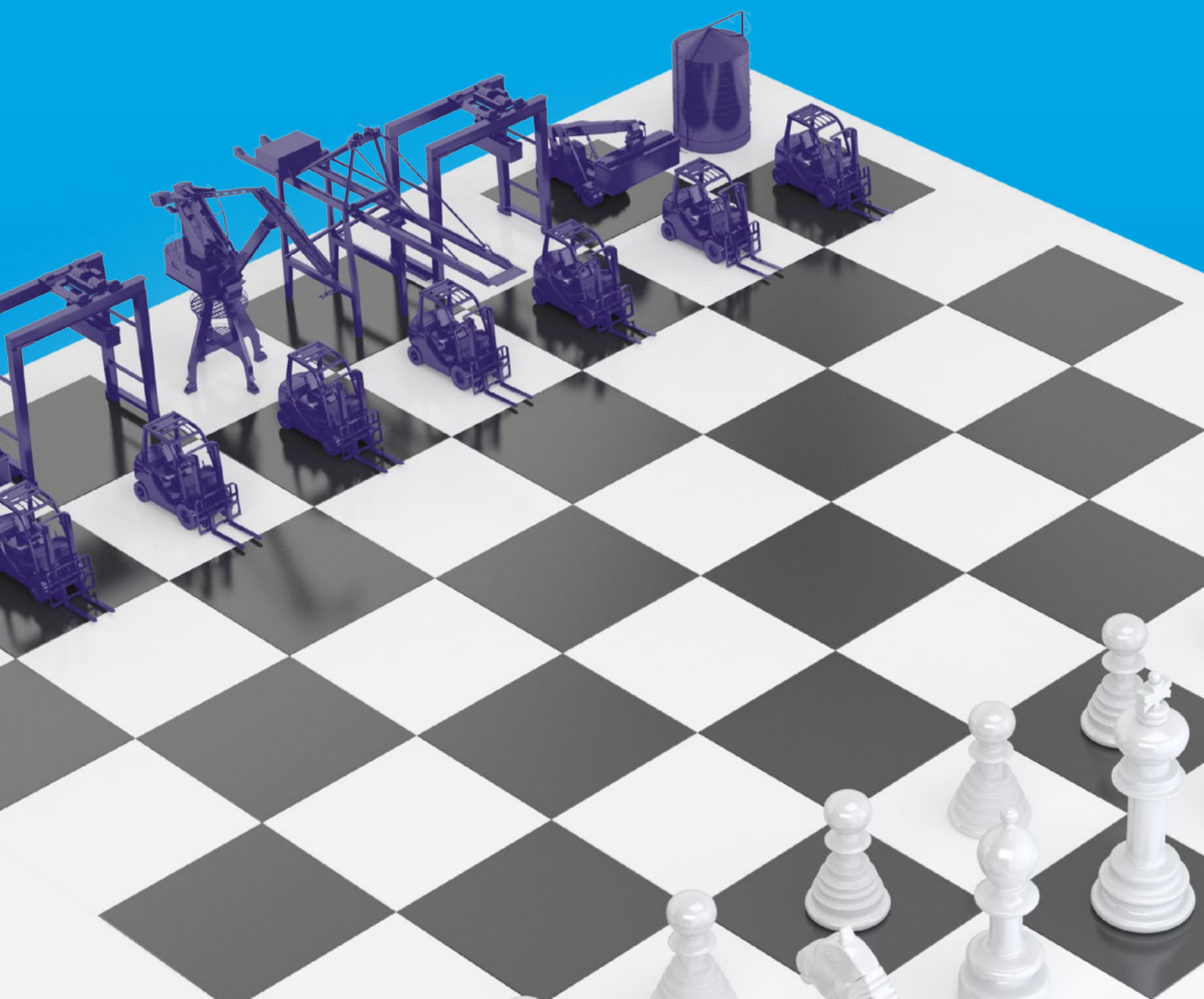




ANNUAL FINANCIAL REPORT

NCSP GROUP / 2015



NCSF Group assets

Azov-Black Sea basin/Port of Novorossiysk

NSRZ

Metals, bulk cargo
2.5% of Group cargo turnover in 2015
4.4% of Group revenue in 2015

Max. vessel deadweight
54,000 t

Cranes:

1, cap. 50-75 t
14, 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
9, cap. up to 10 t

Tractors:

11, cap. 25-50 t

Roll trailers:

39, cap. 50-75 t

NCSP

All types of cargo
43.0% of Group cargo turnover in 2015
44.4% of Group revenue in 2015

Max. vessel deadweight
276,000 t

Cranes:

85,000 t
Cargo area
Total storage capacity
5,300TEU

Cranes:

15, cap. 75-100 t
14, cap. 50-75 t
22, cap. 25-50 t
20, cap. 10-25 t

Forklifts:

32, cap. 25-50 t
36, cap. 10-25 t
128, cap. up to 10 t

Tractors:

55, cap. 25-50 t

Roll trailers:

84, cap. 50-75 t

NGT

Grain
2.4% of Group cargo turnover in 2015
3.9% of Group revenue in 2015

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

Liquid cargo
3.3% of Group cargo turnover in 2015
11.2% of Group revenue in 2015

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, metals
2.4% of Group cargo turnover in 2015
7.9% of Group revenue in 2015

Max. vessel deadweight
60,000 t

Total storage capacity
11,100TEU

Cranes:

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

Forklifts:

19, cap. 10-25 t
51, cap. up to 10 t

Tractors:

33, cap. up to 25 t

Roll trailers:

4, cap. 50-75 t

RMG cranes:

6, cap. 25-50 t

NFT

Oil products
3.2% of Group cargo turnover in 2015

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

6.4% of Group revenue in 2015

16 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

0.5% of Group cargo turnover in 2015
1.2% of Group revenue in 2015

Max. vessel deadweight
20,000 t

Simultaneous storage capacity
10,000TEU

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

3.6% of Group revenue in 2015

7 azimuth tugboats

built in 2004-2011

(3500 - 5500 hp),

Arc4/Arc5 ice-class

PTP

Crude oil, oil products

42.7% of Group cargo turnover in 2015
17.0% of Group revenue in 2015

Max. vessel deadweight

150,000 t

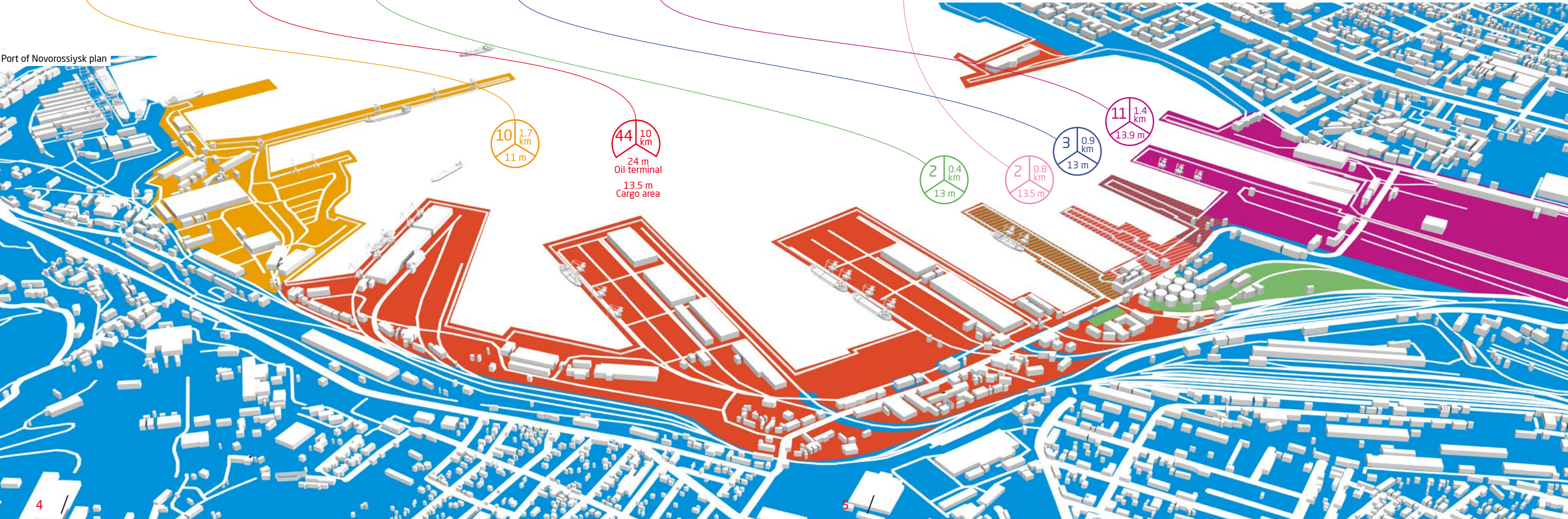
Legend

Number of berths

Berth length

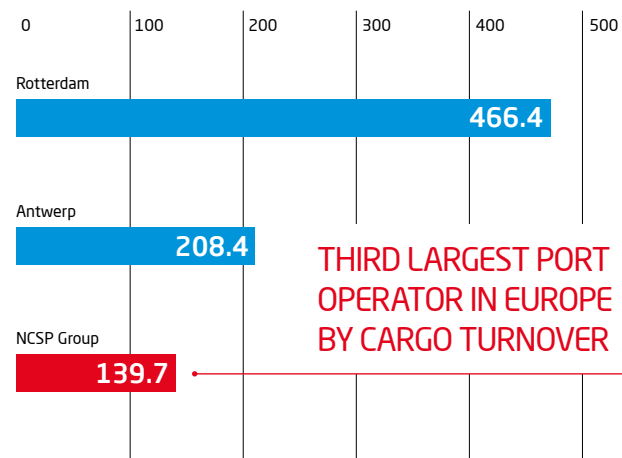
Berth depth

Port of Novorossiysk plan



Key facts and figures

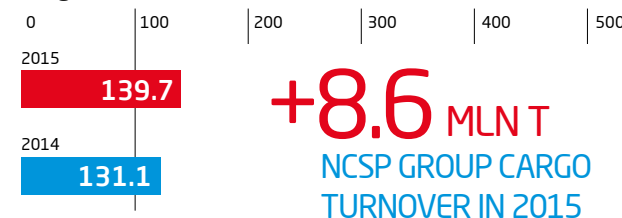
Largest ports in Europe by cargo turnover in 2015, mln t



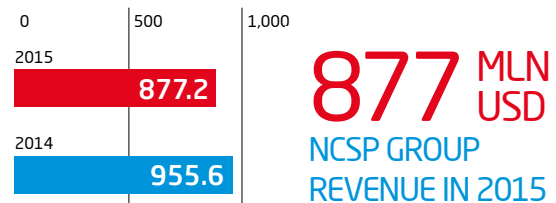
Prime location

Russia's largest port, Novorossiysk, is located at the crossroads of international transport corridors that link Russia to the Mediterranean, Middle East, Africa, South & Southeast Asia, and North & South America

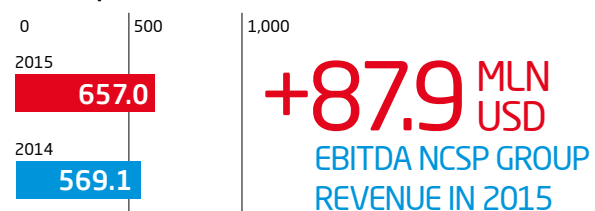
Cargo turnover, mln t



Revenue, mln USD



EBITDA, mln USD



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. 1 CONTAINER TERMINAL
BY CARGO TURNOVER

Port of Baltiysk
IN KALININGRAD REGION

Developed infrastructure

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

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

Cargo turnover of Russian seaports in 2015



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
Novorometall



Container lines

MSC
Arkas
MAERSK



Grain

RIF Trading House
Louis Dreyfus
Olam International
International Grain Company



Chemical cargo

Gazpromtrans
Nevnomysky Azot
Uralkali
KAO Azot



Coal

Promugolservis
Kuzbassrazrezugol Coal Company
Raspadskaya Coal Company



Nonferrous metals

Rusal
Kazzinc
Kazakhstan Electrolysis Plant
Kazakhmys Smelting



Strategic report



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DEVELOPMENT PROGRAM

OF NCSP GROUP UNTIL THE YEAR 2020
WAS APPROVED BY THE BOARD OF
DIRECTORS IN JANUARY 2015

COMPLEX DEVELOPMENT

OF PORTS AND TRANSPORT
INFRASTRUCTURE UNTIL THE YEAR
2020 WILL BE GOVERNED BY THE
FEDERAL ROADMAP

Chairman statement



Dear shareholders!

The Port of Novorossiysk celebrated its 170th birthday in 2015, and in this anniversary year NCSP Group demonstrated remarkable results despite the crisis in the Russian economy, overtaking the Port of Hamburg to become the third largest port operator in Europe by cargo turnover and significantly increasing the profitability of its business.

Shareholders articulated a common vision and development strategy for NCSP Group last year and in January 2015 PJSC NCSP's Board of Directors approved a Long-term Development Program to the year 2020 that calls for expanding the range of services provided, increasing the equipment resources of port operations and investing up to 35 billion rubles in Group development projects, as well as raising about 14 billion rubles of government investment in federally-owned infrastructure such as docks and access channels.

Opportunities have opened up for synergy between NCSP Group's development plans and the strategic projects of Transneft, including the projects to overhaul and repurpose the Sever and Yug pipelines with terminuses at the ports of Primorsk and Novorossiysk.

The Board of Directors continued efforts to improve corporate governance last year. PJSC NCSP joined the Anti-Corruption Charter of Russian Business. The Company is increasing the level of information disclosure and has begun publishing materials for upcoming general shareholder meetings on its website and is disclosing information about key personnel compensation in the Annual Report. The Company has also approved a risk management policy and has mapped out plans to further develop its corporate governance system.

Our achievements did not go unnoticed by investors. The price of GDR on PJSC NCSP's shares surged 93% last year, while the MSCI Russia Index slumped 1%.

The Russian government devoted close attention to issues concerning the development of the country's transport potential in 2015. President Vladimir Putin held a meeting in August 2015 on the development of transport infrastructure in southern Russia, following which he instructed the government to work with shippers and port operators to draft a roadmap for development of seaports, as well as short- and long-distance railway and road approaches to ports, in the Azov-Black Sea basin in the period to 2020.

President of Russia also instructed the government to draft proposals for the implementation of measures to ensure that large vessels can be accommodated at the Port of Novorossiysk, including dredging, and reconstruction and construction of new hydraulic structures. This directly affects the port's competitiveness, given the steady global trend toward using large vessels, which significantly reduce the cost of marine shipping.

In the area of railway infrastructure development, ministries and government agencies, together with Russian Railways, have been instructed to see to the financing of a project to comprehensively reconstruct the Kotelnikovo-Tikhoretskaya-Krymskaya rail line, with a bypass of the Krasnodar railway junction, which will increase the throughput capacity of the North Caucasus Railway.

The coordinated implementation of all these plans will enable NCSP Group to make a substantial contribution to the development of Russia's economic potential and increase shareholder value. In conclusion, I would like to sincerely thank our shareholders, customers and partners, employees and investors for the support and confidence that they have shown toward NCSP Group.

Respectfully,

MAXIM GRISHANIN
Chairman, PJSC NCSP



CEO statement



Dear shareholders!

Last year NCSP Group managed to strengthen its leading positions on the market and increase efficiency in the face of a challenging economic situation in Russia and the world, demonstrating the fundamental resilience of our business model.

In 2015, we managed to turn around negative trends and increase cargo turnover by 6.5% to 139.7 million tonnes, achieving the strongest growth in seven years.

The weakening of the ruble increased the competitiveness of Russian commodities on the world market, facilitating the growth of cargo transshipments at Russian ports. NCSP Group capitalized on the market situation, handling 14.7% more oil products, 33.3% more coal and 29.4% more iron ore products.

NCSP Group's market share in 2015 amounted to 20.6% of cargo turnover at all Russian seaports, and it significantly exceeded this figure for certain groups of commodities, reaching 44.7% for ferrous metals, 34.3% for nonferrous metals and 32.8% for ore cargo. NCSP Group increased its market share by 5 percentage points in handling of ore cargo and 4 percentage points in handling of ferrous metals compared to 2014.

NCSP Group's revenue decreased by 8.2% to \$877.2 million despite the strong growth in cargo turnover primarily because of a decline in the volume and rates of bunkering operations and the ruble's depreciation against the U.S. dollar.

NCSP Group's cost of sales decreased by 36.2% to \$237.6 million in dollar terms in 2015 and, as a result of the diligent efforts of management and employees, rose by just 3.3% in ruble terms, which was far below the rate of inflation.

Thanks to a set of measures to increase efficiency and control costs, the Group's EBITDA grew by 15.4% or \$87.9 million to \$657 million in 2015, and the EBITDA margin rose by 15 percentage points to 75%.

The Group managed to reduce its net loss in five times last year, to \$83.4 million from \$414.7 million a year earlier. The net debt to EBITDA ratio improved in 2015, dropping to 2.14 from 2.51, which gives the Group a sufficient reserve to meet covenants on financial liabilities.

These results would not have been possible without the determined implementation of the program to modernize cargo handling facilities over the past two years, which has enabled us to accelerate cargo handling, create reserve capacity and improve the quality of customer service.

We are continuing these efforts in order to consolidate our progress. At the beginning of 2016, we deployed a new information system to manage cargo handling based on the Microsoft Dynamics AX 2012 ERP platform. This system handles data on the status of storage facilities in real time and makes it possible to process customer requests quickly and well in conditions of heavy cargo traffic. The introduction of coordinated dispatch shifts with the North Caucasus Railway helped us to significantly accelerate the turnaround of railcars by aggregated cargo classifications.

The implementation of the investment projects set out in the Long-term Development Program to 2020 will enable the Group to increase cargo turnover by 29 million tonnes of dry cargo per year. These projects include the reconstruction of the grain terminal at Dock No. 3 and the reconstruction of the Novorossiysk Grain Terminal to increase cargo turnover by 5 million tonnes per year; the construction of a terminal for mineral fertilizer with capacity to handle up to 5 million tonnes per year; the construction of a terminal to handle up to 10 million tonnes of bulk cargo per year; and the expansion of container terminals.

Transneft's projects to expand the Sever and Yug pipeline systems and equipment upgrades at NCSP Group's oil loading facilities will enable us to increase transshipment of oil products by 18 million tonnes per year.

We have therefore laid a strong foundation for NCSP Group's sustainable development in the years ahead, regardless of the external conditions. This allows us to look confidently to the future and sets the stage for the growth of NCSP Group's business for the benefit of our customers, local communities and shareholders.

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, so the external economic situation, as well as the dynamics of production and exports of commodities, the mainstay of Russian exports, have a decisive impact on the industry.

Under the pressure of macroeconomic and political factors, Russia's GDP contracted by 3.7% in 2015, and industrial production slumped by 3.4%.¹ Production of mineral resources edged up 0.1%, while production in manufacturing sectors fell by 6.1%.² Agricultural production grew by 3.0%.³

The steep appreciation of the U.S. dollar and depreciation of the ruble gave export-oriented sectors significant advantages, which partially offset the decline of world commodity prices for Russian exporters in 2015. Russia's foreign trade turnover in dollar terms fell by 33.7%,⁴ but exports of key commodities grew by volume, leading to an increase in cargo turnover at Russian seaports.

While oil production in Russia rose by 7.1 million tonnes or 1.3%, the amount of crude shipped for domestic refining fell by 8 million tonnes or 2.7% compared to 2014.⁵ Crude oil exports increased by 21.1 million tonnes or 9.4%, and exports of oil products grew by 6.7 million tonnes or 4.1%.⁶ 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 16 million tonnes or 4.5%, and coal exports increased by 7.0 million tonnes or 6.0%. Iron ore concentrate production decreased by 0.7 million tonnes or 0.7%, and iron ore exports fell by 1.7 million tonnes or 7.4%. Production of pig iron, steel and rolled ferrous metal products rose by 0.5 million tonnes or 0.3%, and exports of ferrous metals grew by 2.8 million tonnes or 12.0%. Exports of nonferrous metals – copper, nickel and aluminum – also saw strong growth, climbing 0.9 million tonnes or 26.5%.⁷

Grain production decreased by 1 million tonnes or 1.0%. Wheat exports fell by 0.9 million tonnes or 4.1% due to a prohibitive export duty that was in effect from February 1 to May 23, 2015.

Production of mineral fertilizers increased by 0.3 million tonnes or 1.5%, while exports of fertilizers rose by 1.3 million tonnes or 8.8%.⁸

Cargo turnover at Russian seaports, mln tonnes



● 2015 ● 2014

Source: ASOP

¹⁻³ Source: Economic Development Ministry of Russia
⁴ Source: Central Bank of Russia
⁵ Source: Federal Statistics Service of Russia (Rosstat)
⁶⁻⁸ Source: Federal Statistics Service of Russia (Rosstat)



NCSP Group market share:

20.6%

OF CARGO TURNOVER AT ALL RUSSIAN SEAPORTS

Cargo turnover at Russian seaports

Cargo handling at Russian seaports grew by 5.7% to 676.8 million tonnes in 2015, as the volume of liquid cargo rose by 6.0% to 364.5 million tonnes and dry cargo, not including containers, increased by 9.0% to 272.2 million tonnes, while cargo in containers decreased by 14.5% to 40.1 million tonnes.⁹

The increase in dry cargo turnover was driven by the growth of transshipments of cargo to ferries by 10.6 million tonnes or almost twofold; coal by 7.0 million tonnes or 6.0%; grain by 4.5 million tonnes or 15.1%; ferrous metals by 2.8 million tonnes or 12.0%; and mineral fertilizers by 1.3 million tonnes or 8.9%. There was also a 50% surge in dry cargo transshipments in coastal shipping, including on the back of shipments to the Crimean Peninsula. Transshipment of crude oil increased by 15.0 million tonnes or 8.0%, and handling of oil products increased by 5.2 million tonnes o 3.7%.¹⁰

Transshipment of containers at Russian seaports fell by 25.4% to 3.94 million TEU in 2015 from 5.29 million TEU in 2014. In the weight equivalent, container cargo turnover decreased by 6.8 million tonnes or 14.5%. Handling of containers is concentrated at the ports of St. Petersburg, Vladivostok and Novorossiysk, which accounted for respectively 43.5%, 15.7% and 14.8% of total container turnover at Russian seaports in 2015.¹¹

Export cargo made up almost 80.0% of total cargo turnover at Russian seaports in 2015.¹²

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

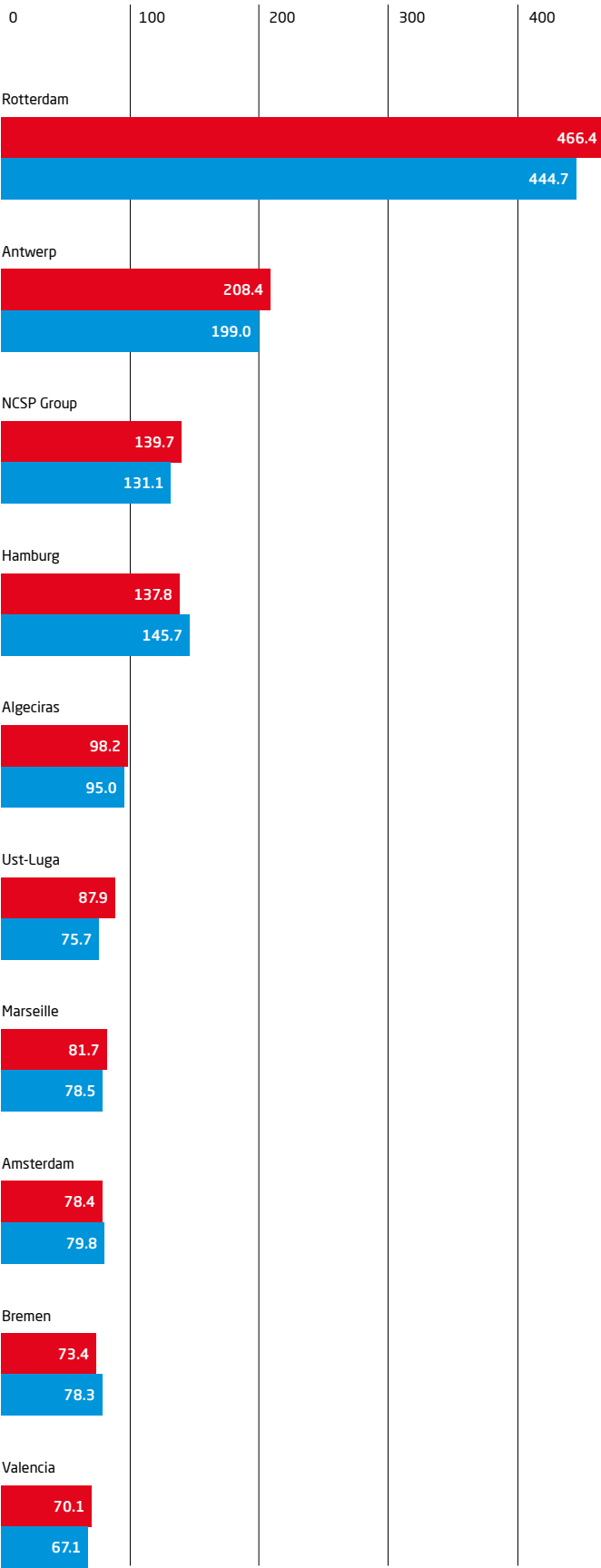
Cargo turnover at seaports in the Baltic basin grew by 3.2% to 230.7 million tonnes in 2015, as dry cargo turnover fell by 2.2% to 87.8 million tonnes, while liquid cargo turnover rose by 6.9% to 142.9 million tonnes.¹³

Dry cargo turnover decreased as cargo in containers fell 17.0%, scrap metal cargo dropped 8.4% and refrigerated cargo tumbled 18.5%, although there was growth of 9.0% in handling of coal, 17.1% for mineral fertilizer, 13.3% for ferrous metals and 14.2% for cargo on ferries.¹⁴

Cargo turnover at the Ust-Luga port grew by 16.1% to 87.9 million tonnes in 2015, making it the leading Russian port by turnover. Transshipments through the Primorsk port, which also handles crude oil and oil product exports, increased by 11.0% to 59.6 million tonnes. Meanwhile, cargo turnover fell 15.8% to 51.5 million tonnes at the St. Petersburg port and 8.6% to 12.7 million tonnes at the Kaliningrad port.¹⁵

⁹⁻¹⁵ Source: Association of Commercial Seaports of Russia (ASOP)

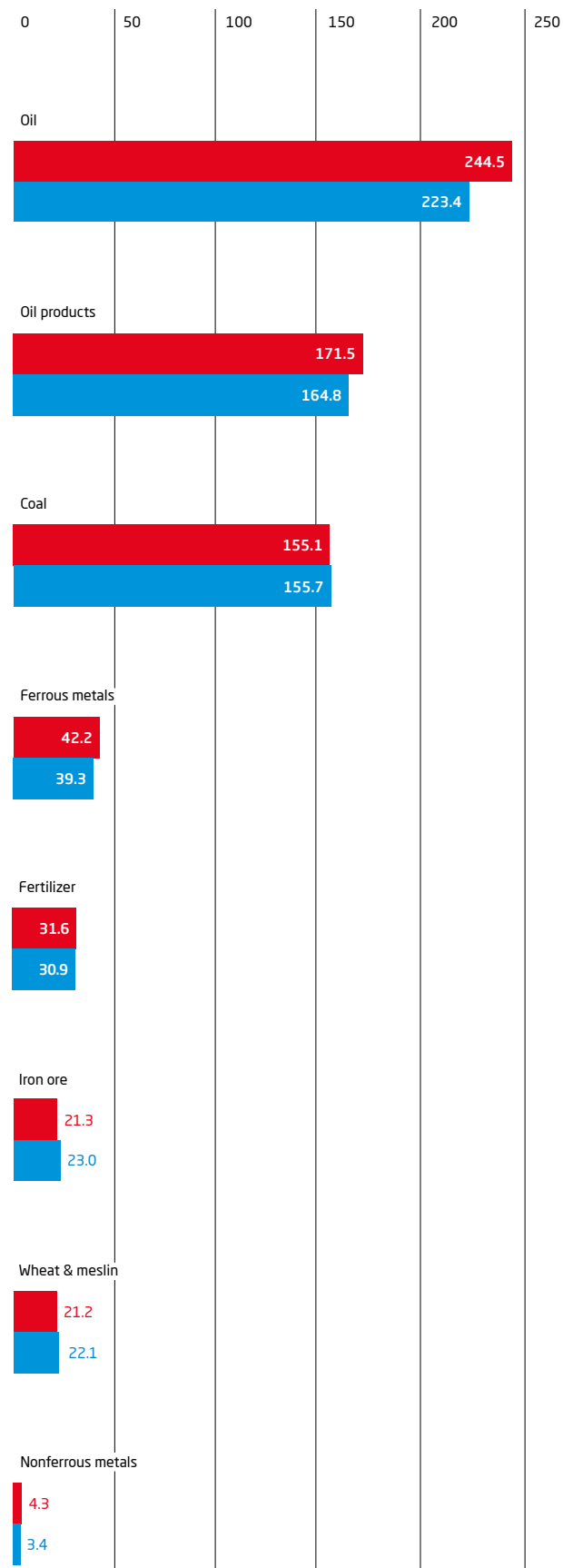
Cargo turnover at European seaports, mln tonnes



● 2015 ● 2014

Source: Data from foreign ports, ASOP

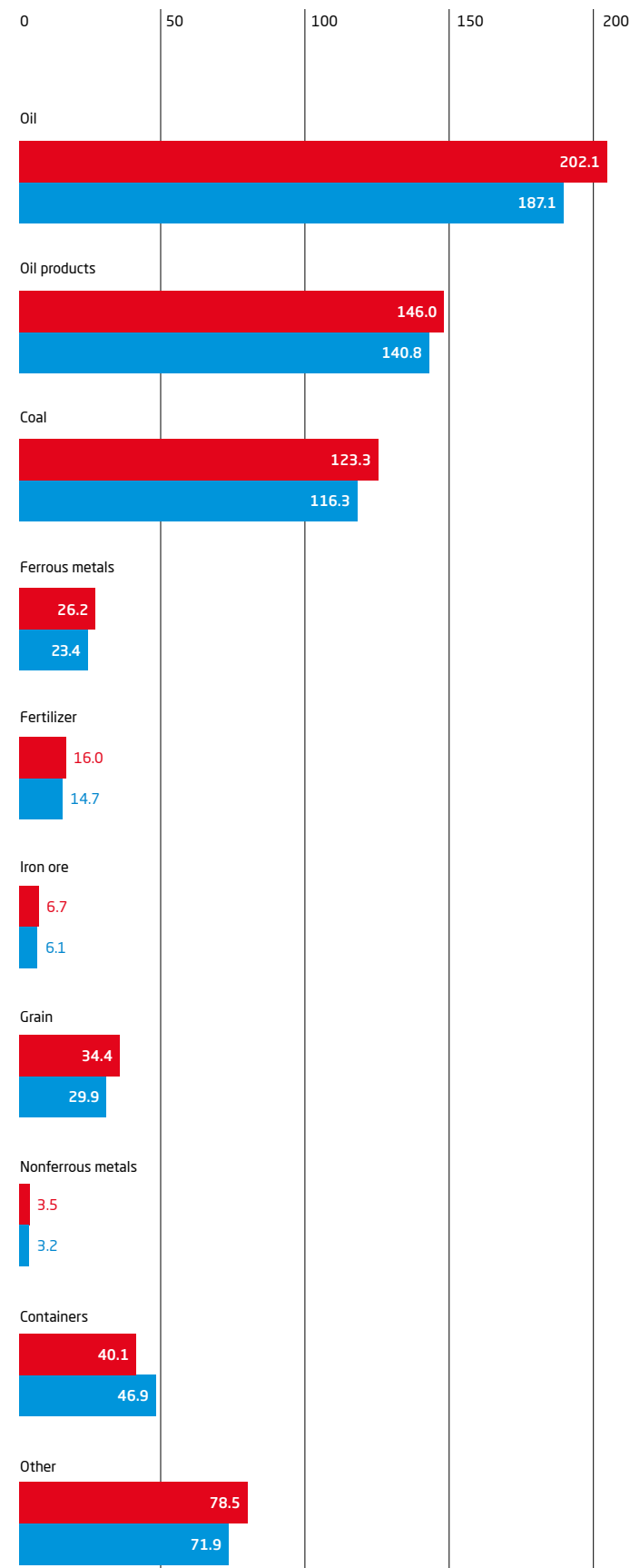
Russian exports of key commodities, mln tonnes



● 2015 ● 2014

Source: Federal Customs Service of Russia

Transshipment of cargo at Russian seaports, mln tonnes



● 2015 ● 2014

Source: ASOP



Cargo turnover at seaports in the Azov-Black Sea basin grew by 10.2% to 233.0 million tonnes, as dry cargo handling surged 21.5% to 98.5 million tonnes and liquid cargo increased by 3.2% to 134.5 million tonnes.¹⁶

The growth of dry cargo transshipments was driven primarily by a threefold increase in cargo on ferries. Cargo turnover also increased by 14.2% for grain, 22.3% for ferrous metals, 19.2% for coal and 37.8% for ore, while handling of container cargo and sugar decreased by respectively 5.2% and 21.5%.¹⁷

Cargo turnover grew by 4.5% to 127.1 million tonnes at the port of Novorossiysk; 15.2% to 30.5 million tonnes at Port Kavkaz; and 13.8% to 25.2 million tonnes at the port of Tuapse.¹⁸

Cargo turnover at seaports in Russia's Far East rose by 5.2% to 171.0 million tonnes in 2015. Dry cargo handling increased by 1.1% and handling of liquid cargo grew by 11.3%, primarily on the back of growth in crude oil volumes at the Kozmino terminal in Vostochny, which is the terminus of the Eastern Siberia – Pacific Ocean oil pipeline.¹⁹

Seaports in the Arctic basin handled 35.4 million tonnes of cargo in 2015, 1.1% more than in the previous year, while seaports in the Caspian basin saw cargo turnover fall 15.8% to 6.7 million tonnes.²⁰

Shipment of Russian cargo through foreign ports

Transshipment of Russian cargo through foreign ports fell 18.5% to 62.4 million tonnes in 2015, which amounts to 9.1% of total transshipments of Russian foreign trade cargo at seaports. The steepest drop was in shipments of crude oil and oil products through Baltic countries as more such cargo was directed to new terminals at Russian ports and some oil shipments were redirected from the west to the east.

