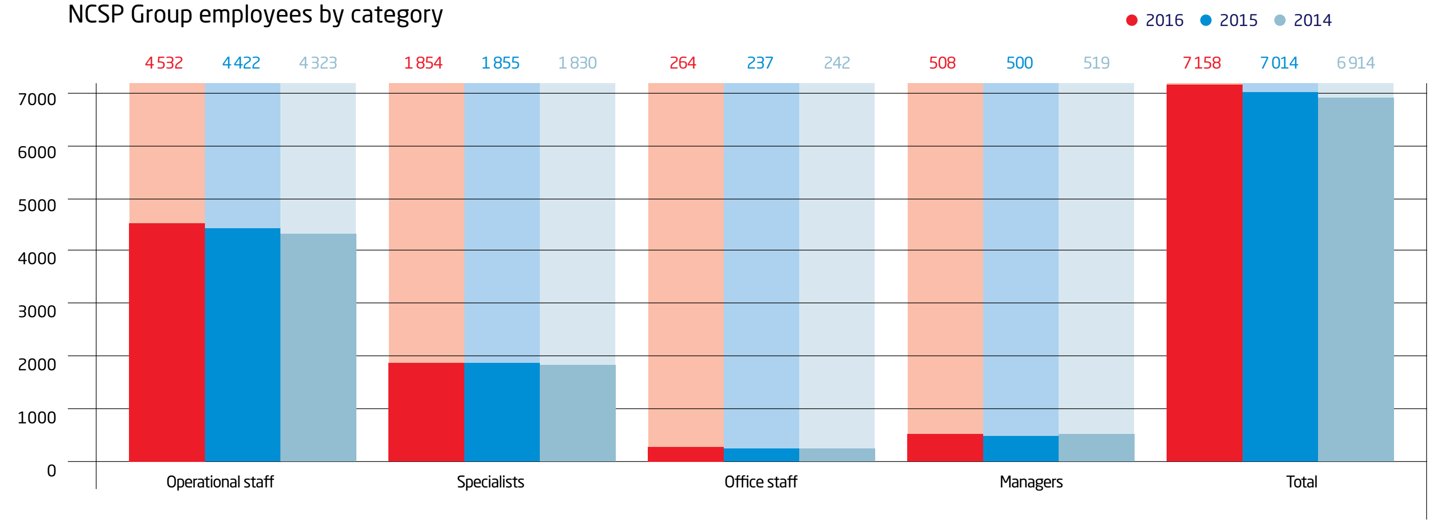
NCSP Group has a very loyal workforce, with many employees having worked at Group units for more than 15 years.

The corporate newspaper RU Port features employees who are devoted to their chosen profession and have linked their career path to the port in its Our People and People and Events columns.

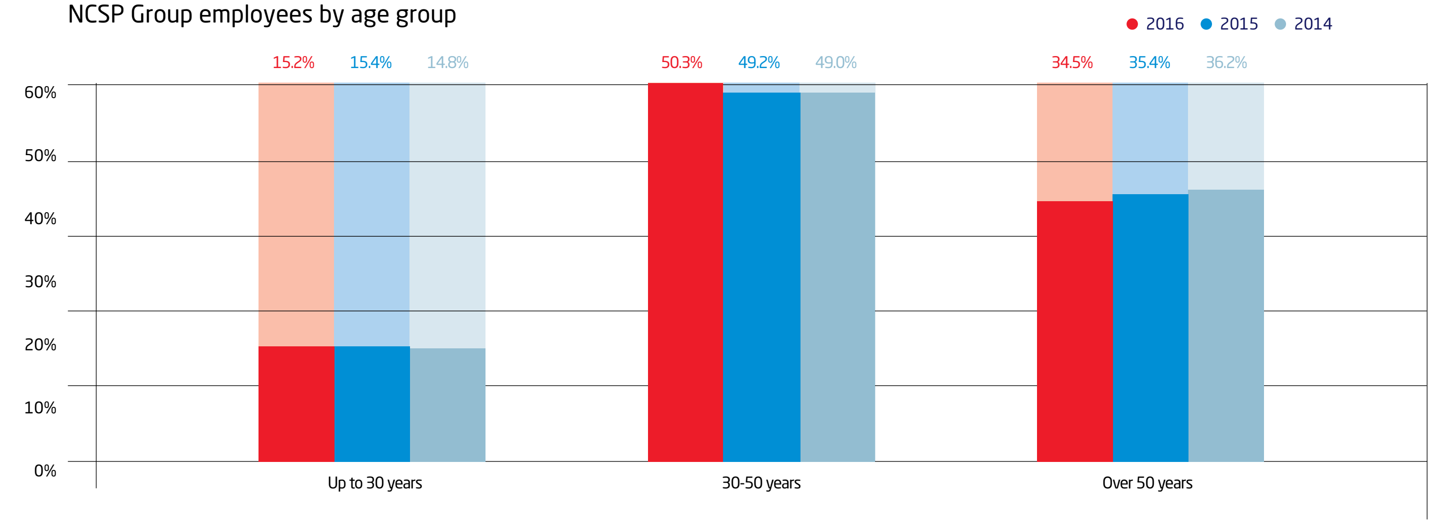
Number of NCSP Group employees



NCSP Group employees by category



NCSP Group employees by age group



The corporate newspaper informs NCSP Group employees, partners and potential customers on a monthly basis about the latest issues and problems that concern the Company, important events and upcoming holidays, news and much more.

Collective Agreement

Particular support is provided for PJSC NCSP employees who have worked for the Company for at least 20 years. They are awarded the title of Labor Veteran of Novorossiysk Commercial Sea Port, along with a one-time cash bonus, and granted certain benefits.

The Company formed a commission in February 2016 to prepare the draft of a Collective Agreement for 2016-2019. Given the current economic realities, the Collective Agreement is particularly important in relations between employees and the employer, and is aimed at safeguarding their mutual interests in the area of labor relations. Nine meetings were held. Decisions on each item on the agenda were made following careful study and joint discussion by the parties.

The new Collective Agreement went into effect on May 1, 2016 and will be valid until April 30, 2019.

Goals of Collective Agreement:

- Create a system of social partnership in the area of social and labor relations
- Increase the efficiency of the organization
- Ensure growth in the prosperity and level of social security of employees

The Collective Agreement still provides for indexation of piece rates, hourly wage rates, as well as monthly salaries and monthly base rates at the Company by 5% annually.

Hourly wage rates were raised for cargo handling and auxiliary work. In accordance with the law On Special Evaluation of Labor, PJSC NCSP conducted an evaluation of working conditions at its workplaces, as a result of which it changed the amount of guarantees and compensation. Changes were made to the Collective Agreement as of July 1, 2016 concerning payment of monetary compensation for work in harmful and/or hazardous conditions.

The Collective Agreement provides for a vacation bonus once per year in the amount of the average monthly wage on the condition that there are no disciplinary actions. Financial support for Company employees in difficult life circumstances has been preserved.

Unions

I believe that the main function of union organizations is to organize relations and find points of mutual understanding between the employee and employer

CEO Sultan Batov (January 18, 2016).

PJSC NCSP's primary union organization, the Water Transport Workers Union of the Russian Federation (PRVT RF) and the union's Southern Regional Organization held conferences in January 2016 at which they reported on the results of work done in the past five years, held elections for positions on executive and regulatory bodies, and approved the main areas of activity. Work done in the reporting year was deemed satisfactory.

PRVT RF's membership at PJSC NCSP numbers 2,861, or 86.7% of total employees at the port.

Employee training and development

PJSC NCSP's human resources potential is the key integral characteristic of personnel, representing its maximum abilities to achieve the goals of the Company and meet the challenges it faces.

PJSC NCSP's Long-term Development Program includes points concerning the issue of meeting the need for human resources, including engineering and technical specialists, required to implement the main measures of the program.

Continuous professional development of employees is a priority of the Group's HR policy.

The qualifications of employees are an important component in the success of any company, and it is in large part thanks to this principle that the Group manages to maintain its commercial and intellectual potential. PJSC NCSP has developed about 30 education programs that enable employees to improve their professional skills and undergo pre-certification training. The Group spent a total of $292.3 thousand* on employee training in 2016, and 3,493 people underwent training of some kind.

Employee training on occupational health and safety	2015	2016
PJSC NCSP	3,971	3,717
LLC PTP	22	31
LLC BSC	19	31
JSC NGT	168	284
JSC IPP	261	336
JSC NCSP Fleet	23	657
JSC NLE	931	1,151
JSC NSRZ	660	622
JSC SFP	112	98

By virtue of established historical ties, the Admiral Ushakov State Maritime University in Novorossiysk serves as the main post secondary educational institution for PJSC NCSP.

The Company arranges and conducts practical training of students under agreements with:

- Admiral Ushakov State Maritime University
- Novorossiysk Construction and Economics College
- Novorossiysk Radio and Electronic Engineering College, and other post secondary and vocational institutions

At total of 163 people underwent practicums at the Company in 2016.

* According to management accounting data

Increasing labor productivity is impossible without creating and modernizing jobs.

Under the program to develop and modernize the fleet of cargo handling equipment, in 2016 PJSC NCSP began using Liebherr LH 120 ETG and Liebherr LH 150 ETG revolving, electro-hydraulic material handlers that do not have any equivalents in the world.

PJSC NCSP's training center was tasked with developing a special training program, and training instructors from among port employees. A total of 31 PJSC NCSP employees have gone through the program since March 2016.

The latest phase of updates to cargo handling equipment and increasing the capacity of PJSC NCSP's equipment fleet resulted in the creation of 12 new jobs.

Occupational health and safety

The stevedoring and port services industry has a significant share of jobs with hazardous working conditions, making occupational health and safety (OHS) issues of the utmost importance.

An Occupational Safety Management System, consisting of a set of regulations and administrative and technical measures developed on the basis of legislation, continues to be implemented and improved at Group companies. PJSC NCSP follows the requirements of the National Standard of the Russian Federation "GOST 3 12.0.007-2009. System of occupational safety standards; System of occupational safety management in organizations General requirements for development, application, evaluation and improvement."

The work of the Occupational Safety Service is regulated by the Regulation on Constant Control of the State of Occupational Safety at NCSP. About 50 commissioning inspections were done at divisions of the port in 2016, and 519 PJSC NCSP managers and specialists underwent annual occupational safety knowledge tests.

Preserving the lives and health of employees is an unwavering priority at PJSC NCSP. We are always thinking about how to improve working conditions and the occupational safety culture.

Injury rates improved in 2016 compared to the previous reporting period thanks to NCSP Group's systematic work in this area. There were 16 accidents in the reporting year resulting in minor injuries. The reasons were carefully analyzed and safety briefings were held.

Group companies implement approved internal OHS policies, programs and comprehensive action plans to improve working conditions and safety. Hazardous industrial facilities are operated in accordance with valid licenses and declarations of industrial safety registered with the Federal Environmental, Technological and Atomic Oversight Service (Rostekhnadzor), as well as certificates of compliance with OHSAS 18001:2007 and ISO 14001:2004.

Industrial safety measures carried out in 2016 included:

- Inspection of performance of external firefighting mains (25 hydrants) with measurement of parameters, done by BSC
- Special assessment of working conditions on 38 NCSP Fleet vessels
- Safety evaluation of 24 hoisting devices operated by NSRZ
- Diagnostics of technical devices at the third and fourth docks and four fuel oil tanks owned by PTP

In compliance with Article 213 of the Labor Code of the Russian Federation, the Company arranges for all types of mandatory medical examinations for certain categories of workers.

Information on medical examinations and number of people who underwent them

	2014	2015	2016
Initial medical exam upon hiring	757	804	562
Regular medical exam of workers engaged in work with harmful and/or hazardous occupational factors	3317	2789	3793
Pre-departure medical exam of drivers of vehicles and shunting masters	On shift basis		

The Company spent $153.5 thousand* on health services for employees in 2016.

NCSP Group management is intent on changing employees' attitudes toward safety rules. Statistics show that the main reason for accidents is the "human factor" – a worker violating occupational safety rules. Group companies are focused on training and certifying employees in OHS. In 2016, 6,927 employees underwent preliminary instruction, training and certification in occupational safety at Group divisions.

NCSP Group spent $1 574.8 thousand* on OHS in 2016, 54.6% more than in 2015.

* According to management accounting data

Civil defense, emergency management

The Civil Defense and Emergency Situations Department (CD&ES) has been the main organizer of work on matters of civil defense, and emergency situations prevention and response at PJSC NCSP since 2008.

The Vikhr-MED-2016 comprehensive exercises for responding to an act of unlawful interference in the internal waters of the Novorossiysk seaport were conducted in port waters on March 17, 2016. The Black Sea Seaports Administration, NCSP Fleet, LLC NTK, the Azov-Black Sea branch of Rosmorport and employees of security and defense agencies participated in the exercises.

A national tabletop civil defense exercise was held in October 2016 on the subject of actions by civil defense command bodies and forces to prevent and respond to major emergency situations and fires. PJSC NCSP participated in the exercises to develop modern principles and approaches to protecting people and territories from major natural or man-made emergency situations.

Social security

The Company's social policy is formulated and implemented in accordance with the Collective Agreement of PJSC NCSP and approved local regulations. The main goal of social programs is to attract and retain highly qualified employees who will help make the business stronger. The Group is refining its system of financial and nonfinancial incentives in order for employees to fully realize their professional potential. The criteria of financial incentives remain the employee's performance and professionalism.

The average salary at NCSP Group reached $723.1* in 2016, which was 79.7% higher than the average monthly wage at organizations in Krasnodar Territory.

The social package and bonus system, as well as our tradition of showing consideration for and taking care of employees, are an effective method for reducing employee turnover at PJSC NCSP divisions.

In addition to providing benefits for current employees, the Company provides support to former port workers. As of December 31, 2016, 1,187 people were registered with the primary organization of nonworking war and labor veterans (retired, disabled), the PJSC NCSP Veterans Council.

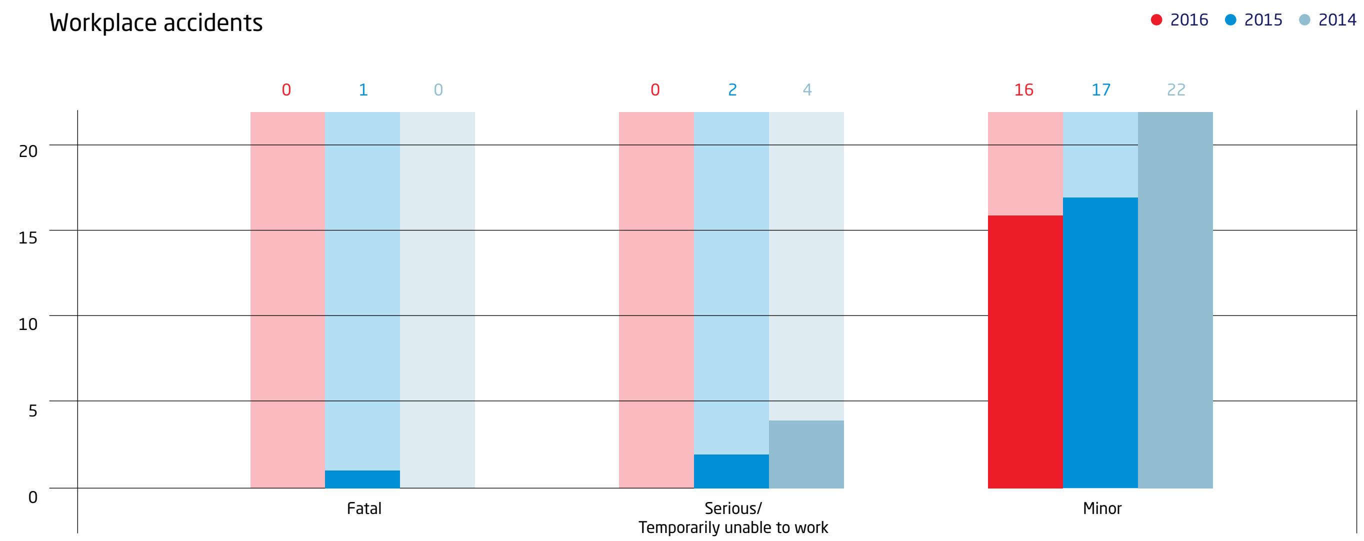
As part of the implementation of additional social guarantees for retired pensioners who are members of the PJSC NCSP Veterans Council, financial assistance is paid in accordance with guidelines for distribution of financial assistance allocated for PJSC NCSP retirees.

PJSC NCSP spent a total of $452,5 thousand* on social support for pensioners in 2016.

NCSP Group spent a total of $4,671.2 thousand* on additional social security for employees in 2016.

* According to management accounting data

Workplace accidents



SPONSORSHIPS AND PHILANTHROPY

NCSP Group believes that a key principle of doing business is to create a favorable business climate and improve the social wellbeing of employees and residents of the city of Novorossiysk. Realizing that social stability in its region of operations is necessary in order to effectively conduct business, NCSP Group provides support and assistance to public associations, and various educational, healthcare, cultural and sports organizations.

PJSC NCSP spent more than $1 million on social programs in Novorossiysk in 2016. Some of this money went to support the programs of the Administration of Novorossiysk. The N.I. Sipyagin arts center for children and youth opened in March 2016 following renovations; construction continued on the Chernomorsky Olympic sports center; and equipment was acquired for the Marine Cultural Center.

The Company annually arranges for employees' children to go to summer camp. Camp trips are given out free of charge to employees on the basis of personal applications; 250 trips were given out in 2016 at a total cost of $118.1 thousand.

PJSC NCSP annually organizes New Year events with gift giving for the children of employees. The Company purchased 1,600 New Year gifts for children in 2016 for $35.7 thousand.

Another aspect of PJSC NCSP's charitable work is financial assistance to support Russian Orthodox culture, and construction and repair of churches. Assistance was provided to:

- The Church of the Holy Trinity (Vostochny district of Novorossiysk)
- The Church dedicated to the Faithful Saints Prince Peter and Princess Fevronia of Murom
- The foundation for the construction of the Patriarchal Metochion of the Church of Nikolai Mirlikiysky the Miracle-worker on Lodochnaya

Assistance is also provided to people with disabilities, including children. The National Society for the Disabled in Novorossiysk organized a social hair salon in 2016 with support from PJSC NCSP.

Support for sporting events

Baltic Stevedoring Company's team participated in the Fourth Open Spartakiade among the employees of companies at the Kaliningrad seaport on May 13-21, 2016.

Primorsk Trade Port's team participated in the international charity minifootball tournament Second Cup of Marine and River Ports on May 28, 2016. Sixteen teams competed. Primorsk Trade Port's team made it to the playoffs and took fourth place.

PJSC NCSP's teams competed in the city stage of the Spartakiade of Krasnoyarsk Territory workers in August 2016, and an NCSP team won bronze.

The Port of Novorossiysk became an official partner of the SCF Black Sea Tall Ships Regatta 2016. Novorossiysk Commercial Sea Port hosted participants in the regatta from September 16 to 19.

Promoting healthy lifestyles, fitness and sport are a priority of NCSP Group's social policy.

The Group supports the development of the sport of sailing in the cities of Novorossiysk and Primorsk. The Port Primorsk Cup national Russian sailing race has been held in Primorsk for many years with the support of NCSP Group. About 1,500 young sailors participated in the regatta. NCSP has also been a general partner of the Morskoi Uzel festival and competition for young performers for many years.

* According to management accounting data

Charitable activities in 2016

	Activity	'000 USD
PJSC NCSP	Joint program for the social and economic development of the Novorossiysk municipal district	507.2
	Summer vacations for children	118.0
	Acquisition of medical equipment for the Novorossiysk Clinical Center of the Federal Medical and Biological Agency of Russia and the City Children's Hospital	33.1
	Other activities	329.1
LLC BSC	All activities	2.6
JSC NGT	Assistance to special schools, hospital, sports schools, organization for the blind	9.8
	Other activities	4.5
JSC NLE	All activities	9.5
JSC SFP	Assistance for holding the national amateur hockey festival Night Hockey League	2,640.6
	Assistance to the Sailing Sports Federation of Leningrad Region	46.0
	Other activities	11.1
JSC NCSP Fleet	Tug support services for sailboats in the Sochi Cup (SCF Black Sea Tall Ship Regatta 2016)	16.4
	Assistance to Veterans Council	13.1
	Other activities	4.9
JSC IPP	Assistance to veterans and pensioners	27.0
	Other activities	12.4
JSC NSRZ	All activities	0.3
LLC PTP	Organizing and holding events intended to improve the social wellbeing index of Russian citizens living in Leningrad Region	29.8
	Assistance to children's institutions, including boarding schools for children without parental care	17.9
	Joint program for the social and economic development of the Primorsk municipal area	11.3
	Other activities	15.5
TOTAL		**3,860.2**

ENVIRONMENTAL PROTECTION

PJSC NCSP's environmental policy is the basis for determining environmental strategy, and short- and medium-term goal planning in the area of environmental protection. The company has an operational control department that includes an environmental service. PJSC NCSP works with the environmental services of other Group companies to coordinate environmental efforts with work in other areas, including management of operations, OHS and general safety.

Group companies conduct industrial environmental monitoring in order to comply with the requirements of environmental legislation, ensure sustainable use of natural resources and meet the targets of measures to reduce negative environmental impact.

The Group has developed fundamental principles to minimize environmental risks and prevent negative environmental impact:

- Priority of preventative measures over measures to mitigate negative environmental impact
- Raising the environmental awareness of employees
- Regular reporting on the environmental protection activities of NCSP Group companies

In order to maintain an acceptable level of environmental safety, NCSP Group develops organizational mechanisms that ensure that negative environmental impact is minimized, including:

- Compliance with the requirements of Russian legislation, international treaties and agreements, standards and rules in the area of resource use and environmental protection
- Improving the competencies of employees in ensuring environmental safety in both the process of making management decisions and carrying out daily operations
- Strengthening control over the activities of contractors doing work at NCSP Group facilities
- Increasing the accountability of company officials for violations of environmental protection requirements, including due to inaction regarding existing violations in this area of which they are aware
- Systematic monitoring of the Group's environmental impact, and incorporation of the results of such analysis for reviewing, revising and improving environmental policy

Public environmental impact hearings were held on October 7, 2016 on the draft Integrated Development Plan of NCSP Group within the context of the agreement with Rosmorport on the Reconstruction and Modernization of the Novorossiysk Seaport; Reconstruction of the Terminal Complex of Novorossiysk Grain Terminal.

NCSP Group's operations inherently come with the possibility of emergency situations arising, so we conduct annual emergency response training drills. The managers and specialists of Group companies regularly undergo training and certification in environmental safety.

Environmental protection measures

Comprehensive exercises for a fuel oil spill cleanup were held on July 21, 2016 at dock № 25 and the waters of berths № 4 and № 5 of PJSC NCSP in order to check the preparedness of operational resources and equipment for responding to an accidental oil spill.

Selected environmental protection measures in 2016

	Measure
PJSC NCSP	Connection of Eastern Pier buildings to newly built sewer system with diversion of runoff water to local treatment facilities of OKRT
	Design of local shutdown system at Eastern Pier with storm drainage hookup
PTP	Lease of aircraft to conduct photo and video reconnaissance of port waters, participation in training to respond to oil and oil product spills in the Port of Primorsk
	Maintenance of local treatment facilities, lab testing of runoff water
BSC	Morphometric studies of waters Monitoring of water body
NGT	Industrial lab monitoring of atmospheric emissions of pollutants, including in the buffer zone, according to schedule
	Servicing, maintenance and repair of ventilation systems, filters, lubrication systems and oil depot
	Decontamination of wells and culverts for collection of storm waters; acquisition of reagents for treatment facilities
IPP	Exercises and drills for members of evacuation commission; monitoring of availability and condition of vehicles allocated for evacuation of personnel and valuables
	Readiness inspection of system for notifying the public in event of emergency situation Monitoring of the condition of local notification systems at potentially hazardous facilities and their readiness
NCSP Fleet	Research and development on reducing human impact on the environment
NLE	Cleanup of Black Sea waters
	Monitoring of pollution levels in the atmosphere on boundary of sanitary buffer zone
	Environmental monitoring of industrial emissions
NSRZ	Environmental monitoring of marine biological resources
	Industrial waste management
	Reconstruction of treatment facilities for biological treatment of domestic waste water
	Work on installing storm drainage in cargo area
	Safe disposal of mercury containing lamps, used air and oil filters, and sand contaminated with oils

NCSP Group's spending on environmental measures totaled $ 2,389.7 thousand* in 2016.

Production and consumption waste is generated in the course of operations, and every Group company has standards for waste generation and limits (permits) for waste disposal that are approved by the authorities.

BSC obtained the necessary permits in 2016 to conduct this type of activity for the period to 2020-2021. NGT reached an agreement with the Natural Resources Ministry of Krasnodar Territory on measures to reduce emissions of harmful substances (pollutants) into the atmosphere during periods of unfavorable meteorological conditions. NSRZ and NLE received licenses from the Federal Natural Resources Oversight Service (Rosprirodnadzor) on respectively February 18 and July 7, 2016 to collect and transport hazard Class I-IV waste. PTP is authorized to work with hazard Class III-IV waste as of February 11, 2016. NLE's permit to dispose of seabed mud extracted in dredging work in internal sea waters was extended until March 2016.

Permits define the methods and locations for waste disposal. Collection of waste for safe disposal, recycling or dumping at solid waste landfills is primarily handled by outside organizations that are licensed for these activities in accordance with environmental protection standards.

Waste generation and management

Hazard class	Waste generated, tonnes			Disposal handled independently and/or outsourced, tonnes		
	2016	2015	2014	2016	2015	2014
1	2.5	1.5	2.1	2.8	1.2	2.0
2	17.9	15.2	22.5	17.9	15.2	22.5
3	1 328.9	4 200.3	2 109.4	1 282.5	4 225.4	2 223.1
4	12 918.5	19 207.0	10 335.9	12 883.3	19 170.8	11 059.9
5	12 526.8	12 876.3	13 607.8	12 527.1	13 376.8	13 171.6
Total	26 794.6	36 300.3	26 077.7	26 713.6	36 789.4	26 479.1

Pollutants in the air can be harmful to people and the environment if their concentrations exceed natural levels or set standards. PJSC NCSP therefore controls the amount of emissions into the atmosphere and is constantly working on reducing them.

NCSP Group complies with Russian and international standards for the use of water resources and strives to minimize its impact on these resources.