Ports in Baltic countries handled 53.3 million tonnes of Russian foreign trade cargo in 2015, and Ukrainian ports handled 9.1 million tonnes, of which dry cargo made up respectively 62.7% and 82.7%.²¹

Transshipment through Baltic ports decreased by 9.3 million tonnes or 14.9%, as oil and oil product volume fell by 5.8 million tonnes or 22.4% and dry cargo volume dropped by 3.6 million tonnes or 9.7%, primarily due to coal and mineral fertilizer.²²

Transshipment through Ukrainian ports fell by 4.8 million tonnes or 34.6%, dropping by 2.1 million tonnes or 57.3% for oil and oil products and by 2.7 million tonnes or 26.4% for dry cargo. There was a steep decline in transshipments for all categories of dry cargo, except grain.²³

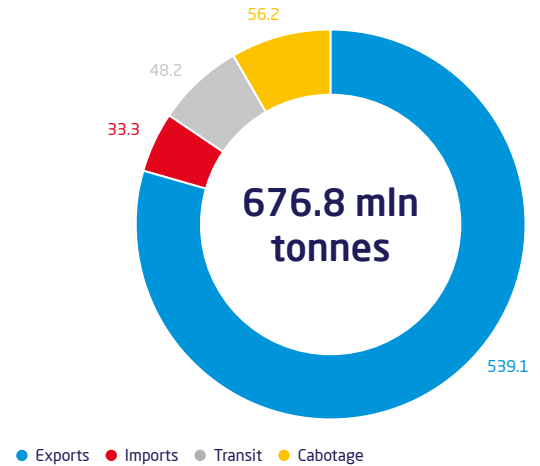
Shipment of cargo to/from Russian seaports

Russian seaports took delivery of 613.3 million tonnes of cargo for shipment by sea in 2015, of which liquid cargo made up 58.8%.²⁴ Most cargo is delivered to ports by railways and pipelines.

Russian seaports received 58.8 million tonnes of cargo by sea in 2015, 91.4% of which was dry cargo.²⁵ Motor vehicles carry more than half of the cargo shipped out of seaports.

¹⁶⁻²⁵ Source: ASOP

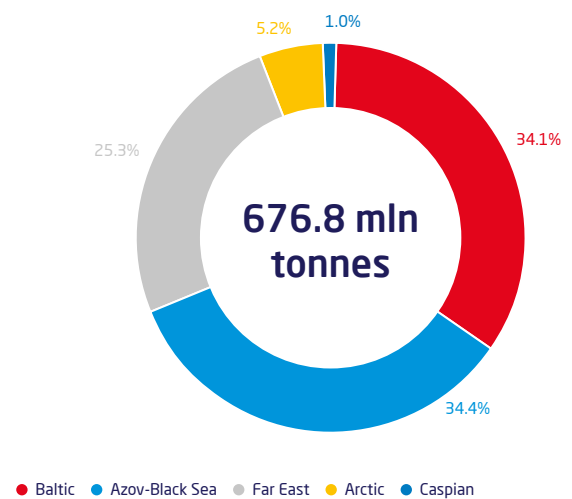
Exports and imports at Russian ports in 2015, mln tonnes



● Exports ● Imports ● Transit ● Cabotage

Source: ASOP

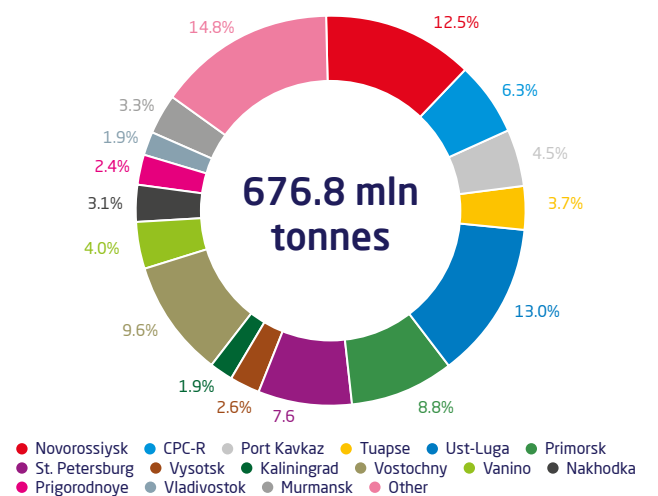
Transshipment of cargo at Russian ports by basin in 2015, %



● Baltic ● Azov-Black Sea ● Far East ● Arctic ● Caspian

Source: ASOP

Market share of largest Russian seaports by cargo turnover in 2015



Source: ASOP



Outlook for global trade turnover to 2018²⁶

Global economic growth will slow to 3.0% in 2015, according to the Forecast for the Social and Economic Development of the Russian Federation for 2016 and the Planning Period of 2017 and 2018 prepared by the Economic Development Ministry of Russia. In the period of 2016-2018, favorable factors such as low prices for commodities, including oil and gas, growth of labor productivity, acceleration of growth in developed economies and subsequent acceleration of growth in emerging markets will help to accelerate global economic growth to 3.6% in 2018.

In the wake of the global financial crisis, world trade lost its momentum and since 2013 it has been growing by no more than 3.5%, far slower than pre-crisis growth rates, which averaged 7.7% per year in 2002-2007. In the event of a favorable scenario for global economic growth, the growth of trade could accelerate to 4.4% in 2016 and by 2018 the expansion of world trade, the IMF, WTO and Unctad reckon, could return to a 5% growth trajectory, but this would still be far short of the sustained pre-crisis growth.

It is highly likely that the downward phase of the long-term cycle of prices for commodities in the global economy will continue and that oil prices will stabilize at a low level. Prices are expected to lock in at lows for metals, fertilizers, chemical products and a number of food goods. Global demand for hydrocarbons will remain under pressure due to the dramatic slowdown of economic growth in countries where demand has grown fastest in recent years, particularly China, other countries in the Asia-Pacific region and South America.

Outlook for exports and imports in Russia to 2018²⁷

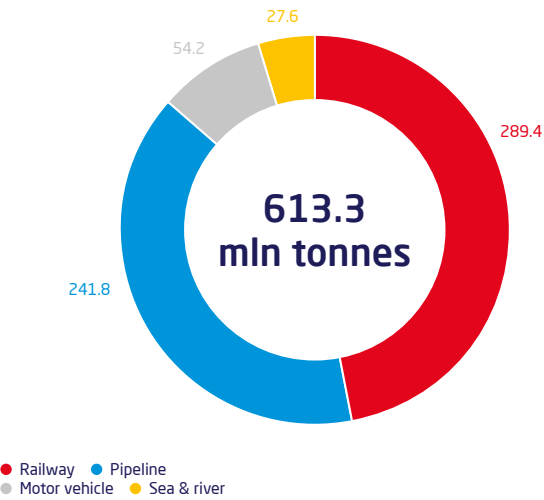
Following the 31.6%²⁸ drop in visible exports by value in 2015, the decline will continue at a more moderate pace in 2016. Exports in the Economic Development Ministry's baseline scenario will slump 3.7% to \$331 million in 2016. Exports by volume are expected to increase by 1% in 2015 after growing by 2.5% in 2015.

The growth of visible exports is expected to accelerate to 1.2-1.8% in 2017-2018, with exports of fuel and energy products increasing by no more than 0.8% while exports of non-fuel products grow by an average of 2.9%. Exports by value are expected to grow to \$344 billion in 2017 and to \$365 billion in 2018. Fuel and energy products as a share of exports are expected to shrink to 55.8% in 2018 from 66.3% in 2014, while machinery, equipment and vehicles are expected to grow to 6.6-6.7% from 5.3%. The share of food goods in exports is expected to grow from 3.8% in 2014 to 4.3% in 2015 to 4.8% in the subsequent period. The share of chemical products, metals and metal products, timber and pulp-and-paper products is also expected to grow.

Visible imports are expected to gradually recover after dropping to \$194.1 billion²⁹ in value and tumbling 26.4% by volume. Imports are expected to total \$200 billion in 2016 and grow 3% by volume. Imports of machinery, equipment and vehicles are forecast to increase by 4.2% in 2016. Visible imports are expected to continue growing by an average of 3.6% per year in real terms in 2017 and 2018, and total respectively \$212 billion and \$223 billion in these two years.

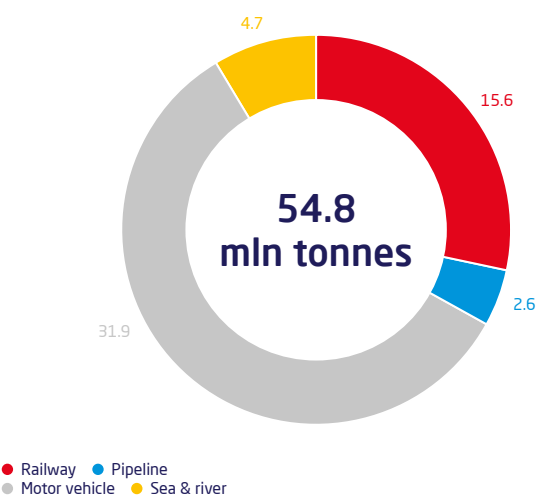
²⁴⁻²⁵ Source: ASOP
²⁶⁻²⁷ Source: Forecast for the Social and Economic Development of the Russian Federation for 2016 and the Planning Period of 2017 and 2018, Economic Development Ministry of Russia, October 26, 2015
²⁸⁻²⁹ Source: Federal Customs Service of Russia

Delivery of cargo to Russian seaports in 2015, mln tonnes



Source: ASOP

Shipment of cargo from Russian seaports in 2015, mln tonnes



Source: ASOP

Outlook for production and exports of key Russian products to 2018³⁰

In the current economic situation – with the global oil price situation, depreciation of the ruble, the tax maneuver in the oil industry and sanctions against oil companies – oil production is expected to slide to 528 million tonnes in 2018 from 533.2 million tonnes in 2015. Taking into account the modernization of refineries aimed at increasing the depth of refining, oil refining is expected to slip to 279 million tonnes in 2018. As a result, oil exports are forecast to increase to 237.5 million tonnes in 2018 after falling in 2016-2017. Moderate growth of domestic demand and the falling profitability of exporting dark oil products will lead to oil product exports gradually decreasing to 161 million tonnes by 2018, and dark oil products being replaced by light oil products in exports.

Coal production is expected to grow to 370 million tonnes by 2018, and coal exports are forecast to increase to 165 million tonnes on the back of the development of seaport infrastructure in Russia. Coal imports are expected to decrease to 22 million tonnes, or 93% of the 2014 figure, given the growth of domestic coal consumption by power plants.

Metallurgical production in Russia is expected to increase in the forecast period, with growth accelerating from 1.1% in 2016 to 2.6% in 2018. But given the abundance of metal products on the world market and strong competition, Russian exports of rolled steel products are not expected to increase in the period to 2018, and are forecast to remain at the 2015 level of 27.5 million tonnes plus or minus 0.5 million tonnes in the medium term. Production of nonferrous metals is also not expected to increase much in the medium term. Exports of nonferrous metals are expected to increase by 3% in 2016, after which growth is forecast to fade in the period to 2018.

Mineral fertilizer production is expected to be up by 9.4% in 2018 compared to 2014 on the back of demand on the domestic (agriculture, metallurgy, construction, etc.) and foreign markets. Mineral fertilizer exports are expected to increase by 6.7% in 2018 compared to 2014.

The ruble's depreciation against the main world currencies sets the stage for increasing the competitiveness of Russian products on both the domestic and foreign markets. Exports of food goods have been trending upward in recent years. The main food exports include wheat, sunflower seeds, vegetable oil and fish, among other products. Food and agricultural exports are forecast to grow by an annual average of about 4.5% in 2016-2018. Grain production could increase by 1.6% to 107 million tonnes in the medium term thanks to higher yields, and grain exports could total 33 million-34 million tonnes.

Production forecast for selected products in Russia

	2016	2017	2018
	% of previous year		
Oil production	100.5%	99.4%	99.6%
Oil shipped for refining	100.0%	98.6%	98.2%
Coal production	99.3%	100.5%	100.8%
Metallurgical production, production of finished metal products	101.1%	102.4%	102.6%
Mineral or chemical fertilizer	103.2%	102.6%	107.1%
Grain (clean weight)	103.0%	101.9%	101.9%
Nonferrous metals (industry index)	101.6%	101.9%	101.4%

Russian transport sector trends and outlook to 2018³¹

The transport sector is forecast to see moderate growth in the medium term. Commercial freight shipments are expected to total 3,680 billion tonnes in 2018 and freight turnover is expected to amount to 2,605.3 billion tonne-km, respectively 0.5% and 2.6% more than in 2014.

Commercial freight shipments are expected to grow by an average of 1.4% per year in 2016-2018, freight turnover is forecast to grow by 1.1% and passenger turnover is expected to increase by 0.5%.

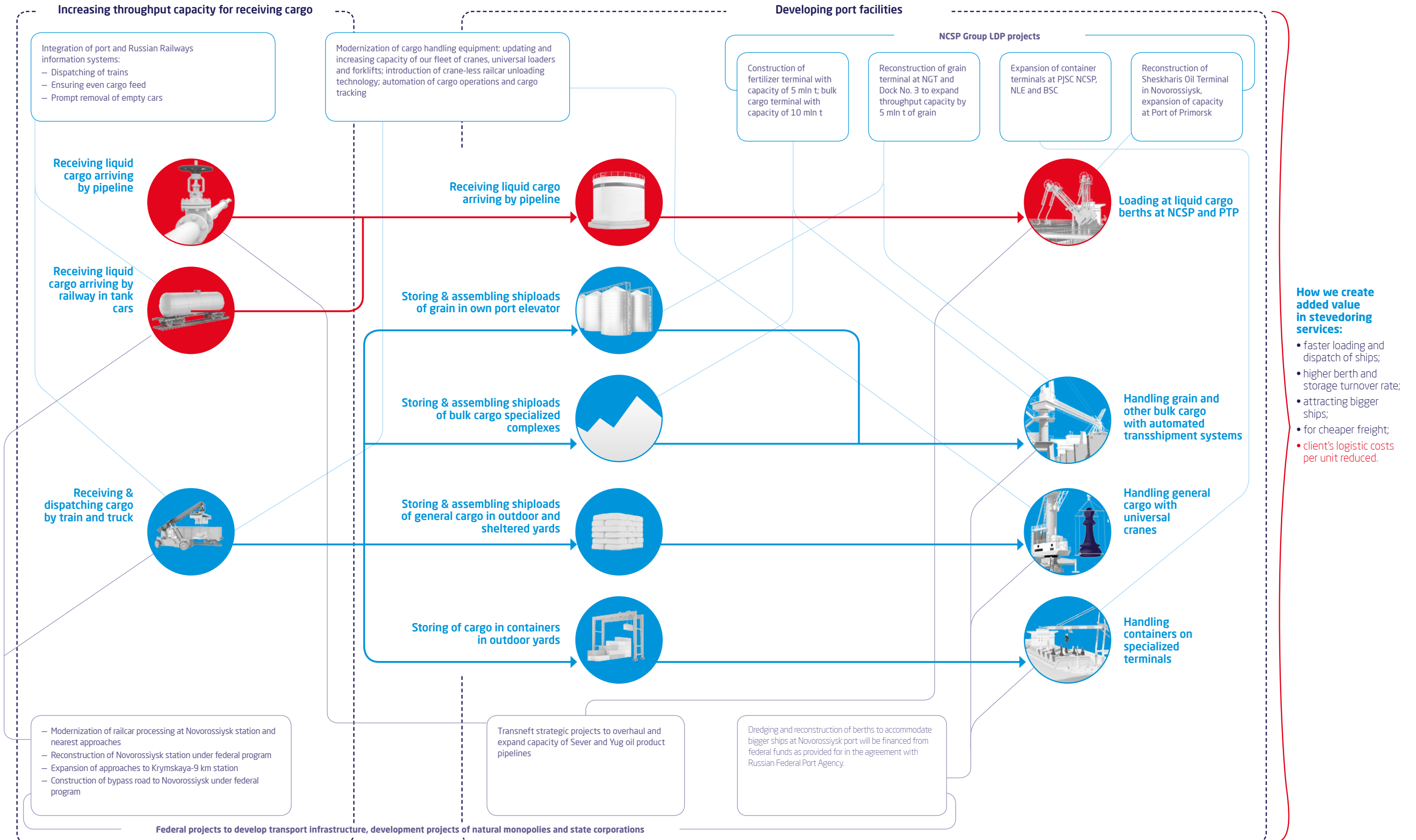
Cargo shipments by the marine fleet are expected to gradually increase in the near future thanks to state support for shipbuilding and shipping provided under the federal law "On the Amendment of Selected Legislative Acts of the Russian Federation in Connection with the Implementation of Measures of State Support for Shipbuilding and Shipping," the construction of new ships and registration of vessels in the Russian Maritime Register of Shipping.

Marine cargo shipments and turnover are expected to grow to, respectively, 17.3 million tonnes and 35.2 billion tonne-km by 2018, or by 11.4% and 9.5% compared to 2014. If current trends in the economy continue, there are plans to expand the throughput capacity of Russian seaports by 19.5 million tonnes.

³⁰⁻³¹ 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 and development outlook



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 is a natural monopoly, but can freely set tariffs for stevedoring services according to market conditions. The Federal Tariff Service of Russia replaced direct price regulation at most Russian seaports with price monitoring as of 2013.

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 raising tariffs for cargo handling and provision of other services.

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 Bosphorus 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 refrigerated, 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.



Development outlook

NCSP Group has drafted a Long-term Development Program (LDP) to the year 2020 that was approved by PJSC NCSP's Board of Directors on January 15, 2015 (protocol No. 7-SD).

The program has been approved by Russia's Transport Ministry and Economic Development Ministry, has been vetted by the Open Government and, on instructions from the Russian president, has been considered by the Government Commission.

The LDP calls for investing 30 billion-35 billion rubles in Group development projects, and anticipates the allocation of about 14 billion rubles in government funding for the reconstruction of federally-owned infrastructure such as docks and access channels.

The goal of the LDP is to establish a long-term policy for modernization, innovative development, and increasing NCSP Group's competitiveness and efficiency.

The implementation of NCSP Group investment projects in the medium term to 2020 will make it possible to increase cargo turnover at Novorossiysk Commercial Sea Port by 29 million tonnes of dry cargo, and enable the Group to maintain its leading positions in Russia and become one of the world's largest transport and logistics companies.

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

The duration of the program is therefore set within the timeframe of long-term strategic documents in the area of transport that have been adopted at the federal level. The program will be implemented by carrying out the measures it prescribes according to a timetable that coincides with that of federal special programs in the transport sector.

The program articulates the key elements and priorities of the Company's development. The LDP includes the following objectives:

- Expanding the range of services provided
- Increasing the equipment resources of port operations
- Creating favorable conditions for port users to efficiently conduct foreign trade activities
- Implementing a flexible tariff policy that takes into account the price and geographical advantages of competing ports
- Developing an e-document flow system with customers and partners
- Improving technology and introducing the latest cargo handling methods
- Implementing an investment program that meets current and anticipated market needs

Target for growth of dry cargo handling by 2020:

29 MLN TONNES

Documents determining NCSP Group's development

The Long-term Development Program to 2020 for PJSC NCSP and the Group of companies that PJSC NCSP's Board of Directors approved on January 15, 2015 was drafted in compliance with Point 4, Section 1 of the minutes from a Russian government meeting on January 30, 2014 on the preparation of long-term development programs for strategic companies.

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

List of instructions issued by the Russian president after a meeting on the development of transportation infrastructure in southern Russia, dated August 20, 2015.

Declaration of Intent to Invest in Construction of facilities for Novorossiysk Seaport Reconstruction and Modernization project, drafted by PJSC NCSP in order to include NCSP Group projects in the development program of the Russian Transport Ministry and the relevant federal special programs.

Goals of developing Port Development Plan and Declaration of Intent to Invest in Construction

- Collect and systematize fundamental data on existing and planned marine infrastructure at the port (list of terminals, cargo turnover, size of operating and overall port waters, dimensions of anticipated vessels, etc.)
- Systematize construction costs of planned marine infrastructure to be built with federal budget funding (both independent infrastructure and individual installations that are part of NCSP Group terminals)
- Update layout diagram of the Port of Novorossiysk, graphically display collected information and draft solutions for NCSP Group development on the port layout
- Approval of Novorossiysk Seaport Reconstruction and Modernization plans by the Federal Marine and River Transport Agency, Rosmorport, the Novorossiysk Harbormaster and PJSC NCSP for subsequent implementation of design and construction work

- Increasing the efficiency of collaboration with other modes of transport
- Improving the Company's corporate governance system in order to achieve the standards of the leading international business modelsThe LDP includes a set of short- and medium-term measures and a portfolio of long-term investment projects.

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.

The implementation of the investment projects takes into account existing agreements with Rosmorport and other state companies and agencies that call for cooperation and participation in federal special programs for the reconstruction and modernization of the Novorossiysk Seaport and Novorossiysk Transport Hub, including cofinancing for dredging and reconstruction of hydraulic structures.

Under the agreement with Rosmorport on the Novorossiysk Seaport Reconstruction and Modernization project, NCSP Group has begun drafting a Declaration of Intent to Invest in Construction for the Unified Plan for Development of NCSP Group at the Port of Novorossiysk in order to have NCSP Group projects included in the development program of the Russian Transport Ministry and the relevant federal special programs.

Following a meeting with the Russian president on the development of transportation infrastructure in southern Russia on August 20, 2015, instructions were issued to the government to work with interested parties (shippers, port operators) to draft and approve a roadmap for the development of seaports in the Azov-Black Sea basin, along with local and long-distance rail and road access to these ports in the period to 2020 (with possible extension to 2030), paying particular attention to the need to:

- determine the amount of cargo traffic to seaports in the Azov-Black Sea basin confirmed by shippers in the period to 2020 and with a view to 2030, with a breakdown of this traffic by port
- balance the development of seaport capacity in the Azov-Black Sea basin taking into account projects being implemented by private investors and anticipated cargo traffic
- develop seaports in the Crimea Federal District taking into account the opening of a bridge across Kerch Strait
- determine the sources and amounts of financing for measures to develop the capacity of seaports in the Azov-Black Sea basin and approaches to them, including in regard to the possibility of private investors financing measures to build port and hydraulic engineering installations and other federally-owned infrastructure

The draft roadmap was worked out with input from PJSC NCSP and other interested parties and submitted to the Transport Ministry of Russia. The roadmap timeline sets out objectives and deadlines for achieving them and includes NCSP Group projects at the Port of Novorossiysk.

The roadmap is an outline plan combining all projects by timeframe. As the Declaration of Intent to Invest in Construction, project business plans and design documentation are developed, the roadmap will be elaborated.

In continuation of this work, there are plans to work out and include a roadmap for the implementation of all the projects of NCSP Group's LDP in the program in the course of revisions to it.

The main investment projects are concentrated at the Port of Novorossiysk. The LDP calls for the implementation of the following projects: reconstruction of NGT and Dock No. 3 with expansion of cargo turnover by 5 million tonnes per year (including expansion of Novorossiysk Grain Plant (NGP)); construction of a terminal for mineral fertilizer with capacity of up to 5 million tonnes per year; and construction of a specialized facility to handle bulk cargo with capacity of up to 10 million tonnes per year.

Development projects

Project	Planned timeframe
Reconstruction of NLE container terminal with expansion of handling capacity by 230,000 TEU per year to 500,000 TEU per year	2015-2021
Construction of terminal to handle mineral fertilizer at PJSC NCSP Eastern Pier with throughput capacity of up to 5 million tonnes	2018-2021
Reconstruction of NGT grain terminal and PJSC NCSP Dock No. 3 to expand throughput capacity by 5 million tonnes of grain per year	2017-2020
Reconstruction of PJSC NCSP container terminal with capacity of 300,000 TEU per year	2016-2021
Reconstruction of NSRZ for handling up to 10 million tonnes of bulk cargo per year	2016-2019
Expansion of throughput capacity of Baltic Stevedoring Company's container terminal to 400,000 TEU per year	2015-2020
Reconstruction of Sheskhari's Oil Terminal	2015-2019
Fleet updates	2015-2020
Development of existing operations	2015-2021



The LDP also calls for expanding the capacity of the NLE container terminal to 500,000 TEU per year; and the introduction of STS/MHC and RTG technology to accommodate vessels of up to 10,000 TEU at the PJSC NCSP container terminal with capacity of 300,000 TEU per year.

Following the meeting with the president in August 2015, the Russian government was also instructed to submit proposals for the implementation of measures to expand the throughput capacity of access infrastructure at the Port of Novorossiysk to ensure its ability to accommodate large vessels.

Railway and other infrastructure providing access to the Port of Novorossiysk is now being used at a rate of 95% of its design capacity. Therefore, public access infrastructure needs to be modernized in order to expand and increase the efficiency of port facilities. This objective can be achieved by implementing the roadmap and the following measures:

- Modernizing freight car processing technology at the Novorossiysk train station and short-range approaches to it
- Reconstructing the Novorossiysk station under the federal special program, subprogram Development of Export Transport Services, project Novorossiysk Transport Hub
- Expanding long-distance railway approaches to station Krymskaya-9 km in order to increase throughput capacity in the direction of the Taman and Crimea crossings
- Expanding throughput capacity of Novorossiysk station to 50 million tonnes per year with the above-mentioned projects
- Building a bypass road to Novorossiysk in line with the federal special program, subprogram Development of Export Transport Services, project Novorossiysk Transport Hub Including the cost of harbor dredging and reconstruction of berthing facilities at the Port of Novorossiysk, in the amount of 13.6 billion rubles, in the federal special program

If these programs and projects are carried out, including dredging in the Port of Novorossiysk, construction of Railway Yard B at the Novorossiysk station, the road from the village of Tsemdolina to Portovaya Street and others, NCSP Group's development projects will be fully supported by related external infrastructure.

Changes in strategy in 2015

Changes in macroeconomic conditions have necessitated a review of the financial plans of two projects: the construction of a container terminal at Baltic Stevedoring Company (BSC) with capacity of up to 400,000 TEU and the expansion of the throughput capacity of NLE's container terminal to 500,000 TEU per year.

The Company is also proposing to include several other projects in the LDP: expansion of diesel fuel transshipments at Berths 3 and 4 at PTP as part of the Sever project; reconstruction of Area 6 at NLE; provision for receiving of oil products from river-sea class vessels at IPP; and construction of a general cargo terminal at PJSC NCSP.

Government investments into reconstruction of the Port of Novorossiysk:

13.6 BN ROUBLES

Material factors of the past year, including ongoing U.S. and EU sanctions, Russian countersanctions, the import substitution program in Russia and signs of crisis in the global economy, could significantly affect the implementation of NCSP Group projects. In light of this, the Company is updating the marketing research for cargo traffic factored into the LDP. This section will also include a description of the technology policy that will be updated at PJSC NCSP in 2016.

In light of the instructions the Russian president issued after the meeting in August 20, 2015, the Company also proposes to include a separate section on Transport Approaches to the Port in the LDP.

Assessment and audit of Long-term Development Program

A system of key performance indicators (KPI) that links the remuneration of NCSP Group's key management to achievement of target indicators, has been introduced in order to control and assess the quality of the program's implementation. There are also plans to annually audit the implementation of the LDP and update it.

Under Point 7.2 of the Regulation on Conducting Audits of the Implementation of NCSP Group's Long-term Development Program to 2020, the auditor's report is supposed to be submitted by June 1 of the year following the reported year. The report on the LDP audit will therefore be reflected in the Company's report in the corresponding period.

Key performance indicators of Long-term Development Program

LDP KPI	Target for 2015	Actual 2015
Growth of market share for general and bulk cargo in Azov-Black Sea basin compared to 2014	3.0%	1%
Reduction of energy costs compared to 2014	2.0%	2.33%
Building of new management model with introduction of staff incentive principles (% of plan completed)	100%	100%
Labor productivity (revenue/number of employees)	3,746	7,598
Customer satisfaction	90%	92%
ROE	18.3%	29.5%
TSR	15.0%	238.4%
EBITDA, mln USD	613	656.7
Reduction of cost of sales per tonne of cargo compared to 2014	2.3%	3.06%
Growth of gross vessel loading time efficiency compared to average for all types of cargo in 2014	10%	10.39%
Implementation of innovative development program	100%	100%
EBITDA growth compared to average in previous three years (2012-2014)	9.0%	18%

Innovative Development Program

PJSC NCSP drafted an Innovative Development Program (IDP) for the period of 2016-2020 at the end of 2015 in order to develop the current corporate system for managing innovation.

The goals of the program are determined taking into account the goals and targets of the Company's strategic and program documents, which include PJSC NCSP's Long-term Development Program to 2020 and Innovative Development Program for 2011-2015.

The IDP is intended to increase the role that innovation plays in achieving strategic goals and improving operational, organizational and marketing activities.

The program contains an indicative list of projects and measures to facilitate the Company's modernization and technological development, including:

- Increasing labor productivity and creating high-performance jobs
- Reducing costs and per-unit costs, increasing the efficiency of operational processes
- Significantly improving the marketability of our products and the quality of the services we provide
- Increasing energy efficiency and environmental performance

NCSP Group's planned activities under the IDP are structured as separate innovation projects that constitute a set of interconnected measures and efforts, the end results of which will be:

- Introduction of improved technologies and operational processes (technological innovations)
- Development of improved stevedoring services (product innovations)
- Introduction of improved models, methods and tools of management, including in operations (organizational innovations)
- Implementation of improved marketing methods that include significant changes in the ways that stevedoring services are sold and offered (marketing innovations)
- Introduction of improved operating methods, including methods for delivery of stevedoring services (process innovations)

The program has been tentatively approved by PJSC NCSP and submitted for approval to government authorities, after which it will be submitted for approval to the Company's Board of Directors.



Group development in 2015

In 2015, NCSP Group continued to work on improving the quality of management, and increasing the efficiency of existing operations and productivity.

Improving the quality of management involves centralization of management duties and creation of consolidated departments by area of activity: technical and commercial, finance and legal, HR and IT.

In order to increase the efficiency of existing operations, the Company is monitoring and mapping operational processes in order to eliminate bottlenecks and achieve stable utilization of capacity, increase warehouse turnover, and accelerate loading and unloading.

Efficiency is also being improved with the introduction of electronic document flow and exchange of information with counterparties for processing and managing cargo traffic, consolidation of the Group's computer resources and the introduction of a satellite monitoring system for transport.

In order to improve labor productivity, the Company is improving its system of incentives, including with the introduction of performance indicators that affect bonuses.

Development of operations

The Group financed the acquisition of plant and equipment totaling \$74.2 million in 2015.

In 2015, the Group completed the expansion of the tank farm of the IPP bunkering complex in Novorossiysk with the construction of a tank with capacity for 5,000 m³, which will make it possible to increase transshipment of bunkering fuel and provide bunkering services to ships with fuel oil of various viscosity. The Group also completed upgrades to a fuel oil gantry at the bunkering complex, launching new heating and offloading units at the start of 2015 that made it possible to accelerate fuel oil offloading in winter.

Transneft's Sever project to develop its system of trunk pipelines calls for increasing shipments of oil products to the Port of Primorsk to 22.9 million tonnes per year. Under this project, it is necessary to ensure that the port will be able to handle up to 22.9 million tonnes of diesel fuel per year starting in 2018. With this in mind, PTP began modernizing Berths 3 and 4 in 2015 for offloading light oil products.

The Group continued to modernize its fleet of handling equipment in 2015 and replace it with the latest energy efficient and multipurpose equipment, making it possible to increase the weight of a load grab by 50% to 100%.

PJSC NCSP bought seven portal cranes of various capacity and three bucket loaders in 2015; NLE acquired 15 forklifts and one tractor; NSRZ acquired four automatic loaders, one terminal tractor, two roll trailers and an overhead crane; and Baltic Stevedoring Company LLC acquired six roll trailers.

Development of liquid cargo handling

Russia adopted a program to modernize oil refineries in 2011 that is supposed to result in a significant reduction of fuel oil production and increase in production of diesel fuel. This program will be completed in 2016 – 2017 and, according to various estimates, diesel production in Russia will increase by 50 million to 80 million tonnes per year. Meanwhile, major plans are being implemented to expand the Eastern Siberia – Pacific Ocean oil pipeline, as a result of which an even greater share of Russian oil exports will shift to the Far East route.