* According to management accounting data

NCSP Group use of water resources

	2014	2015	2016
Water intake, '000 m³			
- from underground sources	9.2	1.8	1.5
- from public water supply systems	835.1	760.0	682.6
Total	**844.3**	**761.8**	**684.1**
Water treatment, '000 m³			
- recycling of water	9.8	1.3	1.3
- treatment of rainwater	62.7	56.2	100.2
Total	**72.5**	**57.5**	**101.5**
Waste and storm water disposal, '000 m³			
- contaminated, without treatment	382.8	396.8	467.6
- contaminated, insufficiently treated	250.8	251.6	366.6
- clean to standard (without treatment)	48.5	28.3	17.0
- treated to standard	62.9	43.3	10.7
Total	**745.1**	**720.0**	**861.9**

Consumption of fuel and energy resources

NCSP Group reduced consumption of energy resources by 900 tonnes of oil equivalent (toe) in 2016 compared to the previous year, to 72,800 toe.

Some Group companies reduced consumption of electricity, gas and heat. Consumption decreased at BSC due to a decline in handling of refrigerated containers; IPP is expanding the use of energy efficient lighting equipment; and NLE used less electricity thanks to the effective implementation of a program to conserve energy and increase energy efficiency. Savings from the program in 2016 totaled $0.7 thousand.*

However, BSC increased consumption of diesel fuel, as it handled more containers and general cargo. Diesel fuel consumption just for LHM cranes and tractors was up by 18% and 7% respectively.

Changes in the amount of gasoline and diesel fuel used at NLE were due to changes in the vehicle fleet, and acquisition of new models of automobiles, but without changing the mileage limit.

NGT and NSRZ used more thermal energy and natural gas. Group units are overhauling boiler houses, replacing boilers with more powerful ones, and hooking up industrial facilities to the heating system.

* According to management accounting data

NCSP Group energy consumption

Resource	2014	2015	2016	Change 2016/2015, %
Electricity, mln kW	63.3	61.2	62.2	1.6%
Heat, '000 Gcal	42.8	34.9	40.5	16.1%
Fuel				
Fuel oil, '000 t	0.6	0.7	0.6	-16.0%
Diesel fuel, '000 t	13.4	12.7	12.3	-3.0%
Gasoline, '000 t	14.5	15.3	14.3	- 6.5%
Natural gas, '000 m3	8 395.8	4 533.1	4 703.2	3.8%
Total, '000 toe		73.7	72.8	-1.13%

CORPORATE GOVERNANCE

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NCSP GROUP CORPORATE GOVERNANCE PRACTICES

The corporate governance practices of PJSC NCSP and NCSP Group comply with Russian legislation and international best practices in corporate conduct, and adhere to the principles of openness and transparency. The Company complies with the requirements of the UK Financial Services Authority (FSA) for issuers of Global Depositary Receipts (GDR).

Corporate governance at PJSC NCSP is exercised by its management and control bodies: the General Shareholder Meeting, the Board of Directors, the Management Board and the Chief Executive Officer of the Company.

PJSC NCSP subsidiaries are managed by appointing representatives of PJSC NCSP and its shareholders to the boards of directors of these companies.

The role of corporate secretary at PJSC NCSP is carried out by an official who heads a special department that is administratively subordinate to the CEO. Functionally, the corporate secretary, in his/her activities, is accountable to the Board of Directors.

The financial and business activities of PJSC NCSP and NCSP Group are audited by external auditors to both Russian and international accounting standards, as well as by the Internal Audit Service, the Internal Control and Risk Management Service and the Audit Commission.

The Russian Federation (RF) has had a special right to participate in the management of PJSC NCSP through a "golden share" since April 2011. This right is exercised by the Russian government appointing a representative of the RF to the Board of Directors. The RF representative on the Board of Directors has the right to veto decisions by the General Shareholder Meeting concerning amendments to the Charter or approval of a new version of the Charter, the reorganization or liquidation of the Company, changes to charter capital, and the execution of major transactions and interested-party transactions.

The RF also owns 20% of shares in PJSC NCSP. The government stake is managed by the Federal Property Management Agency of Russia (Rosimuschestvo).

The main documents that enforce the rights of PJSC NCSP shareholders are the:

- Charter
- Regulation on the General Shareholder Meeting
- Regulation on the Board of Directors
- Regulation on the Management Board
- Regulation on the Audit Commission
- Regulation on Information Policy
- Regulation on Dividend Policy
- Corporate Governance Code
- Regulation on the Corporate Secretary

Corporate calendar for 2016

Company management bodies	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
AGM						1						
EGM						1			1			
Board of Directors meetings	1	2	4	3	2	4		2	2	1	2	2
Audit Committee	1			1								2
Nomination and Remuneration Committee			1	2	1	1		1				1

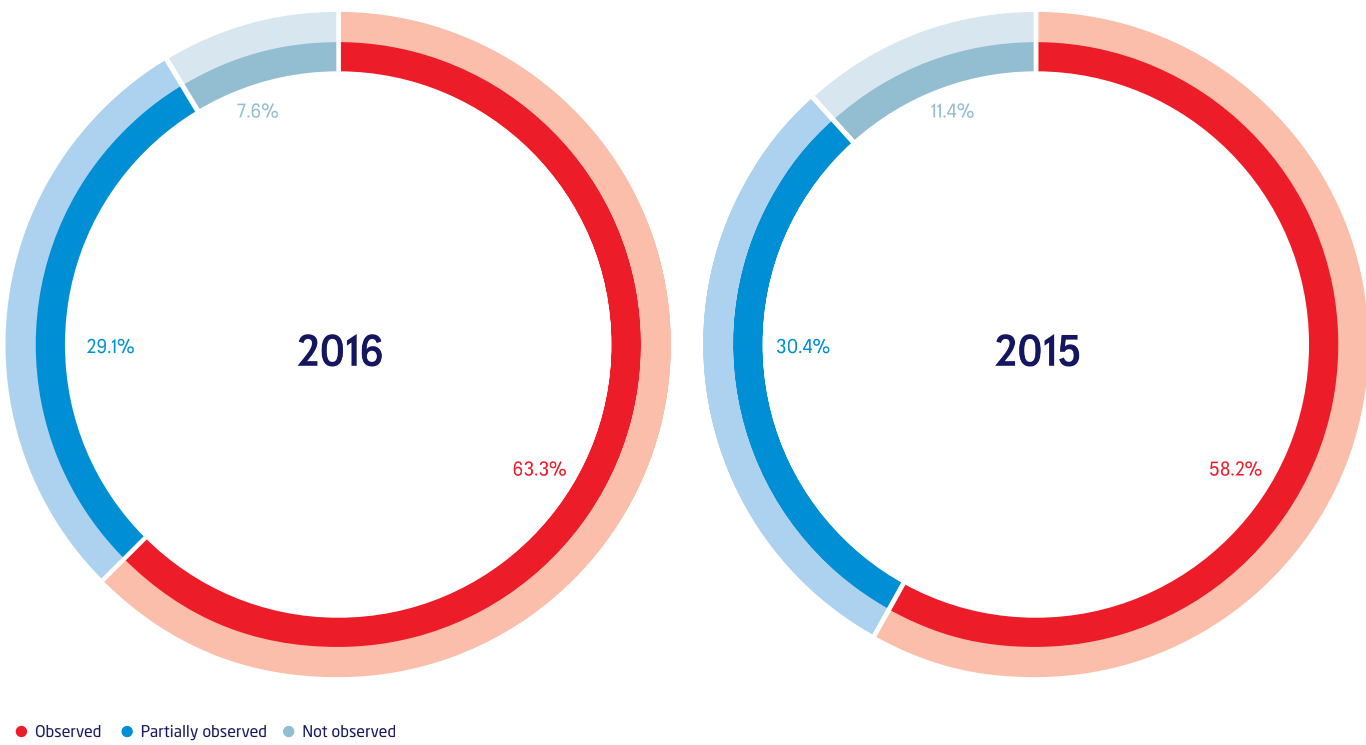
Documents regulating management and control bodies are available on the NCSP Group website at:

http://www.nmtp.info/holding/investors/info_disclosure/uch_documents/.

Amendments to the Charter fall under the authority of the General Shareholder Meeting, with the exception of amendments pertaining to the creation of branches, opening of offices and their liquidation, which fall under the authority of the Board of Directors. In the course of 2016, on the initiative of the Board of Directors, amendments were made to the Charter concerning the structure of the Company's management bodies, their functions and authority.

At the Annual General Meeting on June 24, 2016, shareholders approved amendments to documents regulating the work of PJSC NCSP's executive management bodies.

Compliance with Corporate Governance Code



Compliance with provisions of Corporate Governance Code in 2016

Section of Code	Number of principles recommended by Code	Observed	Partially observed	Not observed
Shareholder rights	13	8	5	-
Board of Directors	36	16	14	6
Corporate Secretary	2	2	-	-
Remuneration system	10	8	2	
Risk management system	6	6	-	-
Information disclosure	7	5	2	
Material corporate actions	5	5	0	0
Total	79	50	23	6

Main amendments made to Regulation on the Board of Directors in 2016

Point 2.4 contains criteria for the independence of Board directors and stipulates that the Board of Directors must have at least 2 (two) independent directors. A director is considered independent who is:

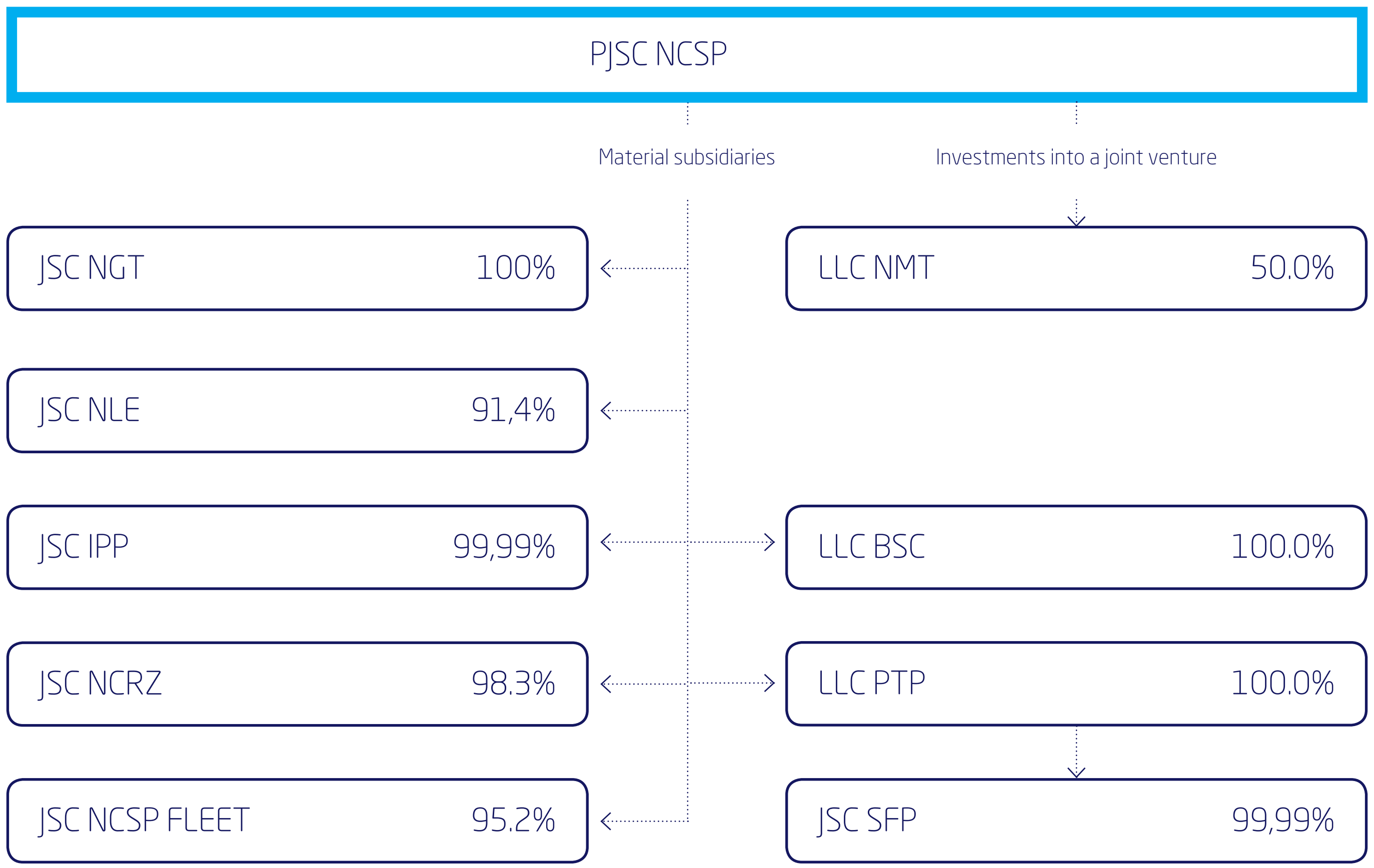
- Not affiliated with the Company
- Not affiliated with substantial shareholders of the Company
- Not affiliated with substantial counterparties of the Company
- Not affiliated with competitors of the Company
- Not affiliated with the government (Russian Federation, region of Russian Federation) or a municipality

Amendments concerning the optimization of the organizational work of the Company's Board of Directors (Point 5.2 and Point 6.20 of the Regulation)

The Board of Directors approved a Corporate Governance Code in 2007 that takes into account the recommendations of the Organization for Economic Cooperation and Development. The requirements of the Code are not mandatory for PJSC NCSP subsidiaries, which voluntarily comply with the Corporate Governance Code and disclose information about this in their annual reports.

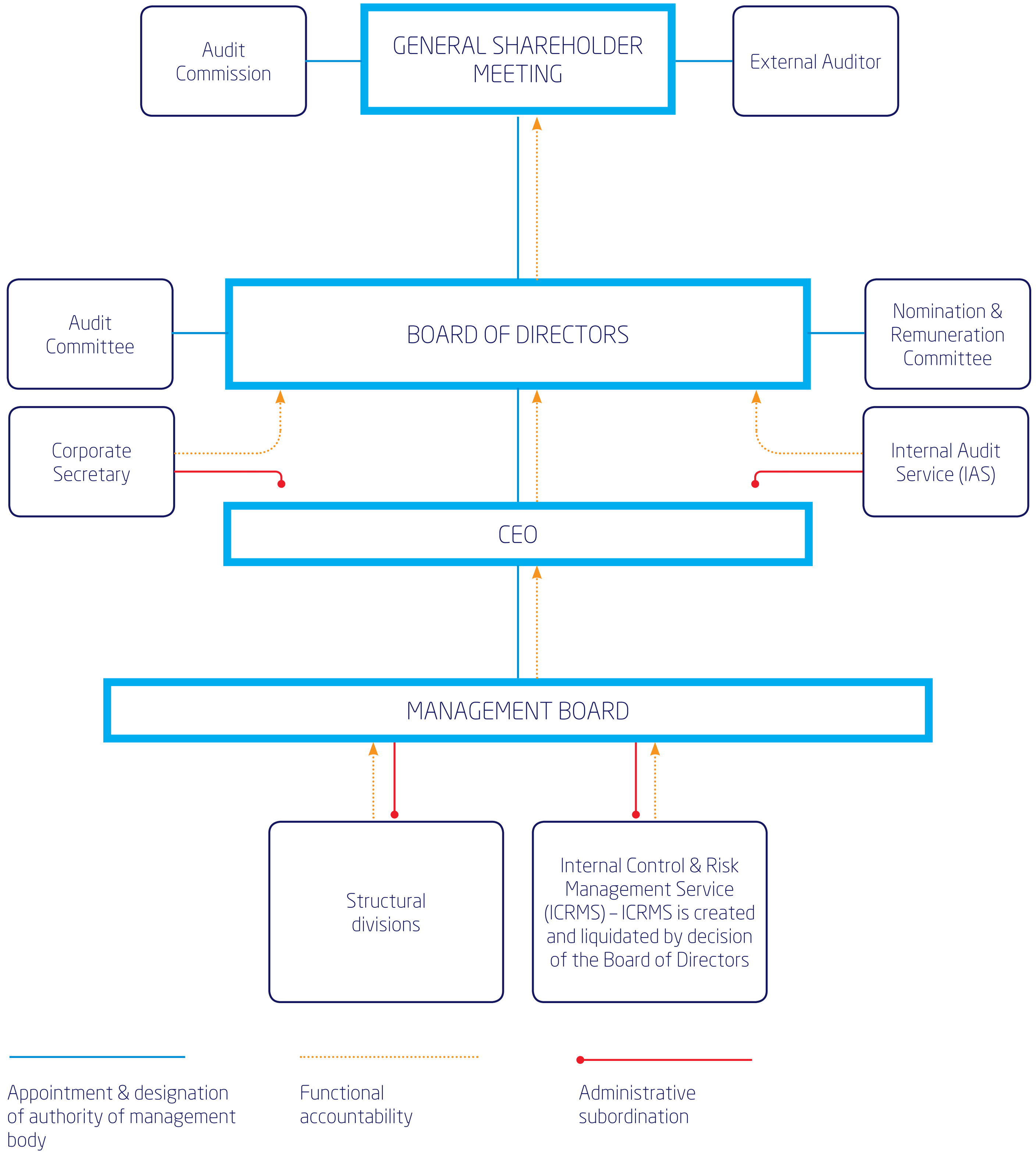
As part of efforts to improve corporate governance practices at PJSC NCSP, the Company has been working since 2015 to implement the recommendations of the Corporate Governance Code that the Central Bank of Russia approved on March 21, 2014.

NCSP GROUP STRUCTURE*



* NCSP Group's stake with account of the mandatory share buyback in January 2017

STRUCTURE OF PJSC NCSP MANAGEMENT AND CONTROL BODIES



General Shareholder Meeting	PJSC NCSP's highest management body. The procedure for holding the General Shareholder Meeting fully ensures observance of shareholder rights. The procedures for preparing, calling, holding and tabulating the results of the PJSC NCSP General Shareholder Meeting are defined in the Regulation on the General Shareholder Meeting.
Board of Directors	Conducts general management of PJSC NCSP's business. The Board of Directors is responsible for deciding matters concerning the Company's business, with the exception of matters that fall under the authority of the General Shareholder Meeting, Management Board and CEO. The procedure for calling and holding meetings, as well as other issues concerning the activities of the Board of Directors are regulated by the Regulation on the Board of Directors of PJSC NCSP in accordance with the Federal Law On Joint-Stock Companies.
CEO	The individual executive body responsible for management of current operations to ensure the profitability and competitiveness of PJSC NCSP, and its financial and economic stability, while safeguarding the rights of shareholders and social guarantees of employees. The CEO acts within the scope of his/her authority and is accountable to the Board of Directors and General Shareholder Meeting.
Management Board	The collegial executive body accountable to the General Shareholder Meeting and the Board of Directors, which also approves the composition of the Management Board. Responsible for the current management within its competence defined in the Charter, decisions of the General Shareholder Meeting and the Board of Directors, including: • Ensuring the implementation of the decisions of the General Shareholder Meeting and the Board of Directors • Execution of the operational programme and the budget • Development and implementation of the business policy with the aim of increasing profitability and competitiveness of the Company • Developing proposals on investment projects and the budget for the Board of Directors

General Shareholder Meeting

Three General Shareholder Meetings were held in 2016.

The quorum at the annual General Shareholder Meeting was 86.7322% of the Company's outstanding voting shares.

At the Annual General Meeting (AGM) of PJSC NCSP shareholders that was held on June 24, 2016, (Minutes № 47-OSA NCSP, dated June 29, 2016), it was decided not to pay dividends for the 2015 reporting year due to the absence of a source of payment, but to pay dividends for the first quarter of 2016 in cash in the amount of 1,000,000,431.28 rubles or 0.0519216 rubles per share. The date of record was July 5, 2016.

Dividend payment schedule:

Persons	Payment period
Nominal holder and professional securities market participant trust manager registered in the register of shareholders	From July 18, 2016 to July 19, 2016, inclusive
Other persons registered in the register of shareholders	From July 25, 2016 to August 5, 2016, inclusive

The other main decisions made at the AGM included:

- To approve a loss of 5,198,617,000 rubles
- To pay annual remuneration to nongovernment members of the Board of Directors in the amount of $596.7
- To pay annual remuneration to nongovernment members of the Audit Commission in the amount of $179.0
- To confirm ZAO Deloitte & Touche CIS as auditor for 2016

Shareholders also elected members of the Board of Directors and Audit Commission, approved the main reporting documents (annual report, financial statements), and approved amendments to documents (for more details about amendments, see Board of Directors Report):

- Charter
- Regulation on the Board of Directors
- Regulation on the General Shareholder Meeting
- Regulation on the Management Board
- Regulation on the Chief Executive Officer

The quorum at the Extraordinary General Meeting (EGM) of PJSC NCSP shareholders that was held on June 27, 2016 (Minutes No. 48-OSA NCSP, dated July 28, 2016) was 80.1920%. Shareholders decided to approve an interested-party transaction: a loan agreement between, among others, VTB Bank (Public Joint-Stock Company) as the organizer, loan agent and primary creditor, and the Company as the borrower.

The quorum at the EGM that was held on September 2, 2016 (Minutes No. 49-OSA NCSP, dated September 7, 2016) was 86.6081%. Shareholders decided to pay dividends for the first half of 2016 in the amount of 8,994,333,791.80 rubles or 0.467 rubles per share. The date of record was set as September 14, 2016.

Dividend payment schedule:

Persons	Payment period
Nominal holder and professional securities market participant trust manager registered in the register of shareholders	From September 27, 2016 to September 28, 2016, inclusive
Other persons registered in the register of shareholders	From September 27, 2016 to October 18, 2016, inclusive

Also at this EGM, shareholders made decisions on the early dismissal of members of the Board of Directors elected at the AGM of June 24, 2016; elected new members of the Board of Directors; and amended the Charter.

NCSP GROUP **MANAGEMENT**

PJSC NCSP key management personnel

Sultan Batov

Chief Executive Officer, Chairman of Management Board, PJSC NCSP

Sultan Batov was elected CEO of PJSC NCSP in 2014 (under a contract to August 13, 2019), after serving as general director of Baltic Stevedoring Company from 2002 to 2014.

In 1999-2002, he was director of the Energoperetok representative office of RAO UES of Russia for Kabardino-Balkaria.

In 1999, he became the head of the Consumer Market and Services Department of the Nalchik city administration.

In 1997-1999, he was director of the representative office of the Energoperetok Trade House of RAO UES of Russia in Kabardino-Balkaria.

From 1995 to 1997, he was director for the North Caucasus at the Baltgazstroykomplekt and Gazkomplektimpex divisions of RAO Gazprom.

In 1992-1995, he served as committee chairman in the State Material Resources Committee (Nalchik).

In 1989-1992, he headed the construction department of the Cabinet of Ministers of the Kabardino-Balkar Autonomous Soviet Socialist Republic.

In 1987-1989, he was the chief engineer at PPSO Kabbalkproyekstroy of the Southern Construction Ministry of the USSR.

In 1980-1987, he worked as a production and technical department engineer, foreman and superintendent at Construction Division No. 2 of Kabbalkproyekstroy.

Mr. Batov graduated from the engineering and technology faculty of Kabardino-Balkar State University in 1980 with a degree in civil engineering. He was born in the Jambyl Region of Kazakhstan on July 31, 1958.

Pavel Sokolov

First Deputy CEO, PJSC NCSP, Member of Management Board

Prior to his appointment to PJSC NCSP, Pavel Sokolov served as general director of RZD Logistics from November 2010.

From 2007 to 2010, he was deputy director of sales and intermodal shipments, and deputy director of sales at TransContainer.

From 1997 to 2007, he worked in the commercial organizations and entities of Russian Railways (RZD).

Mr. Sokolov, born in Leningrad in 1978, graduated from St. Petersburg State Transport University as a railway engineer in 2000. In 2003 he graduated from St. Petersburg State University with a degree in marketing management, and in 2014 he graduated from the RZD Corporate University with a degree in corporate management.

Members of PJSC NCSP's Management Board do not own shares in the Company and did not carry out transactions with PJSC NCSP shares in 2016.

Members of the PJSC NCSP's Management Board do not own shares of the Company and did not commit any deals with shares of PJSC NCSP in 2016.

Andrey Garnukhin

Deputy CEO — Head of the Unified Commercial Directorate, NCSP Group, Member of Management Board

Andrey Garnukhin was appointed Deputy CEO — Head of the Unified Commercial Directorate of NCSP Group in 2014.

From 2008 to 2013, he was an advisor and then head of the corporate land bank management department of Uralsib Financial Corporation.

In 2007-2008, he held positions as head of real estate management, head of business development and planning, and head of project consulting at Evolution Management Company.

From 2005 to 2007, he served as head of marketing, head of cargo base development, director of commerce and vice president at TPS Group.

In 2004-2005, he was executive director at Gulfstream Engineering.

Mr. Garnukhin graduated from the Bauman State Technical University in Moscow in 1996 in the field of information technology and systems management. He completed additional courses in management and marketing at the Bauman State Technical University in 1996; management of strategic initiatives, programs and projects (TMI Business Systems) in 2010; and business process management (IDS Scheer) in 2011.

He was born in Kolomna, in the Moscow Region of Russia on September 2, 1973.

Igor Terentyev

Executive Director, PJSC NCSP, Member of Management Board

Igor Terentyev was appointed Executive Director in February 2013.

From 2011 to 2012, he served as Deputy General Director for infrastructure projects at Transneft Service.

From 2006 to 2011, he was deputy head of logistics at LLC Rosinteragroservis.

In 2005-2006, he worked as a broker at LLC MMA-Delta.

From 2004 to 2005, he served as general director and deputy direct at LLC Delta Marine Agency.

From 2002 to 2004, he was commercial director at LLC Russky Standart.

Mr. Terentyev, born in 1971, graduated from the Novorossiysk Higher Marine Engineering College as a transport radio equipment engineer in 1997.

Eduard
Borovok
Director of Legal — Head of NCSP Group Legal Service, Member of Management Board

Eduard Borovok has been Director of Legal — Head of Legal Service at NCSP Group since November 2008.

Since 2014, he has also served as general director of Novorossiysk Port Complex Zarubezhneft and general director of Importpischeprom-Transservice.

From 2007 to 2008, he was director of business support at PJSC NCSP.

From 2003 to 2007, he was director of legal at PJSC NCSP.

In 2002-2003, he headed the legal department at Novorossiysk Shipping Company.

In 1997-2002, he served as a judge in the Federal Arbitration Court for the North Caucasus District.

From 1990 to 1997, he served as a legal advisor to Novorossiysk Shipping Company.

Mr. Borovok, born in 1963, graduated from Kuban State University in 1986 and earned a degree from the Moscow State Institute for International Relations in 1992. From 1986 to 1988, he served as an investigator at the Krasnodar Territory Prosecutor's Office in Novorossiysk, and from 1988 to 1990 he was a secretary of the Leninsky District Committee of the Komsomol in Novorossiysk.