In light of these structural changes, Transneft is carrying out projects to significantly expand the capacity of the Sever (North) and Yug (South) pipeline systems, the end points of which are respectively the Port of Primorsk and Port of Novorossiysk, to carry diesel fuel. Transneft plans to only accept Euro 5 class diesel, for which there is demand on the European market, into the pipeline systems.

The first phase of the Sever project, scheduled for completion in 2016, calls for increasing diesel exports to 18 million tonnes per year. The second phase calls for boosting diesel exports to 25 million tonnes per year. The project is scheduled to be completed in 2018. The section of oil pipeline from the Kirishi Oil Refinery to Primorsk was converted to carry oil products in 2014. The Sever project is now being expanded in the direction of more distant refineries.

The development of the Yug system of oil product pipelines is also geared toward the growth of crude refining in Russia and exports of diesel fuel. Since 2012, Transneft has been increasing the capacity of pipelines and connecting oil refineries in Krasnodar Territory, whose products will fill the Yug oil product pipeline. The first phase of the Yug project, scheduled for completion in 2017, calls for shipping up to 6 million tonnes of diesel per year to the Port of Novorossiysk. The second phase of Yug, to be finished in 2020, will increase this figure to 11 million tonnes per year.

NCSP Group is now carrying out a major reconstruction of the Sheskhari terminal in Novorossiysk in order to realize the potential of the Yug pipeline.

Development of bulk cargo handling

In October 2014, NCSP and Metalloinvest, one of the Company's biggest customers that ship iron ore products through Novorossiysk, signed a letter of intent to arrange for large-scale shipments of iron ore products for export and for NCSP Group to build a specialized terminal to handle bulk cargo at the Port of Novorossiysk.

At the new terminal, NCSP Group will provide the technical capabilities to receive, store and transship up to 10 million tonnes of bulk cargo per year through its own port infrastructure, using the latest technology and equipment. Metalloinvest, in turn, is interested in organizing shipments of various types of iron ore products for export through the port infrastructure of the Group's new bulk terminal in the amount of up to 10 million tonnes per year. The project is expected to be carried out by 2020.

Operating results

Consolidated cargo turnover

NCSP Group's cargo turnover grew by 6.6% to 139.7 million tonnes in 2015, which was the strongest growth in seven years.

This growth was made possible in large part by the program to modernize cargo handling equipment and upgrade facilities at group units that the Company has been implementing for the past two years. The Group increased productivity at all facilities and created a capacity reserve, while the development of customer service and the work of the commercial division helped bring in new cargo traffic.

As a result, NCSP Group overtook the Port of Hamburg to become the third largest port operator in Europe by cargo turnover in 2015, after Rotterdam and Antwerp.

The Group's cargo turnover rose by 3.8% to 79.4 million tonnes at terminals at the Port of Novorossiysk and 11.0% to 59.6 million tonnes at the Port of Primorsk. Container turnover at the Baltiysk Port fell by 29.8% to 0.7 million tonnes.

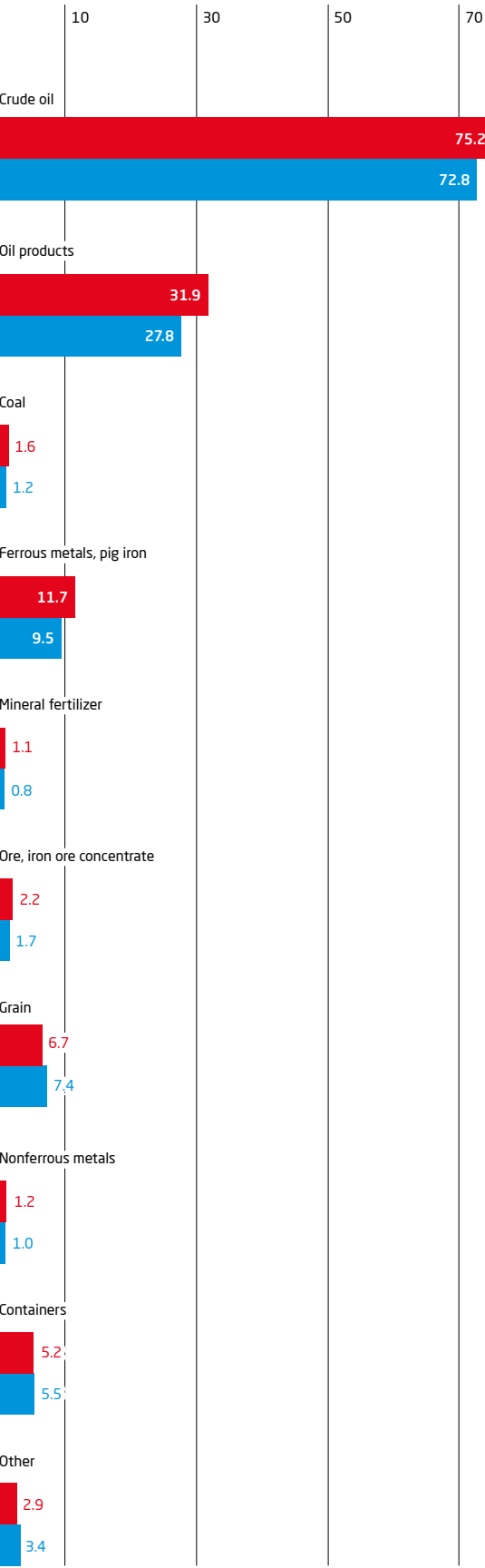
NCSP Group handled 20.6%¹ of total cargo turnover at all Russian seaports in 2015, including 34.1%² of cargo at ports in the Azov-Black Sea basin and 26.1%³ of cargo at ports in the Baltic basin.

The Group's market share in handling of selected types of cargo was 37.2% for crude oil, 21.8% for oil products, 44.7% for ferrous metals, 34.3% for nonferrous metals, 32.8% for iron ore and 19.5% for grain⁴.

The Group's overall market share was almost unchanged in 2015. A decrease of 1.7 percentage points (pp) in market share in handling of crude oil was offset by a 2.1 pp increase in market share of oil products. The Group's market share grew by 5.0 pp in handling of ore, 4.1 pp for ferrous metals and 3.0 pp for nonferrous metals.

NCSP Group's export cargo turnover totaled 131.5 million tonnes in 2015, or 94.1% of the total amount of cargo handled by the Group. There were no significant changes in the structure of export cargo. The main destination for export cargo is Europe, which accounted for 75.1% or 98.7 million tonnes of total export cargo in 2015. Primarily crude oil, oil products and ferrous metals are shipped to Europe. The second most important export destination is Asia, with 11.2% or 14.7 million tonnes of export cargo in 2015, including crude oil and oil products, grain, ferrous and nonferrous metals, fertilizer, containers and iron ore. Africa accounted for 10.3% or 13.6 million tonnes of export cargo in 2015, which included grain, oil products, ferrous metals, containers and fertilizer. Import cargo traditionally consists of cargo in containers, raw cane sugar and perishable goods.

NCSP Group transshipment of main cargos, mln t



● 2015 ● 2014

¹⁻⁴ Source: ASOP



NCSP Group cargo turnover in 2015:

139.7 MLN TONNES

NCSP Group cargo turnover in 2015 by type of cargo:

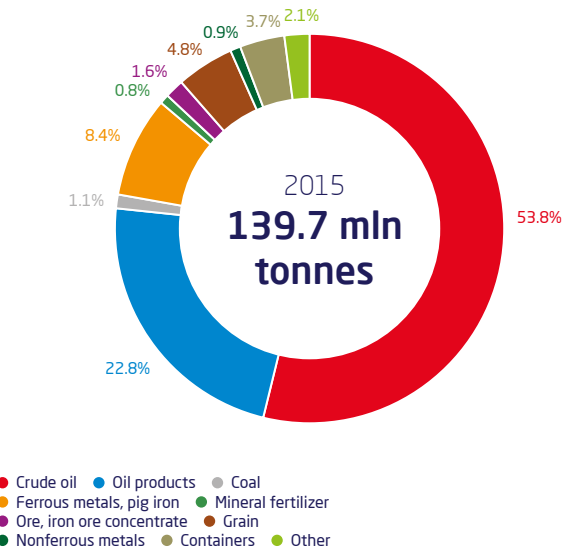
- Crude oil – 75.2 million tonnes
- Oil products – 31.9 million tonnes
- Coal – 1.6 million tonnes
- Ferrous metals and pig iron – 11.7 million tonnes
- Mineral fertilizer – 1.1 million tonnes
- Ore cargo – 2.2 million tonnes
- Grain – 6.7 million tonnes
- Nonferrous metals – 1.2 million tonnes
- Containers – 5.2 million tonnes or 476,000 TEU
- Other cargo – 6.4 million tonnes

The combined decrease in turnover of cargo, handling of which declined, amounted to 1.6 million tonnes in 2015, including decreases of 0.7 million tonnes for grain, 0.3 million tonnes for containers, and 0.2 million tonnes for raw sugar.

The combined increase in turnover of cargo for which there was growth totaled 10.2 million tonnes, as the Group handled 2.4 million tonnes more crude oil; 4.1 million tonnes more oil products; 0.4 million tonnes more coal; 0.5 million tonnes more ore; 2.2 million tonnes more ferrous metals and pig iron; and 0.2 million tonnes more nonferrous metals.

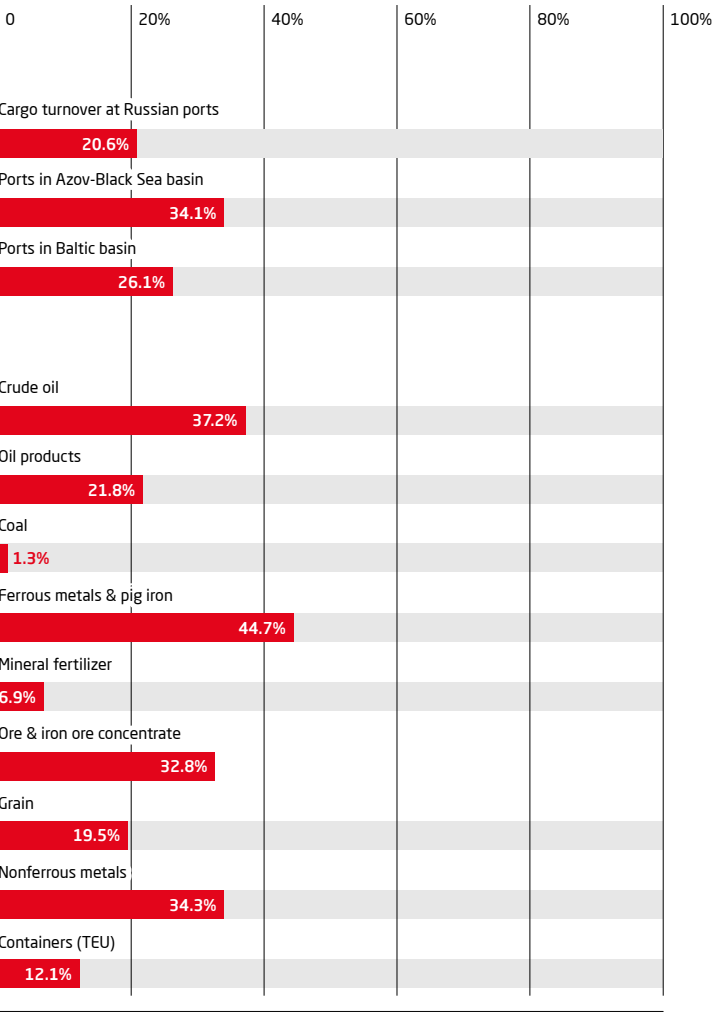
There were no major changes in the structure of NCSP Group's cargo turnover by type of cargo in 2015. The most significant change was a 1.7 pp decrease in the share of crude oil and 1.6 pp increase in the share of oil products; there was also a 0.8 pp drop in the share of grain cargo and 1.1 pp increase in the share of ferrous metals.

NCSP Group cargo turnover structure

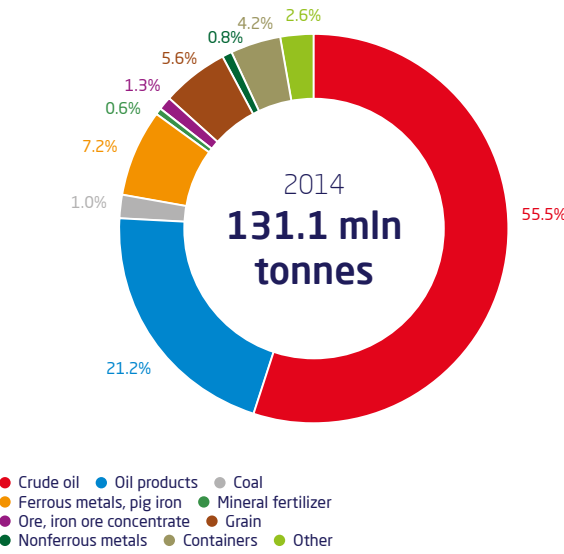


● Crude oil ● Oil products ● Coal
● Ferrous metals, pig iron ● Mineral fertilizer
● Ore, iron ore concentrate ● Grain
● Nonferrous metals ● Containers ● Other

NCSP Group market share in Russia in 2015, %



● NCSP Group



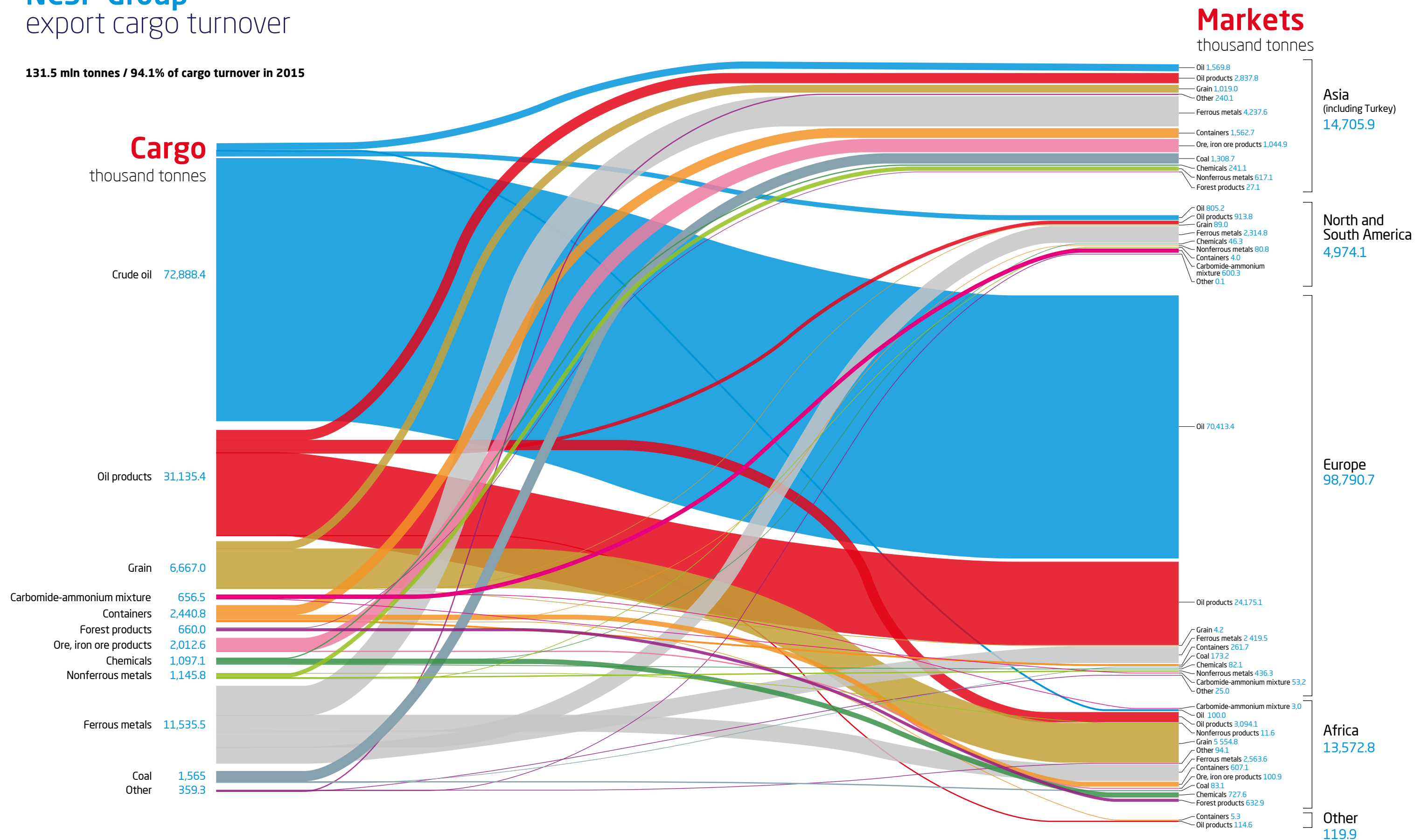
● Crude oil ● Oil products ● Coal
● Ferrous metals, pig iron ● Mineral fertilizer
● Ore, iron ore concentrate ● Grain
● Nonferrous metals ● Containers ● Other



NCSP Group

export cargo turnover

131.5 mln tonnes / 94.1% of cargo turnover in 2015



NCSP Group cargo turnover by cargo compared to competitors

Last year, 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.

In addition to the depreciation of the ruble, which increased the appeal of Russian exports, key external factors that affected the Group's cargo turnover in 2015 included:

- The impact of 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 crude more attractive than refining and selling it on the domestic market. As a result, crude oil exports increased by 21.1 million tonnes or 9.4%, while oil product exports rose by 6.7 million tonnes or 4.1%⁵.
- The decrease in transshipment of Russian cargo through foreign ports. Russian cargo traffic through ports in the Baltic countries and Ukraine fell by 14.2 million tonnes or 18.5% to 62.4 million tonnes⁶ in 2015. The biggest decrease, by 5.8 million tonnes, was in shipments of crude oil and oil products through Baltic countries due to increased use of new Russian terminals and the redirection of some crude shipments from the west to the east.
- The expansion of the capacity of the Sever system of trunk oil product pipelines. The oil pipeline from the Kirishi Oil Refinery to the Port of Primorsk was repurposed to carry diesel fuel at the end of 2014, increasing the throughput capacity of this section of pipeline from 11.3 million to 18.6 million tonnes per year⁷. In June 2015, after connection to the Sever pipeline, shipments began from the Antipinsky Oil Refinery, with potential to transport 1.8 million tonnes⁹ of diesel per year. This made it possible to increase transshipment of oil products through Primorsk.

NCSP Group market share:

34.1%

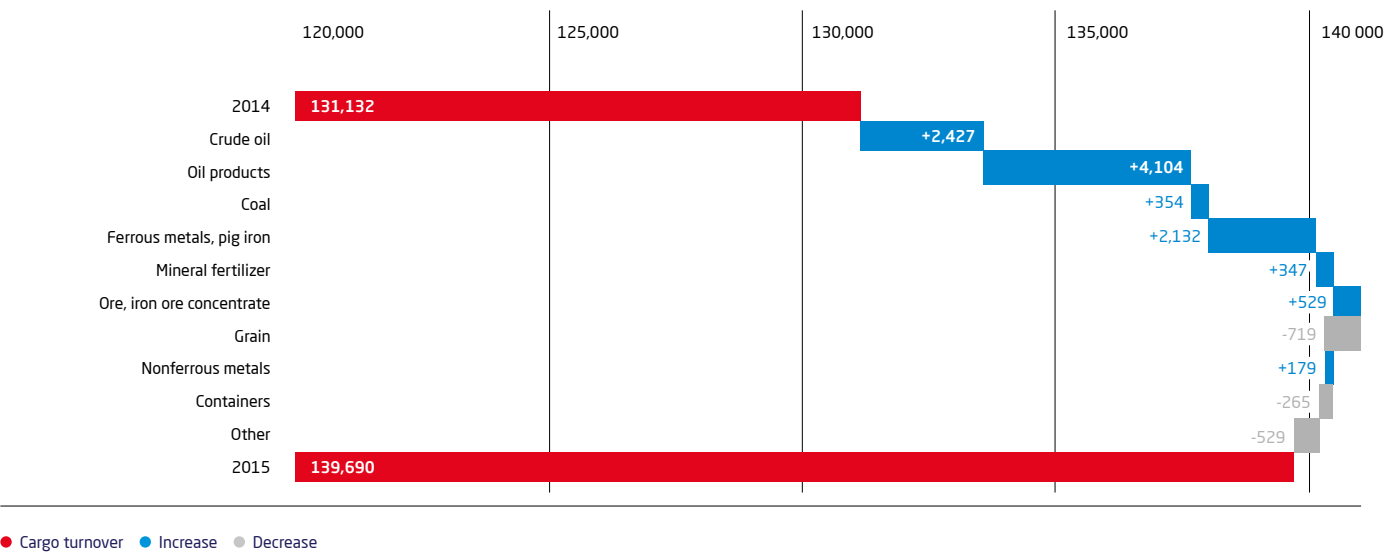
of cargo turnover at seaports in Azov-Black Sea basin

- Restrictions on wheat exports imposed by the Russian government at the beginning of 2015; full wheat storage facilities until the reduction of the export duty in May 2015; and the unstable situation in Egypt in the second half of the year, which led to delays in opening letters of credit and offloading of vessels, had a negative impact on grain handling volumes.
- 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.
- A steep decline in loaded imported container cargo due to the depreciation and volatility of the Russian ruble.

Internal factors that facilitated the growth of cargo turnover included the program to modernize handling facilities that the Group has been implementing for the past two years.

⁵ Source: Federal Customs Service of Russia
⁶ Source: ASOP
⁷⁻⁹ Source: Transneft

Changes in NCSP Group cargo turnover in 2015, '000 t



● Cargo turnover ● Increase ● Decrease



NCSP Group market share:

26.1%

of cargo turnover at seaports in Baltic basin

Crude oil

NCSP Group terminals handled 75.2 million tonnes of crude oil in 2015, 2.4 million tonnes or 3.3% more than in 2014, while overall crude transshipments at Russian ports grew by 8.0%⁹.

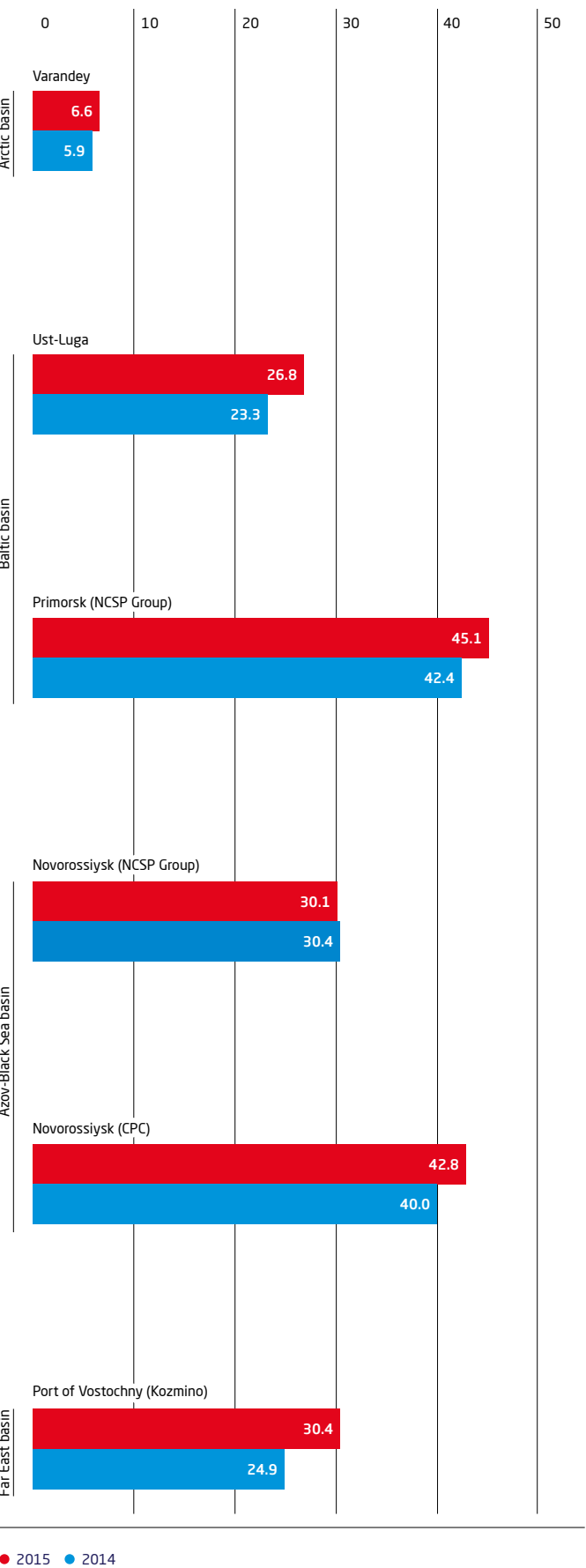
Oil transshipments in Novorossiysk decreased by 0.3 million tonnes or 1.0% to 30.1 million tonnes in 2015, while oil transshipments at Russian ports in the Azov-Black Sea basin rose by 1.5%. In Primorsk, meanwhile, crude transshipments grew by 2.7 million tonnes or 6.4% to 45.1 million tonnes, while oil transshipments at Russian ports in the Baltic basin increased by 9.5%.

The main factors that led to the changes in oil transshipment volumes at Russian ports in 2015 were:

- The tax maneuver in the oil industry. 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 7.1 million tonnes or 1.3%, 8.0 million tonnes or 2.7% less crude was shipped for refining than in 2014¹⁰. Meanwhile, crude oil exports grew by 21.1 million tonnes or 9.4%¹¹.
- Growth of Russian oil exports to eastern markets. Exports via Transneft's Eastern Siberia – Pacific Ocean (ESPO) oil pipeline system grew by 5.9 million tonnes to 46.4 million tonnes, increasing oil transshipments at Transneft's terminal at the Kozmino port by 5.5 million tonnes or 22.2%¹³.
- Growth of transshipments at the terminal in Ust-Luga by 3.6 million tonnes or 15.3%¹⁴ in 2015.
- The expansion of the Caspian Pipeline Consortium (CPC) oil pipeline. The launch of new facilities in 2015 increased the throughput capacity of the pipeline system to 52 million tonnes of oil per year. As a result, the amount of oil loaded at CPC's marine terminal increased by 7.0% to 42.8 million tonnes in 2015, including 38.0 million tonnes of oil from shippers in Kazakhstan¹⁵.

Oil exports to European countries through Transneft's pipeline system, according to requests from oil companies, might decrease by 18.7 million tonnes to 135.5 million tonnes¹⁶ in 2016, due to growth of exports to eastern markets and shipments to the domestic market. The pipeline company plans to repurpose some of the freed capacity as part of the Sever (North) and Yug (South) projects to carry diesel fuel to the Port of Primorsk and Port of Novorossiysk, respectively.

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



● 2015 ● 2014

Oil products

Oil product transshipments saw the biggest increase in volume in 2015, growing by 4.1 million tonnes or 14.7% to 31.9 million tonnes.

The Group handled 17.4 million tonnes of oil products in Novorossiysk in 2015, 1.0 million tonnes or 6.1% more than in 2014, and 14.5 million tonnes in Primorsk, 3.1 million tonnes or 27.2% more. Total oil product transshipments at Russian ports, meanwhile, grew by 1.5% in the Azov-Black Sea basin and 5.5% in the Baltic basin¹⁷.

Crude oil shipments to Russian oil refineries through Transneft's pipeline system decreased by 11.9 million tonnes or 4.5%¹⁸ in 2015, due to the tax maneuver in the industry and the steep decline in prices for crude and oil products since the second half of 2014. This made exporting crude more attractive compared to selling or refining it inside the country. Nonetheless, Russian oil product exports increased by 6.7 million tonnes or 4.1%¹⁹ in 2015.

In the Baltic basin, there was a redistribution of some shipments from ports in the Baltic countries to Russian ports on the Baltic Sea, as well as to the Black Sea port of Taman. Transshipments fell by 3.7 million tonnes or 15% at ports in the Baltic countries, while increasing by 2.5 million tonnes or 3.9% at Russian ports on the Baltic and by 3.2 million tonnes or 76.8%²⁰ in Taman.

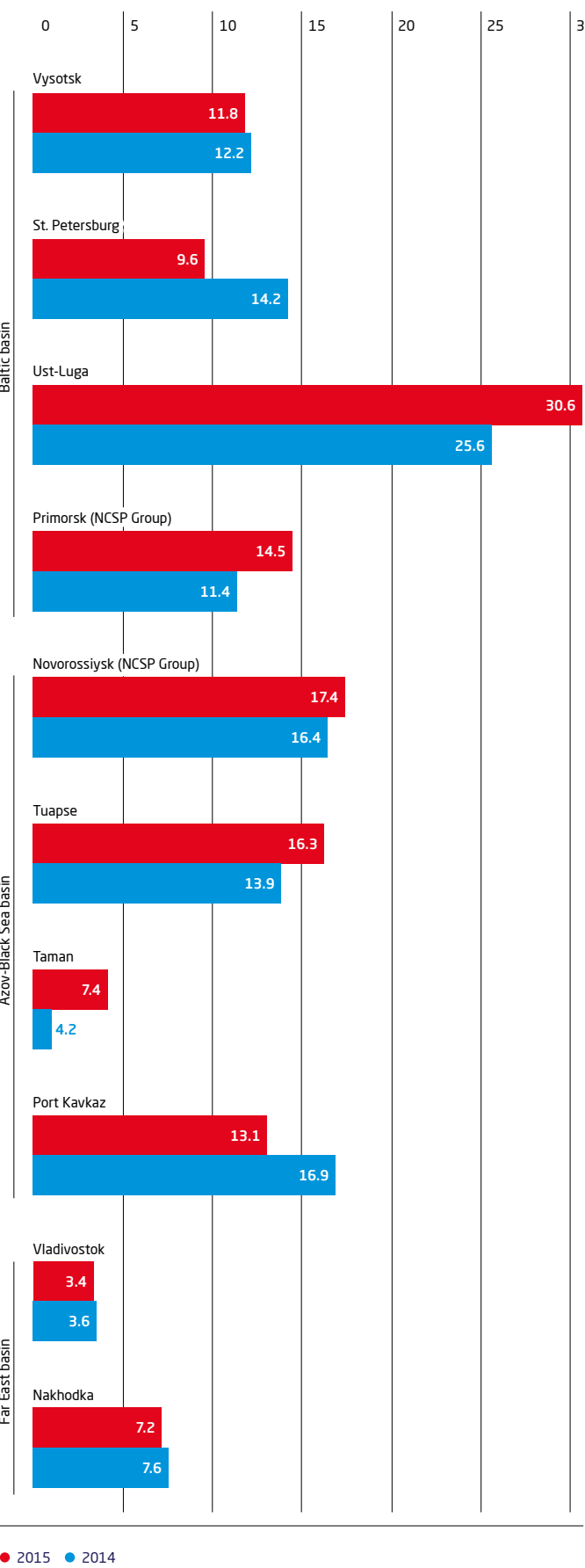
NCSP Group increased transshipment of diesel fuel in Primorsk by 3.1 million tonnes or 27.2% to 14.5 million tonnes, primarily thanks to the ongoing expansion of the Sever oil product pipeline system. The oil pipeline from the Kirishi Oil Refinery to the Port of Primorsk was repurposed to carry diesel fuel at the end of 2014, increasing the throughput capacity of this section of pipeline from 11.3 million to 18.6 million tonnes²¹. In June 2015, the Antipinsky Oil Refinery was connected to the Sever pipeline and began shipping its products through Primorsk instead of Vysotsk, with potential to transport 1.8 million tonnes of diesel per year.

Oil product traffic at the Big Port of St. Petersburg decreased in 2015 as shipments from the Kirishi Oil Refinery were redirected to Primorsk (diesel fuel) and Ust-Luga (fuel oil), while products from Lukoil's Nizhny Novgorod Oil Refinery were redirected to this company's own terminal in Vysotsk.

NCSP Group handled more oil products in Novorossiysk as a result of an increase in production and shipments by a number of oil refineries in southern Russian and the acquisition of additional vacuum gas oil traffic.