German
Kachan
Chief Accountant, PJSC NCSP, Member of Management Board

German Kachan resumed his position as Chief Accountant at PJSC NCSP in 2014 after holding the position of Chief Financial Officer from 2012 to 2014.

In 2012, he served as financial director at the Sochi branch of TPS Real Estate.

From 1999 to 2012, he served as accountant and controller, then deputy chief accountant and chief accountant at PJSC NCSP.

In 1998-1999, he worked as a manager at the Federal Tax Police Service of Russia department for the North Caucasus, and from 1993 to 1998 he served as senior analyst and senior tax inspector for the State Tax Inspectorate of Kabardino-Balkaria.

He serves as a director on the boards of Novorossiysk Grain Terminal, Novorossiysk Port Complex Zarubezhneft, Baltic Stevedoring Company and Novoroslesexport.

Mr. Kachan, born in 1962, graduated from the Minsk Radio Engineering Institute with a major in semiconductors and dielectrics, and Kabardino-Balkaria State University with a major in accounting and auditing.

Igor Belukhin
Chief Technical Officer, PJSC NCSP, Member of Management Board

Igor Belukhin has held management positions at transportation industry companies since 2006, including LLC OTEKO-Terminal and OJSC Tuapse Commercial Seaport, among others.

From 1985 to 2006, he worked in a number of positions at NCSP, including director of Anapa Seaport branch, first deputy of the chief engineer and head of the hydraulic structures department.

Mr. Belukhin, born in Krasnodar Territory in 1962, earned a PhD in Water Transportation, Port and Terminal Management from the Admiral Makarov State Marine Academy in St. Petersburg in 2001. He graduated from the Novorossiysk Marine Engineering School in 1985 with the qualification of navigation engineer.

Management of NCSP Group companies

Albert Likholet
General Director, JSC Novoroslesexport (NLE)

Sergey Putilin
General Director, JSC Novorossiysk Grain Terminal (NGT)

Sergey Shkurat
General Director, LLC Primorsk Trade Port (PTP)

Alexander Lesnyak
General Director, JSC IPP

Alexander Brezhnev
General Director, JSC Novorossiysk Ship Repair Yard (NSRZ)

Vladimir Kazakov
General Director, CJSC SoyuzFlot Port

Yury Petrischev
General Director, JSC NCSP Fleet

Alexey Pavlov
General Director, LLC Baltic Stevedoring Company (BSC)

Remuneration and motivation

The Company has a Regulation on Incentives for Executive Employees of PJSC NCSP approved by the Board of Directors on September 24, 2012, and the Board of Directors approved an addendum to it on October 24, 2014. Point 2.3 of the regulation stipulates that incentives are based on key performance indicators. The added provision links management compensation to meeting targets for modernization, creation of high-performance jobs and increasing labor productivity.

As part of the Long-term Development Program of NCSP Group, a system of key performance indicators (KPI) remains in effect. The composition of KPI and their target values for the current and subsequent year are selected according to the guidelines for the use of KPI by state corporations, state companies and state unitary enterprises, as well as companies in which the Russian Federation and a constituent member of the Russian Federation hold a combined interest of more than 50%.

The Company's Board of Directors, in accordance with a directive issued by the First Deputy Prime Minister of Russia (№ 1472p-P13, dated March 3, 2016), decided to include an integrated KPI for innovation in the list of KPI for senior management starting in 2016.

At a meeting on May 13, 2016, the Board of Directors approved the actually achieved KPI of PJSC NCSP CEO Sultan Batov and executive employees for 2015 and approved payment of bonuses to the CEO and executive employees for 2015 in the amount agreed with the Company's Management Board.

In 2016, compensation paid to the CEO totaled $ 970,529.6,* and compensation paid to members of the Management Board totaled $ 997,233.4.*

NCSP Group companies did not extend credit (loans) to members of the PJSC NCSP Management Board in the reporting year.

The total amount of remuneration paid to members of the Management Board, including the amount paid to the CEO, is disclosed in the securities issuer report for the fourth quarter of 2016, the text of which is posted on the websites of PJSC NCSP and Interfax at:

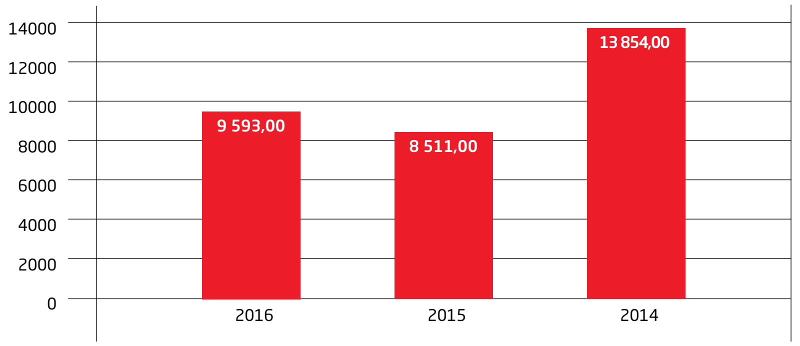
nmtp.info/ncsp/corporate_information/quarterly_reports/

http://www.e-disclosure.ru/Emitent/SectionFiles.aspx

Remuneration of the key management personnel of NCSP Group in 2016 amounted to $ 9,593 thousand. According to IFRS key management personnel of NCSP Group includes members of Board of Directors, CEO, Members of Management Board of PJSC NCSP and General Directors of the main subsidiaries.

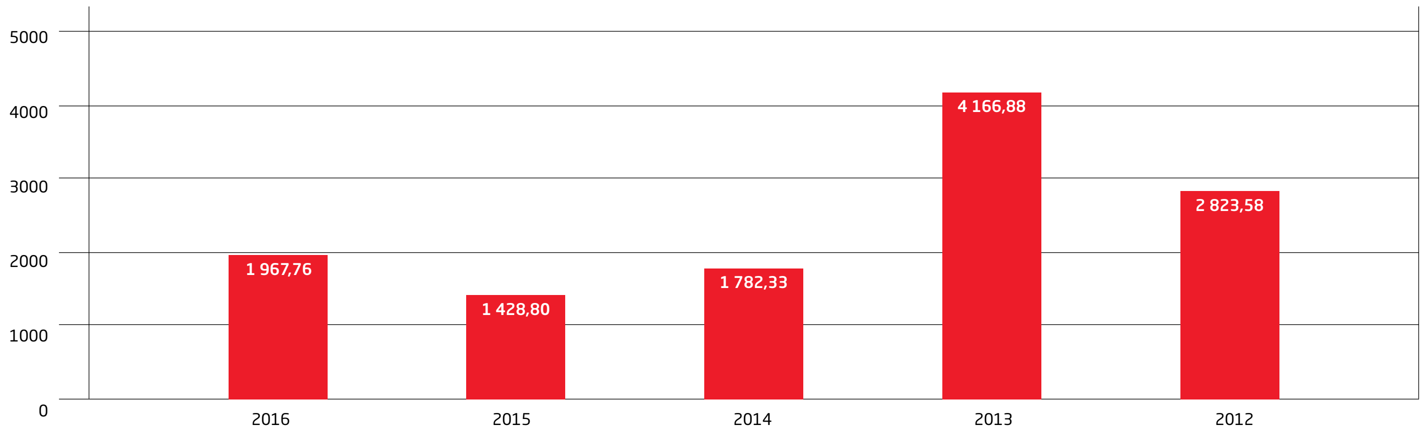
Remuneration of the members of the Board of Directors is additionally disclosed at page 77 of this Annual Report.

Remuneration of NCSP Group Key Management Personnel, '000 USD



* According to management accounting data

Remuneration of PJSC NCSP Management Board Members, '000 USD



PJSC NCSP **BOARD OF DIRECTORS**

PJSC NCSP's Board of Directors consists of seven directors. The Russian Federation, under a federal government order, exercises its special right to participate in the management of PJSC NCSP through a «golden share.» The seat of the RF representative is not taken into account at elections of board directors, and only six PJSC NCSP board directors are subject to election at the General Shareholder Meeting.

The Company believes that the composition of the Board of Directors is balanced and appropriate for the scale of the Company's business, and complies with the applicable requirements of Russian legislation and the Listing Rules of the Moscow Exchange.

PJSC NCSP's system of corporate governance is consistent with the principles and recommendations of the national Corporate Governance Code. Provisions of the Code are based on international practices in the area of corporate governance, and principles of corporate governance developed by the Organization for Economic Cooperation and Development (OECD).

The Code does not contain recommendations for ensuring gender, age or other types of diversity in the composition of a company's management bodies. In light of this, these practices at the Company are not formalized in the form of policies or other local regulations.

When nominating candidates to the Board of Directors, the Company considers their personal and professional qualities, as well as compliance with the independence criteria set by the Listing Rules of the Moscow Exchange. As of December 31, 2016, there were two independent directors on the Board of Directors, or 28.6% of their total number.

There were two independent directors on the Board of Directors as of December 31, 2016. At a meeting on October 3, 2016 (Minutes № 06 — SD NCSP, dated October 6, 2016), the Board recognized the independence of Vladimir Kayashev and Alexander Potapushin based on the independence criteria set by the Corporate Governance Code of PJSC NCSP.

Board of Directors

Maxim Grishanin

Chairman

Mr. Grishanin is Senior Vice President of Transneft, a position he was promoted to in 2012 after serving as vice president since 2011.

Since 2014, he has served on the board of directors of Transneft Insurance Company.

Since 2011, he has served on the management board of Transneft, and the supervisory board of Trans-Balkan Pipeline.

In 2010, he was director of corporate financing at OJSC Sukhoi Aviation Holding Company.

From 2008 to 2011, he served on the board of directors of Superjet International Spa.

From 2006 to 2010, he was senior vice president for economics and finance at CJSC Sukhoi Civil Aircraft Company.

Mr. Grishanin, born in 1968, graduated from the University of Kiel in Germany in 1995 with a degree as an economist.

Sergey Andronov

Mr. Andronov has been Vice President of Transneft since 2014.

From 2007 to 2014, he was director of oil and oil product exports and an aide to the president at oil company Rosneft.

Mr. Andronov, born in 1969, graduated from Lesgraft State Physical Education Institute with a degree in coaching and teaching. In 1997, he graduated from the Lobachevsky State University in Nizhny Novgorod with a degree in economics and industrial management.

Vladimir Kayashev

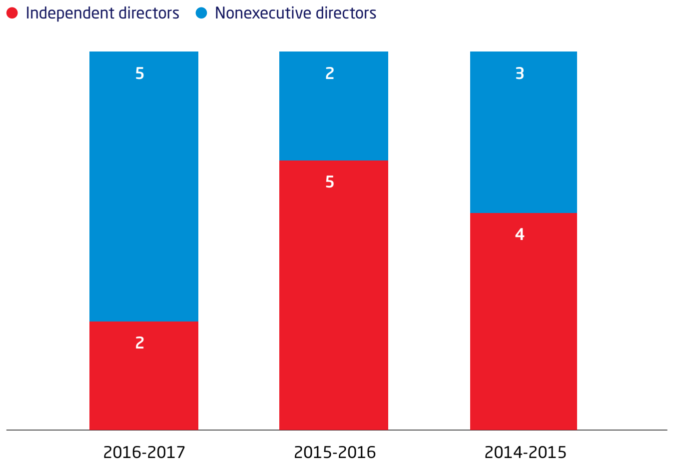
Mr. Kayashev has been chairman of the Board of Directors of OJSC Moscow Committee on Science and Technology.

In 2011-2012, he was a project manager at Gazprombank.

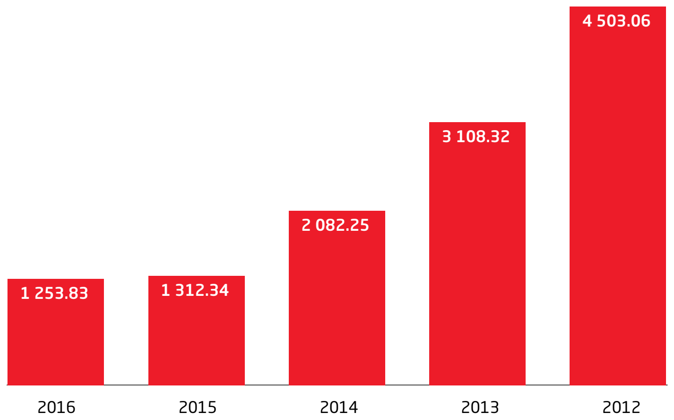
From 2005 to 2011, he served as president of TPS Real Estate.

Mr. Kayashev, born in 1963, graduated from the Moscow Economics and Statistics Institute with an economics degree in 1985.

Structure of Board of Directors



Remuneration of Members of PJSC NCSP Board of Directors, USD



Igor Levitin

Representative of the Russian Federation by right of golden share

Mr. Levitin has served as an aide to the Russian president since 2013, prior to which he served as an advisor to the Russian president from 2012 to 2013.

From 2004 to 2012, he served as Transport and Communications Minister of Russia, and then as Transport Minister of Russia.

He has also served on the Public Council of the Presidential Commission for Reform of Railway Transport.

Mr. Levitin, born in 1952, graduated from the Railway Forces Military Academy in Leningrad in 1973. In 1983, he graduated from the Transport and Logistics Military Academy with a railway engineer degree.

Alexander Potapushin

Mr. Potapushin has served on the board of directors of Far East Shipping Company since 2016, and the board of directors of Novorossiysk Grain Plant since 2015.

From 2010 to 2016, he was the director of the Moscow representative office of Mercuria Energy Trading S.A. (Switzerland).

Mr. Potapushin, born in 1970, graduated from Bryansk State University in 1992, and earned an MBA from Open University, England in 2006.

Evgeny Stolyarov

Mr. Stolyarov has headed the department for property management and privatization of major organizations at the Federal Property Agency since 2016.

From 2013 to 2016, he was head of the department for privatization of organizations in market sectors, and deputy head of the department for property management and privatization of major organizations at the Federal Property Agency.

From 2012 to 2013, he was deputy head of preparation of decisions on privatization conditions in the department for sale and presale preparation of assets being privatized at the Federal Property Agency.

From 2010 to 2012, he was vice president of LLC Renaissance Broker, and from 2006 to 2010 he was an analyst in the investment department of Troika Dialog Investment Company.

Mr. Stolyarov, born in 1984, graduated from Moscow State University in 2006 with a degree in economics.

Rashid Sharipov

Mr. Sharipov has been Vice President of Transneft since 2016.

From 2013 to 2015, he was vice president and chief of staff for the president of Rosneft.

In 2013, he served as executive vice president of Gazprombank.

Mr. Sharipov, born in 1968, graduated from the Moscow State Institute of International Relations in 1991 with a degree in international relations. He earned a Masters degree in comparative law from California Western School of Law in 1993.

Changes on the Board of Directors in 2016

There were three cohorts of the Board of Directors in the course of 2016.

01.01.2016 until 28.06.2016	28.06.2016 until 03.10.2016	03.10.2016. until 31.12.2016
Sergey Andronov	Sergey Andronov	Sergey Andronov
Maxim Grishanin	Mikhail Barkov	Maxim Grishanin
Vladimir Kayashev	Maxim Grishanin	Vladimir Kayashev
Sergey Kireev	Vladimir Kayashev	Igor Levitin
Igor Levitin	Igor Levitin	Alexander Potapushin
Vitaly Sergeichuk	Alexander Potapushin	Evgeny Stolyarov
Marat Shaydaev	Vitaly Sergeichuk	Rashid Sharipov

The Russian government, exercising its right to participate in the management of the Company (golden share), appointed Igor Levitin, aide to the president of Russia, as Russia's representative on the Board of Directors of PJSC NCSP on September 2, 2015 (order No. 1706-r).

Share ownership and remuneration

Members of PJSC NCSP's Board of Directors did not own shares in the Company in 2016 and did not conduct transactions with such shares.

In 2016, members of the PJSC NCSP Board of Directors who are not government officials were paid remuneration in the amount of $ 1,253.8.

In addition to the above-mentioned compensation for expenses paid to members of the Board of Directors directly in the reporting period, PJSC NCSP acquired tickets for and paid for the hotel stays of Board members travelling to participate in meetings and the General Shareholder Meeting.

The total amount of such expenses paid directly to service providers amounted to $ 6,373.1,* including $ 3,334.6 for Mr. Kayashev and $ 3,038.5 for Mr. Potapushin.

NCSP Group companies did not extend credit (loans) to members of the PJSC NCSP Board of Directors in the reporting year.

* According to management accounting data

Board director	Remuneration paid in 2016, USD	Compensation received in 2016, USD
Sergey Andronov	-	-
Mikhail Barkov	-	-
Maxim Grishanin	-	-
Vladimir Kayashev	309.8	-
Sergey Kireev	286.9	-
Igor Levitin	-	-
Alexander Potapushin	-	-
Vitaly Sergeichuk	101.6	268.5
Evgeny Stolyarov	-	-
Marat Shaydaev	286.9	-
Rashid Sharipov	-	-

Report on work performed by PJSC NCSP's Board of Directors in 2016

The Board of Directors approved a Long-term Development Program (LDP) for NCSP Group for the period to 2020 in 2015. At a meeting on November 24, 2016, the Board decided to regularly prepare quarterly reporting on the implementation of the LDP and achievement of key performance indicators (KPI) based on management reporting data and delegated its approval to the Management Board of PJSC NCSP. Approval of quarterly reporting on the implementation of the LDP and achievement of KPI, and assessment of expected values and a plan of compensating measures in the event that actual values deviate significantly from targets were included in the Board's schedule.

Following an audit of the implementation of the LDP in 2016, this program will be updated and presented for approval to the Board by June 1, 2017.

At a meeting on December 30, 2016, the Board approved a draft regulation on the organization of the Russian Transport Ministry's activities to coordinate and monitor the implementation of long-term development programs and achievement of KPI by joint-stock companies and federal state unitary enterprises in the transport sector.

The development of PJSC NCSP's Innovative Development Program to 2020 was completed at the beginning of 2016. The program was drafted to develop the existing corporate system for managing innovation and is structured in the form of individual innovation projects as a set of interrelated measures. The Board approved the program on February 28, 2017 (Minutes №13-SD NCSP, dated March 3, 2017).

The Board worked continuously in 2016 on improving corporate governance.

Changes to the Company's founding and internal documents were approved at General Shareholder Meetings on June 24 and September 2, 2016.

The current members of the Audit Committee and Nomination and Remuneration Committee were elected after the EGM in September 2016.

Work was done in 2016 to review articles of the regulations on Board committees:

- — Regulation on Nomination and Remuneration Committee approved by decision of the Board of Directors on April 28, 2016 (Minutes № 17-SD NCSP, dated April 28, 2016)
- — Regulation on Audit Committee, with changes and additions, approved by decision of the Board of Directors on December 23, 2016 (Minutes № 09-SD NCSP, dated December 26, 2016)

Particular attention was devoted in 2016 to internal audit, and internal control and risk management policy.

The Board approved a roadmap for the organization of risk management and internal control processes in the area of preventing and combating corruption at a meeting on June 10, 2016 (Minutes № 21-SD NCSP, dated June 10, 2016).

A new version of the Regulation on Internal Audit of PJSC NCSP and a Regulation on the Internal Audit Service of PJSC NCSP were approved on November 24, 2016.

The agenda of the Board's December meeting included the operation of the internal control and risk management system. Following consideration, two documents were approved (Minutes №09-SD NCSP, dated December 26, 2016):

- Regulation on the Internal Control and Risk Management System of PJSC NCSP
- Regulation on the Internal Control and Risk Management Service of PJSC NCSP

In the first half of 2016, the Board considered and made decisions on issues concerning the operational and financial areas of the Company's business.

A positive decision was made on concluding contracts with the winners of tenders for acquisition of unique, expensive port equipment within the context of the approved investment expenditures budget for 2015.

The Board also considered and approved other interested-party transactions in the reporting period, as well as transactions to acquire capital assets. The full list of major and interested-party transactions conducted in the reporting year is disclosed on the Company's official website at: http://www.nmtp.info/holding/investors/info_disclosure/basic_fact/

At a meeting on March 31, 2016, the Board approved the start of implementation of the Integrated Development Plan of NCSP Group within the context of an agreement with state company Rosmorport on the Reconstruction and Modernization of the Novorossiysk Seaport.

Decisions were made on transactions to acquire securities, including the buyback of the Company's own shares. The Board decided on June 15, 2016 to terminate the Company's participation in the following organizations:

- Russian Association of Freight Forwarding Organizations
- Russian Union of Industrialists and Entrepreneurs
- Association of Exporters and Importers of Kuban

Main changes made to company Charter in 2016

Article 12. Structure of the Company's management bodies

Does not provide for the transfer of functions to manage the affairs of the Company to a liquidation commission in the event of its appointment.

Article 13. General Meeting

Point 13.2.16 details the authority of the General Meeting to «approve the annual report, annual financial statements of the Company, distribution of profit (including payment (announcement) of dividends) and losses of the Company based on the results of the reporting year.»

Article 14. Board of Directors

The following functions were designated as being under the authority of the Board of Directors:

- Approval of the Company's dividend policy (Point 14.2.1.1)
- Decisions to apply for a listing of the Company's shares and/or issuable securities convertible into shares of the Company (Point 14.2.41.1)
- Approval of the Regulation on Internal Audit and amendments to it (Point 14.2.41.2)
- Approval of operating plan for internal audit and the budget of the internal audit division (Point 14.2.41.3)
- Receiving information about the implementation of the operating plan for internal audit (Point 14.2.41.4)
- Approval of decisions on appointment, dismissal and remuneration of the head of the internal audit division (Point 14.2.41.5)
- Consideration of material constraints on authority and other constraints that can negatively impact execution of internal audit (Point 14.2.41.6)
- Approval of internal control and risk management policy (Point 14.2.41.7)
- Approval of Regulation on Internal Control and Risk Management System (Point 14.2.41.8)

Decisions on issues covered by points 14.2.1, 14.2.1.1 and 14.2.41.1 are made by a majority of three quarters of votes of members of the Board of Directors.

Division at the level of subordination in the Company's management structure was approved. Approval and introduction of changes in the Company's senior management is done with the preliminary approval of the Board of Directors (Point14.2.35).

The Board of Directors will make decisions on carrying out one or several interrelated transactions if the value of assets exceeds 500 000 000.00 (five hundred million) rubles (Point 14.2.39).

Article 15. Executive bodies

The following functions were designated as being under the authority of the Management Board:

- Approval of the Company's staff schedule, changes and additions to it
- Approval and amendment of the Company's organizational structure with the exception of restrictions covered by Point 14.2.35, as well as with the exception of issues related to changes in the subordination of senior executives (Point 15.3)

The following functions were designated as being under the authority of the CEO:

- Allocation of necessary funds within the context of the approved budget for conducting internal audits (Point15.7.1)
- Receiving reports on the activities of internal audit (Point15.7.2)
- Administration of internal audit policies and procedures (Point15.7.3)
- Provision of support in cooperation between internal audit division and divisions of the Company (Point 15.7.4)

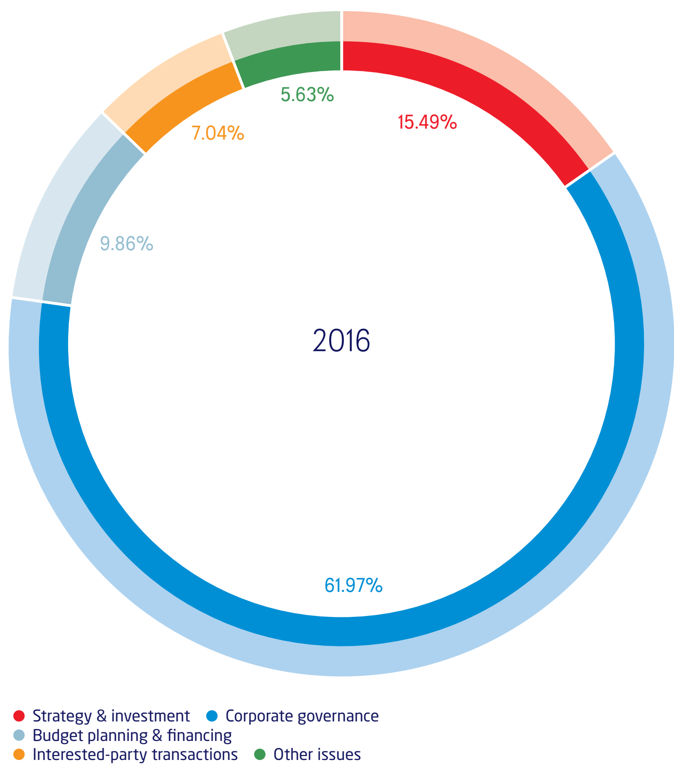
The Board heard information about the signing of the new Collective Agreement for 2016-2019 on September 1, 2016.

The Board also considered other issues within its mandate in the reporting year, including issues concerning the organization and holding of the annual and extraordinary General Meetings of PJSC NCSP shareholders.

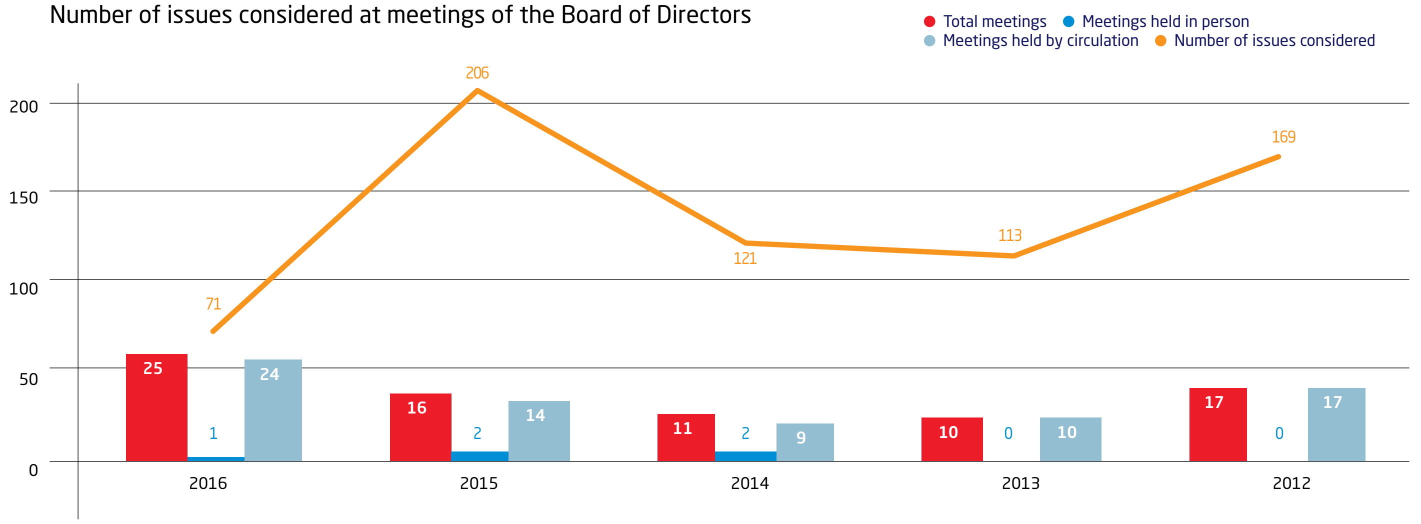
The Board has plans to prepare a new version of the Company's Corporate Governance Code that will include a provision on conducting a self-evaluation of the work of the Board of Directors. Such an evaluation was not done in the reporting year.