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

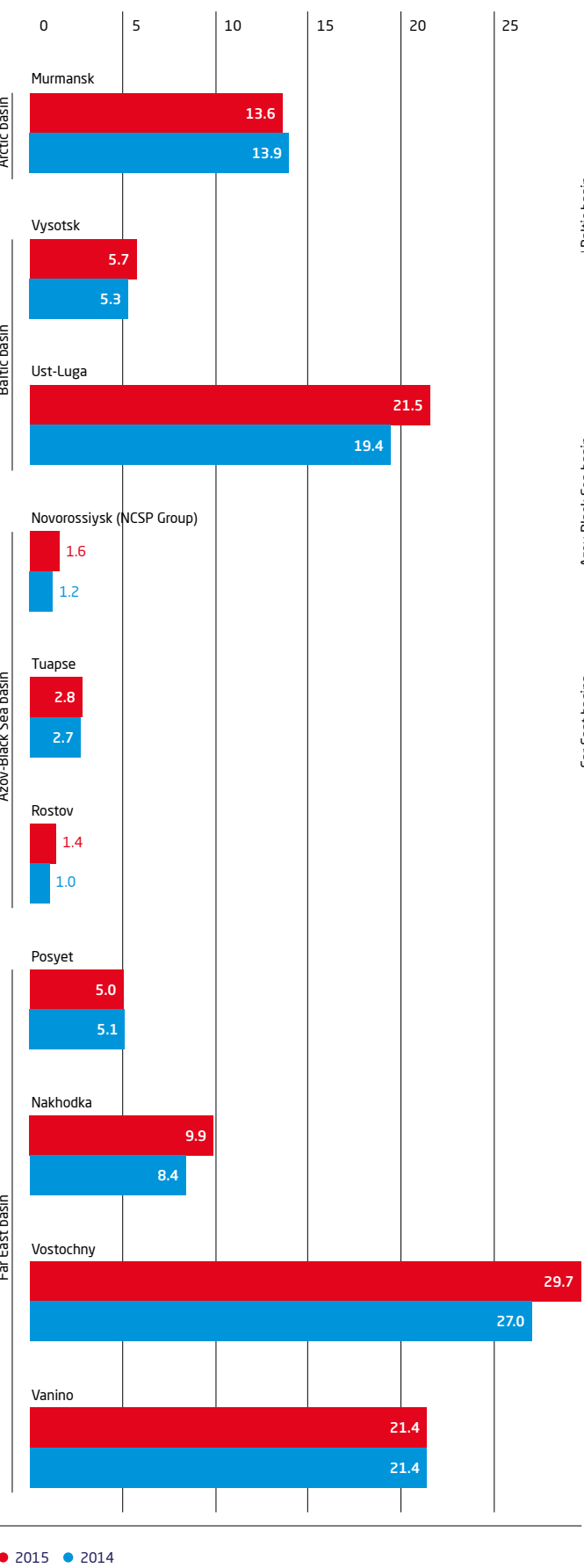
Transshipment of oil products at NCSP ports and other major Russian ports, mln t



91417,2023,24 Source: ASOP
10 Source: Rosstat
11 Source: Rosstat
12,13,16,18,21,22 Source: Transneft
15 Source: CPC
19 Source: Federal Customs Service of Russia

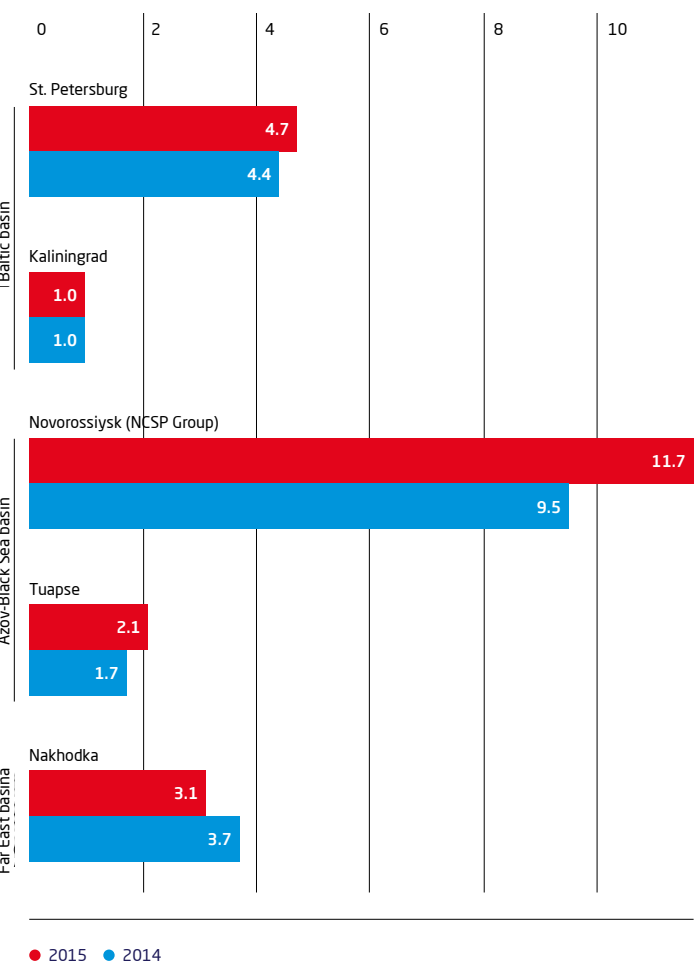


Transshipment of coal at NCSP ports and other major Russian ports, mln t



2015 2014

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



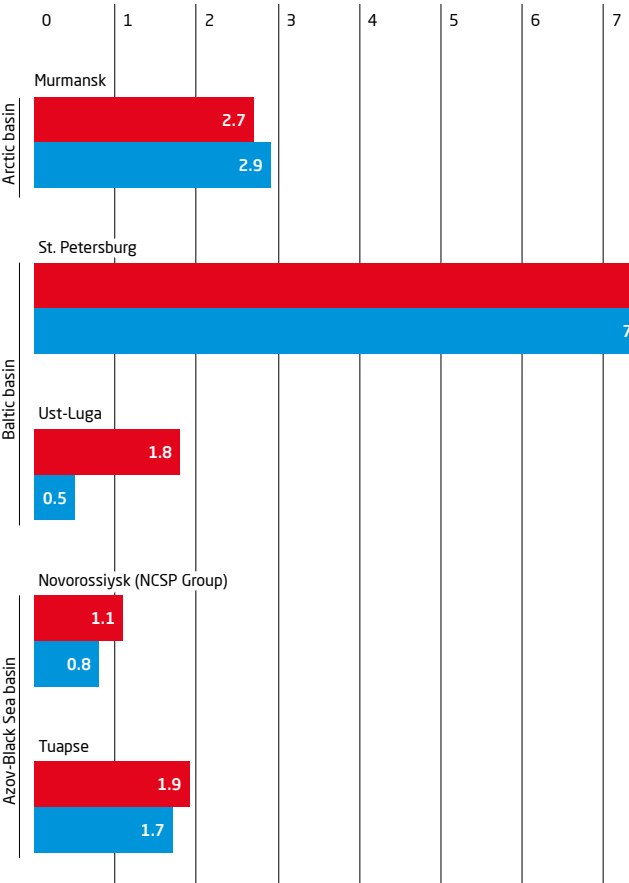
Coal

The Group's coal transshipments grew by 0.4 million tonnes or 33.3% to 1.6 million tonnes in 2015, while overall coal transshipments at Russian ports rose by only 6.0% and coal handling at ports in the Azov-Black Sea basin increased by 19.2%.

Coal exports through Novorossiysk grew on the back of an increase in shipments to Turkey by Promugolservis and Kuzbassrazrezugol.

Substantial amounts of 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 0.4 million tonnes or 12.2% in 2015, but remained high at 3.0 million tonnes, which represents potential to increase cargo turnover at Russia's Black Sea ports in future.

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



● 2015 ● 2014

Ferrous metals

The Group handled 11.7 million tonnes of ferrous metals and pig iron in 2015, 2.2 million tonnes or 23.2% more than in 2014, almost double the 12.0%²⁵ growth of ferrous metal transshipments at Russian ports in general in 2015.

The increase in NCSP Group's cargo turnover was driven by growth of ferrous metal exports by OEMK, Evraz, MMK, Novorosmetall and REMZ, and pig iron exports by Ural Steel, which offset the redirection of some NLMK shipments to its own cargo handling facilities at the ports of St. Petersburg and Tuapse.

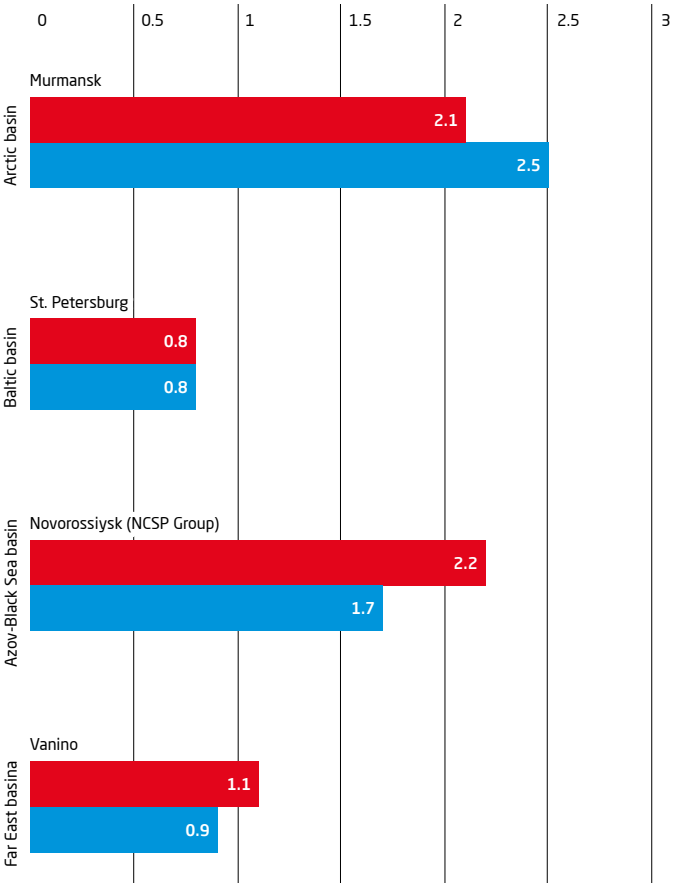
With the expansion of the throughput capacity of transport infrastructure at approaches to Novorossiysk, up to 2 million tonnes of the Russian pig iron that is exported through ports in the Baltic and Ukraine annually could be handled in Novorossiysk.

Chemical cargo

Transshipment of chemical cargo through the Port of Novorossiysk grew by 0.3 million tonnes or 37.5% to 1.1 million tonnes in 2015. This exceeded the 8.8%²⁶ growth of such cargo transshipments at Russian ports in general by several times.

Transshipments grew as sulphur traffic increased, while the usual traffic of ammonium nitrate decreased as it became less attractive to export ammonium nitrate from Russia due to a drop in world prices, including as a result of the depreciation of the Turkish lira and growth in demand for Turkish product.

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



● 2015 ● 2014

In addition, major producers primarily export product through specialized terminals that they own or control.

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.

Ore

NCSP Group handled 2.2 million tonnes of iron ore and iron ore concentrate in 2015, 0.5 million tonnes or 29.4% more than in 2014. This was triple the growth of 9.8%²⁷ in iron ore transshipments at Russian ports in 2015.

The growth was driven by an increase in pellet shipments by Metalloinvest following the overhaul and expansion of production facilities, as well as the concentration of Russian exporters' cargo at Russian ports and an improvement in the market situation for Russian commodities thanks to the depreciation of the ruble.

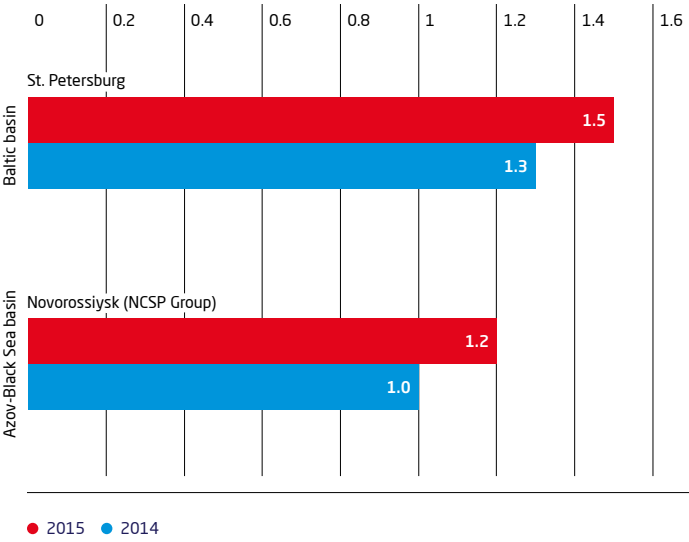
Russian ore shipments through Ukraine and Baltic ports fell by 1.6 million tonnes or 39.7%.

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.

²⁵⁻²⁷ Source: ASOP



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



● 2015 ● 2014

Grain

Russian wheat exports, despite a strong harvest, fell by 0.9 million tonnes or 4.1% in 2015 due to a prohibitive export duty that was in effect from February 1 to May 23, 2015.

Transshipment of grain at Russian ports rose by 15.1% in 2015, but this was largely due to a technical increase at ports in Russia's Azov-Black Sea basin with the inclusion of roadstead transshipments in Kerch Strait, which were not included before 2015, and the expansion of the boundaries of Port Kavkaz.

NCSP Group's grain transshipments in Novorossiysk decreased by 0.7 million tonnes or 9.5% to 6.7 million tonnes in 2015, largely because of the prohibitive export duty and difficulties with shipments of wheat to Egypt in September-October 2015 due to political and financial instability in this country.

Competition in transshipment of grain among ports in southern Russia is intensifying. NCSP Group is carrying out a project to expand the capacity of NGT by 5 million tonnes per year, including 2 million tonnes of its own capacity and 3 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 to 5.0 million tonnes, and 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.

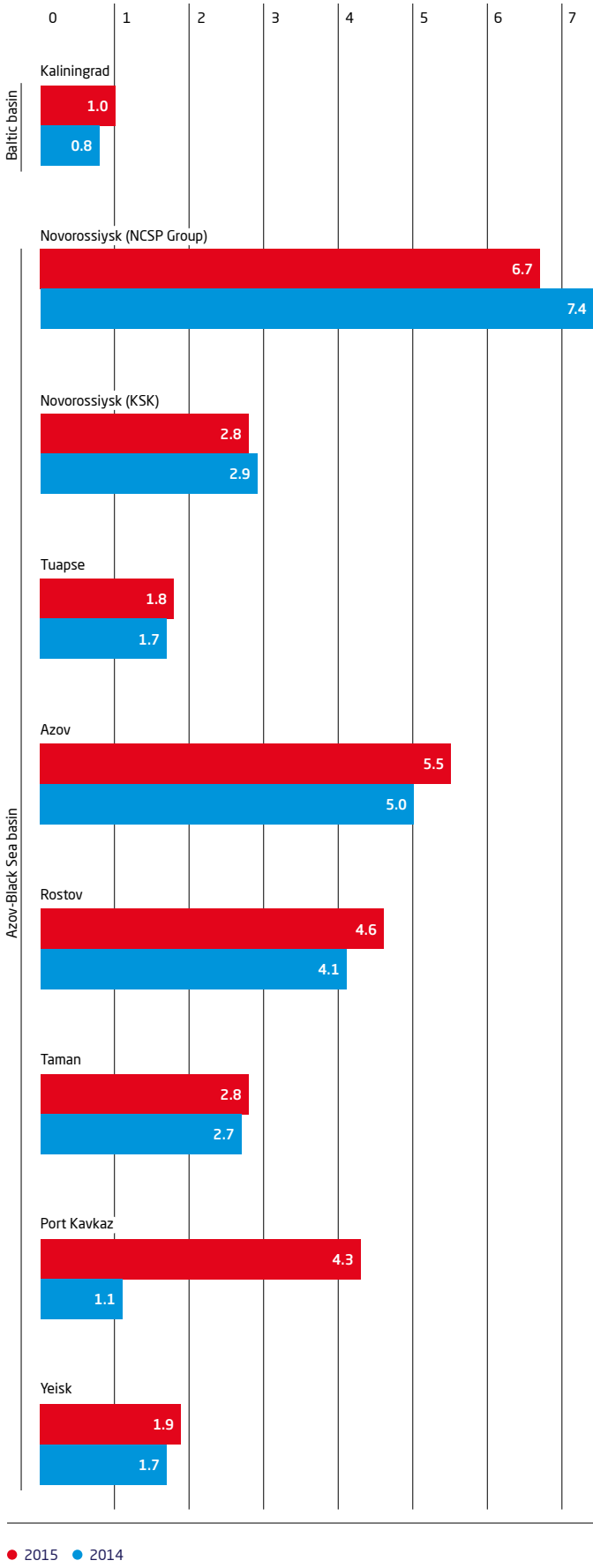
Nonferrous metals

The Group's transshipment of nonferrous metals grew by 0.2 million tonnes or 20.0% to 1.2 million tonnes in 2015, and doubled the growth of this cargo at Russian ports in general, which amounted to 9.4%²⁸ in 2015.

The growth at NCSP Group was driven by an increase in shipments from Central Asian countries, while handling of products from key client Rusal decreased slightly due to the downturn on the nonferrous metals market as a result of the economic slowdown in China and the prospect of an increase in Chinese aluminum exports amid weaker domestic demand.

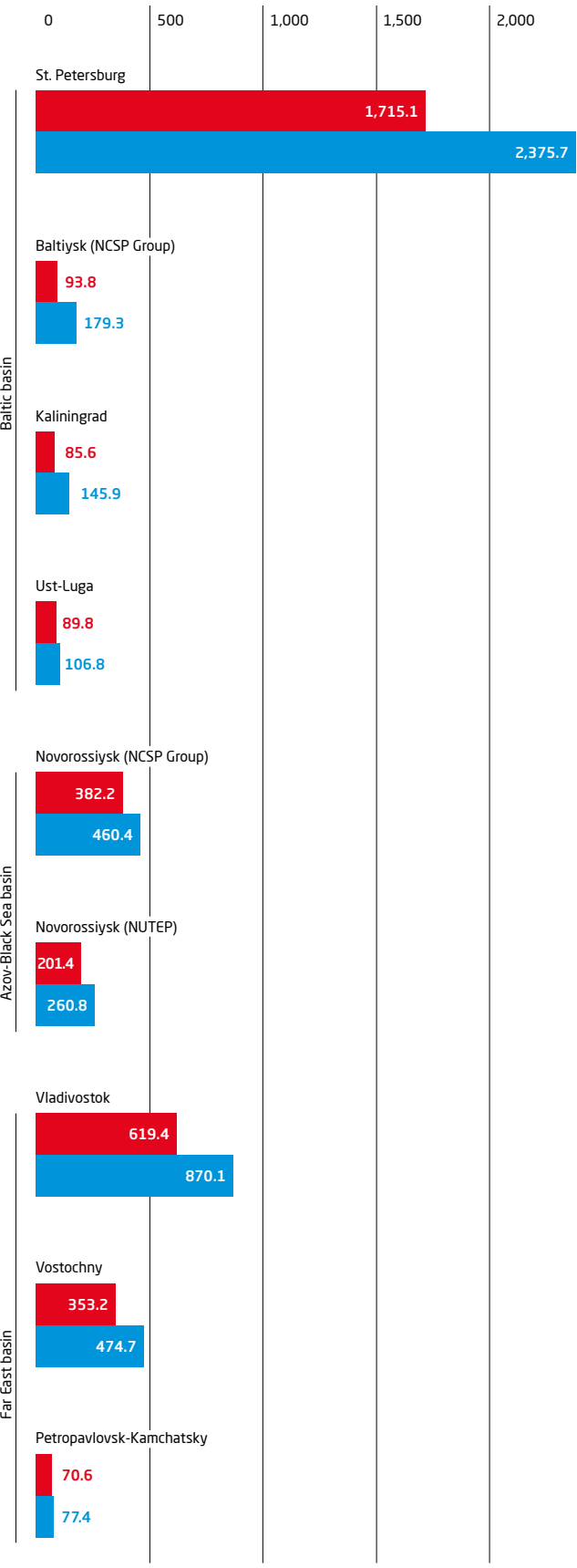
²⁸ Source: ASOP

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



● 2015 ● 2014

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



● 2015 ● 2014

Container cargo

Handling of container cargo at NCSP Group companies fell by 25.6% or 163,700 TEU in 2015, while transshipments at Russian ports in general decreased by 24.5%²⁹. There was a steep drop in loaded imports due to the depreciation and volatility of the ruble.

NCSP Group's container turnover in Novorossiysk decreased by 78,200 TEU to 443,900 TEU. Due to the decline in cargo traffic, container shipping lines are changing 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.

NCSP Group's container turnover at Baltiysk decreased by 85,500 TEU to 93,800 TEU, primarily because of a drop in cargo traffic from key client Avtotor. The Kaliningrad-based automaker reduced production to 92,200 vehicles in 2015 from 185,000 in 2014 due to the slump in sales on the Russian automobile market³⁰.

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 trader Surteks. Leading shippers of general cargo are NLMK Group, Metalloinvest, Magnitogorsk Iron & Steel Works (MMK) and Rusal, and the biggest shippers of bulk cargo are Metalloinvest, Gazpromtrans, Nevinomyssky Azot, Kuzbassrazrezugol and Promugolservis.

The largest grain operators in 2015 were Rif Trading Housing and Louis Dreyfus. 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 2015 amounted to respectively 455.9 million m³ and 123.7 million m³. Waste collection, bunkering and drinking water supply services amounted to respectively 9.4 million m³, 234,500 tonnes and 300 tonnes.

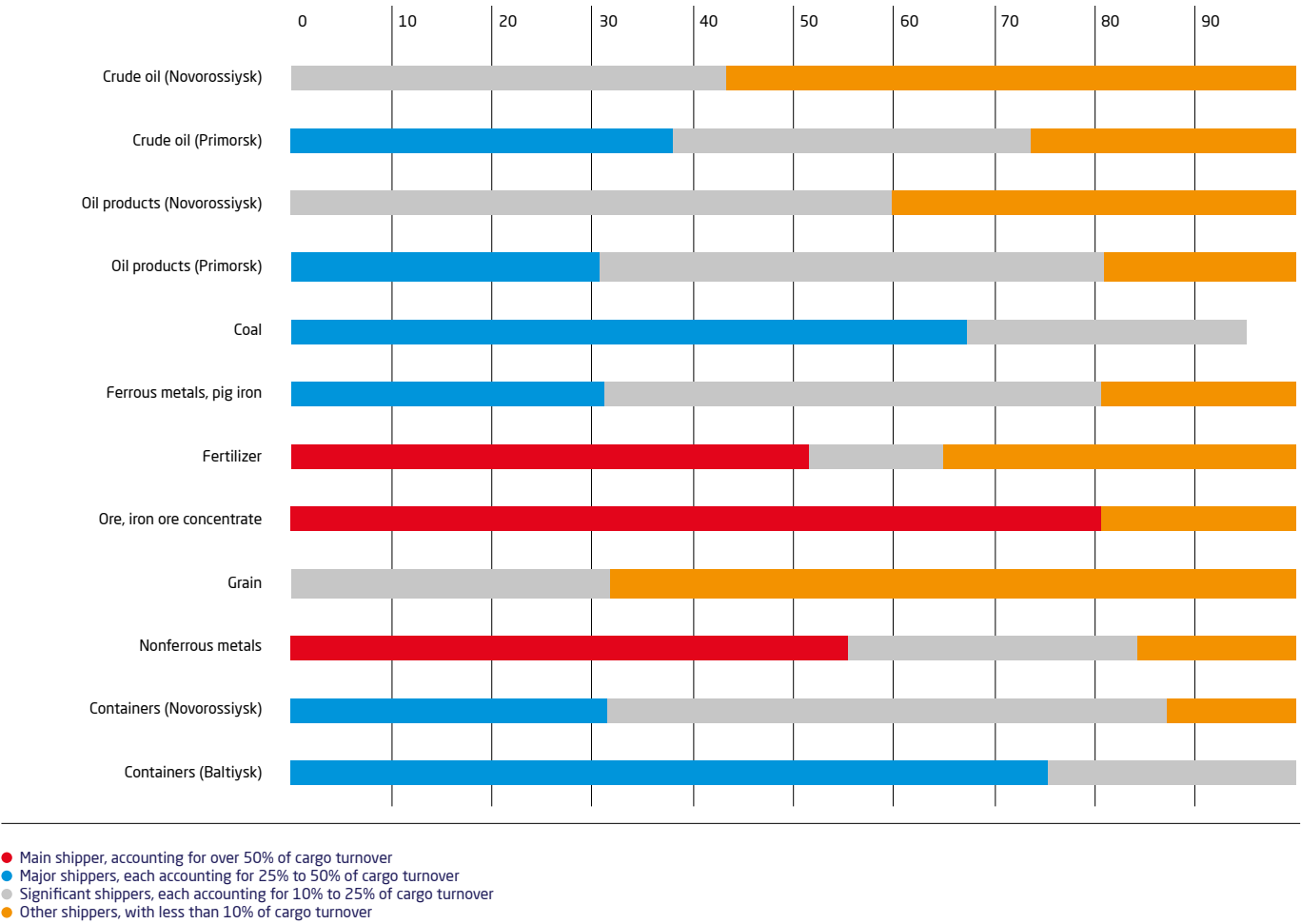
The NSRZ shipyard carried out five ship repair contracts in 2015.

²⁹ Source: ASOP

³⁰ Source: Interfax from 08.02.2016



Diversification by cargo shippers in 2015, %



Industry regulation

Russian government Order No. 2571-r dated December 12, 2015, which includes measures to improve the transport situation at seaports in 2015-2018 in the action plan for "Improvement of Customs Administration," went into effect in the middle of December.

The plan includes 21 measures to optimize the work of government oversight bodies and their relations with participants in foreign trade and organizations operating at seaports, including measures to introduce the mechanism of a 'single window' at seaports, and e-document flow for border, customs and other control at checkpoints.

The plan also calls for measures to reduce the number of documents and amount of information that need to be provided to the authorities upon the arrival/departure of vessels and the cargo transferred on them; and to optimize the costs of building marine checkpoints by eliminating excessive requirements for design, construction, reconstruction and updating of marine checkpoints.

Efforts will also be continued to synchronize the work schedules of checkpoints and businesses operating at seaports, and reduce the time that goods spend at seaports by optimizing the use of government oversight bodies' resources.

Such measures are intended to simplify customs procedures for participants in foreign trade, eliminate ship delays and reduce the amount of time that goods spend in port.



Financial results

NCSP Group key financial results

('000 USD)	2015	2014	Change	Change, %
Revenue	877,191	955,645	(78,454)	(8.2%)
Stevedoring services	681,928	752,499	(70,571)	(9.4%)
Additional port services	111,017	106,896	4,121	3.9%
Fleet services	77,642	81,553	(3,911)	(4.8%)
Other	6,604	14,697	(8,093)	(55.1%)
Cost of sales	(237,643)	(372,709)	135,066	(36.2%)
Selling, general & administrative expenses	(44,815)	(71,598)	26,783	(37.4%)
CAPEX (acquisition of OS)	(74,208)	(107,085)	32,877	(30.7%)
Foreign exchange loss	(375,697)	(789,115)	413,418	(52.4%)
Impairment of deposits at Vneshprombank	(305,794)	-	-	-
EBITDA*	657,018	569,122	87,896	15.4%
EBITDA margin (%)*	74.9%	59.6%	15.3 pp	
Loss for period	(83,427)	(414,663)	331,236	
	31.12.2015	31.12.2014	Change	Change, %
Debt (including finance lease)*	1,511,516	1,741,365	(229,849)	(13.2%)
Cash & cash equivalents	108,671	310,723	(202,052)	(65.0%)
Net debt*	1,402,845	1,430,642	(27,797)	(1.9%)
Net debt/EBITDA*	2.14	2.51		

* According to management accounts

NCSP Group's revenue fell 8.2% to \$877.2 million in 2015, despite 6.5% growth in cargo turnover and a significant improvement in crude oil dynamics.

The Group's EBITDA rose by 15.4% to \$657 million* in 2015, driven by an increase in margin in the stevedoring business.

The EBITDA margin increased by 15.3 percentage points to 74.9%*.

The net debt to EBITDA ratio fell to 2.14 from 2.51 in 2014.

NCSP Group's net loss for 2015 shrank five times to \$83.4 million.

The following factors had a significant impact on NCSP Group's financial results in 2015:

- 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 increase in PTP's crude oil transshipment tariff from 79 rubles/tonne to 99 rubles/tonne as of January 2015
- The increase in PTP's crude oil transshipment tariff from 99 rubles/tonne to \$2.25/tonne, and the increase in the tariff for transshipment of oil products from 182 rubles/tonne to \$4.0/tonne as of May 2015
- As a result, the Group reduced the share of revenue denominated in rubles to 16% of the total from 32% in 2014
- The bankruptcy of Vneshprombank, in which the Group held a substantial amount of money

Revenue

NCSP Group's consolidated revenue decreased by 8.2% or \$78.5 million year-on-year to \$877.2 million in 2015.

The biggest change was in revenue from stevedoring services, which decreased by 9.4% or \$70.6 million to \$681.9 million, in part as a result of the following factors:

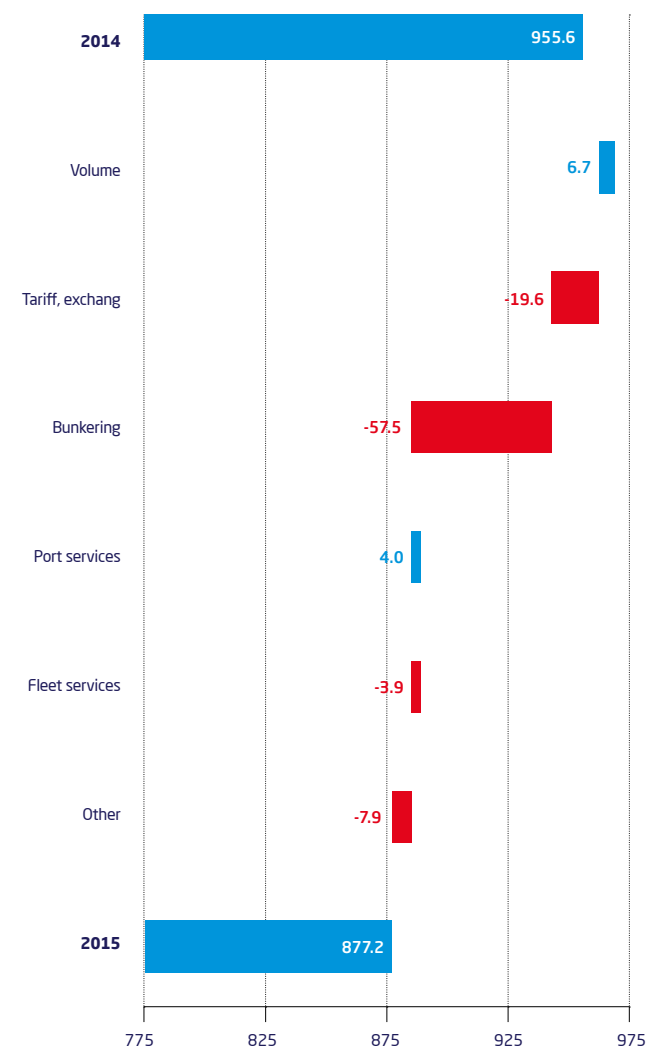
- Due to changes in handling volume and cargo mix, stevedoring revenue grew by \$6.7 million*
- Due to changes in tariffs and per-unit revenue for some cargo as a result of changes in cargo mix and the weakening of the ruble against the U.S. dollar, stevedoring revenue decreased by \$19.6 million*
- Revenue from bunkering within the context of stevedoring services decreased by 53.6%* or \$57.7 million*, as volume fell to 235,000 tonnes in 2015 from 268,000 tonnes in 2014 and rates dropped by 47%* year-on-year
- Revenue from fleet, port and other services decreased by \$7.8 million. Changes in NCSP Group revenue in 2015 by factor

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

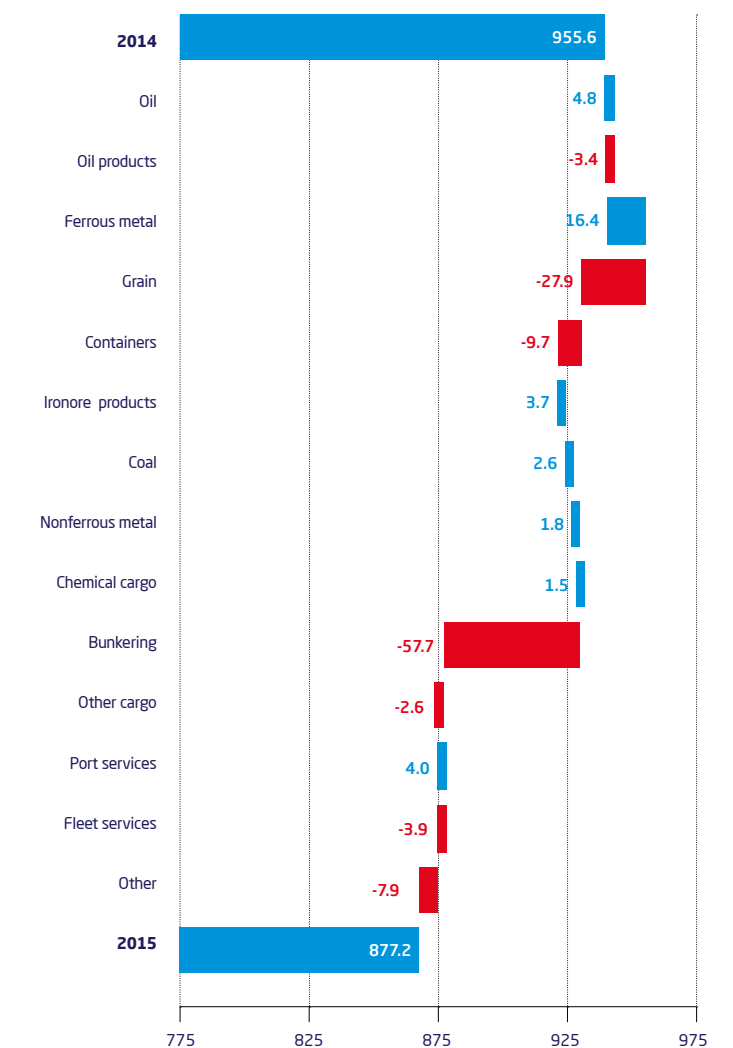
- Revenue from handling crude oil grew by \$4.8 million* or 2.6%* as volumes grew by 2.4 million tonnes or 3.3%

* According to management accounts

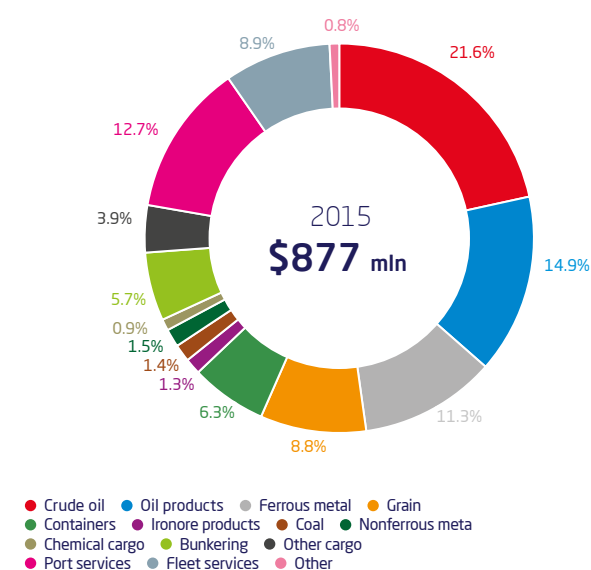
Changes in NCSP Group revenue in 2015 by factor



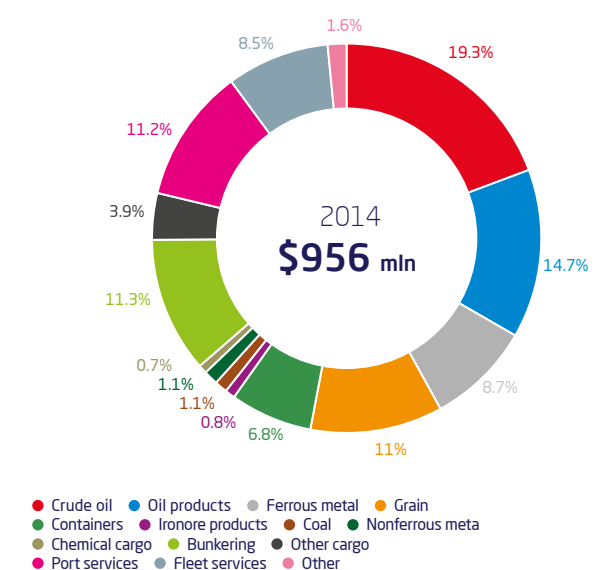
NCSP Group revenue structure



Costs



* According to management accounts



- Revenue from handling oil products decreased by \$3.4 million* or 2.5%* despite growth in volume of 4.1 million tonnes or 14.8% due to the negative impact of PTP's ruble revenue in the first quarter of 2015
- Revenue from handling ferrous metals and pig iron grew by \$16.4 million* or 19.8%* as volumes increased by 2.1 million tonnes or 22.3%
- Revenue from handling grain decreased by \$28 million* or 26.5%*; NGT's revenue denominated in rubles fell by \$19.2 million* due to handling volumes falling by 850,000 tonnes and by \$8.9 million* due to the ruble's depreciation against the U.S. dollar
- Revenue from handling container cargo decreased by \$9.7 million* or 14.9%* as the container turnover fell by 163,700 TEU or 25.6%, but revenue per TEU rose by 14.7%* to \$117* from \$102* in 2014 as the share of loaded containers in the Group's container turnover grew to 71% from 62.7% in 2014
- Revenue from handling iron ore products grew by \$3.7 million or 45.9% as volumes increased by 529,000 tonnes or 31.2%; revenue grew faster than volume due to changes in cargo mix
- Revenue from handling coal and nonferrous metals rose by \$2.6 million* or 25.9%* and by \$1.8 million* or 15.7%*, respectively, in proportion to volume growth
- Revenue from handling chemical cargo – fertilizer and sulphur – grew by \$1.5 million* or 21.7%* as volumes increased by 43.6%; revenue grew more slowly than volume due to changes in cargo mix
- Revenue from handling other cargo decreased by \$2.6 million*

Costs

NCSP Group's cost of sales decreased by 36.2% to \$237.6 million in 2015, and selling, general and administrative expenses fell by 37.4% to \$44.8 million, primarily thanks to the weakening of the Russian ruble against the U.S. dollar, as the Group's costs are almost all denominated in rubles and changes in exchange rates significantly affect their dynamics upon conversion to the presentation currency.

The cost of fuel for resale through bunkering services and for the Group's own needs, which accounted for 21% of cost of sales, fell by 53.4% or \$57.3 million in dollars and by 22.8% in rubles.

In ruble terms, the Group's cost of sales rose by 3.3% in 2015, which was far below the rate of inflation in the period, while selling, general and administrative expenses decreased by 2.2%.

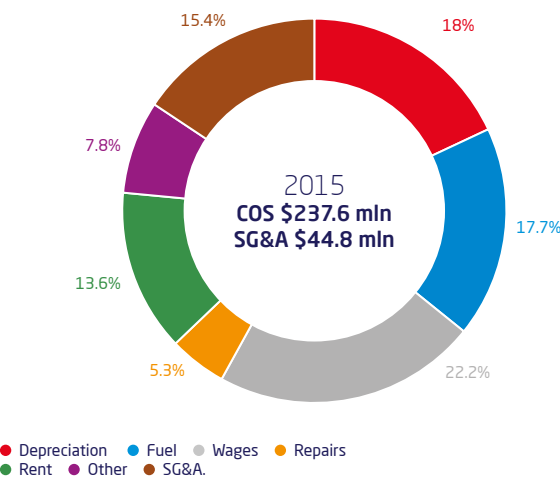
EBITDA

NCSP Group's EBITDA grew by 15.4%* or \$87.9 million* to \$657 million* in 2015, and the EBITDA margin rose by 15 percentage points from 2014 to 75%*.

- Group EBITDA increased by \$64.1 million* on the back of stevedoring operations, that is, changes in revenue and margins on certain cargos
- EBITDA decreased by \$7.4 million* as a result of lower bunkering rates and volumes
- EBITDA decreased by \$6.9 million* due to a decline in revenue from port, fleet and other services
- Exchange rate differences increased EBITDA by \$38.1 million* in 2015 as a result of the positive effect of recalculation into the presentation currency

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

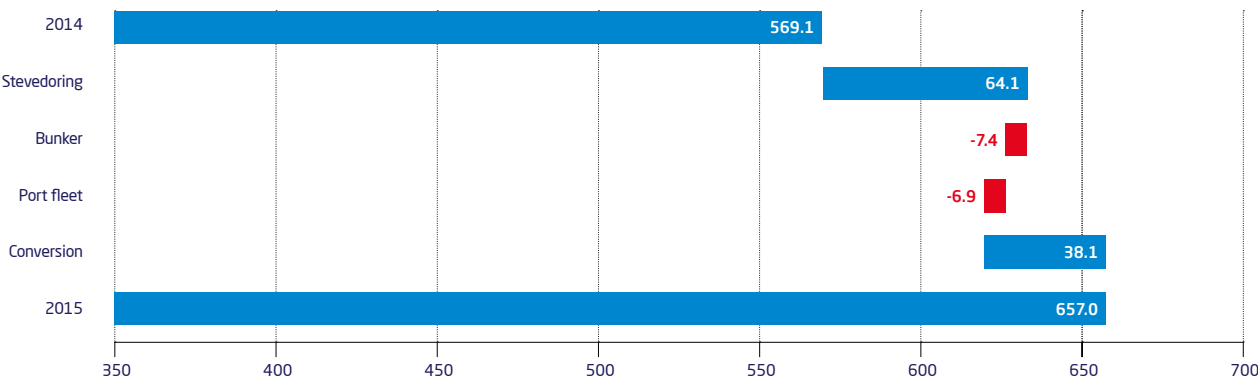
NCSP Group cost structure



* According to management accounts



Changes in NCSP Group EBITDA in 2015 by factor



Net loss

The Group posted a net loss instead of a net profit due to a one-time event in the form of the non-recovery in December 2015 of deposits held at Vneshprombank, which subsequently lost its license and was declared bankrupt.

The Group made provisions in the amount of 100% for impairment of cash held in deposits at Vneshprombank and interest on them, since we are unable to assess the amount that the Group might be able to recover in the course of Vneshprombank's bankruptcy proceedings.

Expenses related to the provisions for impairment of cash at Vneshprombank are reflected in the consolidated comprehensive statement of losses in a separate line item in the amount of \$305.8 million, not including interest, at the average exchange rate for 2015.

Nonetheless, the Group managed to significantly reduce its net loss thanks to factors such as:

- The absence of expenses on impairment of goodwill compared to impairment of \$29.5 million in 2014
- Growth of finance income by \$14 million and reduction of finance expenses by half or by \$108.4 million thanks to income received from a cross currency interest rate swap in the amount of \$17.6 million compared to a loss on a swap in the amount of \$82.9 million in 2014, and the reduction of interest expenses as debts were repaid
- Profit of \$4.1 million from participation in Novorossiysk Fuel Oil Terminal compared to a loss of \$7.1 million in 2014
- The decrease in negative exchange rate differences, which result from the revaluation of the Group's foreign currency assets and liabilities at the ruble's exchange rate at the beginning and end of the reporting period, to \$375.7 million in 2015 from \$789.1 million in 2014 thanks to the repayment of loans and the mixed dynamic of the slowdown of the ruble's depreciation

As a result, NCSP Group's net loss shrank five times to \$83.4 million in 2015 from \$414.7 million in 2014.

Liquidity and debt burden

NCSP Group debt portfolio as of December 31, 2015 was represented by a single loan from Sberbank, the debt balance on which was \$1.501 billion. Payments on the principal of this debt totaled \$150 million in 2015. The loan has a floating interest rate in the amount of the three-month LIBOR plus 5% annually.

On April 29, 2015, the Group redeemed ruble bond series BO-02 totaling 4 billion rubles (\$136 million), which was issued on May 2, 2012. The coupon on the bonds was 9% annually and was paid every 182 days, beginning on October 31, 2012.

The average annual effective interest rate on credit and loans was 5.57% as of December 31, 2015, compared to 5.4% as of December 31 2014.

The Group's debt, including finance lease, shrank by 13.2%* to \$1,511.5 million* as of December 31, 2015, from \$1,741.4 million as of December 31, 2014.

The Group's cash and cash equivalents decreased to \$108.7 million in 2015 from \$310.7 million at the end of 2014. The following items accounted for the most significant changes in cash in financial activities:

- Repayment of credit and loans in the amount of \$226.5 million, including repayment of \$150 million on a loan from Sberbank and redemption of ruble bonds totaling 4 billion rubles
- Payment of liabilities on a cross currency interest rate swap in the amount of \$57.9 million
- Payment of dividends to shareholders in the amount of \$80 million
- Provisioning for 100% of impairment of cash held in deposits at Vneshprombank, which totaled \$255.8 million as of December 31, 2015, not including interest, at the exchange rate on this date

The net decrease in the Group's cash position in 2015 amounted to \$219 million, not including a gain of \$17 million from recalculation of cash into dollars.

Although the Group's net debt decreased by only 1.9%* – to \$1,402.8 million as of December 31, 2015 from \$1,430.6 million as of December 31, 2014 – because of the reduction of cash, the net debt to EBITDA ratio improved to 2.14 from 2.51 at the end of 2014 on the back of EBITDA growth.

* According to management accounts



Social responsibility



44: HUMAN RESOURCES POLICY

48: SPONSORSHIPS AND PHILANTHROPY

49: ENVIRONMENTAL PROTECTION

THE TOP THREE

LARGEST EUROPEAN PORTS WERE ENTERED BY NCSP GROUP, WHOSE TURNOVER EXCEEDED THE ONE OF HAMBURG PORT IN 2015.

STRONGEST GROWTH RATES

OF CARGO TURNOVER IN THE LAST 7 YEARS WERE ACHIEVED BY NCSP GROUP IN 2015

Social responsibility

Public trust is a cornerstone of the sustainable development of the Company's business.

NCSP Group therefore bases its business on the principles of sustainable development, and fair treatment and respect for all stakeholders.

The Group is committed to three 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 the population in regions of operation, supporting local communities and philanthropy

In March 2015 PJSC NCSP CEO Sultan Batov was elected member of the board of directors of the Association of Commercial Seaports, the main objective of which is to coordinate the efforts of the professional community. The association includes about 60 industry organizations and Russian marine transport companies.

NCSP Group participates in discussions devoted to working out ways to develop the transport sector. A report on "How to Increase the Efficiency of Collaboration Between the Port and the Railway" was presented at the ninth YugTrans International Transport Forum in March 2016.

In 2015, NCSP Group participated in the 20th TransRussia International Transport and Logistics Exhibition and Conference in Moscow, the Sochi-2015 International Investment Forum, and Belarusian Transport Week, which was held from October 6 to 8 in Minsk.

NCSP Group representatives also attended an enlarged meeting between Russian Commissioner for Entrepreneurs' Rights Boris Titov and the business community of Krasnodar Territory in October 2015; and a working meeting in November with the Federal Marine and River Transport Agency and Rosmorrechflot on the implementation of projects to develop port infrastructure.

NCSP Group is a member of nonprofit associations:

- Association of Commercial Seaports of Russia (ASOP) – expanding the range and improving the quality of provided services
- Freight Forwarders Association of Russia (FAR) and
- Association of Exporters and Importers of Kuban – improving the efficiency of cooperation in intermodal transport
- Russian Union of Industrialists and Entrepreneurs (RSPP) and
- Novorossiysk Chamber of Commerce and Industry

Human Resources policy

General principles

NCSP Group's HR policy is aimed at supporting the realization of strategic goals by developing staff and maintaining the high efficiency of operations.

The main objectives of the Group's HR policy are to manage staff numbers, train and improve the skills of employees, establish a talent pool and create a favorable workplace climate. The goal of this policy is to ensure that employees are highly skilled, motivated and committed, and to foster and maintain a corporate culture that supports comfortable working conditions.

The Group had an average of 7,014 employees in 2015, 100 or 1.5% more than in 2014.

Operational staff and specialists made up 90% of NCSP Group's workforce in 2015, and administrative staff made up 10%. The average age of the Group's employees was 43.3 years in 2015.

NCSP Group has a very loyal workforce, with many employees having worked at Group units for more than 10-15 years.

NCSP Group management regularly features employees in the corporate newspaper RU Port whose career path, from day one to the present, is linked to the port and has crossed the 30-year mark.

The corporate newspaper is an important source of information for NCSP Group employees, partners and customers, providing the latest information about issues and problems that concern the Company, important events and upcoming holidays, news and much more.

Social and labor relations between Group companies and employees are based on the principles of social partnership. A Collective Agreement that guarantees employees safe working conditions, opportunities for training and professional development, and social benefits and security has been in effect from 2013 to May 1, 2016. The Company believes that the conditions of this agreement are the foundation for employees' commitment to performing well in their jobs and the Company continuing to be an attractive employer. PJSC NCSP plans to continue the tradition of signing collective agreements.

The Collective Agreement, developed with the participation of the Joint Representative Body, asserts compliance with legislation, equal rights of parties, freedom of choice and discussion of issues that constitute the content of this agreement, and voluntary assumption of obligations.

The Collective Agreement regulates issues concerning pay, including a strict provision for indexation of the fixed portion of employee pay by 5% annually for all wages and salaries, as well as health and safety, and discipline. The agreement affirms the rights of employees to receive additional types of material incentives, bonuses for years of service, and extra pay for work in difficult and hazardous conditions, for multi-skilling and increased workload. The PJSC NCSP Collective Agreement also guarantees the rights of union bodies, and defines the obligations of the employer and union organizations.



Training

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. The Group spent a total of \$306,200* on employee training in 2015. Various training programmes involved 1,261 people.

PJSC NCSP has its own training division, NCSP Training Center, which offers professional training, retraining and skills development for employees, as well as training for outside individuals seeking future employment at the port. The center provided training to 116 individuals in 2015, including four Group employees and 112 outside individuals.

Group companies have longstanding partnerships with public vocational institutes. The Admiral Ushakov State Maritime University in Novorossiysk is the main post secondary institution where the crews of NCSP Fleet vessels advance their qualifications. Students and teachers of the Novorossiysk Construction and Economics College and the Novorossiysk Radio and Electronic Engineering College do practicums and internships at NCSP Group companies.

The Company continues to work closely with the Water Transport Workers Union of the Russian Federation (PRVT RF). The union's Southern Regional Organization holds a quarterly professional excellence competition among workers for the title of Best in Profession. The organization of excursions for union members to the region's most beautiful places has also become a well-loved tradition.

In 2015, in honor of the 170th anniversary of the Port of Novorossiysk, 146 of NCSP Group's best employees were recognized with letters of commendation and appreciation by the Krasnodar Territory Administration and the regional transport department, and commendations by the mayor of Novorossiysk and NCSP Group.

Social security

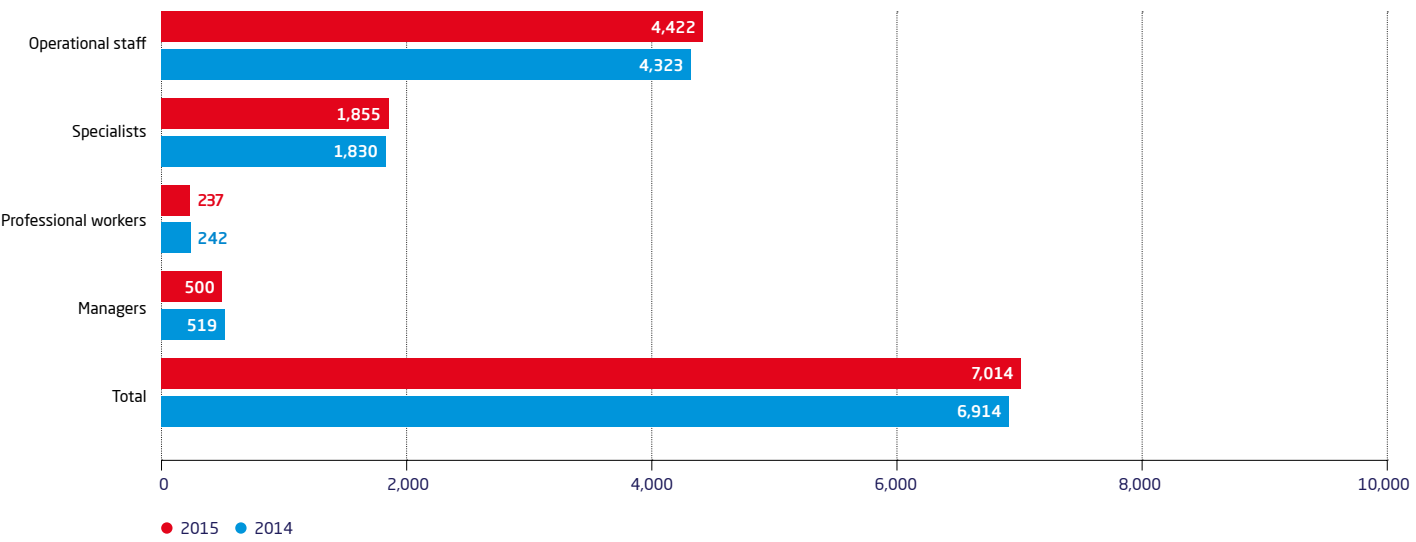
The Group is refining a system of financial and nonfinancial incentives in order for employees to fully realize their professional potential. NCSP Group provides jobs with competitive pay and benefits, unconditionally complies with labor legislation and makes every effort to ensure safe working conditions.

The main criteria of financial incentives are the employee's performance and professionalism.

The average monthly payroll at NCSP Group reached 51.1 thousand rubles* per one employee in 2015, which is substantially higher than the average monthly wage in the Krasnodar region.

PJSC NCSP's system of financial incentives for employees includes a number of additional social guarantees within the context of and beyond the Collective Agreement. Showing consideration for and taking care of employees is a tradition that has existed at Group companies since their inception and continues to this day. We care about the health of our employees and therefore reimburse expenses for regular medical checkups, and pay annual bonuses equivalent to the average monthly salary when employees go on leave. The Company provides financial support upon the birth of children, assistance to families with disabled children, and work accident insurance that also covers travel to and from work and third person liability.

NCSP Group employee training in 2015 and 2014 (number of people)



* According to management accounts

In addition to providing benefits for current employees, the Company provides support to 1,190 former port workers who are now retired. Additional social security benefits for employees amounted to \$336.800* in 2015.

NCSP Group's social projects are aimed at recruiting and developing staff, maintaining stability in the workforce and supporting the corporate culture. PJSC NCSP spent more than \$984.300* on social programs in 2015.

NCSP Group social programs
Women and Children
Anniversaries and Holidays
Best on the Job
Health
Cultural Events
Sports
Solidarity Foundation

NCSP Group spent \$3,610,500* on additional social security for employees in 2015.

Occupational health and safety

Preserving the life and health of employees and ensuring the safest possible working conditions are the key priority of NCSP Group's occupational health and safety policy.

Average number of NCSP Group employees in 2015:

7,014
PEOPLE

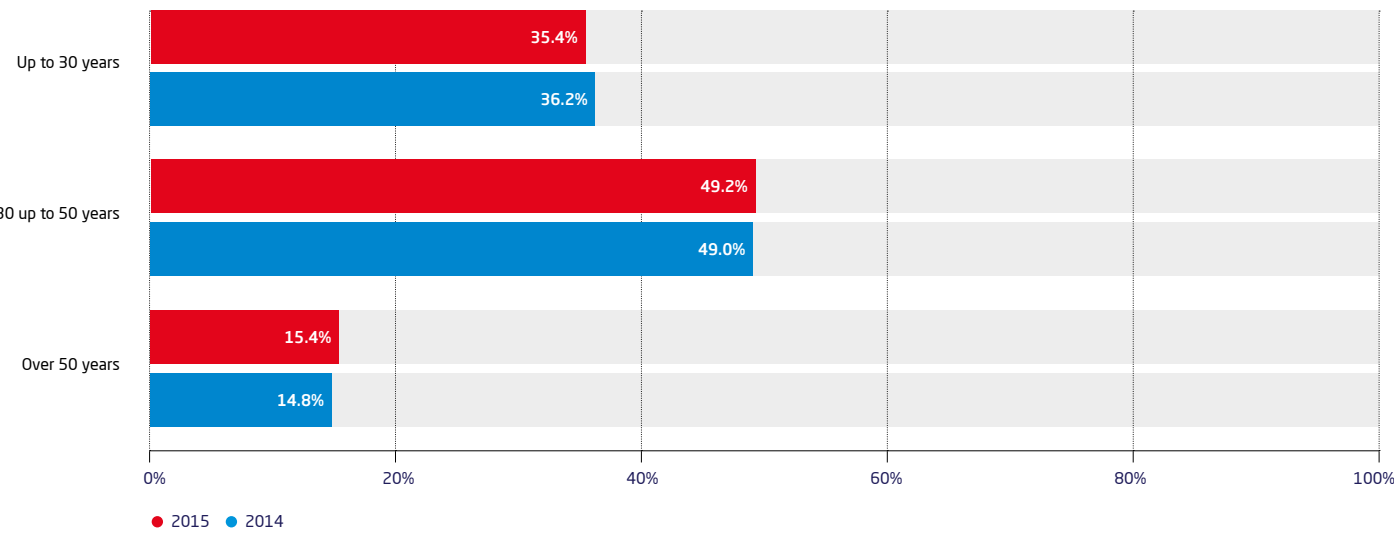
In order to ensure safety in the workplace, the Group adheres to the following principles:

- Precedence of workers' lives and health over operating performance
- Commitment of Group management to ensuring safe working conditions
- Development of strong motivation among employees for safe behavior in the workplace

NCSP Group is committed to introducing the latest safety provisions to prevent workplace injuries, and ensuring sanitary and health conditions that prevent workplace illnesses.

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.

NCSP Group employees by age group



* According to management accounts



Information on medical examinations and number of people who underwent them

Initial medical exam upon hiring		Regular medical exam of workers engaged in work with harmful and/or hazardous elements		Pre-departure medical exam of drivers of vehicles and shunting masters	
2014	2015	2014	2015	2014	2015
757	804	3,317	2,789	On shift basis	On shift basis

The Company analyzes statistics on workplace injuries and illnesses; assesses workplaces for working conditions, including identification of harmful and hazardous elements of the production process and their impact on the health of workers; and ensures the correct distribution, storage and use of protective clothing and other personal protective equipment. The work of operational control services is adjusted if needed.

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.

The Company spent \$146,900* on health services for employees in 2015.

NCSP Group's policy in occupational safety is aimed at preventing incidents and accidents. The implementation of a set of safety measures reduced the injury rate at Group units by 22.8% in 2015.

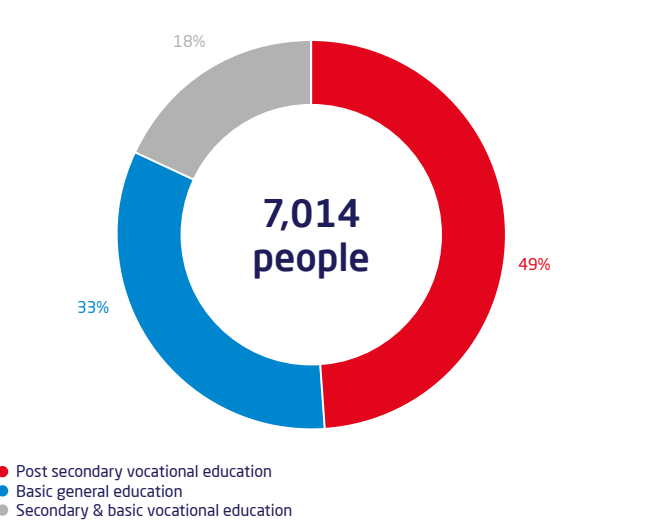
Group companies devote particular attention to training and certifying employees in OHS. In 2015, 6,167 employees underwent preliminary instruction, training and certification in occupational safety at Group divisions.

NCSP Group spent \$1,120,100* on OHS in 2015, 13.412 million rubles more than in 2014.

Workplace accidents

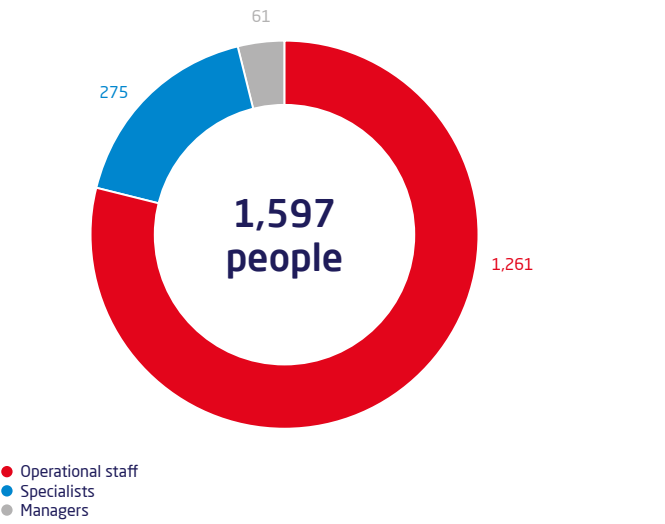
Minor		Serious/Temporarily unable to work		Fatal	
2014	2015	2014	2015	2014	2015
22	17	4	2	0	1

Education level of NCSP Group employees



* According to management accounts

NCSP Group employee training in 2015 (number of people)



Sponsorship and philanthropy

Charitable activities, patronage and sponsorships are an effective way to build relationships with employees, local communities and government authorities in regions where the Group operates.

NCSP Group develops cooperation and supports the social initiatives of local administrations in Novorossiysk, Primorsk and Baltiysk. In May 2015, the CEO of PJSC NCSP and the mayor of Novorossiysk signed an agreement on the Novorossiysk Commercial Sea Port's participation in the social and economic development of the city.

The Company has helped renovate kindergartens, medical clinics and hospitals in the city, and supported disadvantaged groups of the population under such agreements for many years. The N.I. Sipyagin arts center for children and youth was renovated with the Group's support, and assistance was provided to acquire equipment for the Novorossiysk City Theater.

PJSC NCSP management sponsors the activities of the PJSC NCSP Veterans Council for nonworking (retired, disabled) war and labor veterans, which provides quarterly financial assistance and helps veterans deal with social and domestic issues.

The Company traditionally 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 2015.

PJSC NCSP annually organizes New Year events with gift giving for the children of employees. The Company purchased 1,650 New Year gifts for children in 2015.

A memorable special event was arranged for the children of NCSP Group employees on July 11 and 12, 2015, when all of the rides at

Charitable activities in 2015*

	Activity	Amount, '000 USD
PJSC NCSP	Program for the social and economic development of the Novorossiysk municipal district	574.1
	Summer vacations for children	118.8
	Acquisition of medical equipment for the Novorossiysk Clinical Center of the Federal Medical and Biological Agency of Russia (former hospital for sailors) and the City Children's Hospital	21.2
	Financial assistance for retired company employees and members of the PJSC NCSP Veterans Council	142.6
	Repairs to sports facilities in the city	7.9
	Other activities	184.8
LLC PTP	Provision of organizational and transport services for historical and patriotic events	8.7
	Acquisition of medical equipment, care products and other goods for hospitals	6.1
	Provision of assistance in organization of special events	8.5
	Donations to kindergartens, schools, boarding schools and other organizations	6.6
	Provision of assistance in holding cultural and sports events	7.4
LLC Baltic Stevedoring Company	All activities	3.0
JSC NGT	All activities	8.2
JSC IPP	All activities	50.0
JSC NCSP Fleet	All activities	14.4
JSC NLE	All activities	17.9
JSC NSRZ	All activities	4.1
JSC SFP	Assistance to the Sailing Sports Federation of Leningrad Region	45.8
	Other activities	15.9
Group total		1,246.1

* According to management accounts



NCSP Group spending on charitable activities in 2015:

1.246 MLN*

the city's Lenin amusement park were free for two days and children enjoyed competitions, entertainment and refreshments. Awards in a competition for the best drawing on the topic of My Port were given out on the central avenue.

Letters of commendation and appreciation were awarded to NCSP Group's best employees at the Novorossiysk City Theater on July 30. The event was held to mark the 170th anniversary of the Port of Novorossiysk. One of the most anticipated events was a concert performed by Russian pop stars at Novorossiysk's Central Stadium. The outstanding and emotional show was followed by fireworks to the delight of the audience.

Environmental protection

Minimizing environmental impact and sustainable use of natural resources are the priorities of NCSP Group's environmental protection policy.

The Group adheres to the following principles in management of environmental risks and prevention and minimization of environmental impact:

- Priority of preventative measures over measures to mitigate negative environmental impact
- Regular reporting on the environmental protection activities of NCSP Group companies
- Continual improvement of environmental protection efforts and raising the environmental awareness of employees

The goal of environmental policy is to support and improve the level of environmental safety, and develop organizational mechanisms that ensure that negative environmental impact is minimized.

Key ways in which we meet this objective:

- Compliance with the requirements of Russian legislation, international treaties and agreements, standards and rules in the area of resource use and environmental protection, and other requirements applicable to the Company's activities to the utmost degree possible given economic and technical capabilities
- Improving the competencies of employees in ensuring environmental safety in both the process of making management decisions and carrying out daily operations

The Company has for many years been a general partner of the Morskoi Uzel festival and competition for young performers, which in 2015 was held on July 4-5.

As part of the Year of Literature in Russia, awards were handed out on December 21, 2015 to the winners of the A.A. Shogentsukov Competition for Young Poets, Writers and Publishers with the support of PJSC NCSP.

A sports event with arm wrestling, kettlebell lifting, darts, tug-of-war and chess competitions was held at the marina on August 1, 2015. Both participants and spectators were impressed with the excitement and enthusiasm of the competition.

NCSP's team, as usual, took part in the Open Spartakiade of Russian Seaports, which was held in Murmansk on August 20-24, 2015. Our futsal team beat the host team in the semifinals. A representative of Novorossiysk also won the kettlebell lifting competition. The Company's team took third place in the overall standings of the games.

The Port Primorsk Cup national Russian sailing race, which was held in July 2015 in the Gulf of Finland, drew 14 teams from ten regions. The Company was also a sponsor of last year's Night Voyage rock concert, the slogan of which was "No to aggression and no to drugs. This is our life and our future."

- 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 due to disregard of environmental regulations or 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

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 environment service. PTP has an integrated management system that meets the ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 international standards. Other Group companies have specialized labs that regularly monitor emissions and pollution levels, and conduct seasonal studies of the atmosphere, bodies of water and the level of noise pollution.

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 protection.