The Board of Directors considered a total of 71 issues in 2016 and held 25 meetings, including one physical meeting. The decisions of the Board of Directors can be reviewed on the Company's website at: http://www.nmtp.info/holding/investors/info_disclosure/basic_fact/

Breakdown of issues considered by the Board of Directors in 2016



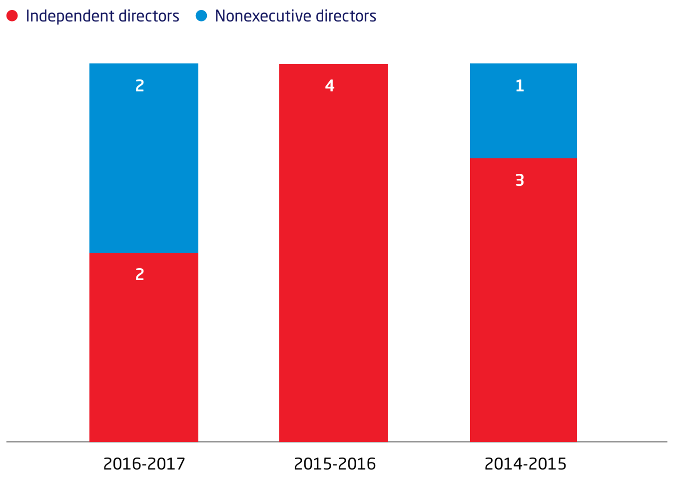
Number of issues considered at meetings of the Board of Directors



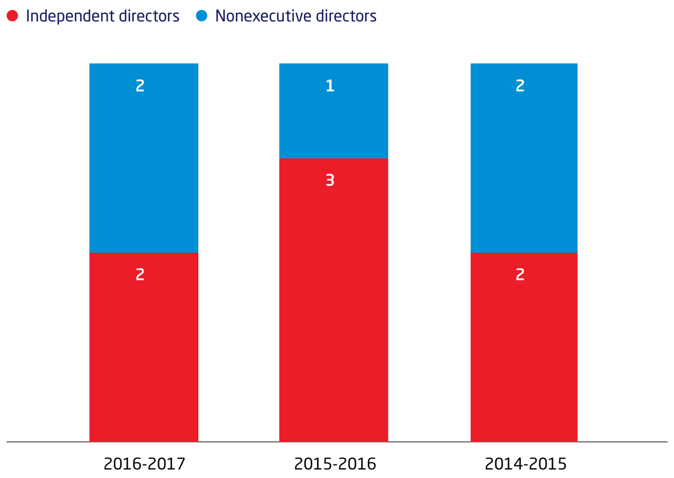
Participation of directors in meetings of the Board of Directors

Board directors	Year first elected	Number of meetings was supposed to attend	Number of meetings attended	Audit Committee	Nomination & Remuneration Committee
Sergey Andronov	2015	25	23		7/7
Mikhail Barkov	2012	4	3	/	
Maxim Grishanin	2012	25	23	4/4	
Vladimir Kayashev	2015	25	23	3/4	7/7
Sergey Kireev	2014	15	13	2/2	
Igor Levitin	2015	25	21		
Alexander Potapushin	2016	10	10	2/2	3/3
Vitaly Sergeichuk	2013	19	19		6/6
Evgeny Stolyarov	2016	6	6		1/1
Marat Shaydaev	2012	21	19	1/2	2/4
Rashid Sharipov	2016	6	6	2/2	

Structure of Audit Committee



Structure of Nomination and Remuneration Committee



Board committees

In order to assure the efficiency and quality of the Board's work when deciding issues that fall under the authority of the Board of Directors of PJSC NCSP, standing committees are formed for the term of the Board of Directors. The Board of Directors approves the regulations on committees and amends them as needed. The Board of Directors currently has two standing committees, the Audit Committee and the Nomination and Remuneration Committee. The committees are consultative and advisory bodies that act within their mandates and report to the Board of Directors. Committee meetings are convened as needed, but at least four times per year.

Audit Committee	Nomination and Remuneration Committee
• Analyzes financial statements and external and internal audits and submits recommendations to the Board of Directors • Monitors: — quality and completeness of financial statements — qualifications and independence of external auditor — activities of Internal Control and Risk Management Service — activities of Internal Audit Service • Works closely with external auditor, Audit Commission and Internal Control Service	• Considers, analyzes and works out recommendations on selection of candidates for the Board of Directors, Management Board, position of CEO and the management bodies of PJSC NCSP subsidiaries and affiliates • Preliminarily approves candidates nominated by the CEO to fill vacant key management positions, and works out recommendations on the financial terms of employment contracts with them • Prepares recommendations on the amount of remuneration and compensation paid to members of the Board of Directors and Audit Commission • Issues opinions on all matters related to policy for selecting candidates for the Company's management and control bodies • Issues opinions on approval for concurrently serving in the management bodies of other organizations • Participates in control and verification of compliance with decisions and instructions of the Board of Directors on issues within its mandate

Committee members in 2016

Jan 1, 2015 to June 28, 2016	June 28, 2016 to Oct 3, 2016	Oct 3, 2016 to Dec 31, 2016
Audit Committee		
Sergey Kireev (Chairman, Independent director)	Mikhail Barkov (Chairman)	Alexander Potapushin (Chairman, Independent director)
Maxim Grishanin (Independent director)	Maxim Grishanin (Independent director)	Maxim Grishanin
Vladimir Kayashev (Independent director)	Vladimir Kayashev (Independent director)	Vladimir Kayashev (Independent director)
Marat Shaydaev (Independent director)	Alexander Potapushin	Rashid Sharipov
Nomination and Remuneration Committee		
Vladimir Kayashev (Chairman, Independent director)	Vladimir Kayashev (Chairman, Independent director)	Sergey Andronov (Chairman)
Sergey Andronov (Independent director)	Sergey Andronov (Independent director)	Vladimir Kayashev (Independent director)
Vitaly Sergeichuk	Vitaly Sergeichuk	Alexander Potapushin (Independent director)
Marat Shaydaev (Independent director)	Alexander Potapushin	Evgeny Stolyarov

In 2016, there were four meetings of the Audit Committee and seven meetings of the Nomination and Remuneration Committee.

Report on the work of the Nomination and Remuneration Committee in 2016

The Committee recommended that the PJSC NCSP Board of Directors recommend that the General Shareholder Meeting approve the Regulation on Remuneration and Compensation paid to members of the Board of Directors of PJSC NCSP.

The Committee considered the new version of the Regulation on the Nomination and Remuneration Committee at two meetings and, after approval of all revisions, recommended that the Board of Directors approve it.

The Committee considered the Rules for Hiring and Dismissing Senior Managers and Rules for Hiring and Dismissing Employees of PJSC NCSP at two meetings and, after approval of all revisions, recommended that the CEO approve them.

The Committee issued separate instructions to the CEO regarding the search for and selection of senior personnel, considered candidates and recommended candidates for approval by the Board of Directors to fill a number of vacancies in PJSC NCSP senior management.

The Committee reviewed the KPI maps (target figures) of NCSP Group's Corporate Secretary for 2015 and 2016, and recommended that the Board of Directors approve these KPI maps.

Report on the work of the Audit Committee in 2016

The Audit Committee reviewed the audit report of the Company's auditor, ZAO Deloitte & Touche CIS, on the financial statements for 2015. The Committee recommended that the Board of Directors propose for the annual General Meeting to confirm ZAO Deloitte & Touche CIS as auditor for the audit of the Company's financial and business activities for 2016, and recommend ZAO Deloitte & Touche CIS as auditor for 2016 to the boards of directors of subsidiaries.

The Committee considered and took under review a report on the work of the PJSC NCSP Internal Control and Audit Service for the first half of 2015. The service was instructed to conduct a review of the execution of decisions made by the boards of directors of NCSP Group companies.

The Committee recommended that a map of significant risks be put before the PJSC NCSP Board of Directors for approval.

The Committee considered the Regulation on the Internal Control and Risk Management System and recommended it for approval by the Board.

The Committee considered NCSP Group's budget for 2017 and recommended it for approval by the Board. PJSC NCSP management was instructed to submit for review the new version of NCSP Group's budget to 2019 by June 30, 2017.

Corporate Secretary

The function of ensuring that the Company's bodies and officials comply with the rules and procedures of corporate governance that guarantee the rights and interests of shareholders, as well as organizing interaction between the Company and its shareholders is discharged by the Corporate Secretary.

The Board of Directors approved the Regulation on the Corporate Secretary of PJSC NCSP on November 24, 2016. The document defines the principles of organization and procedures of the Corporate Secretary's work.

PJSC NCSP's Corporate Secretary reports to the Chairman of the Board of Directors, which provides the necessary degree of independence within the context of organizing the work of management bodies. The Company has established an administrative office for the Corporate Secretary.

The position of Corporate Secretary at PJSC NCSP has been held since February 2009 by:

Vladimir Matveev

Mr. Matveev has been the Secretary to the Board of Directors of PJSC NCSP since 2009.

He has been working at PJSC NCSP since 1996, first as a supervisor in the property department until 2006 and then as head of this department from 2006 to 2009.

Mr. Matveev, born in Dagestan in 1948, graduated from the Krasnodar Polytechnic Institute in 1972 with a degree in mechanical engineering. He earned a second degree, in economic and social planning, from Kuban State University in 1993. He also attended the Advanced Management Institute of the National Economy Academy of the Russian government. In 2007-2009 he upgraded his qualifications at the Higher School of Economics with a course on Information Disclosure in the Corporate Governance System.

He does not own shares in PJSC NCSP or shares in its subsidiaries and affiliates, and he does not have family ties with other individuals who serve in the management bodies and/or financial and business control bodies of PJSC NCSP.

Since November 2016, the activities of the Corporate Secretary are conducted on the basis of a new version of the Regulation on the Corporate Secretary that was approved by the Board of Directors on November 24, 2016 (Minutes № 08-SD NCSP). The main duties of the Corporate Secretary include:

- Organizing preparations and support for holding General Shareholder Meetings in accordance with current legislation, and the Charter and other documents of the Company
- Supporting the work of the Board of Directors
- Organizing cooperation between the Company and its shareholders

Report on compliance with Corporate Governance Code

The Board of Directors operates according to the principles of corporate governance set out in the Corporate Governance Code that the Central Bank of Russia approved on March 21, 2014.

Shareholders are accorded the right to receive regular and timely information about the Company's business. In compliance with the Federal Law On Joint-Stock Companies, access is provided to shareholders and other interested parties to review documents upon request and copies of them are provided.

Shareholders have the right to participate in the management of the Company by taking part in deciding the most important issues concerning the Company's business at the General Shareholder Meeting. Announcements about General Shareholder Meetings being held and reports on voting results are sent out to every participant according to the list of persons who have the right to participate in the General Shareholder Meeting, and are published online on the Company's website.

In compliance with the Federal Law On the Securities Market and regulations of the Bank of Russia, the Company regularly discloses quarterly issuer reports, annual reports, lists of affiliated parties and financial statements, and issues announcements of material facts and press releases about important events in the life of PJSC NCSP and NCSP Group.

Key information about the Company is promptly posted:

- On the Company website at: http://nmtp.info/ncsp/
- On the website of the Interfax Corporate Information Disclosure Center at: http://www.e-disclosure.ru/portal/company.aspx?id=3900

The report on compliance with the principles and recommendations of the Corporate Governance Code by PJSC NCSP for 2015 was reviewed by the PJSC NCSP Board of Directors at meetings on May 4, 2016 (Minutes № 18 — SD NCSP) and August 3, 2016 (Minutes № 02 — SD NCSP).

The Board of Directors affirms that the information in the report provides complete and accurate information about the Company's compliance with the principles and recommendations of the Corporate Governance Code in 2015.

The Company received a letter from the Bank of Russia in April 2017 about the completion of the first round of monitoring of Russian public companies' implementation of the principles and recommendations set out in the Corporate Governance Code based on reports for 2015. The Bank of Russia said in the letter that it applauds PJSC NCSP's efforts to actively implement the Code's principles and recommendations and to create a positive example of high quality corporate governance at a Russian company in general. The Bank also provided additional clarifications on improving disclosure of information about compliance with the Code, which are reflected as far as possible in the current report.

The Company carried out a self-evaluation of compliance with the corporate governance principles set out in the Corporate Governance Code, according to a method approved by an order (No. 306) issued by the Federal Property Agency on August 22, 2014.

The self-evaluation conducted by the Company showed that the level of compliance at PJSC NCSP with the principles of corporate governance set out in the Corporate Governance Code increased considerably compared to 2015, to 62.96%.

Self-evaluation summary

	Components	Evaluation: Number of issues	Weight of component in overall evaluation	Actual points 2015	Actual points 2016	Max. points	Level of compliance 2015	Level of compliance 2016
I.	Shareholder rights	22	14%	48	68	79	60.75%	86.10%
II.	Board of Directors	56	37%	78.5	116	202	38.86%	57.42%
III.	Executive management	5	7%	12	22	38	31.60%	57.90%
IV.	Transparency and disclosure of information	15	25%	77	107	135	57.04%	79.26%
V.	Risk management, internal control and internal audit	16	11%	25	28	63	39.68%	44.40%
VI.	Corporate social responsibility, business ethics	6	6%	4	4	31	12.90%	12.90%
	Overall evaluation	**120**	**100%**	**244.5**	**345**	**548**	**44.62%**	**62.96%**

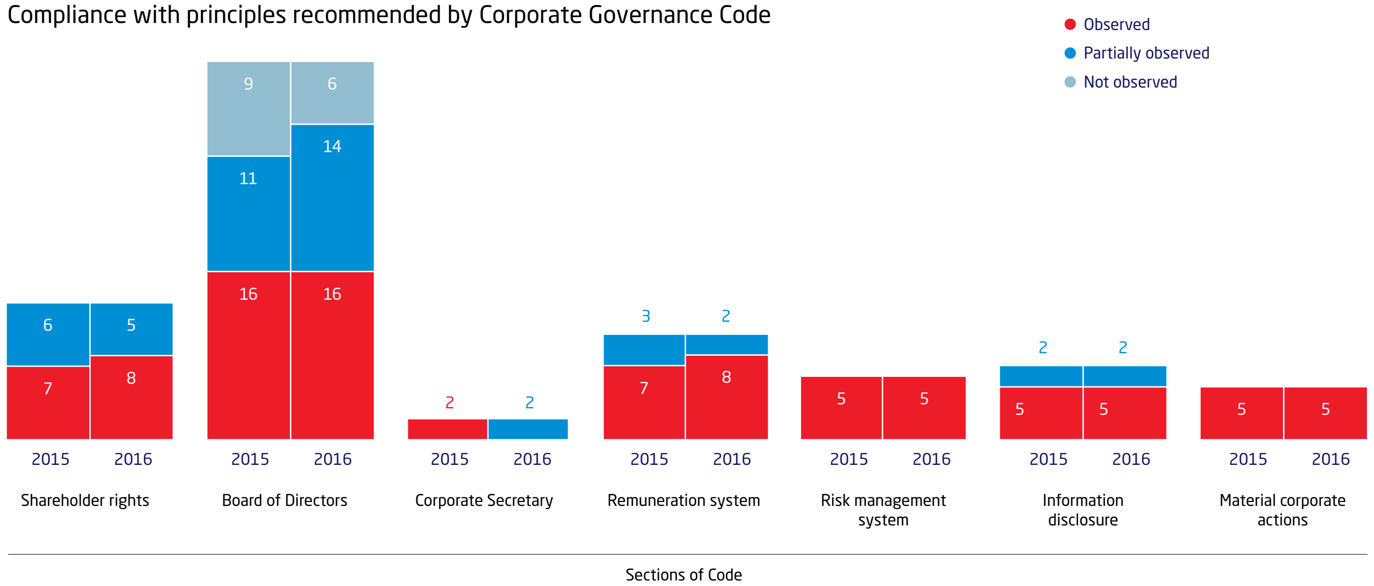
Data on compliance with the principles and recommendations of the Corporate Governance Code are prepared on the basis of Bank of Russia recommendations set out in a letter dated February 17, 2016 (No. IN-06-52/8) and are presented in Appendix of the report.

PJSC NCSP plans to continue efforts to improve corporate governance, including by increasing the role of independent directors and committees of the Board of Directors, and will strive for full compliance with the standards of the Corporate Governance Code.

Self-evaluation of corporate governance level (level of compliance with principles and recommendations of the Corporate Governance Code in % according to technique of the performed self-evaluation)

No.	Planned actions and steps in 2016	Execution
1.	Additionally post the following in the section on materials for General Shareholder Meetings on PJSC NCSP's website: Announcements of General Shareholder Meetings in English Minutes of General Shareholder Meeting Annual report, preliminarily approved by the Board of Directors Information about candidates for the Board of Directors, the position of CEO, the Audit Commission and candidates for auditor, with disclosure of who nominated them	 Not done Done partially (draft decisions posted) Done Done
2.	In announcements of General Shareholder Meetings, not only indicate the agenda for the meeting, but also who proposed each item	Not done
3.	Rework the Company's Corporate Governance Code taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	Not done Document in progress/approval stage
4.	Make changes and additions to the Charter taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	Done GM minutes № 47-OSA NCSP, June 29, 2016; GM minutes № 49-OSA NCSP, Sept. 7, 2016
5.	Have the Regulation on the Corporate Secretary approved by the Board of Directors	Done BoD meeting minutes № 08, Nov. 28, 2016
6.	Make changes and additions to the Regulation on the General Shareholder Meeting taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	Done GM minutes № 47-OSA NCSP, June 29, 2016
7.	Make changes and additions to the Regulation on the Chief Executive Officer taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	Done GM minutes № 47-OSA NCSP, June 29, 2016
8.	Make changes and additions to the Regulation on the Management Board taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	Done GM minutes № 47-OSA NCSP, June 29, 2016

Compliance with principles recommended by Corporate Governance Code



Planned actions and steps to improve corporate governance model and practices

No.	Planned actions and steps	Execution target date
1.	Additionally post the following in the section on materials for General Shareholder Meetings on PJSC NCSP's website: Announcements of General Shareholder Meetings in English Minutes of General Shareholder Meeting	2017
2.	In announcements of General Shareholder Meetings, not only indicate the agenda for the meeting, but also who proposed each item	2017
3.	Rework the Company's Corporate Governance Code taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	2017
4.	Rework the Regulation on the Dividend Policy of the Company	2017
5.	Rework the Regulation on the Information Policy of the Company	2017

CONTROL AND AUDIT

Internal control is an integral part of NCSP Group's corporate governance system. The Company's internal control system includes the Audit Commission, the Audit Committee of the Board of Directors, management bodies, as well as the Internal Audit Service and the Internal Control and Risk Management Service (ICRMS).

The efforts of all participants in the internal control system are aimed at ensuring economic efficiency and maximum transparency, and ensuring that all aspects of NCSP Group companies' activities comply with legal requirements.

Audit Commission

The Audit Commission is the Company body that exercises internal control over the financial and business activities of PJSC NCSP, its divisions, services, branches and representative offices. The members of the Audit Commission are elected by the General Meeting of PJSC NCSP shareholders for a term until the next annual general meeting. Under Article 17, Point 17.2 of the PJSC NCSP Charter, the Audit Commission consists of five members.

Audit Commission members as of December 31, 2016

Yekaterina Vlasova	Head of the representative office of Baronetta Investments Limited
Nadezhda Zhikhareva	Deputy Director of Marine and River Transport Policy, Transport Ministry of Russia
Tatyana Nesmeyanova	Head of Finance and Economics at Transneft Service
Margarita Russkikh	CEO of Transneft Finance LLC, Director of Festina Alliance Ltd. (B. V. I.)
Irina Timofeyeva	Deputy Head of the representative office of Baronetta Investments Limited

By decision of the General Shareholder Meeting, members of the Audit Commission are paid remuneration in the period that they carry out their duties and/or compensation for expenses related to carrying out their duties. Audit Commission members who are not government employees were paid total remuneration in the amount of $ 272.0 for 2016.

Participants in the internal control and audit system, and their roles

Internal Audit Service
- conducts independent internal assessment of the effectiveness of control procedures, measures to manage risks and the ICRMS in general

Board of Directors
- determines the Company's policy for identifying risks and eliminating/minimizing them

CEO
- establishes a 'healthy' business environment at the Company,
- facilitates the implementation of the latest standards of internal control and risk management

Directors of Company divisions and employees
- are responsible for identifying and reporting risks by including them in the risk map of the relevant division,
- carry out control procedures and measures to manage risks and monitor their effectiveness

ICRMS
- ensures the compilation, preparation, revision of risk maps, their timely submission to the CEO and subsequent approval by the Board of Directors,
- control of risk elimination or minimization, implementation of control procedures and continuous monitoring of ICRMS effectiveness, and participates in control procedures and measures to manage risks

Audit Commission member	Remuneration paid in 2016, USD
Yekaterina Vlasova	179.0
Nadezhda Zhikhareva	-
Tatyana Nesmeyanova	-
Margarita Russkikh	-
Irina Timofeyeva	93.0

Internal Audit Service

The Company created a separate structural division, the Internal Audit Service (IAS) of PJSC NCSP, in 2016 in order to further improve internal audit. Artyom Belskiy was appointed the head of the Service.

The main goal of the IAS is to assist the management bodies of the Company and Group businesses to increase management efficiency, and improve financial and business performance with a systematic and consistent approach to analysis and assessment of the system of risk management, internal control and corporate governance.

The activities of the service are governed by the Regulation on the Internal Audit Service of PJSC NCSP, approved by the Board of Directors on November 24, 2016 (Minutes № 08-SD NCSP).

The IAS is functionally accountable in its activities to the Board of Directors of PJSC NCSP and the Audit Committee. Administratively, the service is subordinate to the CEO of PJSC NCSP.

The IAS works with all divisions of the Company and Group companies to accomplish its objectives. The IAS holds consultations and works closely with the Internal Control and Risk Management Service to obtain the latest information about the risks of audited items, both at the stage of planning for the upcoming period and in the process of conducting audits.

IAS planned and actual indicators for execution of its main duties

IAS duties	2016 plan	2016 actual
Approval of draft contracts and additional agreements	2280	2783
Approval of tender documentation packages	1920	2276
Participation in meetings of tender commissions of NCSP Group companies	960	1153
Participation in work of commissions, approval of internal investigation cases	180	258
Approval of certificates of capital asset retirement	300	347
Audits of financial and business activities of NCSP Group companies	360	417

The planned monthly, semiannual and annual indicators of IAS activities in 2016 increased from 10% to 60% compared to 2015.

As part of an assessment of the effectiveness of risk management, in the second half of 2016 the IAS worked out a corporate risk map for 2017 that was approved by the Management Board of PJSC NCSP. The activities of the IAS resulted in savings of about $ 2.5 million* across the Group in 2016, which was $ 0.9 million* more than in the previous year.

External Audit

PJSC NCSP annually engages an external auditor in order to provide an independent assessment of the accuracy of annual accounts and financial statements. The candidate for auditor is recommended by the Board of Directors to the General Shareholder Meeting for approval in accordance with established legal procedures.

The Company's auditor, ZAO Deloitte & Touche CIS, under a contract for a review engagement dated July 4, 2016, conducted a review engagement of the interim statement of financial position as of June 30, 2016 and corresponding interim statements of comprehensive income, changes in capital and cash flow, as well as disclosures of the of the main principles of accounting policies and other clarifications for the six months ended on this date, prepared in accordance with IFRS 34.

Under a contract dated October 13, 2016 for provision of audit services, ZAO Deloitte & Touche CIS conducted an audit of:

- The consolidated statement of financial position as of December 31, 2016 and the corresponding consolidated statements of comprehensive income, cash flow and changes in capital, as well as a summary of the main principles of accounting policies and other clarifications for the year ended on December 31, 2016, prepared in accordance with IFRS
- The consolidated statement of financial position as of December 31, 2016 and the corresponding consolidated statements of comprehensive income, cash flow and changes in capital, as well as a summary of the main principles of accounting policies and other clarifications for the year ended on December 31, 2016, prepared taking into account the requirements of Federal Law No. 208-FZ, dated July 27, 2010
- The balance sheet as of December 31, 2016, statement of financial results for the year ended December 31, 2016, and appendixes to the balance sheet and statement of financial results, prepared according to the requirements of Russian accounting legislation

* According to management accounting data

RISK MANAGEMENT

The management of NCSP Group pursues a focused policy to minimize the influence of external factors that could have a negative impact on the business of Group companies.

The principles and approaches on which NCSP Group's risk management system is built and operates make it possible to identify risks, assess their significance, respond to them and try to reduce the likelihood of them being realized. The scope of steps taken depends on the particulars of the situation in each specific case.

Internal control and risk management in the Group are integrated into the multilevel system of management and are an essential part of it, so their development and improvement are one of the key objectives of corporate governance.

Objectives of participants in risk management and internal control (RM&IC) system

System participants	Objectives
Board of Directors	Approve changes in development and improvement of RM&IC system Ensure external support for RM&IC system (set tone from above)
CEO	Establish a flexible system for sharing information between key RM&IC system participants Create conditions for motivating employees who propose effective measures to improve RM&IC
Internal Control and Risk Management Service	Follow the latest RM&IC practices Develop roadmaps for implementing new and effective RM&IC methods Analyze existing local regulations in the area of RM&IC, submit proposals to improve them Consult with other RM&IC system participants on effectiveness and adequacy of control procedures and risk assessment methods
Directors of divisions and employees	Inform subordinate staff about the current RM&IC system Analyze control procedures and business processes for possible improvements in their area of responsibility
Internal Audit Service	Analyze the goals of the RM&IC system for consistency with the goals of the Company Submit recommendations for improving RM&IC

The Company has created a specialized body for the risk management and internal control system, the Internal Control and Risk Management Service (ICRMS, or the Service).

The main functions of the ICRMS are to:

- implement the latest risk management and internal control practices
- develop and/or update the design of control procedures

develop procedural guidelines for internal control and risk management

The ICRMS also:

- evaluates tender documentation for compliance with legislation and corporate standards, participates in the tender procedures of PJSC NCSP and NCSP Group companies, and monitors execution of their results
- approves draft contracts of PJSC NCSP and NCSP Group companies concerning core operational, business, financial, investment and other activities worth more than 100,000 (one hundred thousand) rubles (including VAT), as well as draft contracts evaluated by the Service as part of tender documentation
- monitors the process of risk management at PJSC NCSP and NCSP Group companies, analyzes the objectivity of information provided by structural divisions about risks and their activities
- assesses the appropriateness of PJSC NCSP's risk appetite
- establishes the reasons and responsible individuals for realized risks
- prepares reports on internal control and risk management

Measures aimed at improving risk management and internal control system
• timely updating of Regulation on Internal Control and Risk Management System, and other local regulations concerning this system • continuous monitoring of the effectiveness of the RM&IC system and assessment of its consistency with the expectations of management and the goals of the Company • ensuring effective feedback • flexible information sharing among all participants of the RM&IC system • prompt response to changes in the business environment • implementation of a zero tolerance policy for corruption risks • improvement of control procedures and methods of risk management based on the goals set for the RM&IC system

Realized and most significant risks in 2016

In the reporting year, NCSP Group's realized risks included the risk of losing money due to the bankruptcy of banks, as Vneshprombank lost its license on January 21, 2016. Most of the Company's deposits were held in this bank. Possible damages from the realization of this risk total $ 0.3 billion.

Risk description	Risk management measures
Risk of increase in interest rate on credit agreement (growth of LIBOR)	Control cash flow to ensure sufficient liquidity reserve Centralized placement of NCSP Group deposits to achieve best interest rate performance Continuous monitoring of LIBOR
Risks related to a negative court decision in a lawsuit to increase the price of property use rights (hydraulic structures)	Defend the Company's interests in courts at various levels
Federal Antimonopoly Service (FAS) of Russia claims of violations of antimonopoly legislation — charging monopolistically high prices (tariffs)	Interaction with FAS to settle claims. Appeal to the courts to challenge the actions of FAS against the Company. Involvement of public organizations to form a position in support of the Company.
Risk of decrease in cargo traffic or complete departure of cargos from NCSP Group as a result of construction of new port facilities in the Azov-Black Sea basin	Work with customers: offer advantageous terms for cooperation, flexible pricing, provide best service Timely implementation of investment projects
Decrease in oil transshipment volumes; Glut on European oil markets due to oversupply, redirection of substantial Russian oil traffic from western and southern routes to the eastern (premium) route	Timely modernization of facilities Expansion of cargo mix
Risks related to implementation of investment projects	Control execution of business plans
Risk of negative public reaction related to the activities of PJSC NCSP or its subsidiaries and negative environmental impact (protests, negative publications, public appeals to the authorities)	Regular work with the media, public organizations and the administrations of regions of operation Concerted efforts by Group companies to provide information about their activities through the corporate newspaper and NCSP Group's social media pages
Risk of changes in legislation and regulations	Monitor changes in legislation and promptly respond to anticipated changes

The Group uses the following methods for managing risks:

Method	Description
Mitigate risk	The main and priority method of risk management. It includes a set of preventive measures aimed at keeping the risk at the existing level while actively mitigating it on the part of the Company to reduce the chances of a risk event occurring and/or reducing potential losses to the level of the risk appetite.
Eliminate source of risk	Method of risk management that implies partially refraining from a business process or modifying a decision in a given area that holds the greatest risk. However, such modification must be economically sound.
Share risk	Whole or partial transfer of the risk to other parties through the instruments of insurance, hedging, financial guarantees and so on. This option is used when, among other things, it is economically ineffective to mitigate the risk and accepting it is not possible due to the intolerably high level of risk.
Change the consequences	Set of measures aimed at offsetting the negative consequences arising from a risk event. The costs of changing the consequences should be reasonable and commensurate to the benefits of using this option.
Accept risk	Refraining from any mitigation of the risk because it is negligible, in other words within the bounds of the risk appetite, or when the expense of managing the risk is economically unjustified. Acceptance of risk can only occur when other methods of management, other than risk avoidance, are ineffective. As a result of accepting a risk, the Company might make various financial provisions. Acceptance of risk simultaneously means applying a management option such as changing the consequences to the modified part of the risk.
Avoid risk	Implies refraining from carrying out certain actions (not beginning, not continuing or not resuming activities) that carry a high risk. The use of this method should be of an exclusive nature and it should be applied only when the overall cost of mitigating the risk is economically unviable or such mitigation and sharing the risk are not possible.

Risk management process

Risk identification	Risk assessment	Development, implementation, control of risk management measures	Monitoring
Identification and description of risk elements (sources, events, reasons, consequences)	Analysis of risk, its consequences and implications in terms of influence on achieving NCSP Group goals	Development, implementation and control of measures to manage risks in order to ensure achievement of NCSP Group goals	Monitoring of identification, assessment, implementation and control of measures to manage risks

Key risk management measures in 2016

- inclusion in the Company's Charter of the Board of Directors mandate in the area of internal control and risk management
- approval of the Regulation on Internal Control and Risk Management System, as well as the Regulation on Internal Control and Risk Management Service
- preparation of corporate risk maps for the Company
- defense of the Company's position in courts at various levels
- dispute of unjustified decisions of oversight bodies and officials
- insurance of the Company's property and third party liability
- development of rules for centralized management of NCSP Group funds
- analysis of existing local regulations for effectiveness and consistency with the Company's goals and business environment

KEY RISKS

If any one or several of the risks listed below should be incurred, the Company will take all possible steps to minimize the negative consequences. NCSP Group cannot guarantee that actions taken to mitigate negative changes that arise will be able to remedy the situation, since the described factors are beyond the control of Group companies. The most significant risks are listed below.

Industry risks

On domestic market:

- Rapid development of competing port facilities in the Azov-Black Sea and Baltic basins:
  - Construction of specialized terminals at the Port of Taman:
    - OTEKO — terminal to handle bulk cargo with estimated capacity of 49.5 million tonnes per year; approximate period of completion is 2018
    - ToAz — terminal to handle mineral fertilizer with annual capacity of up to 3 million tonnes; approximate period of completion is 2020
    - GMP — dry cargo area at State Seaport Taman with initial capacity of up to 46 million tonnes (first phase) and a possible second phase to increase capacity to 67 million tonnes; approximate period of completion of first phase is 2020-2021
  - Development of handling capacity by 2018 at Delo Group terminals at the Port of Novorossiysk:
    - KSK grain terminal — modernization of handling facilities with expansion to 5 million tonnes per year
    - NUTEP container terminal — modernization of terminal facilities to increase container cargo turnover to 700,000 TEU per year
  - Expansion of grain handling capacity at Port of Tuapse by 1 million tonnes to 3 million tonnes per year by 2020, with possible future increase to 4 million tonnes per year
  - Increase in utilization of the latest transshipment facilities at the Port of Ust-Luga (up 5.5 million tonnes to 93.4 million tonnes in 2016), including crude oil (up 3.3 million tonnes), chemicals (up 1.2 million tonnes), coal (up 0.8 million tonnes) and other cargo
- Attractiveness of railway tariffs to ports on the Sea of Azov for most Russian exporters compared to ports on the Black Sea
- Growth of logistics costs of shipping cargo to seaports:
  - Annual indexation of rates charged by natural monopolies such as Russian Railways (RZD) and Transneft
  - Growth of prices for trucking services (growth of fuel costs, introduction of seasonal restrictions on truck tonnage, Platon fee system for heavy trucks)
- Heavy congestion of transport infrastructure (railways and roads) at approaches to the Port of Novorossiysk, convention restrictions, prohibitions
- High capacity utilization rate at Port of Novorossiysk — lack of reserves of available capacity for main types of cargo
- Administrative barriers/restrictions/duties imposed by the government of Russia (or government bodies) on exports/imports of various cargos
- Stricter legal requirements for stevedoring operations in the area of environmental protection

On foreign market:

- Expansion of sanctions and continuation of existing sanctions against Russia
- Decrease in export cargo traffic as a result of the rapid appreciation of the Russian ruble against other major world currencies
- Decrease in import cargo traffic as a result of the depreciation of the Russian ruble against other currencies
- Shipments of cargo to traditional markets of southern routes via alternative routes through the Northwest as a result of fluctuations in charter costs on the world market and possibilities for shipping by large-capacity vessels with more favorable charter terms

Country and regional risks

- Oversupply of crude oil on European markets (primarily oil from Arab countries) and redirection of substantial amounts of Russian oil from western and southern routes to eastern destinations
- Growing competition at GASC tenders to supply grain to Egypt with offers of cheaper grain from Ukraine and Romania, higher quality grain from France and bids from new players such as Argentina and Poland
- Decrease in demand for certain traditional export cargo traffic due to overproduction and surplus supply of certain goods/cargo (oil, iron ore, coal) on world markets with the discovery of new deposits and reduction of production costs with the application of new technologies

Political risks

- Escalation of tensions in the Bab-el-Mandeb and Aden straits due to fighting in Yemen
- Deterioration of political and economic relations with countries in the Middle East (Turkey, Israel, Iran, Iraq and others) due to the Russian Armed Forces' counterterrorism operations in Syria
- Erosion of solvency of countries involved in local conflicts (Middle East)
- Imposition and/or expansion of sectoral and economic sanctions against Russia by the United States, European Union and a number of other countries
- Unstable military and political situation in countries of the former Soviet Union and the Balkan Peninsula, resumption of active operations in frozen conflicts in Russia's sphere of interest (Ukraine, Armenia, Azerbaijan, Georgia, Serbia, Moldova)

Economic risks

Russia produces and exports a large amount of oil and gas, so the country's economy is particularly vulnerable to changes in world prices for these commodities.

Prices for energy resources remained low in 2016. Management cannot reliably assess future changes in prices and the impact that they might have on the Company's financial position.

Sanctions that the United States and European Union imposed starting in March 2014 against a number of Russian officials, business people and organizations remained in place in 2016. In addition, international rating agencies downgraded Russia's long-term foreign currency debt rating. These and other developments made it difficult for Russian businesses to access international capital markets and export markets, and led to higher inflation, capital outflows, the slowdown of economic growth and other negative economic consequences.

It is difficult to determine at the moment what impact these developments will have on the Company's future performance and financial position.

Financial risks

NCSP Group manages its capital in order to ensure the ongoing operation of all Group businesses in the foreseeable future, while simultaneously maximizing returns for shareholders by optimizing the ration of borrowed and own funds and the debt to equity ratio within the limits of the covenants of a loan agreement with VTB Bank (IFRS Note 23, Debt). Group management regularly analyzes the capital structure. Based on the results of this analysis the Group takes steps to balance the structure of capital by paying dividends, along with the issue of new or repayment of existing debt.

Currency risk

Currency risk is the risk of negative changes in the Group's financial results due to changes in the exchange rate. The Group conducts transactions denominated in foreign currency.

The balance sheet value of the Group's monetary assets and liabilities expressed in U. S. dollars as of the reporting date is presented in NCSP Group's consolidated financial statement (IFRS Note 35, Risk Management).

The Group uses financial derivatives, including cross currency interest rates swaps, to manage currency risk.

Details about the vulnerability of Group financial instruments to the Russian rouble depreciating by 20% against the U. S. dollar are provided in IFRS Note 35 Risk Management.

Inflation risks

Inflation processes that result in higher prices for supplies and raw materials used in the Company's business could have an impact on PJSC NCSP's margin.

Interest rate risk

The Group is exposed to the risk of changes in interest rates, since Group companies raise funds both at fixed and floating interest rates. The Group manages this risk by maintaining the necessary ratio between fixed and floating interest rates on borrowing.

The Group has one loan with a floating interest rate. On June 20, 2011, PJSC NCSP received a loan from VTB Bank to in the amount of $1.5 billion under an agreement on the opening of a new credit line for long-term repayment of debt to Sberbank. A floating interest rate in the amount of the three-month LIBOR plus 4.99% annually is applied. A 1% change in the LIBOR would lead to an increase in interest expenses and a decrease of net profit by $13,892 thousand and $11,114 thousand, respectively.

Credit risk

Credit risk lies in the possibility that a buyer might not meet obligations to the Group on time, which would result in financial losses. The balance sheet value of financial assets reflected in the financial statement, less impairment charges, represents the maximum possible negative consequence for the Group, taking into account the absence of any security.

Liquidity risk

In order to manage and control liquidity, the Group's management budgets and forecasts cash flow to ensure the availability of the necessary funds to meet payment obligations. As a rule, the balance of cash flow from operations provides sufficient working capital to conduct the Group's business. A maturity analysis of financial liabilities is provided in IFRS Notes 23 Debt and 28 Trade and other Payables.

In order to manage and control liquidity, the Group's management budgets and forecasts cash flow to ensure the availability of the necessary funds to meet payment obligations. The balance of cash flow from operations provides sufficient working capital to conduct the Group's business. Liquidity risk lies in the possibility of a cash deficiency when the Company is due to fulfill obligations.

Despite the negative working capital on the reporting date, the Company plans to pay off liabilities on time with revenue from operations and borrowed funds from subsidiaries.

Tax risks

Russian tax, currency and customs legislation allows room for various interpretations and is subject to frequent changes. The management's interpretation of such legislation as it applies to the activities of the Group could be disputed by the relevant regional or federal authorities. Recently, the tax authorities have often taken a stricter position in interpretation of legislation. As a result, previously unchallenged approaches to calculating taxes could be disputed in the course of future tax audits. As a rule, three years preceding the reporting year are open for audit by the tax authorities, but under certain circumstances audits can cover longer periods. Company management, based on its interpretation of tax legislation, believes that the enclosed financial statements accurately reflect the Company's tax liabilities, but there is a risk that the tax and customs authorities' interpretation of provisions of this legislation applicable to the operations and business of the Company could differ from the interpretation of Company management.

Transfer pricing risk

The Company conducted transactions in 2016 with affiliated parties, as well as with parties registered in jurisdictions included in the list of nations and territories that offer preferential tax treatment and/or do not require disclosure and provision of information when conducting financial transactions (offshore zones). In 2016, in according with the law, some of the transactions conducted with these parties were deemed controlled transactions. Under tax legislation, the tax authorities can present additional tax claims in regard to transactions between affiliated parties and controlled transactions if they believe that the price of the transaction differs from the market price.

As of the date of approval of this report, the Company is in the process of preparing notifications and paperwork for the purposes of tax control on controlled transactions that occurred in 2016. In light of the absence of experience at the Company of audits by the tax authorities in regard to the application of prices in transactions and the unclear wording of a number of provisions and rules, the likelihood of the tax authorities disputing the Company's position in regard to their application cannot be reliably estimated.

Environmental risks

The Group's business is to a significant extent regulated by federal, regional and local environmental authorities of the Russian Federation. Management believes that the Group's process technologies comply with all current requirements of Russian legislation concerning protection of the environment. However, laws and regulations in the area of environmental protection continue to change. The Group cannot foresee the timing or scale of such changes, nor the expenses that might be related to them.

Legal risks

Legal risks include risks of losses as a result of various applications of legal statutes by judicial authorities or as a result of the impossibility of fulfilling contracts due to violations of legislation or regulations, as well as the risk of oversight bodies imposing fines or other penalties, which could later lead to expenses being incurred as a result of lawsuits by third parties.

Legal risks also include risks of the Company incurring losses as a result of:

- Legal mistakes made in conducting business activities (incorrect legal advice or incorrect preparation of documents, including in consideration of disputes by the judicial authorities, omission of the claim limitation period)
- Shortcomings of the legal system (contradictory legislation, lack of legal statutes regulating certain issues that arise in the course of doing business)
- Violation of regulations or contract conditions by counterparties

The legal risks of NCSP Group's business activities are also related to possible changes in tax, currency, environmental and customs legislation resulting in new requirements or principles of regulation.

The Company does not expect any changes in requirements for licensing of its core activities.

There are currently no specific legal risks that are material for the Company.

The legal positions of higher courts, which could have an impact on the conditions of doing business for the Company, are important in the current system of administration of the law in Russia.

NCSP Group regularly monitors rulings made by higher courts and assesses trends in judicial practice set at the level of district arbitration courts, actively applying and using it to protect its rights and legal interests in court, and to resolve legal issues that arise in the course of doing business. Changes in judicial practice on issues relating to NCSP Group's business activities that could have a negative impact on the results of such activities or the results of current court cases involving the Group are not expected. In light of this, risks related to changes in judicial practice are deemed to be negligible.

NCSP Group conducts its business in strict compliance with current Russian legislation. Local regulations and contracts of the Company undergo mandatory internal approval, including in the division responsible for legal support for the Company's activities. The Company monitors changes in Russian legislation and regulations, and ensures that these changes are taken into account and reflected in the Company's internal documents in a timely fashion and enforced.

Insurance of risks and liability

NCSP Group regularly insures a broad range of risks and liabilities, including property, losses from disruptions in operations, civil liability of organizations that operate hazardous facilities, as well as voluntary health insurance for employees and group accident insurance.

However, the Group does not have full insurance coverage in the event of damages to plant and equipment, suspension of its activities and incurrence of liabilities to third parties. Until the Group acquires the necessary insurance coverage exceeding the balance sheet value of plant and equipment, there is a risk of potential losses and impairment of some assets that could have a negative impact on the Group's operations and its financial results.

A Commission on debts receivable was created and it includes representatives from law, commercial, accounting divisions, security service, Internal Control Service and Risk Management Service. The Commission provides monthly monitoring of the PJSC NCSP's debts receivable, complaint management and claim settlement, as well as of enforcement proceedings.

Information about litigation

In 2015, state company Rosmorport filed a lawsuit against PJSC NCSP in the Arbitration Court of Krasnodar Territory seeking to increase the lease payment on the lease of federally-owned real estate located at the seaports of Novorossiysk and Anapa (contract № 01-10/663, dated August 2, 2002). This case has now been closed because Rosmorport withdrew the lawsuit. PJSC NCSP and Rosmorport have signed an addendum to the contract on November 25, 2016, to change the amount of the annual lease payment to $ 7.7 million (521 million rubles), excluding VAT.

As at 21 November 2016 FAS issued prescriptive order concerning PTP breach of Federal Law №135 FZ «On Protection of Competition». Committee of FAS ordered PTP to:

- annul stipulated monopolistically high price for oil transshipment of USD 2.25;
- set an economically sound price for oil transshipment being not higher than the factual price set out by PTP in the year preceding the breach of the antimonopoly law, adjusted for the inflation;
- issue an internal order which shall state that tariffs for oil transshipment are nominated only in RUR.

PTP could face a fine in the amount of 1% to 15% of revenue from the sale of the good (service) on the market on which the violation was committed.

In December 2016, PTP filed a lawsuit against FAS in the Moscow Arbitration Court to overturn the regulator's ruling and order. The validity of the FAS order was suspended for the duration of the court proceedings. As of the date of publication of this report, the court proceedings had not concluded.

FAS opened an antitrust case (№ 1-10-86/00-03-16) against the Company in 2016.

On March 30, 2017, FAS ruled PJSC NCSP guilty of violating Subpoint 1 of Point 1, Article 10 of the Federal Law On Protection of Competition (№ 135-FZ, dated July 26, 2006) by setting and maintaining monopolistically high prices for loading and unloading grain, coal, oil and oil products, ferrous and nonferrous metals, ore, fertilizer and containers. FAS issued an order to: 1. set rates for handling services for ore, fertilizer, containers, ferrous and nonferrous metals, oil an oil products not higher than the actual prices expressed in the ruble equivalent that were approved earlier as of June 30, 2014 (taking into account possible indexation); 2. transfer to the budget revenue in the amount of $ 170.236 million (9,743,013,145 rubles) earned as a result of violations of antimonopoly legislation. PJSC NCSP will challenge the FAS ruling in court.

PJSC NCSP does not agree with the ruling and order, so it intends to challenge them according to the procedure established by law, by the deadline set for compliance with the order. The validity of the FAS order will be suspended for the duration of the court proceedings. Group management believes that there are no violations of antimonopoly legislation in NCSP's actions, and assessed the risk related to the transfer of revenue to the federal budget and other negative consequences arising as possible, therefore no IFRS provisions were made in this regard as of December 31, 2016.

ANTI-CORRUPTION POLICY

PJSC NCSP's efforts to combat corruption comply fully with current Russian legislation. The Company's employees conform to Federal Law No. 273-FZ, dated December 25, 2008, On Combating Corruption; Russian presidential Order No. 309, dated April 2, 2013, On Measures to Implement Certain Provisions of the Federal Law On Combating Corruption; and the Methodological Recommendations for Development and Adoption of Organizational Measures to Prevent and Combat Corruption approved by the Labor and Social Security Ministry of Russia on November 9, 2013.

PJSC NCSP approved an Anti-corruption Policy to Counter Involvement in Corrupt Practices in January 2015.

The main goals of this policy are to:

- Minimize the risk of the Company, its management and employees becoming involved in corrupt practices
- Instill a common understanding of the policy of zero tolerance for corruption in all forms and manifestations in Company employees, regardless of their position, as well as business partners and other parties
- Summarize and clarify the main requirements of Russian legislation against corruption applied at the Company

PJSC NCSP is implementing a plan of action aimed at preventing corrupt practices that includes procedures for reporting signs of corruption, responding to red flags and making the Company's counterparties aware of the requirements of the anti-corruption policy.

In 2015, PJSC NCSP approved a Code of Ethics and Conduct for employees, and drafted and approved a Regulation governing the procedure for employees to report situations in which they are induced to commit corruption violations, cases of other company employees committing corruption violations and cases of conflicts of interest. These documents apply to all PJSC NCSP employees, regardless of their position, the duration of their employment and the nature of their work.

Relations with contractors and suppliers

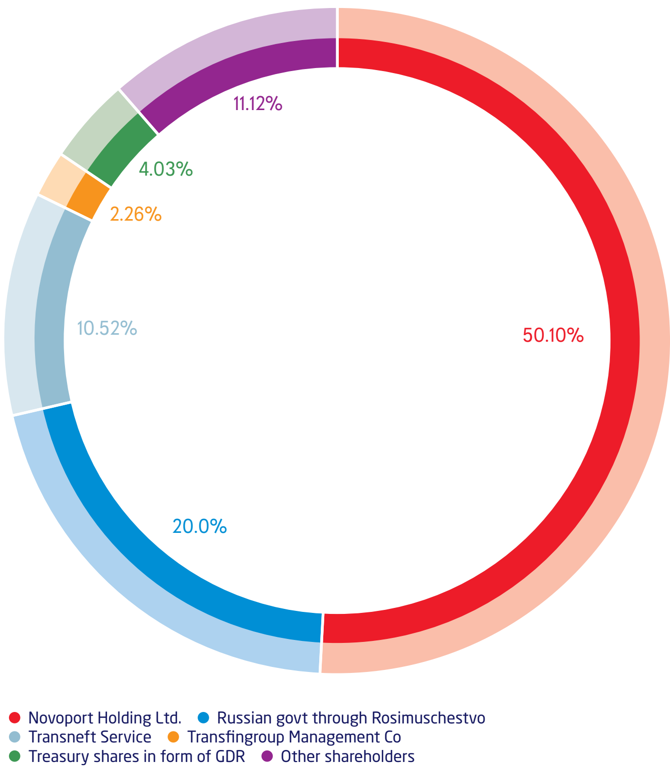
PJSC NCSP purchasing activities comply with the Russian Constitution, Civil Code and Federal Law No. 223-FZ, dated July 18, 2011, On Purchases of Goods, Work and Services by Selected Types of Legal Entities, as well as other regulations of the Russian Federation, and best international practices in the area of procurements.

PJSC NCSP purchasing activities are governed by the Regulation on Procurement of Goods and Services approved by PJSC NCSP's Board of Directors on June 17, 2015 (Minutes № 14-SD NCSP).

In order to ensure openness of information in the organization of procurements, information about purchases is posted in the Unified Information System for Procurements (www.zakupki.gov.ru) and on NCSP Group's official website (www.nmtp.info.ru).

In addition to the Regulation on Procurement, a Unified Standard for Purchases of PJSC NCSP, Subsidiaries and Affiliates of PJSC NCSP was developed in 2016 and approved by the Board of Directors on February 28, 2017 (Minutes № 13-SD NCSP, dated March 3, 2017).

PJSC NCSP shareholder structure as of December 31, 2016



This Standard sets unified rules for purchasing at NCSP Group companies, including the procedure for subsidiaries and affiliates joining the Standard. The document includes requirements for purchases, including the procedure for preparing and conducting purchasing procedures (including means of purchasing), conditions for their application, and the procedure for entering into and fulfilling contracts.

In compliance with Russian government Order № 925, dated September 16, 2016, the document gives goods of Russian origin and work (services) carried out (provided) by Russian persons priority over goods from foreign nations and work (services) carried out (provided) by foreign persons when considering bids.

Relations with all suppliers, regardless of their share in procurements, are built on the principles of responsible partnership. NCSP Group strives to maintain long-term, stable, mutually beneficial relations with suppliers.

The plan for purchasing goods and services is formulated by the Company and posted on the website in accordance with the Rules for Formation of the Plan for Purchases of Goods (Work, Services) that were approved by Russian government order № 932 On the Approval of the Plan for Purchases of Goods (Work, Services) and Requirements for the Formation of Such Plan, dated September 17, 2012.

SHAREHOLDER EQUITY AND SECURITIES

Shares and GDR

PJSC NCSP's charter capital is 192,598,154 rubles, divided into 19,259,815,400 shares with par value of 0.01 rubles. PJSC NCSP carried out an IPO on the London Stock Exchange and Russia's RTS (Moscow Exchange as of December 2011) in November 2007, placing 19.38% of its equity in the form of common shares and Global Depositary Receipts (GDR).

The Company's General Shareholder Meeting in June 2016 approved a major transaction to enter into a contract with VTB Bank for a syndicated loan in the amount of $ 1.50 billion in order to refinance credit liabilities.

Under the Federal Law On Joint-Stock Companies, shareholders who did not participate in the vote or voted against the transaction received the right to tender their shares for buyback. PJSC NCSP bought back 262,912,311 of its own shares at a price of $ 0.1 per share or a total of $ 32,241,400 under the mandatory buyback offer in September 2016.

In February 2016, PJSC NCSP sold 36,233 GDR on PJSC NCSP shares for a total of $ 0.1 thousand to JSC NGT.

PJSC NCSP's largest shareholders as of December 31, 2016 were Novoport Holding Ltd. with 50.1%, the Federal Property Management Agency (Rosimuschestvo) with 20.0%, and Transneft Service with 10.5%. PJSC NCSP has treasury shares equivalent to 4.03% of equity, among them 1.37% in form of ordinary shares and 2.66% in form of GDR.

The other shares are held by minority shareholders and the free float, which includes shares traded in the form of GDR.