* According to management accounts

Environmental protection measures in 2015

The Port of Novorossiysk has treatment facilities for treatment of rainwater and domestic waste water. Oil traps and other equipment at Group facilities are regularly serviced. A modernized emergency notification system is in place in the event of accidents or emergencies. In the third quarter of 2015, PTP upgraded oil loading terminals to eliminate spills of crude oil and oil products. Major exercises were held at the Novorossiysk Fuel Oil Terminal in 2015 to train employees in localization and cleanup of oil product spills as a result of tank leaks. Employees worked out emergency response scenarios in the most realistic conditions possible.

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. These documents define the methods and locations for safe 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.

NCSP Fleet has seen an increase in generation of Class 3 and 4 waste due to growth of waste received from outside organizations, namely bilge water (contaminated with oil). In 2015, 4,858.8 tonnes were generated by the company's own operations and 6,881.0 tonnes were received from outside organizations.

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. Data obtained from monitoring are used for internal control and making management decisions based on their analysis, and are reported to environmental monitoring and regulatory bodies.

All pollution emissions by NCSP Group companies are restricted by maximum allowable emission rates set out in permits issued by the Federal Natural Resources Oversight Service (Rosprirodnadzor).

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

NCSP Group's environmental expenditures totales \$ 1,332 thousand in 2015.

Waste generation and management at NCSP Group, tonnes

Hazard class	Waste generated		Disposal outsourced	
	2015	2014	2015	2014
1	1.5	2.1	2.2	2.1
2	15.2	22.5	15.2	22.5
3	4,200.3	2,109.4	4,225.3	2,222.0
4	19,207.0	10,335.9	19,170.5	9,987.1
5	24,697.9	13,607.8	25,152.6	13,171.6
Total	48,121.9	26,077.8	48,567.3	26,479.0

Consumption of fuel and energy resources

NCSP Group reduced consumption of energy resources by 29.05% in 2015 compared to the previous year.

Some Group companies – IPP, NLE, NGT and NCSP Fleet – reduced consumption of electricity, gas and heat thanks to various energy conservation and energy efficiency measures. NCSP Fleet introduced diesel consumption standards on ships taking into account the regimes of operation of main and auxiliary engines for optimal operation of power plants. PTP significantly reduced fuel oil consumption by adjusting boiler burners to optimize fuel combustion. NGT and NSRZ reduced gasoline consumption by changing vehicle models. NSRZ also significantly reduced natural gas consumption due to the shutdown in 2015 of an electric power plant that was the main gas consumer.

However, NSRZ and SFP increased consumption of diesel fuel with the growth of cargo turnover and amount of services provided. There was also an increase in electricity consumption at Baltic Stevedoring Company LLC due to new facilities – a detailed inspection point and new treatment facilities with pump stations – and growth in refrigerated container traffic.



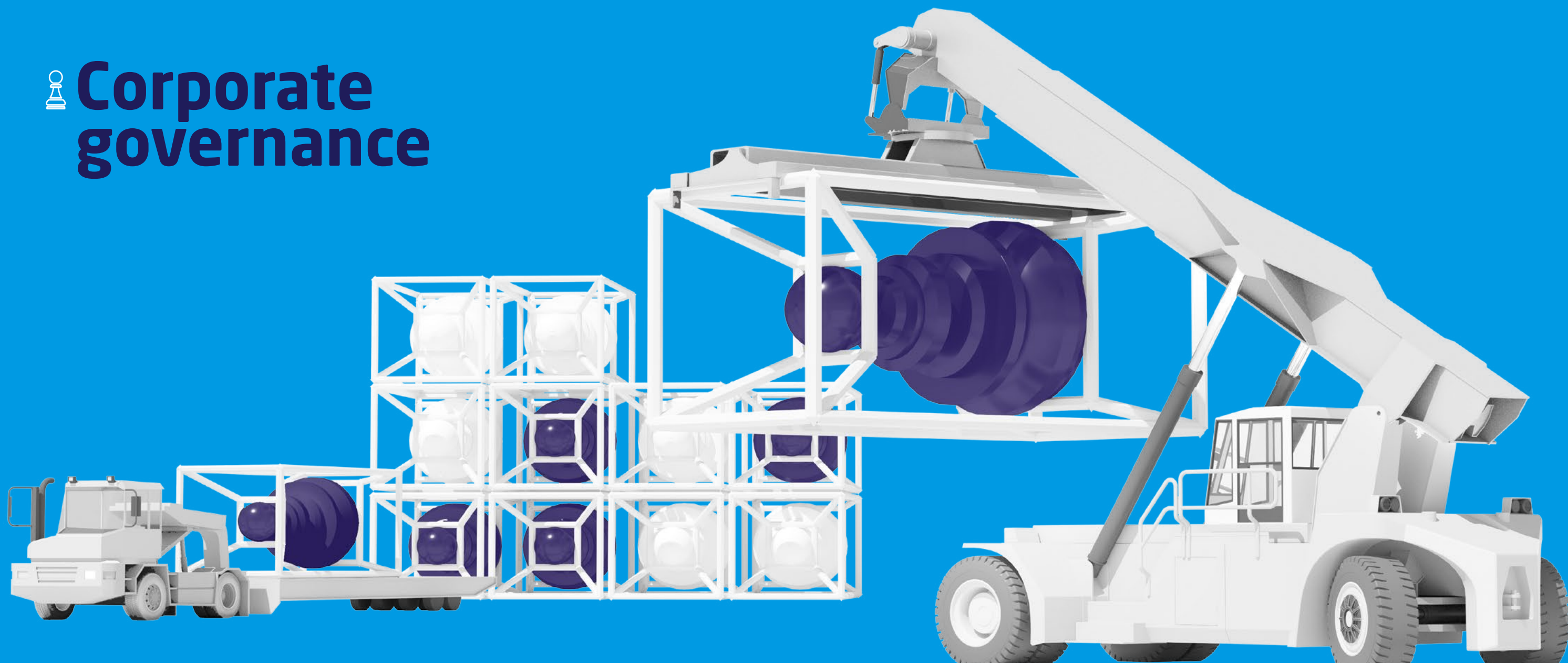
NCSP Group use of water resources

	2014	2015
Water intake, '000 m³		
— from underground sources	9.2	1.8
— from public water supply systems	835.1	760.0
Total	844.3	761.8
Water treatment, '000 m³		
— recycling of water	9.8	1.3
— treatment of rainwater	62.7	56.2
Total	72.5	57.5
Waste water disposal, '000 m³		
— contaminated, without treatment	256.9	247.7
— contaminated, insufficiently treated	242.3	241.7
— clean to standard (without treatment)	48.5	28.3
— treated to standard	62.9	43.3
Total	610.6	561.0

NCSP Group energy consumption

Resource	2014	2015	Change, %
Electricity, mln kW	63.3	61.2	-3.2%
Heat, '000 Gcal	42.8	34.9	-18.6%
Fuel			
Fuel oil, '000 t	180.4	201.6	11.7%
Diesel fuel, '000 t	1,145.4	715.3	-37.5%
Gasoline, '000 t	77.5	78.4	1.3%
Natural gas, '000 m³	9,700.5	6,133.6	-36.8%

Corporate governance



54: NCSP GROUP CORPORATE GOVERNANCE PRACTICES

56: NCSP GROUP MANAGEMENT

59: NCSP GROUP STRUCTURE

60: PJSC NCSP BOARD OF DIRECTORS

69: INTERNAL CONTROL AND AUDIT

70: RISK MANAGEMENT

75: ANTI-CORRUPTION AND PROCUREMENT POLICY

76: SHAREHOLDER EQUITY, SECURITIES AND DIVIDENDS

KEY PERFORMANCE INDICATORS

WERE INCLUDED IN TOP-MANAGEMENT MOTIVATION SCHEMES

SHARE PRICE

OF PJSC NCSP MORE THAN TRIPLED IN 2015.

NCSP Group

corporate governance practices

NCSP Group's corporate governance practices 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).

Key principles of corporate governance

- Timely disclosure of complete and accurate information about the Company, including its financial condition, performance and ownership structure
- Respect for the interests and protection of the rights of all shareholders
- Protection of the rights and legal interests of stakeholders in corporate relations
- Consistent and collective decision making
- Information openness and transparency

Company priorities in corporate governance

- Growing the Company's value by improving the corporate governance system and organizational structure
- Improving the human resources management and motivation system
- Open and accessible information for interested parties in the service of improved market perception

Company activities in the area of corporate governance

- Improving the system of internal control
- Adoption of best practices in the area of corporate governance
- Constructive cooperation with business partners and investors
The General Shareholder Meeting, the Board of Directors, the Chief Executive Officer and the collective executive body, the Management Board, are the foundation of PJSC NCSP's corporate governance system. PJSC NCSP subsidiaries are managed by appointing representatives of PJSC NCSP and its shareholders to the boards of directors of these companies.

The Internal Control and Audit Service, the Control and Audit Department, as well as the Audit Commission are responsible for internal control and audit at PJSC NCSP and the NCSP Group.

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 both the Board of Directors and the Audit Commission.

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 (Rosimushchestvo).

The main document regulating corporate governance procedures at PJSC NCSP is the company's Charter, written in accordance with the requirements of Russian legislation. A new version of the Charter was approved at the annual General Shareholder Meeting on June 30, 2015 in order to bring provisions of the Charter in line with Federal Law No. 99-FZ, dated May 5, 2014, to amend Part 4 of the first part of the Russian Civil Code and repeal certain provisions of Russian legislation. Open Joint-Stock Company Novorossiysk Commercial Sea Port (OJSC NCSP) was renamed Public Joint-Stock Company Novorossiysk Commercial Sea Port (PJSC NCSP).

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.

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.

On April 10, 2014, the Central Bank of Russia approved a new Corporate Governance Code recommended for joint-stock companies that incorporates best world practices in this area. In addition, a new Central Bank Regulation on Disclosure of Information by Issuers of Securities went into effect in March 2015. These regulations are aimed at improving corporate governance at Russian companies and expand their obligations in regard to shareholder rights, the work of the board of directors and corporate secretary, management remuneration, risk management and internal control.

The Company has developed and approved regulations on the General Shareholder Meeting, the Board of Directors, the Management Board, the Chief Executive Officer and the Audit Commission.

NCSP Group assesses the provisions of the Corporate Governance Code and other documents of the Company and subsidiaries in order to bring them in line with changes in legislation and current trends in corporate governance.

PJSC NCSP's Corporate Governance Code, internal documents regulating management and control bodies and information about the Company's information policy are available on the NCSP Group website at:

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



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	Provides overall direction of PJSC NCSP's business. Ensures protection and realization of shareholder rights. Develops overall corporate development strategy of the Group and oversees its execution. Oversees PJSC NCSP financial and business activities, determines main parameters of budget and oversees its execution. Helps ensure timely disclosure of complete and accurate information about the Company's business. Makes decisions on key projects and major transactions. Procedural issues concerning the activities of the Board of Directors are regulated by the Regulation on the Board of Directors.
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 responsible for the current management of PJSC NCSP. Ensures the implementation of business plans and investment programs, decides financial and legal issues, is responsible for economic and information security, preliminarily considers major innovation and investment projects, and coordinates cooperation with subsidiaries and affiliates. Meetings of the Management Board are usually held once a week, exclusively in person; the chairman of the Management Board is the CEO of PJSC NCSP. The Management Board acts in accordance with current legislation, the Charter of PJSC NCSP and the Regulation on the Management Board.

General Shareholder Meeting

Two General Shareholder Meetings were held in 2015.

The quorum at the annual General Shareholder Meeting was 86.6% of the Company's outstanding voting shares.

The following decisions were made at the Annual General Meeting of PJSC NCSP shareholders (Minutes No. 44-OSA NCSP, dated July 3, 2015) that was held on June 30, 2015:

- To approve the Company's annual report for 2014
- To approve annual financial statements, including the Company's report on financial results
- To allocate 4,499,092,877.44 rubles from retained net profit earned in the period prior to 2014 (retained earnings of past years) for payment of dividends for 2014 in cash in the amount of 0.2336 rubles per share
- To set July 13, 2014 as the date for determining persons with right to receive dividends
- To pay dividends:
 - > In the period from July 14 to July 27, 2015, inclusive, to the nominal holder and professional securities market participant trust manager registered in the register of shareholders
 - > In the period from July 14 to August 17, 2015, inclusive, to other persons registered in the register of shareholders
- To pay annual remuneration to nongovernment members of the Board of Directors in the amount of 40,000 rubles for work on the Board
- To pay annual remuneration to nongovernment members of the Audit Commission in the amount of 12,000 rubles for work on the Commission

- To elect members of the Board of Directors
- To elect members of the Audit Commission
- To confirm ZAO Deloitte & Touche CIS as auditor for 2015
- To confirm new version of Company Charter

The quorum at the Extraordinary General Meeting of PJSC NCSP shareholders that was held on August 12, 2015 (Minutes No. 45-OSA NCSP, dated August 17, 2015) was 86.3% of the Company's outstanding voting shares. At this meeting, shareholders made decisions on the early dismissal of members of the Board of Directors and election of new members of the Board of Directors of PJSC NCSP.

The Extraordinary General Meeting scheduled for December 31, 2015 in the form of a mail-in vote was declared void due to the lack of a quorum for holding a General Meeting. A new meeting was not scheduled.

NCSP Group management



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.



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.

Members of PJSC NCSP's Management Board do not hold shares in the Company.

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



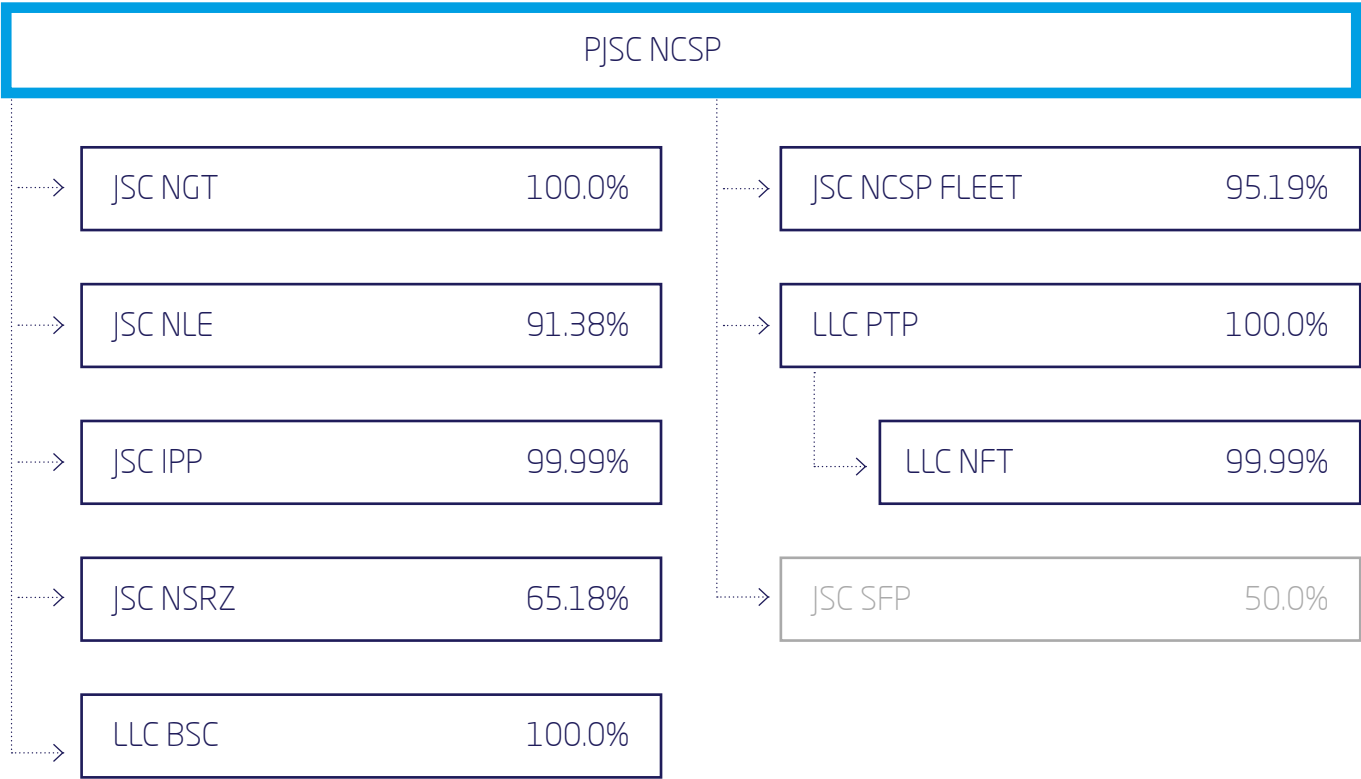
Yury Petrishev
General Director, JSC NCSP Fleet



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



NCSP Group
structure



Remuneration policy for key managerial personnel

The Company approved a Regulation on Incentives for Executive Employees of PJSC NCSP in 2012. Point 2.3 of the regulation stipulates that incentives are based on key performance indicators.

In 2014, the Company adopted a Regulation to link PJSC NCSP 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, the Company has approved and implemented a system of key performance indicators (KPI). The composition of KPI and their target values for the current and subsequent year are selected according to the Federal Property Agency's recommendations 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 actually achieved results based on KPI for 2014, as well as planned and actually achieved KPI for 2015 are presented in the Development Outlook section.

The Board of Directors reviewed performance in achieving KPI for 2014 at a meeting on June 16, 2015 and decided to approve the actually achieved KPI figures and the amount of bonuses for the CEO, executive director and executive employees of PJSC NCSP for 2014.

In 2015, compensation for directors and key management in the form of short-term payments and contributions for social security totaled \$8.511 million, including \$6,000 in severance pay.

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

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.

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.

Sergey Kireev

Mr. Kireev, born in 1960, has been CEO of Transneft Terminal since 2009.

From 2007 to 2014, he also held the position of CEO of Transneft Service.

He serves on the board of directors of SoyuzFlot Port.

Mr. Kireev graduated from the Krasnodar State Physical Education Institute in 1988 with a degree in physical education and sport.

Vladimir Kayashev

Mr. Kayashev has been President of Summa Group LLC since 2014.

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.



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.

Vitaly Sergeichuk

Mr. Sergeichuk has headed the department for property management and privatization of major organizations at the Federal Property Agency since July 2013. He entered government service in August 2012 in the position of deputy head of this department.

From 2008 to 2012, he held senior positions at VTB Capital.

Mr. Sergeichuk, born in 1984, graduated with honors from the economics department of Moscow State University in 2005.

Marat Shaydaev

Mr. Shaydaev was First Deputy CEO for investment at PJSC NCSP from 2011 to 2013, and in 2012-2013 he also served as First Deputy CEO at PJSC NCSP for stevedoring and port services.

From 2009 to 2012, he worked as senior vice president, executive director and president of Summa Group.

In 2006-2009, he was general director of CJSC Trans-Flot, prior to which he was general director of LLC Trans-Flot in 2005-2006.

Mr. Shaydaev, born in 1968, graduated from the Soviet Defense Ministry's Military Krasnoznamenny Institute in 1990 with a degree in law, and the Russian Presidential Academy of Civil Service in 2007. He previously worked at justice institutions.

The Board of Directors, at a meeting on November 9, 2015 (Minutes № 04-SD NCSP, dated November 9, 2015), recognized Sergey Andronov, Maxim Grishanin, Vladimir Kayashev, Sergey Kireev and Marat Shaydaev as independent directors based on the independence criteria specified in the Corporate Governance Code of PJSC NCSP.

Changes on the Board of Directors in 2015

Vladimir Kayashev was elected to the Board of Directors of PJSC NCSP by decision of the annual General Shareholder Meeting on June 30, 2015, and Sergey Andronov was elected to the Board by decision of the extraordinary General Shareholder Meeting on August 12, 2015.

Alexander Vinokurov and Mikhail Barkov served on the Board of Directors of PJSC NCSP until June 30, 2015 and until August 12, 2015, respectively.

Share ownership and remuneration

Members of PJSC NCSP's Board of Directors do not own shares in the Company.

In 2015, members of the PJSC NCSP Board of Directors who are not government officials were paid remuneration in the amount of 80,000 rubles.

Board director	Remuneration paid in 2015, RUB	Compensation received in 2015, RUB
Sergey Andronov	—	—
Mikhail Barkov	—	—
Alexander Vinokurov	20,000	—
Maxim Grishanin	—	—
Vladimir Kayashev	—	—
Sergey Kireev	40,000	—
Igor Levitin	—	—
Viktor Olersky	—	—
Vitaly Sergeichuk	—	—
Marat Shaydaev	20,000	20,000

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

Report on work performed by PJSC NCSP's Board of Directors in 2015

In 2015, the Board of Directors focused primarily on issues of corporate governance, and financial and strategic planning.

A new version of the PJSC NCSP Charter was drafted in order to bring provisions of the Charter in line with Federal Law No. 99-FZ, dated May 5, 2014, to amend Part 4 of the first part of the Russian Civil Code and repeal certain provisions of Russian legislation. These changes were included in the agenda and approved at the annual General Shareholder Meeting on June 30, 2015.

Members of the Company's Audit Committee and Nomination and Remuneration Committee were elected in September 2015, after an extraordinary General Shareholder Meeting.

Amendments were made to the Regulation on Procurements of PJSC NCSP in order to increase the efficiency of purchasing activities. The changes concern entering into contracts to purchase coal products only for periods of more than one year and directly with the producers or companies that are part of their group of entities.

On January 15, 2015, the Board of Directors approved a Long-term Development Program for NCSP Group to 2020, and later criteria for conducting audits of the program's implementation.

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, to replace Viktor Olersky as Russia's representative on the Board of Directors of PJSC NCSP on September 2, 2015 (order No. 1706-r).

As part of the implementation of the Long-term Development Program (LDP), key performance indicators (KPI) have been approved for the general directors of NCSP Group and PJSC NCSP executives. This system involves linking management compensation to company performance, including operating and financial results. The amount of such compensation is determined according to the Regulation on Executive Employee Incentives and can reach the equivalent of 12 of the employee's monthly salaries for the year.

At a meeting on June 16, 2015, the Board of Directors approved actually achieved KPI figures and the amount of bonuses for 2014 for the CEO, executive director and other executive employees of PJSC NCSP. At meetings in November, the Board approved KPI maps for 2015 and 2016. A decision was made on the need to approve a policy for calculating KPI, and this issue was included in the agenda of the Nomination and Remuneration Committee of PJSC NCSP.

On November 9, 2015, the Board of Directors approved a new version of the PJSC NCSP's Regulation on Insider Information, and considered and approved interested-party transactions and transactions to acquire plant and equipment.

Information about major transactions and interested-party transactions carried out in the reporting year is disclosed on the Company's website at: http://www.nmtp.info/holding/investors/info_disclosure/basic_fact/.



Main changes made to company Charter in 2015

Article 8. Shares of the Company

8.6.3. Not disclose confidential information about the activities of the Company

8.6.4. Participate in making corporate decisions, without which the Company cannot continue its activities in compliance with the law

8.6.5. Not commit actions knowingly intended to do harm to the Company

8.6.6. Not commit actions (inactions) that significantly impede or make impossible the achievement of goals for which the Company was created

8.6.7. Execute other responsibilities, prescribed by the law, the Charter, as well as decisions of the General Meeting made according to its authority

Article 10. Acquisition of placed shares by the Company

10.4. Shares acquired by the Company in accordance with Point 2, Article 72 of the Federal Law On Joint-stock Companies do not accord voting rights, they are not included in vote counts and dividends are not accrued on them. Such shares must be sold at a price not lower than their market value no later than one year from the date of their acquisition. Otherwise, the General Meeting must make a decision on the reduction of the Company's charter capital by cancelling these shares.

Also in November, the Board reviewed the results of feasibility studies and the investment program for the development of the Novorossiysk Sea Port within the context of the implementation of the LDP of NCSP Group, which was drafted within the context of instructions issued by the Russian president (No. Pr-1873, dated September 10, 2015). A decision was made on the need to update the Technical Policy for 2016. The Board also heard a report from the CEO of PJSC NCSP on the completion of construction and launch of a number of facilities at the Sheskhari's Oil Terminal and the implementation of its reconstruction project.

At its December meeting, the Board approved a number of important internal documents:

- Tariff Policy of PJSC NCSP for 2016
- Rules for increasing investment and operating efficiency and reducing costs
- Regulation on the quality management system
- Regulation on the procedure for developing and implementing innovative development programs

In the first half of the year, the Board considered and made decisions on issues concerning the placement of exchange traded bonds of the Company.

The Board of Directors also considered other issues under its authority in 2015, including issues concerning the organization and holding of the annual and extraordinary General Meetings of PJSC NCSP shareholders.

The Board of Directors considered a total of 206 issues in 2015 and held 16 meetings, including two physical meetings. The decisions of the Board of Directors can be reviewed online on the Company's website at: http://www.nmtp.info/holding/investors/info_disclosure/basic_fact/

Board Committees

In order to safeguard the rights and interests of shareholders, as well as to enhance the effectiveness of PJSC NCSP's Board of Directors, both standing committees for the term of the Board of Directors and temporary committees to tackle specific issues can be formed. 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. Committee meetings are convened as needed. In 2015, there were five meetings of the Audit Committee and two meetings of the Nomination and Remuneration Committee.

Audit Committee	Nomination and Remuneration Committee
<ul style="list-style-type: none">• Analyzes financial statements, conducts external and internal audits and submits recommendations to the Board of Directors• Monitors:<ul style="list-style-type: none">> quality and completeness of financial statements> qualifications and independence of external auditor> activities of Internal Control Service• Works closely with external auditor, Audit Commission and Internal Control Service	<ul style="list-style-type: none">• Determines criteria for selection of candidates to the Board of Directors, Management Board and position of CEO• Makes recommendations on specific candidates• Develops the terms of contracts with the CEO and members of the Management Board• Evaluates the performance of the CEO and members of the Management Board• Develops corporate policy on remuneration for company management



Participation of directors in meetings of the Board of Directors.

Board directors	Date of meeting	Year elected	15.01 2015	04.02 2015	27.02 2015	20.04 2015	12.05 2015	27.05 2015	16.06 2015	17.06 2015	17.07 2015	04.09 2015	11.09 2015	20.10 2015	09.11 2015	19.11 2015	20.11 2015	31.12 2015	Number of meetings attended		
Maxim Grishanin		2012	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	16		
Sergey Andronov		2015	Elected to Board of Directors at PJSC NCSP General Shareholder Meeting on August 12, 2015										✓	✓	✓	✓	✓	✓	✓	7	
Mikhail Barkov		2012	✓	✓	-	✓	✓	✓	✓	✓	✓	Not elected to Board of Directors elected at PJSC NCSP General Shareholder Meeting on August 12, 2015							8		
Alexander Vinokurov		2012	✓	✓	✓	✓	✓	-	✓	✓	Not elected to Board of Directors elected at PJSC NCSP General Shareholder Meeting on June 30, 2015										7
Sergey Kireev		2014	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	16		
Vladimir Kayashev		2015	Elected to Board of Directors at PJSC NCSP General Shareholder Meeting on June 30, 2015										✓	✓	✓	✓	✓	✓	✓	8	
Viktor Olersky		2010	✓	-	✓	-	✓	-	-	✓	✓	Dismissed by order of the government, No. 1706-r dated September 2, 2015, on the basis of the Russian Federation's special right to participate in management (golden share)							5		
Igor Levitin		2015	Appointed by order of the government, No. 1706-r dated September 2, 2015, on the basis of the Russian Federation's special right to participate										in management (golden share)			✓	✓	✓	✓	✓	6
Vitaly Sergeichuk		2013	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	15		
Marat Shaydaev		2012	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	16		
Number of board directors in attendance			7	6	7	5	7	5	6	6	7	6	7	7	7	7	7	7			

- Meetings held in person
- Meetings held by circulation

Committee members in 2015

Jan 1 to September 4, 2015		September 4 to December 31, 2015	
Audit Committee			
Maxim Grishanin (Chairman)		Sergey Kireev (Chairman)	
Alexander Vinokurov		Maxim Grishanin	
Sergey Kireev		Vladimir Kayashev	
Marat Shaydaev		Marat Shaydaev	
Nomination and Remuneration Committee			
Mikhail Barkov (Chairman)		Vladimir Kayashev (Chairman)	
Alexander Vinokurov		Sergey Andronov	
Vitaly Sergeichuk		Vitaly Sergeichuk	
Marat Shaydaev		Marat Shaydaev	

Report on the work of the Nomination and Remuneration Committee in 2015

The Nomination and Remuneration Committee reviewed the KPI maps (target figures) for NCSP Group executive employees for 2015, deemed that they completely comply with the Company's internal documents and regulations of the Russian Federation, and recommended that NCSP Group boards of directors approve these KPI maps.

The Nomination and Remuneration Committee also reviewed the Regulation on the Nomination and Remuneration Committee of PJSC NCSP at the end of 2015, and recommended that the CEO arrange for its revision and subsequent submission for approval to the Board of Directors.

Instructions were issued to draft proposals for priority areas of work with employees and proposals to change the organizational structure and staff schedule of PJSC NCSP, and submit them to the Committee. It was recommended that, based on the presented documents, the CEO develop Rules for Hiring and Dismissing Employees and Rules for Hiring and Dismissing Senior Managers, and submit them for approval to the Committee for subsequent consideration by the Board of Directors.

Report on the work of the Audit Committee in 2015

The Audit Committee reviewed the audit report of the Company's auditor, ZAO Deloitte & Touche CIS, on the financial statements for 2014. 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 2015, and recommend ZAO Deloitte & Touche CIS as auditor for 2015 to the boards of directors of subsidiaries.

The Report to the Committee on the Audit of PJSC NCSP and Subsidiaries for 2014, prepared by ZAO Deloitte & Touche CIS, was considered and taken under review.

In the second half of 2015, 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 Committee considered and made a decision on the reorganization of the PJSC Internal Control and Audit Service and the Control and Audit Department of PJSC NCSP's office in Moscow into separate structural divisions: the Internal Control Service and the Internal Control and Risk Management Service.

Instructions were issued to draft a Regulation on Internal Audit and Regulation on Internal Control and Risk Management, and submit them to the Committee for review and subsequent submission for consideration to the Board of Directors.

Corporate Secretary

The Corporate Secretary plays an important role in ensuring that the Company complies with procedural requirements that guarantee the rights and legal interests of shareholders, and in introducing and implementing corporate governance principles that are consistent with best practices.

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. In order to ensure that the Corporate Secretary can perform his/her duties effectively, 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

The Corporate Secretary performs his/her duties on the basis of the Regulation on the Corporate Secretary that was approved by PJSC NCSP's CEO on July 16, 2014. 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



Vladimir Matveev

Mr. Matveev has been the Secretary to the Board of Directors of PJSC NCSP since 2005.

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.

Report on compliance with Corporate Governance Code

The Board of Directors and Management Board of PJSC NCSP operate according to the principles of corporate governance set out in the Corporate Governance Code that the Central Bank of Russia recommended for Russian companies on March 21, 2014. The Company has also approved its own Corporate Governance Code, which regulates all areas of relations with shareholders and investors.

Management bodies perform their duties primarily adhering to the principles recommended in the Corporate Governance Code, chief among them being strict protection of the rights of shareholders and investors.

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.

The Company's website has a section where materials for the next General Shareholder Meeting are posted.

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 and copies of them are provided.

A Regulation on Information Policy has been adopted.

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 decisions made by the Company's management bodies.

Key information about the Company is promptly posted:

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

The office of Corporate Secretary at the Company is held by a specifically designated individual.

The report on compliance with the principles and recommendations of the Corporate Governance Code by PJSC NCSP for 2015 is scheduled to be reviewed at the next meeting of the PJSC NCSP Board of Directors.

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.

Self-evaluation of the work of the Board of Directors

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 is 44.62%.

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 Russian language version of this annual report.

The Company realizes that a reputation as an organization that strictly adheres to the highest standards of corporate governance set out in the Corporate Governance Code cannot be established in one day. It is important for the Company to solve the issue of having independent directors serving on the Board of Directors, and to increase the role of Board committees. This will require time. We are confident that we will manage to establish such a reputation for the Company. We are striving to develop our business, we are prepared to overcome future difficulties that are inevitable in our business, and we are committed to the principles of transparent and responsible management. All this will enable us to earn the confidence of shareholders and investors.

Self-evaluation summary

Components		Evaluation				
		Number of issues	Weight of component in overall evaluation	Actual points	Max. points	Level of compliance
I.	Shareholder rights	22	14%	48	79	60.75%
II.	Board of Directors	56	37%	78.5	202	38.86%
III.	Executive management	5	7%	12	38	31.6%
IV.	Transparency and disclosure of information	15	25%	77	135	57.04%
V.	Risk management, internal control and internal audit	16	11%	25	63	39.68%
VI.	Corporate social responsibility, business ethics	6	6%	4	31	12.9%
Overall evaluation		120	100%	244.5	548	44.62%

Planned actions and steps to improve the model and practices of corporate governance

№	Planned actions and steps	Target date
1.	Additionally post the following in the section on materials for General Shareholder Meetings on PJSC NCSP's website: <ul style="list-style-type: none">Announcements of General Shareholder Meetings in EnglishMinutes of General Shareholder MeetingAnnual report, preliminarily approved by the Board of DirectorsInformation about candidates for the Board of Directors, the position of CEO, the Audit Commission and candidates for auditor, with disclosure of who nominated them	2016
2.	In announcements of General Shareholder Meetings, not only indicate the agenda for the meeting, but also who proposed each item	2016
3.	Rework the Company's Corporate Governance Code taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	2016
4.	Make changes and additions to the Charter taking into account the provisions and recommendations of the Bank of Russia's Corporate Governance Code	2016
5.	Approval of Regulation on the Corporate Secretary by the Board of Directors	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	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	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	2016



Internal control and audit

Internal control is an integral part of NCSP Group's corporate governance system. The main structural units of the internal control system are the Internal Control and Audit Service and the Audit Commission of PJSC NCSP.

Audit Commission

The Audit Commission monitors the financial and business activities of PJSC NCSP, its divisions, services, branches and representative offices. It reports to the General Shareholder Meeting of PJSC NCSP, and its five members are elected by the General Shareholder Meeting for a term until the next annual general meeting.

Internal Control and Audit Service

The duties of internal audit at PJSC NCSP are performed by the Internal Control and Audit Service, and the goal of its activities 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 Control and Audit Service of PJSC NCSP, approved by the Board of Directors on August 6, 2014.

Internal audit responsibilities are delegated to the internal and technical audit department, which includes experts certified as auditors.

In order to further improve internal audit, the Company plans to create a separate structural division, an Internal Audit Service. For this purpose, the Company has drafted a Regulation on Internal Audit, which is going through the necessary corporate approval procedures before being submitted for consideration and approval to the Board of Directors.

Audit Commission members as of December 31, 2015

Audit Commission member		Remuneration paid in 2015, RUB
Yekaterina Vlasova	Head of the representative office of Baronetta Investments Limited	12,000
Nadezhda Zhikhareva	Deputy Director of Marine and River Transport Policy, Transport Ministry of Russia; representative of Russia, appointed by the government by right of golden share	—
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	6,000

Risk management

The management of NCSP Group pursues a focused policy to minimize the impact of external factors on its business, enhancing its operational and technical potential, expanding its presence on the stevedoring services market and strengthening relationships with counterparties and providers of related services.

One of the key principles of NCSP Group's risk management system is the sharing of responsibilities in the area of risk management and internal control among the Board of Directors, Audit Committee, Audit Commission, Chief Executive Officer and executive management bodies.

The specialized division of the system of risk management and internal control is the Internal Control and Audit Service. It was established to conduct internal audits and control of the Company's activities when preparing and signing financial and business contracts and reasoned letters of enquiry, conducting tender procedures and preparing documents submitted for review to the Board of Directors on issues of accounting, management accounting and audit, and conducting scheduled audits of financial and business activities and audits ordered by the authorities, in order to help management bodies to efficiently perform their duties, reduce overhead losses and ensure protection of property.

The main duties and objectives of divisions responsible for developing the system of risk management and internal control are as follows.

- PJSC NCSP's Board of Directors and the Board's Audit Committee are responsible for:

- > Strategic management of the system of risk management and internal control

- > Defining the principles and areas of development of the system of risk management and internal control

- > Exercising oversight over the effective performance of the risk management system

- CEO and Management Board are responsible for:

- > Day-to-day management of the system of risk management and internal control

- > Establishing methodology for managing risks and implementing control procedures

- > Continuous monitoring of the effectiveness of the system of risk management and internal control

- Business divisions of the Company, within the scope of their authority, are responsible for:

- > Identifying, analyzing, managing and mitigating risks

- > Generating reports on key risks

- Internal Control and Audit Service is responsible for:

- > Independent assessment of the effectiveness of control procedures, measures to manage risks and the system of risk management and internal control as a whole

- > Carrying out control procedures and measures to manage risks

- > Elaborating, documenting and developing the risk management system at divisions/subsidiaries

Improvement of the risk management system in 2015

PJSC NCSP's CEO approved a document regulating the process of risk management, the PJSC NCSP Risk Management Policy, in June 2015.

The policy prescribes 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.



In the second half of 2015, the Internal Control and Audit Service drafted a Regulation on the System of Internal Control and Risk Management that is based on recognized standards of internal control and risk management. The draft is undergoing preliminary approval by the Audit Committee before being presented for approval to the Board of Directors.

Risks identified and realized in 2015

The following risks, the realization of which would have the most significant impact on the Company's financial and business activities, were identified in 2015.

Risk	Response measures
Risk of decrease in cargo traffic	Work with customers aimed at signing strategic agreements and memoranda to provide guarantees for maintaining volumes; development and introduction of various conditions for serving customers; implementation of Company projects aimed at increasing commercial appeal
Risks related to a negative court decision concerning the operation of hydraulic structures	Providing legal defense in litigation; finding dispute resolution acceptable to both parties; addressing identified issues with title documents

The reporting year saw the realization of a risk related to the revocation of the license of Vneshprombank, resulting in full provisions being made for impairment of cash held in deposits at Vneshprombank, which totaled \$255.8 million, not including interest, as of December 31, 2015, at the exchange rate on this date.

Expenses related to provisioning for impairment of cash held at Vneshprombank are also reflected in the consolidated comprehensive statement of losses in a separate line item in the amount of \$305.8 million, not including interest, at the average exchange rate for 2015.

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. The scope of the measures will depend on the particulars of the situation in each specific case. 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 affecting the business of NCSP Group 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, including a terminal to handle the bulk cargo of company Oteko with capacity of 35 million tonnes per year, and the renewal of GMP's interest in creating excess capacity at the Port of Taman

- > Increase in utilization of the latest transshipment facilities at the Port of Ust-Luga

- > Flexible tariff policy of small ports in southern Russia (Sea of Azov ports)

A corporate risk map presented by the CEO was approved at a meeting of the PJSC NCSP Management Board on October 16, 2015 and instructions were issue to draft a map of significant risks.

- Increase in tariffs of transport companies, including annual indexation of the tariffs of natural monopolies such as Russian Railways (RZD) and Transneft, as well as growth of prices for trucking services (growth of fuel costs, introduction of Platon toll system)

- Attractiveness of railway tariffs to ports on the Sea of Azov for most Russian exporters

- Heavy congestion of transport infrastructure (railways and roads) at approaches to the Port of Novorossiysk, restrictions, prohibitions or disruptions in operations

- High capacity utilization rate at Port of Novorossiysk – lack of reserves of available capacity for main types of dry cargo

- Development of the internal economic crisis in Russia, decline in production of finished products

- Administrative barriers/restrictions/duties imposed by the government of Russia (or government bodies) on exports/imports of various cargos (for example, a prohibitive export duty on wheat was in effect from February through May 2015)

- Possible environmental pollution in area where NCSP Group operates

- Possible changes in environmental legislation regarding stricter requirements applied to NCSP Group

- Local seasonal bad weather conditions (northeast wind) and natural disasters (flooding, mudflows)

On foreign market:

- Expansion of sanctions and economic embargo against Russia

- Decrease in import cargo traffic as a result of the depreciation of the Russian ruble against other currencies, and deterioration of economic and political relations with Turkey, which is a major exporter of goods to Russia and major importer of Russian goods shipped south



- Tonnage and weather (particularly in fall and winter) restrictions on passage of vessels through Turkey's Bosphorus and Dardanelles straits
- Fluctuations in charter costs on the world market

Country and regional risks

- Oversupply of crude oil on European markets (primarily oil from Arab countries, including illegal shipments of oil by ISIS (a terrorist organization banned in Russia)) and redirection of substantial amounts of Russian oil from western and southern routes to eastern destinations
- Iran's return to the world oil market after the lifting of sanctions and its desire to increase exports to the previous, pre-sanctions level
- Growth of U.S. exports of liquid hydrocarbons to Europe
- Anticipated permission to grow genetically modified products (including wheat) in Ukraine, which is likely to lead to a significant increase in harvests and, consequently, exports to destinations that are traditional markets for Russia
- Growth of competition on world markets with the optimization of logistics and possibility of shipping cargo on larger fleets with more attractive charter conditions (South Africa, Columbia, United States, India)
- Deterioration of trade relations with Turkey, escalation of tensions:
 - > Restrictive (and provocative) actions by the Turkish authorities regarding ships with cargo sailing from or to Russia when passing through the Bosphorus and Dardanelles straits
 - > Restrictions on Russian exports to Turkey as retaliation for the Russian embargo on Turkish goods (transshipment of cargo shipped to or from Turkey amounted to about 10% of NCSP Group's cargo turnover in 2015)
 - > Possible closure of Bosphorus and Dardanelles straits to Russian foreign trade traffic
- Strengthening of the Russian ruble against other currencies, which is a possible threat to exports (the bulk of NCSP Group's cargo traffic)
- Decrease in demand for certain traditional export cargo traffic due to overproduction and surplus supply of certain goods/cargo (oil, ore, ferrous metals, coal) on world markets
- Shipment of Russian cargo by alternative routes through ports in the Baltic and Arctic basins to economize on charter using larger vessels
- Decrease in competitiveness of Russian export cargo because of high logistics costs for delivery of cargo to seaports due to remoteness of production sites
- According to the construction standards of Krasnodar Territory, NCSP Group facilities in Novorossiysk are located in a zone with risk of earthquakes of up to 9 points, which could lead to the destruction of key engineering infrastructure and buildings, disruption of cargo handling processes at the port, as well as fatalities. However, these facilities are not within the zone of seasonal flooding

- According to a vulnerability assessment done by order of the Russian Transport Ministry, Federal Security Service and Interior Ministry (No. 52/112/134, dated March 5, 2010), there are risks of fatalities and economic losses at PJSC NCSP transport infrastructure as a result of unlawful interference and terrorist attacks, including the risk of theft, seizure, explosion, attacks with dangerous substances and blockade

Political risks

- Escalation of tensions in the Bab-el-Mandeb and Aden straits due to fighting in Yemen
- Unstable political situation in the Middle East (Egypt, Syria, Iraq, Turkey)
- 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
- Deterioration of political relations with Turkey, possibility of military conflict
- Unstable military and political situation (civil war) in Ukraine, possible repeat of Ukrainian scenario in Kyrgyzstan and other countries bordering Russia

Economic risks

Emerging markets, including Russia, are susceptible to economic, political, social, judicial and legal risks that differ from the risks of more mature markets. Laws and regulations that govern doing business in Russia can change quickly and can be subject to arbitrary interpretation. The future direction of Russia's development depends a great deal on the government's tax, monetary and fiscal policies, the laws and regulations that will be passed and changes in the political situation in the country.

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. There was a significant decline in prices for energy resources in 2014-2015 and in the first quarter of 2016, which led to the steep depreciation of the ruble.

The United States and European Union have imposed several rounds of sanctions against a number of Russian officials, business people and organizations since March 2014.

In December 2014, the Central Bank of Russia (CBR) dramatically raised its key interest rate, leading to a significant increase in lending rates on the domestic market. In the first quarter of 2015, international rating agencies downgraded Russia's long-term foreign currency debt ratings to a speculative level, with a negative outlook.

The developments mentioned above made it difficult for Russian businesses to access international capital markets, and led to higher inflation, the slowdown of economic growth and other negative economic consequences. It is difficult to determine at the moment what impact the changes in the economic situation will have on the Group'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 ratio of borrowed and own funds and the debt to equity ratio within the limits of the covenants of a loan agreement with Sberbank (IFRS Note 23, Debt). Group management regularly analyzes the capital structure and 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 and euros 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 ruble depreciating by 20% against the U.S. dollar and euro, all other variables remaining unchanged, 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 only has one loan with a floating interest rate. On January 21, 2011, PJSC NCSP received a loan from Sberbank to acquire PTP in the amount of \$1.95 billion under an agreement on the opening of a new credit line dated January 19, 2011. In the first three years of the lending term, a floating interest rate in the amount of the three-month LIBOR plus 4.85% annually was applied; as of January 19, 2014, the loan is subject to a floating interest rate in the amount of the three-month LIBOR plus 5% annually. A 1% change in the LIBOR would lead to an increase in interest expenses and net profit or loss by \$15.011 million and \$12.009 million (1,094,042,000 rubles and 875,248,000 rubles at the exchange rate on December 31, 2015), 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. The negative working capital as of December 31, 2015 was due to the impairment of deposits and cash held at Vneshprombank (IFRS Note 21, Cash and Cash Equivalents). A maturity analysis of financial liabilities is provided in IFRS Notes 24 and 28.

Amendments were made in 2014 to the procedure for taxation in Russia of controlled foreign companies. In accordance with the changes, the retained earnings for 2015 of the Group's foreign subsidiaries that are deemed to be controlled foreign companies could lead to an increase in the tax base of controlled companies or banks for 2016. The Group is now developing a tax planning strategy for foreign subsidiaries.

Tax risks

Russian legislation governing businesses continues to change rapidly. 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. Group management, based on its interpretation of tax legislation, believes that all applicable taxes have been charged. In cases of uncertainty, the Group has reflected estimated tax liabilities based on management estimates of the resources that are very likely to be required to cover such liabilities. Nonetheless, the tax authorities could interpret the provisions of current tax legislation differently, and differences in interpretation could materially affect the financial statement.

Transfer pricing risk

Under legislation on transfer pricing, the tax authorities can make additional tax claims in regard to a number of transactions, including transactions with affiliated parties, if they believe that the prices of such transactions differ from market prices. In 2014, some Group companies carried out related-party transactions, notifications about which were filed with the tax authorities in 2015 in accordance with the law. These Group companies are in the process of preparing paperwork on transfer pricing on foreign trade transactions and/or transactions with affiliates (related-party transactions) that occurred in 2015. The deadline for filing this paperwork is May 20, 2016. In light of the absence of extensive experience of audits by the tax authorities and the unclear wording of a number of provisions of the rules, the likelihood of the tax authorities disputing the Group'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)
- 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 incurrance 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.

Information about litigation

The Group is involved in a large number of negligible lawsuits and judicial proceedings related to current operations. Based on available information, management believes that the resolution of these issues will not have a material negative impact on the Group's financial results and liquidity position.

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. PJSC NCSP estimates that the possible increase in the annual lease payment will not exceed 2% of the Group's revenue for 2015. This case is now being considered and it is not possible to assess its outcome.

Some Group companies are involved in litigation with the tax authorities regarding additional VAT charges and related fines and penalties. The total amount of additional charges in these legal cases is \$8,403. These cases are in the process of being considered and their outcome cannot be reliably assessed.

Anti-corruption and procurement policy

PJSC NCSP was the first company in Novorossiysk to join the Anti-Corruption Charter of Russian Business, according to which the primary means of combating corruption is to incorporate anti-corruption policy programs and other measures into corporate governance practices.

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 cases of other company employees inducing them to commit 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.

PJSC NCSP purchasing activities are governed by the Regulation on Procurement of Goods and Services. In June 2015, PJSC NCSP's Board of Directors approved a new version of this document that was revised in order to fully meet the Company's requirements for goods and services on time, and to increase the efficiency of purchasing.

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

All purchases made on a competitive basis were carried out in electronic form in 2015 on the Unified Electronic Commerce Platform at the website <https://www.roseltorg.ru>, and the e-commerce platform B2B-Center (<http://www.b2b-center.ru>).

In the process of implementing its annual comprehensive procurement program in 2015, the Company increased the efficiency of competitive purchasing and achieved savings of 5% of the initial (maximum) price of competitive purchases.

The Company posts plans on its website for purchases of goods and services for a period of at least one year. As of January 1, 2015, the plan for purchases of innovative and high-tech products is posted for a period of five to seven years.

As part of the purchasing process, the Company applies common standards for bidders, and conducts qualification rounds in the course of which the legal standing, solvency and business reputation of bidders are verified.

In order to carry out Russian government instructions concerning the gradual substitution of purchases of foreign products and services with Russian products and services with the equivalent technical specifications and end-user performance (No. DM-P9-87r dated November 25, 2013, No. AD-P9-9176 dated December 12, 2014 and No. ISh-P13-1419 dated March 5, 2015), PJSC NCSP's Regulation on Procurement of Goods and Services gives priority to bids containing proposals to supply goods of Russian origin when considering applications for participation in procurements, all other conditions being equal.

In order to carry out points of the roadmap approved by a Russian government order to expand access for small and medium businesses to procurements by infrastructure monopolies and state companies (No. 867-r, dated May 29, 2013), as of July 1, 2015 PJSC NCSP makes purchases from small and medium businesses in line with the Regulation on the Particulars of Small and Medium Businesses' Participation in the Purchases of Goods, Work and Services of Selected Types of Legal Entities, and the annual amount of such purchases and procedure for calculating this amount approved by Russian government resolution No. 1352, dated December 11, 2014.

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 Company selects suppliers and contractors primarily on a competitive basis, and endeavors to work with counterparties that have an impeccable reputation and comply with legislation and standards of corporate and business ethics.

Shareholder equity, securities, and dividends

Shares and GDR

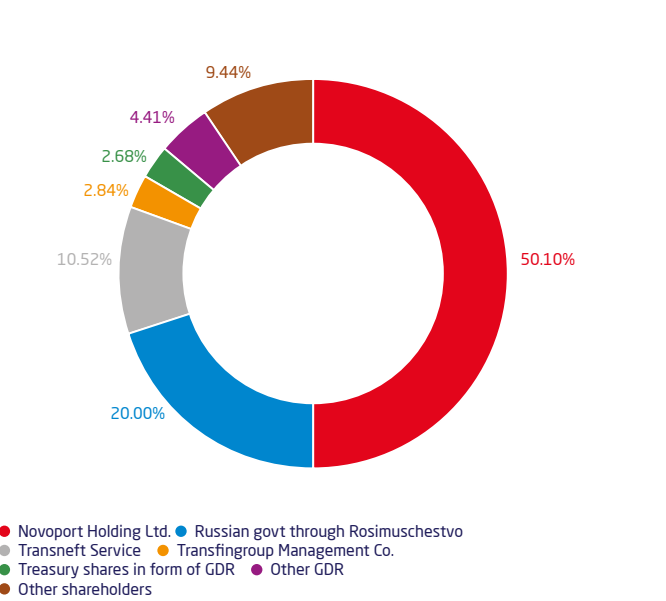
PJSC NCSP's charter capital is 192,598,154 rubles, divided into 19,259,815,400 shares with par value of 0.01 rubles. PJSC NCSP carried out an IPO on the London Stock Exchange and Russia's RTS (Moscow Exchange as of December 2011) in November 2007, placing 19.38% of its equity in the form of common shares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

PJSC NCSP has treasury shares equivalent to 2.68% of equity that were purchased under a mandatory offer as part of the deal to acquire LLC PTP in 2011. These shares were converted into GDR on the basis of a decision made by the Board of Directors on February 17, 2012.

PJSC NCSP's largest shareholders as of December 31, 2015 were Novoport Holding Ltd. with 50.1%, the Federal Property Management Agency (Rosimushchestvo) with 20%, and Transneft with 10.5%. The other 19.4% are shares held by minority shareholders and the free float, which includes shares traded in the form of GDR.

As of December 31, 2015, 1,366,822,425 PJSC NCSP shares, amounting to 7.09% of outstanding shares, were traded in the form of GDR.

PJSC NCSP shareholder structure as of December 31, 2015



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	

Global Depositary Receipts (GDR) on PJSC NCSP shares

Issue	BO-02	BO-01	BO-03	BO-04	BO-05
Issue amount	4 bln rubles	5 bln rubles	4 bln rubles	3 bln rubles.	2 bln rubles
Coupon rate	9% annually	1 st coupon ahead of placement or in bidding, remainder according to issue documents			
Coupon period	Semiannual				
Coupon accrual	From 02.05.2012				
Maturity date	29.04.2015				
Issue status	Redeemed			Planned	
State registration number	4B02-02-30251-E	4B02-01-30251-E	4B02-03-30251-E	4B02-04-30251-E	4B02-05-30251-E



Price of shares and GDR

The price of GDR on PJSC NCSP shares on the London Stock Exchange rose by 93% in 2015, from \$2.00 per GDR to \$3.86 per GDR, while the price of PJSC NCSP shares on the Moscow Exchange rose 3.1 times, from 1.21 rubles to 3.76 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 growth of NCSP Group's cargo traffic and operating results; statements by PJSC NCSP shareholders that they had established a working partnership; and the dividends paid by PJSC NCSP. Amid the depreciation of the ruble, NCSP Group managed to significantly increase the profitability of its business, since the Group's revenues are primarily denominated in foreign currency, while costs are denominated in rubles.

Bonds

PJSC NCSP's Board of Directors on March 4, 2012 approved a ruble bond program consisting of five series of exchange traded bonds. Bond series BO-01, BO-02, BO-03, BO-04 and BO-05 amounted to respectively 5 billion rubles, 4 billion rubles, 4 billion rubles, 3 billion rubles and 2 billion rubles. The coordinator of the program was VTB Capital. The Group completed the registration of the program on April 3, 2012 and the bonds were included in the listing of securities admitted to trading on the Moscow Exchange on May 2, 2012.

PJSC NCSP placed bond series BO-02 totaling 4 billion rubles, which was redeemed on April 29, 2015. As of the writing of this report, the Company does not have any outstanding bonds.

Credit ratings

NCSP Group has credit ratings assigned by international rating agencies Moody's and Standard &

Poor's. As of the date of publication of this report, the following long-term international ratings were assigned to the Group:

- Moody's: Ba³, Stable Outlook
- Standard & Poor's: BB-, Stable Outlook

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 takes into account the need to support the Company's liquidity, capitalization and investment appeal in the interests of all shareholders.

The decision on the amount of dividends paid is made by the General Shareholder Meeting on the recommendation of the Board of Directors. When deciding on the share of profit to be set aside for dividends, the Board of Directors considers a number of factors, including:

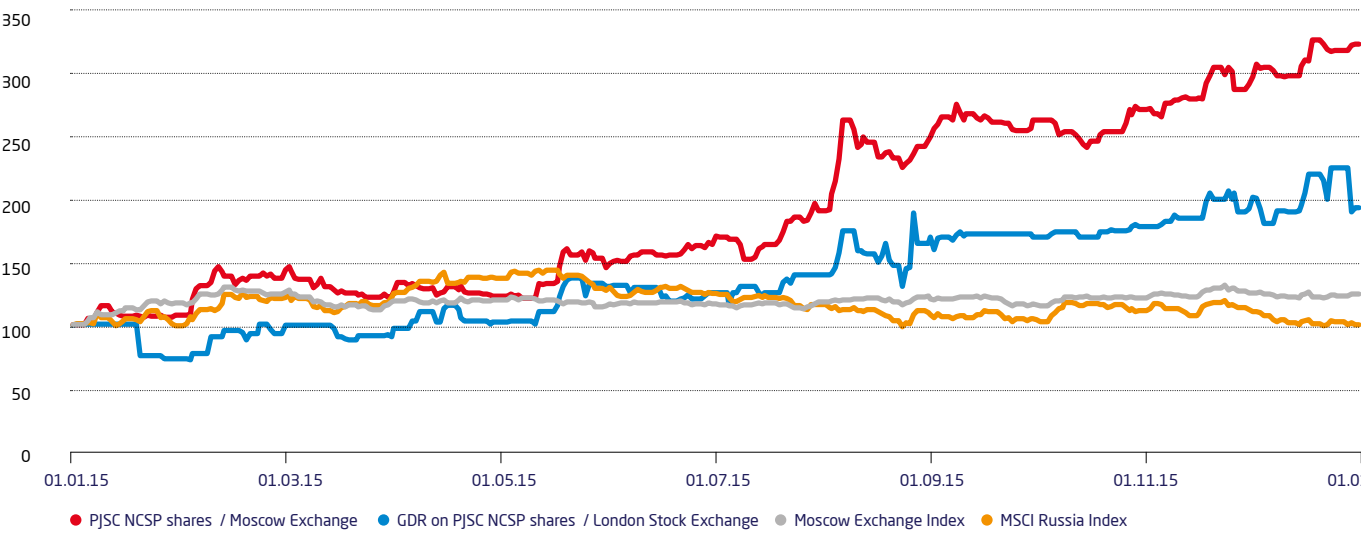
- the actual amount of net profit earned by PJSC NCSP
- the need to support PJSC NCSP's strategic development priorities, including the implementation of the investment program
- the need to fund PJSC NCSP's contingency fund
- PJSC NCSP's profitability, including return on assets and return on equity
- 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	Amount of declared dividends, RUB	Amount of declared dividends, USD
2014	4,499,092,877.44 ¹	81,029,696.66
2013	449,986,327.00	13,332,612.18
2012	454,916,838.88	14,304,256.49
2011	452,605,661.90	13,893,581.95
2010	431,091,964.79	15,354,574.57

¹ At the Central Bank of Russia exchange rate on the date of the decision on dividend payments. Exchange rate as at 30 June 2015 - 55.5230 roubles per 1 USD.

Relative changes in prices of PJSC NCSP securities and exchange indexes in 2015





FINANCIAL STATEMENTS



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AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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OF NCSP GROUP IN THE
TRANSSHIPMENT OF FERROUS [AND
NON-FERROUS] METALS INCREASED BY
PERCENTAGE POINTS IN 2015.

IMPLEMENTATION OF PROJECTS

"SEVER" AND "YUG" BY TRANSNEFT
WILL ALLOW INCREASING THE
TRANSSHIPMENT OF OIL PRODUCTS

Novorossiysk Commercial Sea Port

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 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 2015

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 2015, 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»).

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 IFRSs 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 2015 were approved by management on 31 March 2016:

S.K. Batov
Chief Executive Officer

G.I. Kachan
Chief Accountant

INDEPENDENT AUDITOR’S REPORT

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

We have audited the accompanying 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 31 December 2015, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards («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.

Auditor’s responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

31 March 2016
Moscow, Russian Federation

Metelkin E.A., Partner
(certificate № 01-001012 dated 26 November 2012)

ZAO Deloitte & Touche CIS



Consolidated statement of comprehensive loss for the year ended 31 december 2015 (in thousands of US Dollars, except for losses per share)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
REVENUE	6	877,191	955,645
COST OF SERVICES	7	(237,643)	(372,709)
GROSS PROFIT		639,548	582,936
Selling, general and administrative expenses	8	(44,815)	(71,598)
Impairment of goodwill	14	-	(29,539)
Impairment of restricted cash in Vneshprombank LLC	4, 21	(305,794)	-
Other operating income, net		1,467	681
OPERATING PROFIT		290,406	482,480
Finance income	9	47,403	33,437
Finance costs	10	(92,289)	(200,733)
Share of profit/(loss) in joint venture, net	17	4,147	(7,123)
Foreign exchange loss, net		(375,697)	(789,115)
Other income/(expense), net		2,417	(10,959)
LOSS BEFORE INCOME TAX EXPENSE		(123,613)	(492,013)
Income tax	11	40,186	77,350
LOSS FOR THE YEAR		(83,427)	(414,663)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX			
Items that may be subsequently reclassified to profit or loss:			
Effect of translation to presentation currency		(30,491)	(392,594)
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit liability	26	(1,615)	1,603
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(32,106)	(390,991)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(115,533)	(805,654)
(Loss)/profit for the year attributable to:			
Equity shareholders of the parent company		(84,286)	(428,633)
Non-controlling interests		859	13,970
		(83,427)	(414,663)
Total comprehensive loss attributable to:			
Equity shareholders of the parent company		(111,759)	(802,365)
Non-controlling interests		(3,774)	(3,289)
		(115,533)	(805,654)
Weighted average number of ordinary shares outstanding		18,743,128,904	18,743,128,904
Basic and diluted losses per share, US Dollars		(0.004)	(0.023)

S.K. Batov
Chief Executive Officer

G. I. Kachan
Chief Accountant

Consolidated statement of financial position as at 31 december 2015
(in thousands of US Dollars)

	Notes	31 December 2015	31 December 2014
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	910,008	1,163,391
Goodwill	14	487,727	631,850
Mooring rights	15	2,532	3,602
Other financial assets	16	16,724	17,999
Investment in joint venture	17	3,249	-
Spare parts		4,312	4,721
Deferred tax assets	11	182,446	128,899
Other intangible assets		1,370	1,442
Other non-current assets		4,105	3,195
		1,612,473	1,955,099
CURRENT ASSETS:			
Inventories	19	7,478	9,069
Advances to suppliers		5,993	7,992
Trade and other receivables, net	20	16,309	20,979
VAT recoverable and other taxes receivable		11,654	15,518
Income tax receivable		407	355
Other financial assets	16	-	679
Cash and cash equivalents	21	108,671	310,723
		150,512	365,315
TOTAL ASSETS		1,762,985	2,320,414
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	22	10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(531,609)	(505,673)
Retained earnings		599,056	763,735
Equity attributable to shareholders of the parent company		77,637	268,252
Non-controlling interests		15,134	25,521
TOTAL EQUITY		92,771	293,773
NON-CURRENT LIABILITIES:			
Long-term debt	23	1,149,296	-
Obligations under finance leases	24	6,683	10,437
Defined benefit obligation	26	5,043	4,448
Deferred tax liabilities	11	111,547	152,437
Other non-current liabilities		982	711
CURRENT LIABILITIES:			
Current portion of long-term debt	23	351,825	1,722,119
Current portion of obligations under finance leases	24	3,712	8,809
Trade and other payables	27	6,679	7,823
Advances received from customers		11,671	14,100



	Notes	31 December 2015	31 December 2014
Taxes payable		2,421	3,247
Income tax payable		7,258	11,951
Cross-currency and interest rate swap	25	-	72,820
Accrued expenses	28	13,097	17,739
		396,663	1,858,608
TOTAL EQUITY AND LIABILITIES		1,762,985	2,320,414

Consolidated statement of changes in equity for the year ended 31 december 2015
(in thousands of US Dollars)

	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 2014		10,471	(281)	(130,371)	1,203,686	1,083,505	35,177	1,118,682
Loss for the year		-	-	-	(428,633)	(428,633)	13,970	(414,663)
Other comprehensive loss for the year, net of tax		-	-	(375,302)	1,570	(373,732)	(17,259)	(390,991)
Total comprehensive loss for the year		-	-	(375,302)	(427,063)	(802,365)	(3,289)	(805,654)
Dividends	12	-	-	-	(12,364)	(12,364)	(6,891)	(19,255)
Increase of ownership in subsidiaries		-	-	-	(524)	(524)	524	-
At 31 December 2014		10,471	(281)	(505,673)	763,735	268,252	25,521	293,773
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

The notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousands of US Dollars)

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Cash from operations	30	656,792	580,560
Income tax paid		(68,801)	(69,918)
Interest paid		(91,525)	(119,106)
Net cash generated by operating activities		496,466	391,536
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		109	7,919
Purchases of property, plant and equipment		(63,803)	(94,235)
Proceeds from disposal of other financial assets		1,485	507
Purchases of other financial assets		-	(402)
Interest received		28,504	29,620
Purchases of other intangible assets		(1,252)	(1,256)
Net cash used in investing activities		(34,957)	(57,847)
Cash flows from financing activities			
Repayments of loans and borrowings		(226,476)	(372,781)
Dividends paid	12	(79,978)	(18,266)
Payments for cross-currency and interest rate swap	25	(57,857)	-
Payments under finance leases		(10,405)	(12,850)
Net cash used in financing activities		(374,716)	(403,897)
Net increase/(decrease) in cash and cash equivalents		86,793	(70,208)
Cash and cash equivalents at the beginning of the year	21	310,723	420,966
Impairment of restricted cash in Vneshprombank LLC	4, 21	(305,794)	-
Effect of translation into presentation currency on cash and cash equivalents		16,949	(40,035)
Cash and cash equivalents at the end of the year	21	108,671	310,723

The notes on pages 8 to 57 are an integral part of these consolidated financial statements.



1. GENERAL INFORMATION

Organisation

Public Joint Stock Company («PJSC») Novorossiysk Commercial Sea Port («NCSP») 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 2015 were as follows:

Significant subsidiaries	Nature of business	Ownership % held*	
		31 December 2015	31 December 2014
LLC Primorsk Trade Port	Stevedoring and additional port services	100.00%	100.00%
JSC Novorossiysk Grain Terminal	Stevedoring and additional port services	100.00%	100.00%
JSC Novoroslesexport	Stevedoring and additional port services	91.38%	91.38%
OJSC IPP	Stevedoring and additional port services	99.99%	99.99%
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services	65.18%	65.18%
LLC Baltic Stevedore Company	Stevedoring and additional port services	100.00%	100.00%
OJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services and bunkering	95.19%	95.19%
CJSC SoyuzFlot Port	Tug and towing services	99.99%	99.99%

* The ownership is calculated based on the total number of shares owned by the Group as of 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.

OJSC Novorossiysk Shipyard («Shipyard»)

Shipyard is the largest ship-repair enterprise in the South of Russia. It operates a major universal port specializing in transshipment of ferrous metals, cement and perishable goods. It also handles loose goods in soft containers and big bags, construction cargo, oversize cargo and roll-on roll-off cargo at its own ferry berth. The Shipyard's Board of Directors made a decision to discontinue the ship-repair activities in the third quarter of 2016. During 2014 and 2015 the ship-repair activities of Shipyard were insignificant.

LLC Baltic Stevedore Company («BSC»)

BSC is a stevedoring company operating the container terminal of the Baltiysk port in the Kaliningrad Region.

OJSC 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 (the «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.

CJSC 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, for the foreseeable future, be able to realise its assets and discharge its liabilities in the normal course of business.