As of December 31, 2016, 1,366,822,425 PJSC NCSP shares, amounting to 7.09% of outstanding shares, were traded in the form of GDR, including treasury shares in form of GDR equivalent to 2.66% of equity.

PJSC NCSP common shares

Type	Common registered shares
State registration number	1-01-30251-E
ISIN code	RU0009084446
Exchange/Listing	Moscow Exchange/B
Ticker	NMTP

Global Depositary Receipts (GDR) on PJSC NCSP shares

Issue limit	25% of share capital	
Share to GDR ratio	75	
Type	Regulation S	Rule 144 A
Exchange	London Stock Exchange	OTC Board
Ticker	NCSP	NVSKL
CUSIP	67011U208	67011U109
ISIN	US67011U2087	US67011U1097
SEDOL	B283BT30	B284CR8
Common code	32 417 710	32 418 384

In 2016, the price of GDR on PJSC NCSP shares on the London Stock Exchange doubled from $3.85 per GDR to $7.97 per GDR, while the price of PJSC NCSP shares on the Moscow Exchange rose 1.7 times, from 3.71 rubles to 6.53 rubles per share, far outstripping the growth of exchange indexes. Analysts at leading investment banks believe that the main factors that contributed to the strong growth of PJSC NCSP's shares were the positive free cash flow, the growth of NCSP Group's cargo traffic and operating results; profitability growth, dividend payment for 1Q and 1H, as well as the news about privatization of the government's stake with possible arrival of a major sector-oriented investor.

Type of rating	Value	Status/outlook	Date of change/confirmation
Long-term, international scale			
New value	Ba3	On watch	March 9, 2016
Previous value	Ba3	Negative	July 9, 2015
Long-term, national scale			
New value	Aa3.ru	On watch	March 10, 2016
Previous value	Aa3.ru	Negative	July, 9, 2015

Credit ratings

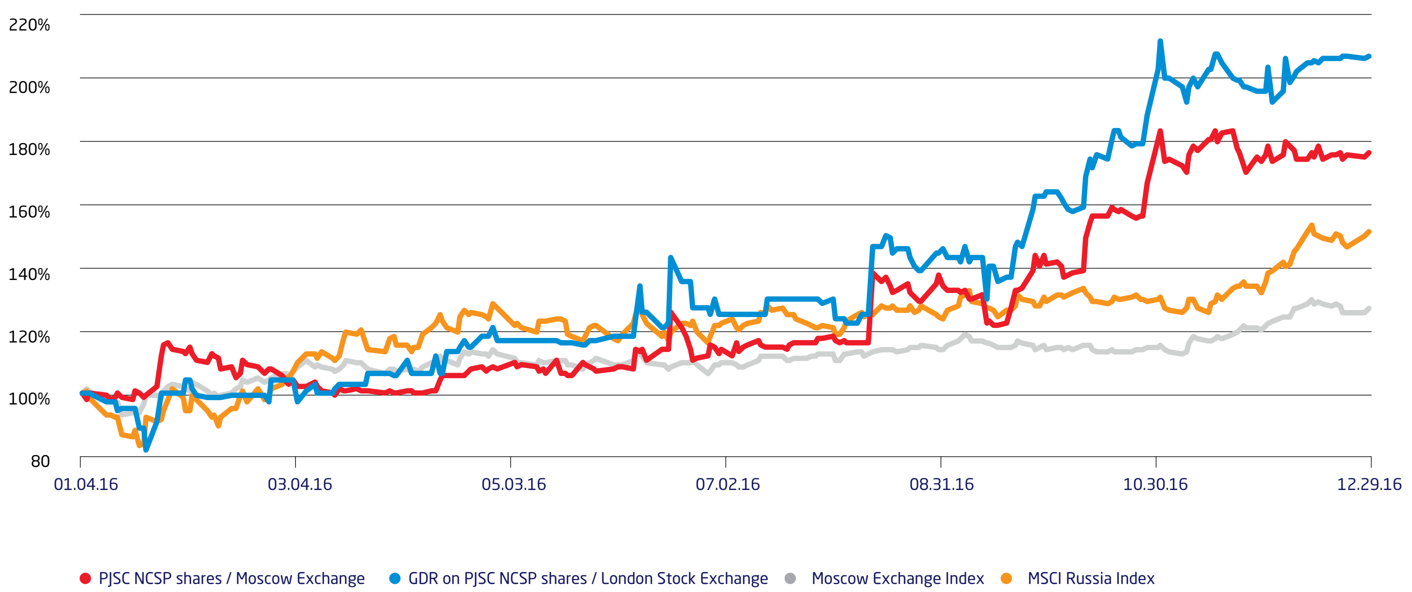
Moody's, the international rating agency, announced on March 9 and 10, 2016 that it had placed the international- and national-scale ratings of PJSC NCSP on watch for possible downgrade, along with the ratings of a number of other Russian infrastructure companies and companies in which the state holds an equity interest.

The rating action followed Moody's announcement on March 4, 2016 that it had placed Russia's sovereign debt rating on watch.

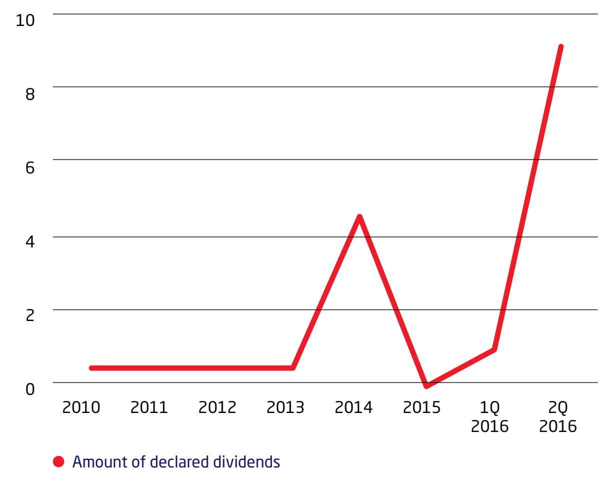
Dividend policy

The procedure for determining the amount of dividends paid to PJSC NCSP shareholders and their payment is governed by the Regulation on Dividend Policy approved by the Board of Directors in 2007. The dividend policy is aimed at respecting the interests of all PJSC NCSP shareholders, and takes into account the need to increase the Company's liquidity, capitalization and investment appeal.

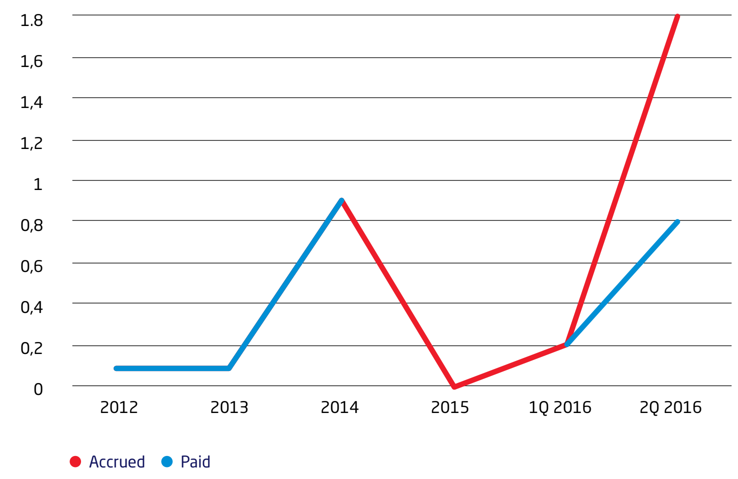
Relative changes in prices of PJSC NCSP securities and exchange indexes in 2016



Amount of declared dividends, billion RUB



Amount of dividends of Russian Federation as represented by the Federal Property Management Fund, billion RUB



The decision on the amount of dividends paid is made by the General Shareholder Meeting on the annual recommendation of the Board of Directors. When analyzing proposals for distribution of net profit and deciding on the share of profit to be set aside for dividends, the Board of Directors considers a number of factors, including:

- the actual amount of net profit earned by PJSC NCSP
- the need to support PJSC NCSP's strategic development priorities, including the implementation of the investment program
- the need to fund PJSC NCSP's contingency fund
- PJSC NCSP's profitability, including return on assets and return on equity
- PJSC NCSP's solvency and financial strength indicators, including current liquidity ratios
- Availability of working capital and debt ratio

Dividend history*

Year for which dividends declared	Date of General Meeting at which dividends declared	Date of record	Amount of declared dividends/share, RUB	Amount of declared dividends, RUB	Amount of declared dividends, USD**
2016, 6 months	02.09.2016	14.09.2016	0.467	8 994 333 791.80	137 830 254.59
2016, 3 months	24.06.2016	05.07.2016	0.0519216	1 000 000 431.28	15 546 980.33
2015	30.06.2015	Decisions on payment of dividends by the issuer were not made in this period			
2014	27.06.2014	13.07.2015	0.2336	4 499 092 877.44	81 029 696.66
2013	17.06.2013	09.07.2014	0.023364	449 986 327.00	13 332 612.18
2012	15.06.2012	28.04.2013	0.02362	454 916 838.88	14 304 256.49
2011	30.06.2011	25.04.2012	0.0235	452 605 661.90	13 893 581.95
2010	30.06.2015	11.05.2011	0.023	431 091 964.79	15 354 574.57

NOVOROSSIYSK COMMERCIAL SEA PORT

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 AND AUDITOR'S REPORT

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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 2016

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 31 December 2016, and the consolidated results of its operations, cash flows and changes in shareholder's equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 31 March 2017:

S.K. BATOV	**G.I. KACHAN**
Chief Executive Officer	Chief Accountant

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income and loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Carrying value of goodwill The Group has a material goodwill (Note 14) balance of 586,032 (2015: 487,727). Due to the significance of the goodwill amount and the fact that the impairment reviews performed by the Group contain a number of significant judgements and estimates for each cash-generating unit including revenue growth, pricing model, terminal values and discount rate, we identified the goodwill impairment test as a key audit matter.	We obtained an understanding of the management's process of goodwill impairment analysis. Our audit procedures on the goodwill impairment analysis included: • Determining whether the input data used in the impairment model are in line with the approved budgets and forecasts; • Challenging the reasonableness of the assumptions which are used in management's forecasts with reference to recent performance, forecasts provided by the key customers, market conditions and historical trend analysis; • Testing the integrity and the accuracy of the underlying model to assess whether the processes are applied to the correct input data; • A review by our internal valuation specialists, of the discount rates applied in the impairment model; • Reviewing the sensitivity analysis of key assumptions based on comparison to readily available economic and industry data; and • Validating of the completeness and appropriateness of the related disclosures. The results of our testing were satisfactory.
Capitalisation of property, plant and equipment The Group has extensive investment program with capital expenditure of USD 102 million during the year ended 31 December 2016 (2015: USD 64 million), as detailed in Note 13. The significant level of capital expenditure (including those related to repairs and maintenance) along with significant diversity of fixed assets types require consideration of the nature of costs incurred to ensure that capitalisation of property, plant and equipment meets the specific recognition criteria in IAS 16 "Property, Plant and Equipment" ("IAS 16"). Therefore, we identified this as a key audit matter.	We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures complied with IFRS. Our audit work included obtaining an understanding of the business processes related to the capitalisation, on a sample basis tracing the amounts capitalised to the respective supporting documents, assessing the nature of the amounts capitalised and evaluating whether the assets capitalised met the recognition criteria set out in IAS 16. The results of our testing were satisfactory.
Compliance with restrictive covenants under loan agreement Certain financial covenants are imposed on the Group under a loan agreement with Bank VTB (Note 23). As at 31 December 2016, the long-term and short-term portions of this debt equaled USD 1,189 and 200 million respectively. In case of non-compliance with covenants, the bank may demand early repayment of the loan. Due to the significance of the loan balance and material impact of non-compliance with covenants on the financial statements we consider this issue to be a key audit matter.	We assessed the completeness of the covenants register by: • Reviewing a loan agreement and comparing details of the covenants to those stated in the register; and • Reviewing minutes of board of directors meetings held during the reporting period and comparing the list of approved loan agreements and related covenants with the register. We recalculated all covenants stated in the register for the borrowings and made sure that the Group complied with all covenants.
Contingent liabilities The Group is subject to claims and other proceedings, which could have a significant impact on the Group's results if the potential exposures were to materialise. In Notes 29, 32 and 36 of the consolidated financial statements the most significant legal proceedings, investigations and other regulatory and government actions involving the Group are summarised. The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of litigation and regulatory investigations requires significant judgement by management of the Group and as a result is a key area of focus in our audit.	Our procedures included the following: • Analysing the Group correspondence with regulators received in connection with legal proceedings, investigations and regulatory matters; • Inquiring the Group general counsel, regulatory, tax and other specialists regarding the status of investigations on regulatory matters; and • Assessing and challenging management's conclusions through understanding the existing precedents. Based on the evidence obtained, while noting the inherent uncertainty with such legal, regulatory and tax matters, we determined the level of provisioning at 31 December 2016 to be appropriate. We validated the completeness and appropriateness of the related disclosures in Notes 29, 32 and 36.

Other Information

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

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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; and
- 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 to 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, which constitute the key audit matters included herein.

EGOR METELKIN

Engagement partner

31 March 2017

The Entity:

PJSC "Novorossyisk Commercial Sea Port".

Certificate of state registration №3207, issued by the Administration of Novorossyisk by 11.12.1992.

Certificate of registration in the Unified State Register № 1022302380638 of 23.08.2002, issued by Novorossyisk Inspectorate of Russian Ministry of Taxation.

Address: 353901, Russian Federation, Krasnodar region, Novorossyisk, Portovaya st., 14.

Audit Firm:

ZAO "Deloitte & Touche CIS".

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444.

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organisation of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

Consolidated statement of comprehensive income / (loss) for the year ended 31 december 2016
(in thousands of US Dollars, except for earnings / (losses) per share)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
REVENUE	6	865,591	877,191
COST OF SERVICES	7	(214,954)	(237,643)
GROSS PROFIT		**650,637**	**639,548**
Selling, general and administrative expenses	8	(50,549)	(44,815)
Impairment of restricted cash in Vneshprombank	4, 20, 21	-	(305,794)
Other operating (loss) / income, net		(2)	1,467
OPERATING PROFIT		**600,086**	**290,406**
Finance income	9	16,150	47,403
Finance costs	10	(93,573)	(92,289)
Share of profit in joint venture, net	17	21,973	4,147
Foreign exchange gain / (loss), net		247,784	(375,697)
Other (expense) / income, net		(784)	2,417
PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE		**791,636**	**(123,613)**
Income tax	11	(158,802)	40,186
PROFIT / (LOSS) FOR THE YEAR		**632,834**	**(83,427)**
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX			
Items that may be subsequently reclassified to profit or loss: Effect of translation to presentation currency		68,792	(30,491)
Items that will not be subsequently reclassified to profit or loss: Remeasurement of net defined benefit liability	26	395	(1,615)
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX		69,187	(32,106)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**702,021**	**(115,533)**
Profit / (loss) for the year attributable to:			
Equity shareholders of the parent company		626,527	(84,286)
Non-controlling interests		6,307	859
		632,834	**(83,427)**
Total comprehensive income / (loss) attributable to:			
Equity shareholders of the parent company		692,879	(111,759)
Non-controlling interests		9,142	(3,774)
		702,021	**(115,533)**
Weighted average number of ordinary shares outstanding		18,680,255,999	18,743,128,904
Basic and diluted earnings / (losses) per share, US Dollars		0.034	(0.004)

S.K. BATOV
Chief Executive Officer

G.I. KACHAN
Chief Accountant

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2016
(in thousands of US Dollars, except as otherwise stated)

ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	1,144,539	910,008
Goodwill	14	586,032	487,727
Mooring rights	15	2,744	2,532
Other financial assets	16	-	16,724
Investment in joint venture	17	27,824	3,249
Spare parts		6,196	4,312
Deferred tax assets	11	113,244	182,446
Other intangible assets		2,059	1,370
Other non-current assets		24	4,105
		1,882,662	1,612,473
CURRENT ASSETS:			
Inventories	19	7,908	7,478
Advances to suppliers		4,146	5,993
Trade and other receivables, net	20	28,087	16,309
VAT recoverable and other taxes receivable		18,325	11,654
Income tax receivable		127	407
Other financial assets	16	6,557	-
Cash and cash equivalents	21	234,138	108,671
		299,288	150,512
TOTAL ASSETS		**2,181,950**	**1,762,985**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	22	10,471	10,471
Treasury shares	22	(423)	(281)
Foreign currency translation reserve		(465,655)	(531,609)
Retained earnings		1,035,134	599,056
Equity attributable to shareholders of the parent company		**579,527**	**77,637**
Non-controlling interests		11,774	15,134
TOTAL EQUITY		**591,301**	**92,771**
NON-CURRENT LIABILITIES:			
Long-term debt	23	1,189,055	1,149,296
Obligations under finance leases	24	2,743	5,697
Defined benefit obligation	26	5,986	5,043
Deferred tax liabilities	11	134,319	111,547
Other non-current liabilities		1,972	982
		1,334,075	1,272,565
CURRENT LIABILITIES:			
Current portion of long-term debt	23	200,097	351,825
Current portion of obligations under finance leases	24	3,940	4,698

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

	Notes	31 December 2016	31 December 2015
Trade and other payables	28	11,944	6,679
Advances received from customers		15,925	11,671
Taxes payable, excluding income tax		3,828	2,421
Income tax payable		4,373	7,258
Accrued expenses	29	16,467	13,097
		256,574	397,649
TOTAL EQUITY AND LIABILITIES		**2,181,950**	**1,762,985**

Consolidated statement of changes in equity for the year ended 31 December 2016

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

	Notes	Attributable to shareholders of the parent company					Non-controlling interests	Total
		Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total		
At 1 January 2015		**10,471**	**(281)**	**(505,673)**	**763,735**	**268,252**	**25,521**	**293,773**
Loss for the year		-	-	-	(84,286)	(84,286)	859	(83,427)
Other comprehensive loss for the year, net of tax		-	-	(25,936)	(1,537)	(27,473)	(4,633)	(32,106)
Total comprehensive loss for the year		**-**	**-**	**(25,936)**	**(85,823)**	**(111,759)**	**(3,774)**	**(115,533)**
Dividends	12	-	-	-	(78,856)	(78,856)	(6,613)	(85,469)
At 31 December 2015		**10,471**	**(281)**	**(531,609)**	**599,056**	**77,637**	**15,134**	**92,771**
Profit for the year		-	-	-	626,527	626,527	6,307	632,834
Other comprehensive income for the year, net of tax		-	-	65,954	398	66,352	2,835	69,187
Total comprehensive income for the year		**-**	**-**	**65,954**	**626,925**	**692,879**	**9,142**	**702,021**
Dividends	12	-	-	-	(149,263)	(149,263)	(2,947)	(152,210)
Buy-back of shares	22	-	(143)	-	(34,105)	(34,248)	-	(34,248)
Sale of treasury shares	22	-	1	-	117	118	-	118
Acquisition of non-controlling interests through business combinations and increase of ownership in subsidiaries	27	-	-	-	(7,596)	(7,596)	(9,555)	(17,151)
At 31 December 2016		**10,471**	**(423)**	**(465,655)**	**1,035,134**	**579,527**	**11,774**	**591,301**

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Cash from operations	31	650,005	656,792
Income tax paid		(66,007)	(68,801)
Interest paid		(75,484)	(91,525)
Commission for early repayment of debt	23	(13,250)	-
Net cash generated by operating activities		**495,264**	**496,466**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		282	109
Purchases of property, plant and equipment		(99,055)	(63,803)
Proceeds from disposal of other financial assets		9,979	1,485
Interest received		20,737	28,504
Purchases of other intangible assets		(1,441)	(1,252)
Net cash inflow on acquisition of subsidiary		228	-
Net cash used in investing activities		**(69,270)**	**(34,957)**
Cash flows from financing activities			
Proceeds from long-term borrowings	23	1,487,015	-
Repayments of loans and borrowings	23	(1,600,000)	(226,476)
Increase of ownership in subsidiary	27	(17,138)	-
Dividends paid	12	(163,837)	(79,978)
Payments for cross-currency and interest rate swap	25	-	(57,857)
Advances paid under lease contracts		(5,143)	(10,405)
Buy-back of shares	22	(34,248)	-
Sale of treasury shares	22	118	-
Net cash used in financing activities		**(333,233)**	**(374,716)**
Net increase in cash and cash equivalents		**92,761**	**86,793**
Cash and cash equivalents at the beginning of the year	21	108,671	310,723
Effect of translation into presentation currency on cash and cash equivalents		32,706	(288,845)
Cash and cash equivalents at the end of the year	**21**	**234,138**	**108,671**

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

1. GENERAL INFORMATION

Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP" or "Company") was founded in 1845. NCSP was transformed from a state-owned enterprise to a joint-stock company in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation. The principal activities and significant entities of the Group as at 31 December 2016 were as follows:

Significant subsidiaries	Effective ownership % held[1]	
	31 December 2016	31 December 2015
Stevedoring and additional port services		
LLC Primorsk Trade Port	100.00%	100.00%
JSC Novorossiysk Grain Terminal	100.00%	100.00%
JSC Novoroslesexport	91.38%	91.38%
OJSC IPP	99.99%	99.99%
JSC Novorossiysk Shipyard	95.45%	65.18%
LLC Baltic Stevedore Company	100.00%	100.00%
Tug and towing services and bunkering		
JSC Fleet Novorossiysk Commercial Sea Port	95.19%	95.19%
Tug and towing services		
JSC SoyuzFlot Port	99.99%	99.99%

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

The main subsidiaries of the Group are located in the eastern sector of the Black Sea in Tsemesskaya Bay as well as in the Leningrad and Kaliningrad Districts.

NCSP is the largest stevedore of the Group and the holding company. It operates the primary cargo-loading district, the Sheskharis oil terminal and the passenger terminal in Novorossiysk. NCSP has eight significant subsidiaries, the primary activities of which are as follows:

LLC Primorsk Trade Port ("PTP")

PTP is involved in the transshipment of oil and oil products in the port of Primorsk, Leningrad Region.

JSC Novorossiysk Grain Terminal ("Grain Terminal")

Grain Terminal manages grain storage and a shipment terminal in Novorossiysk, in the western part of the Tsemesskaya Bay.

JSC Novoroslesexport ("Novoroslesexport")

Novoroslesexport provides stevedoring and storage services for the export of timber, containerised cargo, nonferrous metals and perishable goods.

OJSC IPP ("IPP")

IPP is a liquid-cargo processing enterprise, and also provides bunkering services.

JSC Novorossiysk Shipyard («Shipyard»)

Shipyard specialises in transhipment of ferrous metals, cement and perishable goods.

LLC Baltic Stevedore Company ("BSC")

BSC is a stevedoring company operating the container terminal of the Baltiysk port in the Kaliningrad Region.

JSC Fleet Novorossiysk Commercial Sea Port ("Fleet")

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

JSC SoyuzFlot Port ("SFP")

SFP is a subsidiary of PTP. SFP is the operator of pilotage and tug and towing services in the Port of Primorsk in the Leningrad District.

Golden share

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

Going concern assumption

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

Price Monitoring

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

In 2016 FAS initiated the return to the state price regulation of the stevedoring services tariffs (i.e. FAS will approve the fixed maximum rates for such referenced hereinabove services in Russian Roubles). At the same time, according to the methodology drafted by FAS, it is supposed to set maximum profitability of stevedoring operations and to repeal the Federal Tariff Service of Russia ("FTS") orders on cancellation of price regulation in ports. As at the moment, the probability of implementation of this initiative cannot be estimated. In 2016 FAS initiated litigation against NCSP and PTP upon the breach of antimonopoly law № FZ-135 "On Protection of Competition", further details are disclosed in Note 32 and 36.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

New and revised standards

On 1 January 2016 the following standards and interpretations were adopted by the Group:

- Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations;
- Amendments to IAS 1 – Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants;
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception;
- IFRS 14 "Regulatory Deferral Accounts";
- Amendments to IAS 27 – Equity Method in Separate Financial Statements;
- Annual Improvements to IFRSs 2012-2014 Cycle.

The above standards and amendments did not affect the consolidated financial statements.

Standards and Interpretations issued but not yet effective

At the date of approval of the Group's consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective for the current year:

New or amended standard or interpretation	Effective date[1] — for annual periods beginning on or after
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers" (and Amendments to IFRS 15)	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB[2]
Amendments to IAS 7 – Disclosure Initiative	1 January 2017
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Annual Improvements to IFRS Standards 2014–2016 Cycle	1 January 2017[3]

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 has also been applied.

[2] The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

[3] The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

Management anticipates that standards and interpretations, which are relevant to the Group's business, will be adopted by the Group in the periods they become effective. The impact of adoption of these standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

IFRS 9 "Financial Instruments" ("IFRS 9")

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date, management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Loans carried at amortised cost as disclosed in Note 16 are held to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

Impairment

Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted by IFRS 15 "Revenue from Contracts with Customers". In relation to the loans issued (Note 16), whether lifetime or 12-month expected credit losses should be recognised would depend on whether there has been a significant increase in credit risk of these items from initial recognition to the date of initial application of IFRS 9. The management is currently assessing the extent of this impact.

In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and is currently assessing the potential impact on the Group's consolidated financial statements.

The above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")

In May 2014 IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract (contracts) with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

The Group recognises revenue from the following major sources:

- Stevedoring services;
- Additional port services; and
- Fleet services.

Revenue from cargo-transshipment, fleet and additional port services is recognised when the services are accepted by the customers (typically, for cargo-transshipment services, after the loading or unloading of cargo, as defined by the sales terms). Sales contract terms are relatively simple, and the management of the Group does not expect that IFRS 15 requirement regarding contract combinations, contract modifications or transaction price allocation will significantly impact the accounting for revenue.

Management of the Group have preliminarily assessed that the timing of revenue recognition is expected to be consistent with current practice.

Management is still in the process of assessing the full impact of the application of IFRS 15 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. As a result, the above preliminary assessment is subject to change. Management does not intend to early adopt the standard and intend to use the full retrospective method upon adoption.

IFRS 16 "Leases" ("IFRS 16")

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" ("IAS 17") and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of 1,087,289. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of the available practical expedients within IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until management completes the review.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, management of the Group does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

Functional and presentation currency

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

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

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

Exchange rates

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

	2016	2015
Year-end rates		
RUR / 1 USD	60.66	72.88
RUR / 1 EUR	63.81	79.70
Average rates		
RUR / 1 USD	67.03	60.96
RUR / 1 EUR	74.23	67.78

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group has been prepared on the historical cost basis except for assets and liabilities at the date of acquisition of control and financial instruments that are measured at fair values at the end of each reporting period.

Basis of consolidation

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

Control is achieved when NCSP:

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

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

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

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

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

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

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

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

Fair value

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

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

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

Investments in joint ventures

IFRS 11 "Joint Arrangements" ("IFRS 11") replaced IAS 31 "Interests in Joint Ventures". IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets and Held for Sale and Discontinued Operations".

Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of joint venture, less any impairment in the value of individual investments. Losses of joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, forms part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use or fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a Group entity transacts with joint venture of the Group, profit and losses resulting from transactions with joint ventures are eliminated to the extent of the Group's interest in these joint ventures.

Goodwill

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

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

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

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

Foreign currencies

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

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income / (loss) and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Revenue recognition

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

The Group's revenue is derived as follows:

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

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

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

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

Leasing

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

Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Finance lease

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

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

Borrowing costs

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

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

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

Employee benefits

Defined contribution plan

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

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

In the Russian Federation, all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes of 0% to 30%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 22%. When the annual gross remuneration of an employee exceeds 796 thousand RUR (USD 11.9), the 10% tax rate is applied to the exceeding amount.

Defined benefit plans

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

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

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income or comprehensive loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the end of each reporting period presented.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised in the consolidated financial statement if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period presented and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax laws and rates that have been enacted or substantively enacted at the end of each reporting period presented.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated statement of comprehensive income / (loss), except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or they arise from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or income from bargain purchase.

Property, plant and equipment

The Group adopted IFRS effective 1 January 2005. As part of the adoption, the Group elected to utilise exemptions available for first-time adopters under IFRS 1 "First-time Adoption of International Financial Reporting Standards", choosing to record property, plant and equipment at fair value (deemed cost). Valuations were performed by management with the assistance of independent appraisers as at 1 January 2005 and approved by the Group management. After that date, property, plant and equipment are stated at deemed cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

Depreciation is charged so as to write off the cost or deemed cost of assets, other than land and property under construction, over their estimated useful lives, using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Properties in the course of construction for production, rental or administrative purposes or for purposes nor currently defined are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation.

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

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

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

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

Mooring rights and other intangible assets

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

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Spare parts

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

Inventories

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

Financial assets

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

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

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

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

With the exception of available-for-sale ("AFS") equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.
- A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:
- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 34.

Other financial liabilities

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period presented. The resulting gain or loss is recognised in profit or loss immediately if the derivative is not designated and effective as a hedging instrument, in the event of designation the timing of the recognition in profit or loss depends on the type of hedge accounting and on the accounting of hedged object.

The Group uses derivative instruments, including cross-currency and interest rate swap, to manage exchange rate exposures. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group does not use derivative financial instruments for trading or speculative purposes.

Derecognition of financial liabilities

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period presented, taking into account the risks and uncertainties surrounding the obligation. Where provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Dividends declared

Dividends paid to shareholders are determined by the board of directors but declared and approved at the annual shareholders' meeting.

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Allowance for trade and other receivables

The Group creates allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments, and/or when a contractor does not fulfill its obligations in the amount of advance. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful receivables in the consolidated financial statement.

Useful lives of fixed assets

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

Impairment of goodwill

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

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

Impairment of assets (excluding goodwill)

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

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation where the Group's operations are principally located. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

The Group management believes that all deferred tax assets recognised as at the reporting date will be fully realised. It is probable that taxable profits will be available against which deductible temporary differences can be utilised. Losses during recent years relate mainly to forex losses arised from revaluation of PJSC "Sberbank Russia" ("Sberbank") USD loan and PJSC "Bank VTB" ("Bank VTB") USD loan (Note 23). They are not connected with operating activities and Group considers that it will gain profit in future and, therefore, deferred tax assets ("DTA") are recoverable. Under the Russian legislation tax loss carry forward may be used to reduce tax base.

Allowance for obsolete and slow-moving inventory

The Group creates an allowance for obsolete and slow-moving raw materials. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time

the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the end of each reporting period represented to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products or any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving raw materials.

Impairment of cash and cash equivalents in Vneshprombank

During 2015 the Group placed cash and deposits in the bank Vneshprombank.

On 18 December 2015 the Central Bank of Russia ("CBR") appointed the external administration for management of Vneshprombank due to significant reduction in its shareholders' equity and the violation of one of the mandatory standards set by the CBR.

On 22 December 2015 the CBR declared a moratorium for the satisfaction of the Vneshprombank creditors' claims, which restricted access of the Group to the cash and deposits placed in Vneshprombank.

As of 31 December 2015 total cash and deposits placed by the Group in Vneshprombank amounted to 255,761 (Note 21). In addition, the accrued interest on deposits due from Vneshprombank amounted to 2,490 (disclosed within "Interest receivable" line in Note 20).

On 21 January 2016 the CBR revoked from Vneshprombank the license for banking operations.

On 14 March 2016 Moscow Arbitration Court declared Vneshprombank bankrupt.

As Vneshprombank was declared bankrupt as of the date when consolidated financial statements as at 31 December 2015 were authorised for issuance, the Group as at 31 December 2015 classified its total balance of cash and deposits in Vneshprombank as restricted cash but with an offsetting full impairment recognised due to the uncertainty associated with the asset's value.

Subsequently, the Group entities have been included in the list of creditors of Vneshprombank, whose claims will now be satisfied in the course of the normal bankruptcy procedures. The total amount of claims has been defined in RUR as of 21 January 2016, including the accrued interest and the revaluation of certain deposits denominated in foreign currencies calculated using the CBR exchange rate at this date.

However, due to the revocation of the license of Vneshprombank, the declaration of its bankruptcy in early 2016, and the subsequent inclusion of the Group entities on a list of creditors that will only be paid once bankruptcy proceedings have been completed, the Group concluded that cash and deposits in Vneshprombank (previously treated as restricted cash at 31 December 2015 with an offsetting full impairment) are no longer assets of the Group and, rather, represent contingent assets as of 31 December 2016. As such, amounts previously recognised relating to the deposits in Vneshprombank have been derecognised.

5. SEGMENT INFORMATION

The Group's operations are managed by type of services: stevedoring services and additional port services; fleet services; and other services mainly comprising rent, resale of energy and utilities to external customers (which individually do not constitute separate reportable segments). Stevedoring services, additional port services and fleet services are then managed by regions.

As a result, all decisions regarding allocation of resources and further assessment of performance are made separately for Novorossiysk, Primorsk and Baltiysk in respect of stevedoring and additional services and for Novorossiysk and Primorsk in respect of fleet services. All segments have different segment managers responsible for each segment's operations. The chief operating decision maker is responsible for allocating resources to and assessing the performance of each segment of the business.

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

Segment revenue and segment results

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

The segment revenue and results for the years ended 31 December 2016 and 2015 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Stevedoring and additional port services	783,781	792,945	2,690	3,464	552,645	534,354
Novorossiysk	602,742	633,719	2,406	3,257	425,620	430,222
Primorsk	171,207	149,074	284	207	122,275	98,902
Baltiysk	9,832	10,152	-	-	4,750	5,230
Fleet services	74,111	77,642	1,667	1,613	41,910	47,840
Novorossiysk	39,882	47,142	1,618	1,595	19,825	27,060
Primorsk	34,229	30,500	49	18	22,085	20,780
Total reportable segments	**857,892**	**870,587**	**4,357**	**5,077**	**594,555**	**582,194**
Other	7,699	6,604	11,145	9,210	9,492	9,629
Total segments	**865,591**	**877,191**	**15,502**	**14,287**	**604,047**	**591,823**
Unallocated amounts (see following table)					187,589	(715,436)
Profit / (loss) before income tax					**791,636**	**(123,613)**

Revenue from JSC TRANSNEFT-SERVICE of 87,507 for the year ended 31 December 2016 (2015: 94,255) represent more than 10% of revenue from stevedoring and additional services for respective period. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

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

	Year ended	
	31 December 2016	31 December 2015
Total segment profit	**604,047**	**591,823**
Differences between Russian statutory accounting standards and IFRS:		
Depreciation and amortisation	(6,218)	(7,636)
Professional services	(35)	(63)
Finance lease	5,231	10,699
Other	(2,609)	220
Unallocated operating income and expenses:		
Impairment of restricted cash in Vneshprombank (Note 4)	-	(305,794)
Other operating (expense) / income, net	(2)	1,467
Defined benefit obligation expense	(328)	(310)
Operating profit	**600,086**	**290,406**
Finance income	16,150	47,403
Finance costs	(93,573)	(92,289)
Share of profit in joint venture, net	21,973	4,147
Foreign exchange gain / (loss), net	247,784	(375,697)
Other (expense) / income, net	(784)	2,417
Profit / (loss) before income tax	**791,636**	**(123,613)**

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Stevedoring and additional port services	42,323	42,481	94,521	58,963
Novorossiysk	35,405	35,040	81,981	56,871
Primorsk	4,950	5,652	12,068	941
Baltiysk	1,968	1,789	472	1,151
Fleet services	3,532	3,944	845	778
Novorossiysk	2,163	2,492	453	538
Primorsk	1,369	1,452	392	240
Total reportable segments	**45,855**	**46,425**	**95,366**	**59,741**
Other	1,968	2,086	231	901
Total segments	**47,823**	**48,511**	**95,597**	**60,642**
Unallocated amounts	5,801	5,492	5,971	3,574
Consolidated	**53,624**	**54,003**	**101,568**	**64,216**

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

6. REVENUE

	Year ended	
	31 December 2016	31 December 2015
Stevedoring services	684,751	681,928
Additional port services	99,030	111,017
Fleet services	74,111	77,642
Other	7,699	6,604
Total	**865,591**	**877,191**

7. COST OF SERVICES

	Year ended	
	31 December 2016	31 December 2015
Depreciation and amortisation	49,650	50,804
Salaries	49,413	49,560
Rent	38,750	38,448
Fuel for resale and own consumption	25,690	50,074
Repairs and maintenance	15,863	13,652
Taxes directly attributable to salaries	12,826	13,033
Subcontractors	7,770	7,665
Materials	6,604	6,309
Energy and utilities	4,894	4,846
Insurance	807	781
Defined benefit obligation expense (Note 26)	703	691
Other	1,984	1,780
Total	**214,954**	**237,643**

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended	
	31 December 2016	31 December 2015
Salaries	21,468	20,643
Taxes other than income tax	4,633	4,662
Depreciation and amortisation	3,974	3,199
Taxes directly attributable to salaries	3,784	3,713
Advertising	3,253	436
Security services	2,496	2,477
Charitable donations	1,688	1,736
Repairs and maintenance	1,501	1,310
Professional services	778	1,172
Materials	759	750
Impairment loss recognised on trade and other receivables	714	1,006
Travel and representation expenses	678	604
Bank charges	355	381
Rent	161	170
Other	4,307	2,556
Total	**50,549**	**44,815**

9. FINANCE INCOME

	Year ended	
	31 December 2016	31 December 2015
Interest income	16,150	29,841
Gain on cross currency and interest rate swap (Note 25)	-	17,562
Total	**16,150**	**47,403**

10. FINANCE COSTS

	Year ended	
	31 December 2016	31 December 2015
Interest on loans and borrowings	79,263	90,232
Commission for early repayment of debt (Note 23)	12,935	-
Interest expense – finance lease	1,375	2,057
Total	**93,573**	**92,289**

11. INCOME TAX

	Year ended	
	31 December 2016	31 December 2015
Current income tax expense	62,648	66,306
Deferred income tax expense / (benefit)	96,154	(106,492)
Total	**158,802**	**(40,186)**

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP which was permitted to apply a reduced income tax rate of 15.5% until 31 March 2016 inclusively, is calculated at 20% of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	Year ended	
	31 December 2016	31 December 2015
Profit / (loss) before income tax	**791,636**	**(123,613)**
Tax at the Russian Federation statutory rate of 20%	158,327	(24,723)
Different tax rates of subsidiaries	(2,878)	(5,500)
Revaluation of cross-currency and interest rate swap	-	(11,820)
Other non-deductible expenses	3,353	1,857
Total	**158,802**	**(40,186)**

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

	31 December 2016	31 December 2015
Net balance at the beginning of the year	**(70,899)**	**23,538**
Expense / (benefit) recognised during the year	96,154	(106,492)
Effect of translation into presentation currency	(4,180)	12,055
Net balance at the end of the year	**21,075**	**(70,899)**

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

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

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

	31 December 2016	31 December 2015
Deferred tax assets		
Tax loss carry forward	68,777	142,107
Impairment of restricted cash in Vneshprombank (Note 4)	65,638	50,713
Accrued expenses	5,985	5,513
Allowance for doubtful receivables	243	133
Allowance for obsolete and slow-moving inventories	205	147
Investment valuation	-	846
Total	**140,848**	**199,459**
Deferred tax liabilities		
Property, plant and equipment	155,285	127,772
Investment valuation	3,500	-
Debt	2,589	282
Mooring rights	549	506
Total	**161,923**	**128,560**
Net deferred tax liability / (asset)	**21,075**	**(70,899)**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position::

	31 December 2016	31 December 2015
Deferred tax assets	113,244	182,446
Deferred tax liabilities	134,319	111,547
Net deferred tax liability / (asset)	**21,075**	**(70,899)**

12. DIVIDENDS

Dividends declared by the Group during the years ended 31 December 2016 and 2015 were 152,210 and 85,469, respectively, including dividends to non-controlling interest. The total dividends paid during the years ended 31 December 2016 and 2015 were 163,837 and 79,978, respectively.

As at 31 December 2016 the dividend liability of the Group amounted to 932 (31 December 2015: 1,767). It is included in accrued expenses as at 31 December 2016 and 2015 (Note 29).

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13, PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at 1 January 2015	**684,606**	**338,419**	**277,068**	**94,886**	**19,435**	**7,805**	**57,379**	**1,479,598**
Additions	86	9,719	41,900	851	1,331	1,663	8,666	64,216
Transfer	177	21,998	12,479	-	-	43	(34,697)	-
Disposals	-	(5,696)	(9,856)	(1,459)	(1,069)	(184)	(98)	(18,362)
Effect of translation into presentation currency	(156,200)	(81,451)	(70,482)	(18,096)	(4,476)	(2,028)	(8,813)	(341,546)
As at 31 December 2015	**528,669**	**282,989**	**251,109**	**76,182**	**15,221**	**7,299**	**22,437**	**1,183,906**
Accumulated depreciation and impairment								
As at 1 January 2015	**-**	**(110,134)**	**(153,900)**	**(35,680)**	**(10,361)**	**(5,842)**	**(290)**	**(316,207)**
Depreciation expense	-	(18,934)	(24,511)	(5,787)	(2,172)	(1,354)	-	(52,758)
Disposals	-	5,653	9,676	1,444	1,058	172	-	18,003
Effect of translation into presentation currency	-	27,294	37,531	8,101	2,546	1,525	67	77,064
As at 31 December 2015	**-**	**(96,121)**	**(131,204)**	**(31,922)**	**(8,929)**	**(5,499)**	**(223)**	**(273,898)**

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at 1 January 2016	**528,669**	**282,989**	**251,109**	**76,182**	**15,221**	**7,299**	**22,437**	**1,183,906**
Additions	179	14,093	37,978	899	2,953	1,853	43,613	101,568
Acquisition of subsidiary	-	-	12	-	39	8	-	59
Transfer	-	7,845	8,265	-	4	6	(16,120)	-
Disposals	-	(2,754)	(8,895)	(676)	(716)	(204)	(672)	(13,917)
Effect of translation into presentation currency	106,576	59,056	54,542	11,910	3,310	1,648	7,342	244,384
As at 31 December 2016	**635,424**	**361,229**	**343,011**	**88,315**	**20,811**	**10,610**	**56,600**	**1,516,000**
Accumulated depreciation and impairment								
As at 1 January 2016	**-**	**(96,121)**	**(131,204)**	**(31,922)**	**(8,929)**	**(5,499)**	**(223)**	**(273,898)**
Depreciation expense	-	(17,234)	(26,082)	(5,237)	(2,131)	(1,597)	-	(52,281)
Disposals	-	2,510	8,862	676	651	169	-	12,868
Effect of translation into presentation currency	-	(20,921)	(28,257)	(5,708)	(1,957)	(1,261)	(46)	(58,150)
As at 31 December 2016	**-**	**(131,766)**	**(176,681)**	**(42,191)**	**(12,366)**	**(8,188)**	**(269)**	**(371,461)**
Carrying value								
As at 1 January 2015	**684,606**	**228,285**	**123,168**	**59,206**	**9,074**	**1,963**	**57,089**	**1,163,391**
As at 31 December 2015	**528,669**	**186,868**	**119,905**	**44,260**	**6,292**	**1,800**	**22,214**	**910,008**
As at 31 December 2016	**635,424**	**229,463**	**166,330**	**46,124**	**8,445**	**2,422**	**56,331**	**1,144,539**

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

As at 31 December 2016 the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 29,884 (31 December 2015: 10,409).

During the years ended 31 December 2016 and 2015 no interest expense was capitalised.

The carrying value of property, plant and equipment held under finance leases as at 31 December 2016 was 7,748 (31 December 2015: 9,409). There were no additions of property, plant and equipment under finance leases during the years ended 31 December 2016 and 2015. During 2016 the Group purchased 2 leased assets at the end of lease agreement. Leased assets are pledged as security for the related finance liabilities (no other property, plant and equipment items are pledged).

In 2016, the Group acquired property, plant and equipment with an aggregate cost of 101,568 (2015: 64,216). Cash payments of 104,198 were made to purchase property, plant and equipment (2015: 74,208).

During the years ended 31 December 2016 and 2015, the Group disposed of assets resulting in net losses of 582 and 251, respectively.

14. GOODWILL

	31 December 2016	31 December 2015
Carrying amount		
Balance at the beginning of the year	**487,727**	**631,850**
Effect of translation into presentation currency	98,305	(144,123)
Balance at the end of the year	**586,032**	**487,727**

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

	Carrying amount	
	31 December 2016	31 December 2015
Stevedoring and additional services segment:		
PTP	299,273	249,072
Grain Terminal	78,283	65,151
Novoroslesexport	63,175	52,578
IPP	13,617	11,332
Shipyard	4,612	3,838
BSC	1,409	1,173
Fleet services segment:		
SFP	89,991	74,895
Fleet	35,672	29,688
Total	**586,032**	**487,727**

Annual impairment test information

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

The most significant estimates and assumptions used by management in the value in use calculations as at 31 December 2016 were as follows:

- Cash flow projections were based on the business plans of the Company for the years 2017-2021, approved by management. Such business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.;
- Due to highly significant uncertainty in respect to foreign currency rates, cash flow projections were prepared in USD using RUR / USD currency rates projections from the Economist Intelligence Unit and adjusted by inflation rate for each respective year;
- Cash flow projections beyond 2021 were extrapolated using a steady 2.0% per annum growth rate assessed based on past performance of the Group and management expectations of market development; and
- Discount rates were determined for each CGU in nominal terms based on the Group's weighted average cost of capital adjusted for tax effect to arrive at pre-tax rate of 11.08%.

The Group's CGUs operate within a consistent industry within the same geographic regions.

As such, within the development of the Group's business plan, management applies consistent assumptions across each CGU.

Management believes that the values assigned to the key assumptions and estimates represent the most probable assessment of future trends.

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

Sensitivity analysis

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

Management prepared a sensitivity analysis and determined that neither a 10% reduction in revenue nor a 10% increase in capital expenditure or in the costs applied in the impairment testing would lead to recognition of impairment loss. These are the most sensitive assumptions used in the impairment test for all CGUs.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

15. MOORING RIGHTS

	31 December 2016	31 December 2015
Cost	5,877	4,891
Accumulated amortisation	(3,133)	(2,359)
Carrying value	**2,744**	**2,532**

	31 December 2016	31 December 2015
Cost		
Balance at the beginning of year	4,891	6,336
Effect of translation into presentation currency	986	(1,445)
Balance at the end of the year	**5,877**	**4,891**
Accumulated amortisation		
Balance at the beginning of year	(2,359)	(2,734)
Charge for the year	(270)	(297)
Effect of translation into presentation currency	(504)	672
Balance at the end of the year	**(3,133)**	**(2,359)**

Mooring rights represent the long-term lease rights for hydrotechnical infrastructure (e.g. berths, piers and other) owned by the state.

16. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Current		
Loans issued	6,557	-
Total current	**6,557**	-
Non-current		
Loans issued	-	16,724
Total non-current	-	**16,724**

As at 31 December 2016 current loans issued of 2,943 (2015: 2,448) were fully provided for due to uncertainty of their recoverability.

As at 31 December 2016, long-term loans issued in USD to LLC Novorossiysk Fuel Oil Terminal ("NFT"), a joint venture (Note 17), in the amount of 6,557 (2015: 16,723) maturing in March 2020 with an interest rate of 7% per annum were reclassified to short-term loans in order to reflect the decision related to the repayment of the loan in advance, which was accepted by board of directors of NFT on 30 December 2016. On 10 January 2017, NFT repaid the loan.

17. INVESTMENT IN JOINT VENTURE

NFT is a fuel oil terminal in Novorossiysk with maximum transshipment capacity of four million tons per year.

The Group owns 50% of NFT and its share in profit of the joint venture for the years 2016 and 2015 recognised in comprehensive income / (loss) amounted to 21,973 and 4,147, respectively.

Summarised financial information of NFT is represented below:

	31 December 2016	31 December 2015
Current assets	29,339	42,443
Non-current assets	50,694	47,214
Total assets	**80,033**	**89,657**
Current liabilities	(18,769)	(21,085)
Non-current liabilities	(2,374)	(59,980)
Total liabilities	**(21,143)**	**(81,065)**
Net assets	**58,890**	**8,592**
Group's share of joint venture net assets	**29,445**	**4,296**
Elimination of unrealised profit	(1,621)	(1,047)
Carrying value of investment	**27,824**	**3,249**

The above amounts of assets and liabilities include the following:

	31 December 2016	31 December 2015
Cash and cash equivalents	26,550	40,254
Current financial liabilities (excluding trade and other payables and provisions)	(13,867)	(16,746)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	(57,566)

	Year ended	
	31 December 2016	31 December 2015
Revenue	86,813	84,073
Operating profit	51,176	48,283
Profit for the year	43,945	19,110
Group's share in profit for the year at 50%	21,973	9,555
Other comprehensive income / (loss)	6,353	(943)

The above profit for the year includes the following:

	Year ended	
	31 December 2016	31 December 2015
Depreciation and amortization	(8,277)	(9,047)
Interest income	1,352	1,192
Interest expense	(1,971)	(5,914)
Income tax	(1,934)	(4,740)

Loans issued by the Group to NFT are disclosed in Note 16.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

As at 31 December 2015 the Group pledged its 50% share in NFT under a credit agreement between NFT and JSC Raiffeisenbank ("Raiffeisenbank"). The Group also issued a guarantee of 20,000 to secure NFT obligations under the credit agreement. NFT also concluded pledge agreements with Raiffeisenbank to secure obligations under the credit agreement.

It was agreed that dividends and other payments to shareholders of NFT should not be made without prior written consent of Raiffeisenbank.

In February 2016, NFT fully repaid the loan from Raiffeisenbank, including principal and interest due.

18. DETAILS OF SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
Name of subsidiary	**31 December 2016**	**31 December 2015**	**2016**	**2015**	**31 December 2016**	**31 December 2015**
Shipyard	4.55%	34.82%	2,472	(980)	1,798	7,638
Fleet	4.81%	4.81%	1,002	1,721	3,216	3,698
Novoroslesexport	8.62%	8.62%	2,807	211	6,505	3,481
Other subsidiaries with non-controlling interests					255	317
Total					**11,774**	**15,134**

JSC Southern Shipbuilding and Repair Center, a wholly owned subsidiary of JSC United Shipbuilding Corporation, is a shareholder with significant influence over Shipyard in 2015 and in January – July of 2016. The owner of 100% of the JSC United Shipbuilding Corporation ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation.

In July 2016, JSC Southern Shipbuilding and Repair Center sold its shares in Shipyard to PJSC NCSP (Note 27).

19. INVENTORIES

	31 December 2016	31 December 2015
Materials	5,709	3,862
Goods for resale	1,760	3,220
Fuel	1,192	977
Less: allowance for obsolete and slow-moving inventories	(753)	(581)
Total	**7,908**	**7,478**

20. TRADE AND OTHER RECEIVABLES, NET

	31 December 2016	31 December 2015
Trade receivables (RUR)	18,685	9,325
Trade receivables (USD)	5,374	6,876
Other receivables and prepayments	10,090	4,927
Interest receivable	884	3,064
Less: allowance for doubtful trade and other receivables	(6,946)	(7,883)
Total	**28,087**	**16,309**

The average credit period for the Group's customers is 8 days. During this period no interest is charged on the outstanding balances. Thereafter, interest is charged according to the contracts determined on a customer specific basis, determined based on size, volume and history of operations with the Group at between 0.3% and 15% per month on the outstanding balance.

The Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's 8 largest customers (2015: 7) in total represent 45% (2015: 35%) of the outstanding balance.

Included in the Group's receivable balance are debtors with carrying value of 2,090 (2015: 759) which are past due at the respective reporting date but not impaired and which the Group still considers recoverable.

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

	31 December 2016	31 December 2015
Not past due and not impaired	**25,997**	**15,550**
Past due but not impaired		
less than 45 days	1,130	649
45-90 days	783	64
90-180 days	20	9
180-365 days	15	35
Over 1 year	142	2
	2,090	**759**
Impaired receivables	**6,946**	**7,883**
Total	**35,033**	**24,192**

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

The movement in the allowance for doubtful trade and other receivables is as follows:

	Year ended	
	31 December 2016	31 December 2015
As at beginning of the year	**7,883**	**5,951**
Impairment loss recognised in the consolidated statement of comprehensive income / (loss)	714	1,006
Impairment of interest receivable from Vneshprombank (Note 4)	-	2,977
Amounts written-off as uncollectable	(3,055)	(50)
Amounts recovered during the year	57	-
Effect of translation into presentation currency	1,347	(2,001)
As at end of the year	**6,946**	**7,883**

Past due trade receivables and other receivables were provided for based on estimated irrecoverable amounts. These were determined by reference to past experience, and are regularly reassessed based on the facts and circumstances existing as at each reporting date.

Included in the allowance for doubtful trade and other receivables are individually impaired trade receivables with a balance of 6,946 (2015: 7,883) due from companies which have been considered as insolvent based on the Group's legal department analysis. The impairment recognised represents the difference between the carrying amount of these receivables and the present value of the expected proceeds.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

21 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Bank deposits in USD	64,778	11,440
Bank deposits in RUR	163,775	94,645
Current accounts in USD	2,833	1,804
Current accounts in RUR	2,711	769
Current accounts in EUR	26	-
Cash in hand	15	13
Restricted cash in Vneshprombank (Note 4)	-	255,761
Less: accumulated impairment loss of restricted cash in Vneshprombank (Note 4)	-	(255,761)
Total	**234,138**	**108,671**

Due to the revocation of the banking license of Vneshprombank and the declaration of its bankruptcy during 2016, the Group considered that the restricted cash in Vneshprombank shall be treated as a contingent asset as at 31 December 2016, thus such amounts were derecognised in 2016 (Note 4).

Bank deposits as at 31 December 2016 are summarised below:

Bank	Currency	Rate, %	31 December 2016
Bank VTB	RUR	6.97 - 10.00	69,280
Bank VTB	USD	1.00 – 1.45	12,247
Sberbank	RUR	6.84 – 8.48	10,976
Sberbank	USD	0.49 – 0.93	45,507
JSC Gazprombank	RUR	8.00 – 10.35	48,304
Other	RUR	9.48 – 10.20	35,214
Other	USD	1.35 – 1.75	7,025
Total			**228,553**

Bank deposits as at 31 December 2015 are summarised below:

Bank	Currency	Rate, %	31 December 2014
Sberbank	RUR	3.60 – 9.40	24,656
Sberbank	USD	0.36 – 1.15	6,036
PJSC Bank Otkritie Financial Corporation	RUR	10.90 – 11.55	47,748
PJSC Bank Otkritie Financial Corporation	USD	1.70 – 1.95	5,404
PJSC Promsvyazbank	RUR	10.75 – 11.50	17,219
Other	RUR	8.40 – 10.80	5,022
Total			**106,085**

22. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 ordinary shares authorized, issued, and fully paid with a par value ofw US cents 0.054 (RUR 0.015) per share. Authorised share capital at par is 10,471. Each ordinary share has equal voting rights.

On 26 September 2016, 1,300,000 previously repurchased ordinary shares which were classified as treasury shares as at 31 December 2015, were sold to the Company's immediate parent Novoport Holding Ltd. for a cash consideration of 118.

On 4 October 2016, 262,912,311 shares received under the compulsory redemption at a price of 0.013 US cents (RUR 8.22) in total amount of 34,248 were credited to the personal account of NCSP. The direct costs associated with the buy-back of shares were 80. The compulsory redemption was performed in accordance with the Federal Law "On Joint Stock Companies" in accordance with the decision of the board of directors of NCSP dated 15 June 2016. The Group's repurchased shares are classified as treasury shares as at 31 December 2016.

The number of shares outstanding is 18,481,516,593 and 18,743,128,904 as at 31 December 2016 and 2015 respectively.

23. DEBT

	Interest rate	Maturity date	31 December 2016	31 December 2015
Secured bank loans				
Bank VTB (USD)	LIBOR 3M + 3.99%	June 2023	1,389,152	-
Sberbank (USD)	LIBOR 3M + 5%	January 2018	-	1,501,121
Total debt			**1,389,152**	**1,501,121**
Current portion of long-term debt			(200,097)	(351,825)
Total non-current debt			**1,189,055**	**1,149,296**

Bank VTB

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

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

In December 2016, 100,000 was paid according to the payment schedule.

As at 31 December 2016 the long-term borrowings are disclosed net of unamortised expense for raising a loan in amount of 12,946 (31 December 2015: 1,408).

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

The Group's borrowings as at 31 December 2016 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	-	17,206	17,206
Due from three to six months	100,000	17,520	117,520
Due from six months to twelve months	100,000	32,418	132,418
	200,000	**67,144**	**267,144**
Between 1 and 2 years	200,000	57,176	257,176
Between 2 and 5 years	600,000	111,825	711,825
Over 5 years	400,000	22,272	422,272
Total	**1,400,000**	**258,417**	**1,658,417**

Contractual interest liabilities as at 31 December 2015 are calculated based on assumption that no early repayment claims will be received from Sberbank and that the loan will be repaid according to the payment schedule under the agreement. Such amounts are undiscounted. The Group's borrowings as at 31 December 2015 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	-	20,790	20,790
Due from three to six months	174,648	21,057	195,705
Due from six months to twelve months	174,648	36,999	211,647
	349,296	**78,846**	**428,142**
Between 1 and 2 years	349,648	54,276	403,924
Between 2 and 5 years	799,648	3,540	803,188
Total	**1,498,592**	**136,662**	**1,635,254**

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at

31 December 2016 of 4.98% (31 December 2015: 5.57%).

The financial obligations of the Group denominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2016, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 275,483 (during the year ended 31 December 2015, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 426,042).

24. FINANCE LEASE

The Group rents transhipment machinery and equipment under finance lease agreements with five years terms. The Group has the right to purchase the equipment after expiration of lease contracts at a purchase price close to zero. Interest rates for all obligations under the finance lease agreements are fixed at the dates of the agreements at rates ranging from 14.73% to 17.14% per annum.

	Minimum lease payments		Present value of lease payments	
	as at 31 December 2016	as at 31 December 2015	as at 31 December 2016	as at 31 December 2015
Less than one year	4,285	5,077	3,940	4,698
In the second and fifth year	3,487	7,772	2,743	5,697
Less: future financing costs	(1,089)	(2,454)	-	-
Present value of minimum lease payments	**6,683**	**10,395**	**6,683**	**10,395**

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

25. CROSS-CURRENCY AND INTEREST RATE SWAP

On 29 April 2015, the Group fully repaid its obligations under the cross-currency interest rate swap, paying 57,857.

Net income from swap for the year ended 31 December 2015 of 17,562 is reflected in the line "Finance income" in the consolidated statement of comprehensive income / (loss), including foreign exchange loss of 49,644 and an increase in its fair value of 67,206.

26. EMPLOYEE BENEFITS

Unfunded defined benefit plans

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries (Novoroslesexport, Shipyard and Fleet). Certain one-time benefits are stipulated by the plans, and upon attainment of a retirement age the employees are entitled to regular retirement benefits. Also post-retirement benefits are provided to these employees ranging from RUR 333 to RUR 733 (from USD 5 to 11 USD) per month per employee, depending on each employee's years of service and qualifications.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2016. The present value of the defined benefit obligation, the related current service cost and the past service cost were all measured using the projected unit credit method.

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

	Valuation at	
	31 December 2016	31 December 2015
Discount rate	8.5%	9.7%
Employees turnover per annum	5.0%	5.0%
Expected annual rate of salary increase	7.0%	10.0%
Expected annual rate of post retirement benefits increase	0.0%	0.0%
Average residual period of work	7 years	7 years

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	Valuation at	
	31 December 2016	31 December 2015
Discount rate	8.5%	9.7%
Employees turnover per annum	5.0%	5.0%
Expected annual rate of salary increase	7.0%	10.0%
Expected annual rate of post retirement benefits increase	0.0%	0.0%
Average residual period of work	7 years	7 years

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	Year ended	
	31 December 2016	31 December 2015
Interest on obligation	532	534
Current service cost	171	157
Total	**703**	**691**

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

The amount of actuarial (gains) / losses recognised during the years ended 31 December 2016 and 2015 relates to changes in discount rate used as principal assumption for actuarial valuation.

In 2016, the number of retired employees who received benefits was 2,478 (2015: 2,470).

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans as of 31 December 2016 was 5,986 (31 December 2015: 5,043)

As at 31 December 2016 and 2015, the weighted average duration of the defined benefit obligation is 12.5 years.

The current portion of unfunded benefit obligations as at 31 December 2016 equals to 645
(31 December 2015: 638).

Movements in the present value of the defined benefit obligations in the current period were as follows:

	Year ended	
	31 December 2016	31 December 2015
Opening defined benefit obligation	**5,043**	**4,448**
Included in cost of service	**703**	**691**
Current service cost	171	157
Interest cost	532	534
Benefits paid	(374)	(381)
Actuarial (gains) / losses in other comprehensive income / (loss)	(395)	1,615
Effect of translation to presentation currency	1,009	(1,330)
Closing defined benefit obligation	**5,986**	**5,043**

The history of experience adjustments for defined benefit plan is as follows:

	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Present value of defined benefit obligation	5,986	5,043	4,448	9,184	9,551
Experience adjustments on plan liabilities	(395)	1,615	(1,603)	(178)	1,624

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

- If the discount rate increases by 1%, the defined benefit obligation would decrease by 314;
- If the expected salary growth increases by 1%, the defined benefit obligation would increase by 122; and
- If the mortality rate decreases by 10%, the defined benefit obligation would increase by 125.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Defined contribution plans

Contributions to the Russian Federation State Pension Fund charged to profit or loss amounted to 13,520 and 13,541 for the years ended 31 December 2016 and 2015, respectively, which related to employee services rendered during each year.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

27. INCREASE OF OWNERSHIP IN SUBSIDIARY

In July 2016, the Group acquired an additional 30.27% of interest in Shipyard for a cash consideration of 17,138. The carrying value of Shipyard's net assets in the consolidated financial statements on the date of acquisition shares was 31,552 in total. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of 9,542. The excess of the consideration paid over the Group's share in net assets acquired in the amount of 7,596 was recognised in the consolidated statement of changes in equity as a decrease of retained earnings.

Under the Federal Law "On Joint Stock Companies", the Company has an obligation to issue a public offer to purchase shares from the remaining shareholders of Shipyard. Purchase of shares from minority shareholders under the compulsory redemption procedure occurred in January 2017 (Note 36).

28. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables	5,286	3,278
Payables for property, plant and equipment	6,206	3,185
Other accounts payable	452	216
Total	**11,944**	**6,679**

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

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

	31 December 2016	31 December 2015
Past due	924	491
Due within three months	9,195	5,724
Due from three to six months	42	82
Due from six months to twelve months	1,783	382
Total	**11,944**	**6,679**

29. ACCRUED EXPENSES

	31 December 2016	31 December 2015
Accrued salaries and wages	11,310	8,650
Tax contingencies	2,143	-
Accrued rent expenses	1,404	2,192
Settlements with shareholders (Note 12)	932	1,767
Other accrued expenses	505	284
Accrued professional service expenses	173	204
Total	**16,467**	**13,097**

At the reporting date, the Group's subsidiaries IPP and Fleet were involved in legal proceedings with the Russian Federation tax authorities in connection with a decisions reached by these authorities relating to VAT.

In 2017, IPP has paid off its obligations in full, the legal proceedings were over.

30. RELATED PARTY TRANSACTIONS

Transactions between NCSP and its subsidiaries are eliminated on consolidation and are not disclosed in this Note. Related party receivables and payables resulting from operating activities are settled in the normal course of business. Details of transactions with related parties are disclosed below.

OMIRICO LIMITED, which owns 50.1% of the Group, is the ultimate parent of the Group. OMIRICO LIMITED is registered under the legislation of the Republic of Cyprus, and is jointly controlled by PJSC Transneft and members of the Magomedov family.

The owner of 100% of the PJSC Transneft ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation. The PJSC Transneft preferential shares are owned by various legal entities and private individuals and are traded on the secondary stock market.

Due to the fact that the Federal Property Agency of the Russian Federation owns a direct 20% interest in NCSP and has significant influence over the Group, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended 31 December 2016 and 31 December 2015, the Group transacted with Sberbank, Bank VTB, PJSC NK Rosneft ("Rosneft"), OJSC Russian Railways and other state-controlled entities (apart from PJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees have been given or received. No provisions have been made in respect of the amounts owed by related parties except those disclosed in Note 16.

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

	Year ended	
	31 December 2016	31 December 2015
Sales		
Sales of goods and services	98,252	87,544
Interest income	10,662	515
Purchases		
Services and materials received	3,501	4,233
Finance costs	92,157	88,185

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

	31 December 2015	31 December 2014
Cash and cash equivalents		
Cash and cash equivalents	205,414	35,627
Receivables		
Trade and other receivables	3,562	1,138
Advances to suppliers	188	313
Payables		
Trade and other payables	43	19
Advances received from customers	1,976	93
Debt		
Long-term debt	1,189,055	1,149,296
Current portion of long-term debt	200,097	351,825

Other related parties include the shareholders of the ultimate parent, parties controlled by them and their subsidiaries and associates.

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

Transactions with shareholders of the parent company and other related parties:

	Year ended	
	31 December 2016	31 December 2015
Sales		
Sales of goods and services	113,161	114,332
Interest income	2	3
Purchases		
Services and materials received	33,488	36,012

Balances with shareholders of the parent company and other related parties:

	31 December 2016	31 December 2015
Receivables		
Trade and other receivables	4,826	399
Advances to suppliers	18	62
Payables		
Trade and other payables	2,331	1,478
Advances received from customers	2,758	2,785

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

Transactions with NFT:

	Year ended	
	31 December 2016	31 December 2015
Sales and income		
Sales of goods and services	13,975	13,815
Interest income	559	973
Purchases		
Services and materials received	1,909	1,714

Balances with NFT:

	31 December 2016	31 December 2015
Receivables		
Trade and other receivable	100	266
Long-term loans and interest receivable	-	20,802
Short-term loans and interest receivable	6,933	-
Payables to related parties		
Advances received from customers	14	7

Compensation of key management personnel

For the years ended 31 December 2016 and 2015, the remuneration of the directors and members of key management was 9,593 (including termination benefits in the amount of 62) and 8,511 (including termination benefits in the amount of 6), respectively, which represented short-term employee benefits and social security contributions.

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

31. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended	
	31 December 2016	31 December 2015
Profit / (loss) for the period	**632,834**	**(83,427)**
Adjustments for:		
Impairment of restricted cash in Vneshprombank (Note 4)	-	305,794
Finance income	(16,150)	(47,403)
Finance costs	93,573	92,289
Share of profit in joint venture, net	(21,973)	(4,147)
Foreign exchange (gain) / loss, net	(247,784)	375,697
Income tax	158,802	(40,186)
Depreciation and amortisation	53,624	54,003
Change in defined benefit obligation	703	691
Impairment loss recognised on trade and other receivables	714	1,006
Loss on disposal of property, plant and equipment	582	251
Other adjustments	(15)	377
Working capital changes:		
Decrease / (increase) in inventories	388	(1,900)
(Increase) / decrease in receivables	(10,249)	4,037
Increase / (decrease) in liabilities	4,956	(290)
Cash flows generated from operating activities	**650,005**	**656,792**

32. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

In 2015 FGUP Rosmorport filed a claim against the Company in the Arbitration Court of Krasnodar region to increase the fee for the rent of the state-owned real estate located in Novorossiysk and Anapa seaports per agreement dated 2 August 2002. The legal proceedings were terminated because FGUP Rosmorport recalled its claim. In 2016, NCSP and FGUP Rosmorport signed an addendum to the rent agreement on the change of annual rent rate up to USD 7,7 million (RUR 521 million), net of VAT.

As at 21 November 2016 FAS issued prescriptive order concerning PTP breach of Federal Law №135 FZ "On Protection of Competition". Committee of FAS ordered PTP to:

- Annul stipulated monopolistically high price for oil transshipment of USD 2.25;
- Set an economically sound price for oil transshipment being not higher than the factual price set out by PTP in the year preceding the breach of the antimonopoly law, adjusted for the inflation;
- Issue an internal order which shall state that tariffs for oil transshipment are nominated only in RUR.

PTP filed a lawsuit against FAS to Moscow State Arbitration Court seeking the recognition of prescriptive order unlawful. For the period of litigation proceedings the prescriptive order is suspended. At the date of approval of these financial statements the litigation is still ongoing.

The Group is unable to estimate the potential effect of the litigation between PTP and FAS on the consolidated financial statements.

In 2016 FAS filed the claim against NCSP upon the breach of antimonopoly law. On 3 March 2017 FAS found NCSP guilty for breaking the Federal Law №135-FZ "On Protection of Competition", upon the fact of imposing a monopolistically high price for transshipment of oil and oil products, metal products, chemicals, containers.

On 22 March 2017 FAS held a hearing resulting in issuance of a prescriptive order to NCSP to transfer proceeds from monopolistic activities to federal budget (further information is disclosed in Note 36).

Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management of the Group believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities.

However, the relevant authorities may have differing interpretations, and the effects on the consolidated financial statements could be significant.

In accordance with the transfer pricing legislation the tax authorities may have additional requirements in relation to certain transactions, including the transactions with related parties ("controlled transactions"), if, in their opinion, the transaction is priced not at arm's length. During 2015 certain entities of the Group had such controlled transactions. The required notifications of these transactions were submitted to the tax authorities in 2016. As of the date when these financial statements were authorised for issuance the Group was in process of preparing the transfer pricing documentation for the transactions with related parties and foreign counterparties, which took place in 2016. The deadline for submission of formal notifications on these transactions to the tax authorities is 20 May 2017. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, for the year 2015 should be included in the income tax base of the controlling entities for the year 2016.

Fleet is the controlling entity of the foreign company Henford Logistics Ltd., which is registered in Hong Kong. Fleet notified tax authorities about its share in the controlled foreign company in accordance with the Tax Code of the Russian Federation ("Tax Code"). Henford Logistics Ltd.'s profit is subject to profit tax in accordance with Chapter 25 of the Tax Code. In 2016, Fleet received dividends from Henford Logistics Ltd. and accrued the profit tax according to the legislation.

According to the Group's estimates, the amount of other possible tax risks will not exceed 0.5% of the Group's revenue for 2016.

Operating environment

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

During 2016 the oil prices were low. The management of the Group cannot reliably estimate further price fluctuations and impact on the financial position of the Group.

In 2016 sanctions imposed in March 2014 by the U.S. and the E.U. on certain Russian officials, businessmen and companies, were still in place. Furthermore, international credit agencies downgraded Russia's long-term foreign currency sovereign rating, which led to the reduced access of the Russian businesses to the international capital and export markets, as well as to the inflation increase, capital outflow, slackening of the economic growth and other negative economic consequences.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations.

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

Insurance

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

Operating lease arrangements

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

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

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

	31 December 2016	31 December 2015
Within 1 year	53,361	37,221
Between 1 and 2 years	48,148	34,901
Between 2 and 3 years	47,305	32,794
Between 3 and 4 years	47,213	32,363
Between 4 and 5 years	46,796	32,451
Thereafter	844,466	481,621
Total	**1,087,289**	**651,351**

As of 31 December 2016 minimum lease payments were calculated according to the existing contract terms.

33. CAPITAL COMMITMENTS

As at 31 December 2016 and 2015, the Group had the following commitments for acquisition of property, plant and equipment and construction works:

	31 December 2016	31 December 2015
NCSP	88,921	69,335
Novoroslesexport	7,769	2,769
IPP	1,491	390
BSC	1,459	-
NZT	723	-
PTP	122	889
Shipyard	61	703
Total	**100,546**	**74,086**

As at 31 December 2016 and 2015 there were no capital commitments relating to obligations under finance lease contracts.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2016 and 2015, management believes that the carrying values of financial assets (Notes 16, 20 and 21) and financial liabilities recorded at amortised cost (Note 23 and 28) and also finance lease liability (Note 24) in the consolidated financial statements approximate their fair values, due to the fact that they are short-term, except for liabilities under credit agreements with Bank VTB and Sberbank. See disclosure below.

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

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organisations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of CBR. As at 31 December 2016 the discount rate used for obligations under agreement with Bank VTB comprised 6.69%. As at 31 December 2015 the discount rate used for obligations under agreement with Sberbank comprised 8.21%.

The fair value compared to the carrying value of long-term financial liabilities as at 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
LIBOR+ rate agreement with Bank VTB (Level 2)	1,389,152	1,323,670	-	-
LIBOR+ rate agreement with Sberbank (Level 2)	-	-	1,501,121	1,445,297

35. RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance and meet debt to equity ratio covenant of the loan agreement with Bank VTB (Note 23). Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends as well as the issuance of new debt or the redemption of existing debt.

Major categories of financial instruments

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

	31 December 2016	31 December 2015
Financial assets		
Cash and cash equivalents	**234,138**	**108,671**
Cash and cash equivalents	234,138	108,671
Loans and receivables	**34,654**	**37,124**
Trade and other receivables including long-term	28,096	20,400
Loans issued	6,558	16,724
Total financial assets	**268,792**	**145,795**
Financial liabilities carried at amortised cost		
Borrowings	(1,389,152)	(1,501,121)
Trade and other payables	(5,793)	(3,542)
Payables for property, plant and equipment	(8,122)	(4,119)
Finance lease	(6,683)	(10,395)
	(1,409,750)	**(1,519,177)**
Total financial liabilities	**(1,409,750)**	**(1,519,177)**

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

(IN THOUSANDS OF US DOLLARS, EXCEPT AS OTHERWISE STATED)

Foreign currency risk

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

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

	31 December 2016	31 December 2015
Assets		
Cash and cash equivalents	67,611	13,244
Investments and receivables carried at amortised cost	8,442	23,784
Total assets	**76,053**	**37,028**
Liabilities		
Borrowings	(1,389,152)	(1,501,121)
Finance lease	(6,683)	(10,016)
Trade payables	(104)	(368)
Total liabilities	**(1,395,939)**	**(1,511,505)**
Total net liability position	**(1,319,886)**	**(1,474,477)**

The table below details the sensitivity of the Group's financial instruments to a 20% (2015: 20%) depreciation of the RUR against the US Dollar if all other variables are held constant. The analysis was applied to monetary items denominated in USD at the year end dates. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A 20% appreciation of the RUR against the USD would have an equal and opposite impact:

	31 December 2016	31 December 2015
Loss	(263,977)	(294,895)

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

	31 December 2016	31 December 2015
Assets		
Cash and cash equivalents	26	-
Total assets	**26**	-
Liabilities		
Finance lease	-	(379)
Trade payables	(884)	(551)
Total liabilities	**(884)**	**(930)**
Total net liability position	**(858)**	**(930)**

The table below details the Group's sensitivity to a 20% (2015: 20%) depreciation of the RUR against the EUR if all other variables are held constant. The analysis was applied to monetary items at the year end dates denominated in the EUR. A 20% appreciation of the RUR against the EUR would have an equal and opposite impact:

	31 December 2016	31 December 2015
Loss	(172)	(186)

Interest rate risk

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

The Group has only one credit agreement on the floating interest rate terms. On 20 June 2016 NCSP received a loan from Bank VTB in the amount of 1,500,000 for early repayment of Sberbank loan. Floating interest rate of LIBOR 3M + 3.99% per annum is applied. The change in LIBOR rate by 1% would lead to an increase in interest expense and, consequently, to a decrease in net profit by 13,892 and 11,114 respectively.

Credit risk

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

The summary below shows revenue for 2016 and 2015 and outstanding balances as at 31 December 2016 and 2015 of the top five counterparties:

	Customer location	Revenue for 2016	31 December 2016
TRANSNEFT-SERVICE	Russia	87,507	1,314
ROSNEFT	Russia	72,522	2,233
UGLEMETTRANS	Russia	56,438	1,135
METALLOINVEST LOGISTICS DWC-LLC	United Arab Emirates	47,077	-
SURGUTNEFTEGAS	Russia	38,310	2,057
Total		**301,854**	**6,739**

	Customer location	Revenue for 2015	31 December 2015
TRANSNEFT-SERVICE	Russia	94,255	236
ROSNEFT	Russia	62,685	610
METALLOINVEST LOGISTICS DWC-LLC	United Arab Emirates	50,258	197
KROONKASS LIMITED	Cyprus	39,744	15
CHEMERON LTD	Cyprus	32,076	357
Total		**279,018**	**1,415**

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

Liquidity risk

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

For a maturity analysis of financial liabilities, see Notes 23 and 28.

36. EVENTS AFTER THE BALANCE SHEET DATE

On 20 January 2017 as a result of the compulsory redemption of Shipyard's shares the Company acquired 174,845 shares which led to increase in its ownership up to 98.26%.

As of 22 March 2017, FAS found NCSP guilty for breaking the Federal Law №135-FZ "On Protection of Competition", due to its dominant position and the view that NCSP imposed and maintained (via monopoly) high prices for the transshipment of certain cargos in Novorossiysk port. FAS issued an order for NCSP to transfer certain proceeds from their activities in an amount of 170,236 to the federal budget. NCSP does not agree with FAS's decision and order, and intends to appeal in accordance with the established law procedures and as the stipulated by the prescriptive order period. The prescriptive order will be suspended for the period of litigation.

The Group's management assumes that NCSP actions do not break the antimonopoly law and therefore, assessed the risk of transferring the proceeds to the federal budget and the risk of other negative consequences as possible given the intended litigation, so no respective provisions were accrued as of 31 December 2016.

APPENDICES

RESPONSIBILITY STATEMENT

We hereby confirm that to the best of our knowledge this Report includes a fair review of the development and performance of the business and the position of PJSC NCSP and the subsidiaries included in the consolidation taken as a whole (NCSP Group), together with a description of the principal risks and uncertainties that the NCSP Groupfaces.

The 2016 consolidated financial statements of PJSC NCSP prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and results of NCSP Group.

S.K. Batov	**G.I. Kachan**
CEO of PJSC NCSP	Chief Accountant of PJSC NCSP

Forward-looking statements

This annual financial report was written using the information available to NCSP Group (PJSC NCSP and its subsidiaries) (hereinafter also the "Group") at the time of its preparation. Some of the statements in this annual financial report regarding the Group's business activities, economic indicators, financial position, business and operating performance, plans, projects and expected results, as well as tariff trends, costs, anticipated expenses, development prospects, industry and market forecasts, individual projects and other factors are forward-looking statements, i.e. they are not established facts.

The forward-looking statements which the Group may make from time to time (but which are not included in this document) may also contain planned or expected data on revenue, profits (losses), dividends and other financial indicators and ratios. The words "intends ", "aims", "projects", "expects", "estimates", "plans", "believes ", "assumes", "may", "should", "will", "will continue" and similar expressions usually indicate forward-looking statements. However, this is not the only way to denote the forward-looking character of information.

Due to their specific nature, forward-looking statements are associated with inherent risk and uncertainty, both general and specific, and there is the danger that assumptions, forecasts and other forward-looking statements will not actually come to pass. In light of these risks, uncertainties and assumptions, the Group cautions that, owing to the influence of a wide range of material factors, actual results may differ from those indicated, directly or indirectly, in the forward-looking statements, which are only valid as at the time of preparation of this annual financial report NCSP Group neither affirms nor guarantees that the performance results set forth in the forward-looking statements will be achieved.

The Group accepts no liability for losses which may be incurred by individuals or legal entities who act on the basis of the forward-looking statements. In each particular case, the forward-looking statements represent only one of many possible development scenarios, and should not be seen as the most probable. Except in those cases directly stipulated by applicable legislation and the Listing Rules of the UK Listing Authority, the Group assumes no obligation to publish updates and amendments to the forward-looking statements to reflect new information or subsequent events.

Source of operating data and certain financial information

Operating data and certain financial information (e.g. cargo turnover analysis, storage volumes, capacities, EBITDA and number of personnel) used in this Annual financial report are based on the Group management accounting data which is subject to the management judgment and presentation.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables and charts in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

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