As at 31 December 2015 Group's current liabilities exceeded current assets due to impairment of cash and deposits in Vneshprombank LLC («Vneshprombank») (Note 4, 21). Based on the approved 2016 income and expense and cashflow budgets, management of the Group believes that the cash flow from operating activities of the Group will be sufficient during 2016 to meet its payment obligations, including payments of principal under the loan agreement with PJSC Sberbank («Sberbank») (Note 23), due on 20 June and 20 December 2016 which amounted to 175,000 each.

Price Monitoring

In 2013 and January 2014 the Federal Tariff Service of Russia («FTS») changed the price regulation regime for cargo handling and storage for NCSP, PTP, Novoroslesexport, Shipyard and IPP from direct regulation to price monitoring. These Group entities are now permitted to independently set tariffs for the aforementioned services though are required to send quarterly information on prices for their services to the FTS for monitoring and oversight.



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 January 1, 2015 the following standards and interpretations were adopted by the Group:

- Amendments to IAS 19 Employee Benefits — Defined Benefit Plans: Employee Contributions;
- Annual Improvements to IFRSs: 2010-2012 Cycle;
- Annual Improvements to IFRSs: 2011-2013 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	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 11 — Accounting for Acquisition of Interests in Joint Operations	1 January 2016
Amendments to IAS 1 — Disclosure Initiative	1 January 2016
Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 and IAS 41 — Agriculture: Bearer Plants	1 January 2016
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 IFRS 10, IFRS 12 and IAS 28 — Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Amendments to IAS 27 — Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

¹ Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 Revenue from Contracts with Customers 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.

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.

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 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 RUR into USD 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 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. As RUR significantly depreciated against USD in the year ended 31 December 2014 with the most part of depreciation falling on the 4th quarter of 2014, income and expense items for 2014 have been translated using average exchange rates for the first nine months and 4th quarter of 2014 separately. As the RUR/USD exchange rate was relatively more stable in the year 2015, income and expense items for the period have been translated using the average exchange rate for the whole year;
- 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. As RUR significantly depreciated against USD in the year ended 31 December 2014 with the most part of depreciation falling on the 4th quarter of 2014, cash flows for 2014 have been translated using average exchange rates for the first nine months and 4th quarter of 2014 separately. As during 2015 the RUR/USD exchange rate was relatively more stable, the 2015 cash flows were translated using the average exchange rate for the whole year. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as «Effect of translation into presentation currency on cash and cash equivalents»; and
- All items included in shareholder’s equity, other than loss for the reporting period, have been translated at historical rate, except for balances converted to USD at the rate in effect on 1 January 2005, the date of transition to IFRS.

Exchange rates

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

	2015	2014
Year-end rates		
RUR/1 USD	72.88	56.26
RUR/1 EUR	79.70	68.34
Average rates		
RUR/1 USD		
1 January — 30 September (9 months)	-	35.39
1 October — 31 December (4 th quarter)	-	47.42
1 January — 31 December (the year)	60.96	38.42
Average rates		
RUR/1 EUR		
1 January — 30 September (9 months)	-	47.99
1 October — 31 December (4 th quarter)	-	59.20
1 January — 31 December (the year)	67.78	50.82



3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements 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 share-holders’ 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 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 loss are attributed to the owners of NCSP and to the non-controlling interests. Total comprehensive 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 Leases, 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 associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

IFRS 11 Joint Arrangements 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 associates and joint ventures are incorporated in these 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 associates and 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 the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, forms part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or 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 the associate or 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 Financial Instruments: Recognition and Measurement («IAS 39») are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. 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 an associate or joint venture of the Group, profit and losses resulting from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in these associates.

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 a subsequent period.

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 associates and 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 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 and the collectability of the revenue is reasonably assured.

The Group’s revenue is derived as follows:

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

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 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 711 thousand RUR (USD 11.7), 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 balance sheet with a charge or credit to other comprehensive loss in the period in which they occur. Remeasurement recorded in the other comprehensive loss is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment.

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

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 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 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 and associates, 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 realized 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 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 determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost.



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

Construction in progress comprises 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 amor-tisation 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 sepa-rately 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
Marine vessels rights	10
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 esti-mated 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 appli-cable, 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 dis-tribution.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an financial assets 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 allo-cating 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 maturi-ties of three months or less, those are readily convertible to known amounts of cash and are subject to an insignifi-cant 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 loss and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impair-

ment 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 as 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 33.



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, with interest expense recognised on an effective yield basis.

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 unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 a 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 and 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 IFRSs.

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 and advances to suppliers

The Group creates allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. 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.

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 reviewed for appropriateness. 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 the 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.

The Group management believe that all deferred tax assets recognised as of 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 USD Sberbank loan. They are not connected with operating activities and we consider that the Group will gain profit in future and, therefore, DTA are recoverable. Under Russian legislation tax loss carry forward may be used to reduce tax base during 10 years.



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 (hereinafter «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 satifcation of the Vneshprombank creditors' claims, which restricted access of the Group to the cash and deposits placed in Vneshprombank.

On 21 January 2016 the CBR revoked from Vneshprombank the licence for banking operations. On 14 March 2016 the Moscow Arbitration Court by its decision declared Vneshprombank bankrupt (see Note 35). The Group entities were included into the list of creditors of Vneshprombank, whose claims will now be satisfied in the course of the bankruptcy procedure.

As of 31 December 2015 total cash and deposits placed by the Group in Vneshprombank amounted to 255,761. In addition, the accrued interest on deposits due from Vneshprombank amounted to 2,490. As Vneshprombank was declared bankrupt as of the date when these financial statements were authorized for issuance, the Group as at 31 December 2015 classified its total balance of cash and deposits in Vneshprombank as restricted cash.

Management of the Group recognised impairment of restricted cash in Vneshprombank and interest receivable from Vneshprombank in the full amount of the restricted cash and interest receivable, respectively, as there is no certainty, what amount of the restricted cash in Vneshprombank or interest receivable (if any) the Group will be able to recover as a result of the Vneshprombank bankruptcy procedure.

The expense relating to the impairment of restricted cash in Vneshprombank in amount of 305,794 was presented in the consolidated statement of comprehensive loss in a separate line as impairment of restricted cash in Vneshprombank.

The expense relating to impairment of interest receivable from Vneshprombank in the amount of 2,977 was presented in the consolidated statement of comprehensive loss as a reduction of finance income.

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 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/(loss) in joint venture (net), foreign exchange loss (net), and other income/(expense) (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 set by the Group. Prices for non-regulated services are at market rates.

The segment revenue and results for the year ended 31 December 2015 and 2014 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Stevedoring and additional port services	792,945	859,395	3,464	6,192	534,354	458,885
Novorossiysk	633,719	695,854	3,257	5,791	430,222	379,928
Primorsk	149,074	148,194	207	401	98,902	72,012
Baltiysk	10,152	15,347	-	-	5,230	6,945
Fleet services	77,642	81,553	1,613	2,457	47,840	36,760
Novorossiysk	47,142	52,272	1,595	2,353	27,060	22,332
Primorsk	30,500	29,281	18	104	20,780	14,428
Total reportable segments	870,587	940,948	5,077	8,649	582,194	495,645
Other	6,604	14,697	9,210	14,226	9,629	13,688
Total segments	877,191	955,645	14,287	22,875	591,823	509,333
Unallocated amounts (see following table)					(715,436)	(1,001,346)
Loss before income tax					(123,613)	(492,013)

Revenue from TRANSNEFT-SERVICE of 94,255 for the year ended 31 December 2015 (the ended 31 December 2014: 55,841) and revenue from LINK OIL TRADING LTD of 91,225 for the year ended 31 December 2014 (the ended 31 December 2015: 0) 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.



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

	Year ended	
	31 December 2015	31 December 2014
Total segment profit	591,823	509,333
Differences between Russian statutory accounting standards and IFRS:		
Depreciation and amortisation	(7,636)	(15,216)
Repairs and maintenance	-	782
Professional services	(63)	211
Finance lease	10,699	13,586
Other	220	3,234
Unallocated operating income and expenses:		
Impairment of goodwill	-	(29,539)
Impairment of restricted cash in Vneshprombank	(305,794)	-
Other operating income, net	1,467	681
Defined benefit obligation expense	(310)	(592)
Operating profit	290,406	482,480
Finance income	47,403	33,437
Finance costs	(92,289)	(200,733)
Share of profit/(loss) in joint venture, net	4,147	(7,123)
Foreign exchange loss, net	(375,697)	(789,115)
Other income/(expense), net	2,417	(10,959)
Loss before income tax	(123,613)	(492,013)

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Stevedoring and additional port services	42,481	58,163	58,963	80,358
Novorossiysk	35,040	46,794	56,871	72,747
Primorsk	5,652	9,031	941	495
Baltiysk	1,789	2,338	1,151	7,116
Fleet services	3,944	6,482	778	1,546
Novorossiysk	2,492	4,198	538	931
Primorsk	1,452	2,284	240	615
Total reportable segments	46,425	64,645	59,741	81,904
Other	2,086	3,551	901	272
Total segments	48,511	68,196	60,642	82,176
Unallocated amounts	5,492	6,645	3,574	14,736
Consolidated	54,003	74,841	64,216	96,912

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

6. REVENUE

	Year ended	
	31 December 2015	31 December 2014
Stevedoring services	681,928	752,499
Additional port services	111,017	106,896
Fleet services	77,642	81,553
Other	6,604	14,697
Total	877,191	955,645

7. COST OF SERVICES

	Year ended	
	31 December 2015	31 December 2014
Depreciation and amortisation	50,804	70,603
Fuel for resale and own consumption	50,074	107,373
Salaries	49,560	70,823
Rent	38,448	55,149
Repairs and maintenance	13,652	16,871
Taxes directly attributable to salaries	13,033	18,802
Subcontractors	7,665	12,058
Materials	6,309	8,294
Energy and utilities	4,846	7,707
Insurance	781	1,194
Defined benefit obligation expense	691	1,222
Other	1,780	2,613
Total	237,643	372,709



8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended	
	31 December 2015	31 December 2014
Salaries	20,643	31,548
Taxes other than income tax	4,662	8,092
Taxes directly attributable to salaries	3,713	5,473
Depreciation and amortisation	3,199	4,238
Security services	2,477	3,772
Charitable donations	1,736	3,075
Repairs and maintenance	1,310	1,753
Professional services	1,172	1,816
Impairment loss recognised on trade and other receivables	1,006	5,287
Materials	750	1,091
Travel and representation expenses	604	860
Bank charges	381	424
Rent	170	321
Other	2,992	3,848
Total	44,815	71,598

9. FINANCE INCOME

	Year ended	
	31 December 2015	31 December 2014
Interest income	29,841	33,437
Gain on cross currency and interest rate swap (Note 25)	17,562	-
Total	47,403	33,437

The interest income for 2015 is presented net of expense relating to impairment of interest receivable from Vneshprombank as of 31 December 2015 in the amount of 2,977.

10. FINANCE COSTS

	Year ended	
	31 December 2015	31 December 2014
Interest on loans and borrowings	90,232	114,729
Interest expense — finance lease	2,057	3,112
Loss on cross-currency and interest rate swap (Note 25)	-	82,892
Total	92,289	200,733

11. INCOME TAX

	Year ended	
	31 December 2015	31 December 2014
Current income tax expense	66,306	84,488
Deferred income tax benefit	(106,492)	(161,838)
Total	(40,186)	(77,350)

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP which is permitted to apply a reduced income tax rate of 15.5% until 2015 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 before income tax differs from income tax expense recognised in the consolidated statement of comprehensive loss as a consequence of the following factors:

	Year ended	
	31 December 2015	31 December 2014
Loss before income tax	(123,613)	(492,013)
Tax at the Russian Federation statutory rate of 20%	(24,723)	(98,403)
Impairment of goodwill	-	5,908
Different tax rates of subsidiaries	(5,500)	(3,408)
Revaluation of cross-currency and interest rate swap	(11,820)	16,772
Other non-deductible expenses	1,857	1,781
Total	(40,186)	(77,350)

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

	31 December 2015	31 December 2014
Net balance at the beginning of the year	23,538	258,196
Benefit recognised during the year	(106,492)	(161,838)
Effect of translation into presentation currency	12,055	(72,820)
Net balance at the end of the year	(70,899)	23,538



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 2015	31 December 2014
Deferred tax assets		
Tax loss carry forward	142,107	122,646
Impairment of restricted cash in Vneshprombank	50,713	-
Accrued expenses	5,513	29,392
Investment valuation	846	1,952
Allowance for obsolete and slow-moving inventories	147	102
Allowance for doubtful receivables	133	242
Total	199,459	154,334
Deferred tax liabilities		
Property, plant and equipment	127,772	163,615
Mooring rights	506	720
Debt	282	13,537
Total	128,560	177,872
Net deferred tax (assets)/liability	(70,899)	23,538

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 2015	31 December 2014
Deferred tax assets	182,446	128,899
Deferred tax liabilities	111,547	152,437
Net deferred tax (assets)/liability	(70,899)	23,538

12. DIVIDENDS

Dividends declared by the Group during the year ended 31 December 2015 and 31 December 2014 were 85,469 and 19,255, respectively, including dividends to non-controlling interest. Dividends declared by the parent company per share for the year ended 31 December 2015 and 31 December 2014 were US cents 0.4207 and 0.066, respectively. The total dividends paid during the year ended 31 December 2015 and 31 December 2014 were 79,978 and 18,266, respectively.

As at 31 December 2015 the dividend liability of the Group amounted to 1,767 (31 December 2014: 868). It is included in accrued expenses as at 31 December 2015 and 2014 (Note 28).

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 2014	1,176,535	545,512	428,206	149,167	29,221	11,152	87,772	2,427,565
Additions	95	13,342	34,655	3,384	4,262	2,318	38,856	96,912
Transfer	125	17,785	9,960	-	-	25	(27,895)	-
Disposals	-	(2,206)	(5,825)	(672)	(1,172)	(395)	(727)	(10,997)
Effect of translation into presentation currency	(492,149)	(236,014)	(189,928)	(56,993)	(12,876)	(5,295)	(40,627)	(1,033,882)
As at 31 December 2014	684,606	338,419	277,068	94,886	19,435	7,805	57,379	1,479,598
Accumulated depreciation								
As at 1 January 2014	-	(161,129)	(231,788)	(50,196)	(15,761)	(8,879)	-	(467,753)
Depreciation expense	-	(25,965)	(34,295)	(8,615)	(2,994)	(1,368)	-	(73,237)
Disposals	-	1,829	5,490	643	1,113	394	-	9,469
Impairment on construction in progress	-	-	-	-	-	-	(344)	(344)
Effect of translation into presentation currency	-	75,131	106,693	22,488	7,281	4,011	54	215,658
As at 31 December 2014	-	(110,134)	(153,900)	(35,680)	(10,361)	(5,842)	(290)	(316,207)
Carrying value								
As at 1 January 2014	1,176,535	384,383	196,418	98,971	13,460	2,273	87,772	1,959,812
As at 31 December 2014	684,606	228,285	123,168	59,206	9,074	1,963	57,089	1,163,391



	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								
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)
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 2015 the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 10,409 (31 December 2014: 23,871).

During the years ended 31 December 2015 and 2014 no interest expense was capitalised.

The carrying value of property, plant and equipment held under finance leases at 31 December 2015 was 9,409 (31 December 2014: 18,490). There were no additions of property, plant and equipment under finance leases during the year ended 31 December 2015 and 31 December 2014. During the year ended 31 December 2015 the Group purchased 4 leased assets in the end of lease agreements. Leased assets are pledged as security for the related finance liabilities.

In 2015, the Group acquired property, plant and equipment with an aggregate cost of 64,216 (2014: 96,912). Cash payments of 74,208 were made to purchase property, plant and equipment (2014: 107,085).

14. GOODWILL

	31 December 2015	31 December 2014
Cost	659,976	854,998
Accumulated impairment loss	(172,249)	(223,148)
Carrying amount	487,727	631,850

	31 December 2015	31 December 2014
Cost		
Balance at the beginning of the year	854,998	1,469,661
Effect of translation into presentation currency	(195,022)	(614,663)
Balance at the end of the year	659,976	854,998
Accumulated impairment loss		
Balance at the beginning of the year	(223,148)	(340,768)
Impairment losses recognised during the year	-	(29,539)
Effect of translation into presentation currency	50,899	147,159
Balance at the end of the year	(172,249)	(223,148)

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

	Cost		Accumulated impairment loss		Carrying amount	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Stevedoring and additional services segment:						
PTP	336,850	436,388	(87,778)	(113,716)	249,072	322,672
Grain Terminal	65,151	84,404	-	-	65,151	84,404
Novoroslesexport	52,578	68,114	-	-	52,578	68,114
IPP	11,332	14,681	-	-	11,332	14,681
Shipyard	5,131	6,647	(1,293)	(1,675)	3,838	4,972
BSC	1,173	1,519	-	-	1,173	1,519
Fleet services segment:						
SFP	158,073	204,784	(83,178)	(107,757)	74,895	97,027
Fleet	29,688	38,461	-	-	29,688	38,461
Total	659,976	854,998	(172,249)	(223,148)	487,727	631,850



Annual impairment test information

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

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

The most significant estimates and assumptions used by management in the value in use calculations as at 31 December 2015 were as follows:

- Cash flow projections were based on the business plans of the Company for the years 2016-2020, 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 for 2016 were prepared in USD using RUR/USD currency rates projections from the Economist Intelligence Unit;
- Cash flow projections for 2017-2020 were prepared assuming annual growth of USD equivalent of tariffs for 1.5% — 2.4%;
- Cash flow projections beyond 2020 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 and was equal to 13.10%.

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.

Impairment test — Year ended 31 December 2015

The goodwill impairment test relating to the PTP CGU was performed and no impairment was recognized for the year ended 31 December 2015.

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 of PTP would lead to recognition of impairment loss. These are the most sensitive assumptions used in the impairment test for this particular CGU.

Impairment loss — Year ended 31 December 2014

PTP

In 2014, the construction of a railway terminal for oil-product transshipment in port Primorsk was interrupted and completion of construction was further delayed. As a result, management reduced the expected oil and oil-product transshipment forecasts utilized in the Group's business plan. Also, following the trends in oil and oil products export volumes mentioned above, the volumes of oil and oil-product transshipment were adjusted accordingly.

Based on the value in use calculations, the Group recorded an impairment loss attributable to stevedoring and additional port services (Primorsk) segment in amount of 29,539 for the year ended 31 December 2014.

Management prepared a sensitivity analysis relating to the PTP CGU and determined that, in each case in isolation and for the year ended 31 December 2014 (i) a 10% reduction in revenue would lead to an increase to the aggregate impairment loss recognised of 150,347; (ii) an increase in capital expenditure of 10% would lead to an increase to the aggregate impairment loss recognised of 7,021; and, (iii) a 10% increase in the costs applied in the impairment testing would lead to an increase to the aggregate impairment loss recognised of 52,082. These are the most sensitive assumptions used in the impairment test for this particular CGU.

15. MOORING RIGHTS

	31 December 2015	31 December 2014
Cost	4,891	6,336
Accumulated amortisation	(2,359)	(2,734)
Carrying value	2,532	3,602

	31 December 2015	31 December 2014
Cost		
Balance at the beginning of year	6,336	10,891
Effect of translation into presentation currency	(1,445)	(4,555)
Balance at the end of the year	4,891	6,336
Accumulated amortisation		
Balance at the beginning of year	(2,734)	(4,146)
Charge for the year	(297)	(480)
Effect of translation into presentation currency	672	1,892
Balance at the end of the year	(2,359)	(2,734)

Mooring rights represent the long-term lease rights of hydro technical infrastructure (e.g. berths, piers and marine vessels) owned by the state.

16. OTHER FINANCIAL ASSETS

	31 December 2015	31 December 2014
Current		
Deposits	-	409
Loans issued	-	270
Total current	-	679
Non-current		
Loans issued	16,724	17,999
Total non-current	16,724	17,999

As at 31 December 2015 short-term deposits placed in Vneshprombank were reclassified to other restricted cash in Vneshprombank (see Note 21).

As at 31 December 2015 an allowance for current loans issued of 2,448 (2014: 2,941) was recognized in full due to uncertainty of their recoverability.

As at 31 December 2014 short-term deposits placed in Vneshprombank consist of deposits denominated in RUR with a fixed interest rate of 6% per annum and deposits denominated in USD with an interest rate of 2.75% per annum.

As at 31 December 2014 current loans issued in RUR include loans given to employees of the Group and to other related parties with interest rates varying from 7% to 8.50% per annum.

As at 31 December 2015 non-current loans issued consist of loans issued in USD to LLC Novorossiysk Fuel Oil Terminal («NFT»), a joint venture created in 2009 (Note 17), in the amount of 16,723 (2014: 17,998) maturing in March 2020 with an interest rate of 7% per annum and others.



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/(loss) of the joint venture for the years 2015 and 2014 recognised in comprehensive loss amounted to 4,147 and (7,123), respectively.

By the end of 2014 the Group's share of losses in NFT exceeded the carrying value of its investment by 5,859. The Group discontinued its recognition of losses when the carrying value of the investment was written down to zero, as the Group has no legal or constructive obligation to fund NFT's activities. Profits earned in the year ended 31 December 2015, exceeded the amount of unrecognized losses.

	Ownership % held	
	31 December 2015	31 December 2014
Joint venture		
NFT	50.00%	50.00%

Summarised financial information of NFT is represented below:

	31 December 2015	31 December 2014
Current assets	42,443	25,578
Non-current assets	47,214	80,930
Total assets	89,657	106,508
Current liabilities	(21,085)	(19,757)
Non-current liabilities	(59,980)	(96,326)
Total liabilities	(81,065)	(116,083)
Net assets	8,592	(9,575)
Group's share of joint venture net assets	4,296	(4,788)
Elimination of unrealised profit	(1,047)	(1,071)
Unrecognised share of losses	-	5,859
Carrying value of investment	3,249	-

The above amounts of assets and liabilities include the following:

	31 December 2015	31 December 2014
Cash and cash equivalents	40,254	19,241
Current financial liabilities (excluding trade and other payables and provisions)	(16,746)	(17,192)
Non-current financial liabilities (excluding trade and other payables and provisions)	(57,566)	(91,882)

	Year ended	
	31 December 2015	31 December 2014
Revenue	84,073	67,425
Operating profit	48,283	26,532
Profit/(loss) for the year	19,110	(28,149)
Group share of profit/(loss) for the year at 50%	9,555	(14,075)
Other comprehensive loss	(943)	(3,857)

The above profit/(loss) for the year includes the following:

	Year ended	
	31 December 2015	31 December 2014
Depreciation	(9,047)	(13,825)
Interest income	1,192	223
Interest expense	(5,914)	(7,902)
Income tax	(4,740)	6,275

Loans issued by the Group to NFT are disclosed in Note 16.

As at 31 December 2015 and 31 December 2014 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 should not be made without prior written consent of Raiffeisenbank.

In February 2016, NFT fully repaid a credit from Raiffeisenbank, including principal and interest due.



18. DETAILS OF SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
	31 December 2015	31 December 2014	2015	2014	31 December 2015	31 December 2014
Shipyard	34.82%	34.82%	(980)	4,363	7,638	11,010
Fleet	4.81%	4.81%	1,721	4,523	3,698	4,815
Novorosiexport	8.62%	8.62%	211	5,891	3,481	9,342
Other subsidiaries with non-controlling interests					317	354
Total					15,134	25,521

The «Southern Shipbuilding and Repair Center», a wholly owned subsidiary of JSC «United Shipbuilding Corporation», is a shareholder with significant influence over Shipyard. 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.

Summarised financial information in respect of Shipyard is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 December 2015	31 December 2014
Current assets	6,779	18,197
Non-current assets	17,647	18,174
Current liabilities	(1,892)	(2,288)
Non-current liabilities	(598)	(2,464)
Equity attributable to shareholders of the parent company	14,298	20,609
Non-controlling interests	7,638	11,010

	Year ended	
	31 December 2015	31 December 2014
Revenue	34,328	26,805
(Loss)/profit for the year attributable to:		
Equity shareholders of the parent company	(1,835)	8,168
Non-controlling interests	(980)	4,363
(Loss)/profit for the year	(2,815)	12,531
Other comprehensive loss attributable to:		
Equity shareholders of the parent company	(4,476)	(12,818)
Non-controlling interests	(2,392)	(6,846)
Other comprehensive loss for the year	(6,868)	(19,664)
Total comprehensive loss attributable to:		
Equity shareholders of the parent company	(6,311)	(4,650)
Non-controlling interests	(3,372)	(2,483)
Total comprehensive loss for the year	(9,683)	(7,133)
Net cash (outflow)/inflow from:		
Operating activities	(13,813)	8,542
Investing activities	(2,302)	(5,035)
Effect of exchange rate changes on cash and cash equivalents	5,051	(536)
Net cash (outflow)/inflow	(11,064)	2,971

Summarised financial information in respect of Fleet is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Year ended	
	31 December 2015	31 December 2014
Revenue	99,743	168,618
Profit for the year attributable to:		
Equity shareholders of the parent company	34,080	89,567
Non-controlling interests	1,721	4,523
Profit for the year	35,801	94,090
Other comprehensive loss attributable to:		
Equity shareholders of the parent company	(20,386)	(89,972)
Non-controlling interests	(1,031)	(4,546)
Other comprehensive loss for the year	(21,417)	(94,518)
Total comprehensive income/(loss) attributable to:		
Equity shareholders of the parent company	13,694	(405)
Non-controlling interests	690	(23)
Total comprehensive income/(loss) for the year	14,384	(428)
Net cash (outflow)/inflow from:		
Operating activities	22,197	23,853
Investing activities	(44,027)	37,755
Financing activities	(36,150)	(105,298)
Effect of exchange rate changes on cash and cash equivalents	4,846	11,091
Net cash outflow	(53,134)	(32,599)

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Summarised financial information in respect of Novoroslesexport is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Year ended	
	31 December 2015	31 December 2014
Revenue	70,649	86,590
Profit for the year attributable to:		
Equity shareholders of the parent company	2,222	62,443
Non-controlling interests	211	5,891
Profit for the year	2,433	68,334
Other comprehensive loss attributable to:		
Equity shareholders of the parent company	(13,453)	(64,352)
Non-controlling interests	(1,268)	(6,071)
Other comprehensive loss for the year	(14,721)	(70,423)
Total comprehensive loss attributable to:		
Equity shareholders of the parent company	(11,231)	(1,909)
Non-controlling interests	(1,057)	(180)
Total comprehensive loss for the year	(12,288)	(2,089)
Net cash (outflow)/inflow from:		
Operating activities	(16,968)	43,422
Investing activities	(1,282)	(5,664)
Financing activities	(38,418)	(23,221)
Effect of exchange rate changes on cash and cash equivalents	5,384	(120)
Net cash (outflow)/inflow	(51,284)	14,417

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19. INVENTORIES

	31 December 2015	31 December 2014
Materials	3,862	4,581
Goods for resale	3,220	3,930
Fuel	977	1,079
Less: allowance for obsolete and slow-moving inventories	(581)	(521)
Total	7,478	9,069

20. TRADE AND OTHER RECEIVABLES, NET

	31 December 2015	31 December 2014
Trade receivables (RUR)	9,325	12,876
Trade receivables (USD)	6,876	6,755
Other receivables and prepayments	4,927	5,855
Interest receivable	3,064	1,444
Less: allowance for doubtful trade and other receivables	(7,883)	(5,951)
Total	16,309	20,979

The average credit period for the Group's customers is 7 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 7 largest customers (2014: 8) in total represent 35% (2014: 49%) of the outstanding balance.

Included in the Group's receivable balance are debtors with carrying value of 759 (2014: 4,719) 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 2015	31 December 2014
Not impaired	15,550	16,260
Past due but not impaired		
less than 45 days	649	4,103
45-90 days	64	63
90-180 days	9	1
180-365 days	35	356
Over 1 year	2	196
	759	4,719
Impaired other receivables and prepayments	7,883	5,951
Total	24,192	26,930



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 2015	31 December 2014
As at beginning of the year	5,951	2,966
Impairment loss recognised in the consolidated statement of comprehensive loss	1,006	5,287
Impairment of interest receivable from Vneshprombank	2,977	-
Amounts written-off as uncollectable	(50)	(197)
Effect of translation into presentation currency	(2,001)	(2,105)
As at end of the year	7,883	5,951

The expense relating to impairment of interest receivable from Vneshprombank in the amount of 2,977 was presented in the consolidated statement of comprehensive loss as a reduction of finance income.

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 debts are individually impaired trade receivables with a balance of 7,883 (2014: 5,951) 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 trade receivables and the present value of the expected proceeds.

21 CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Bank deposits in USD	11,440	269,858
Bank deposits in RUR	94,645	37,476
Bank deposits in EUR	-	633
Current accounts in USD	1,804	487
Current accounts in RUR	769	2,103
Current accounts in EUR	-	147
Cash in hand	13	19
Restricted cash in Vneshprombank	255,761	-
Less: accumulated impairment loss of restricted cash in Vneshprombank	(255,761)	-
Total	108,671	310,723

The restricted cash in Vneshprombank represents balances of cash and deposits placed by the Group in the bank, which was under the bankruptcy procedure as of the date when these financial statements were authorised for issuance. As of 31 December 2015 the Group recognized impairment of restricted cash in Vneshprombank for the full amount (Note 4).

Bank deposits as at 31 December 2015 are summarised below:

Bank	Currency	Rate, %	31 December 2015
PJSC Sberbank of Russia	USD	0.36-1.15	6,036
PJSC Sberbank of Russia	RUR	3.60-9.40	24,656
PJSC Bank Otkritie Financial Corporation	USD	1.70-1.95	5,404
PJSC Bank Otkritie Financial Corporation	RUR	10.90-11.55	47,748
PJSC Promsvyazbank	RUR	10.75-11.50	17,219
Other	RUR	8.40-10.80	5,022
Total			106,085

Bank deposits as at 31 December 2014 are summarised below:

Bank	Currency	Rate, %	31 December 2014
Vneshprombank LLC	USD	2.75-9.75	265,790
Vneshprombank LLC	EUR	7.15	633
Vneshprombank LLC	RUR	12.10-29.85	31,352
PJSC Bank Otkritie Financial Corporation	USD	4.35-6.00	4,068
PJSC Bank Otkritie Financial Corporation	RUR	11.58-29.00	5,235
PJSC Sberbank of Russia	RUR	9.68	551
Other	RUR	13.13-13.21	338
Total			307,967

22. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 ordinary shares authorised, issued, and fully paid with a par value of 0.054 US cents (0.015 Russian roubles) per share. Authorised share capital at par is 10,471. Each ordinary share has equal voting rights.

The number of shares outstanding is 18,743,128,904 as of 31 December 2015 and 2014.



23. DEBT

	Interest rate	Maturity date	31 December 2015	31 December 2014
Unsecured borrowings				
Bonds (RUR)	9.0%	April 2015	-	72,180
Secured bank loans				
Sberbank (USD)	LIBOR 3M + 5%	January 2018	1,501,121	1,649,939
Total debt			1,501,121	1,722,119
Current portion of long-term borrowings			(351,825)	(1,722,119)
Total non-current debt			1,149,296	-

As of 31 December 2014, covenants under Sberbank’s secured US Dollar loan agreement were breached so the loan amount was reclassified to current liabilities and the Group’s current liabilities exceeded the current assets.

As at 31 December 2014, the share price was below the minimum level set by the loan agreement. In addition, during 3rd and 4th quarters of the year 2014 NCSP’s activities were loss-making, which resulted in a breach of another covenant stated in the agreement. Supplementary agreements changing the covenants were signed with Sberbank in 2015. Under these agreements the price per share is determined based on an independent appraiser report, the net profit/(loss) is calculated excluding foreign exchange gains and losses and the net assets of NCSP as per Russian statutory books should exceed its charter capital. The Group has been in compliance with its covenants since the supplementary agreements were signed.

Sberbank

In January 2011 NCSP received a loan in the amount of 1,950,000 from Sberbank to be used for acquisition of PTP. The loan has the following terms:

- The term of the facility is seven years;
- Floating interest of LIBOR 3M + 4.85% per annum is applied during the first three years of the loan, of LIBOR 3M + 5% per annum — during the last four years;
- A lump sum commission of 11,700 (or 0.6%) was paid for the receipt of the loan;
- The loan is secured by a pledge of 50.1% of the Company’s shares and a guarantee of PTP; and
- Certain financial covenants are imposed on the Group (e.g. restrictions as to the Group’s debt to equity ratio and net debt to earnings before interest, income taxes, depreciation and amortisation ratio, and reduction of NCSP’s market share price, etc.)

Rouble bonds

On 2 May 2012 the Group issued a Russian rouble bond tranche BO-02 with a par value of 4 billion RUR (USD 136 million) with a maturity up to 29 April 2015. The coupon on the bond tranche was 9% per annum, payable every 182 days starting 31 October 2012. The bonds were repaid in 2015.

On 4 May 2012 in conjunction with the placement of the rouble bonds, the Group entered into cross-currency and interest rate swap agreement. This swap has been settled in 2015 (Note 25).

As at 31 December 2015, the average effective borrowing rate relating to the Group's debt was 5.57% per annum (31 December 2014: 5.4% per annum).

The Group borrowings as of 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

The Group borrowings as of 31 December 2014 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	1,498,191	22,495	1,520,686
Due from three to six months	145,623	23,908	169,531
Due from six months to twelve months	74,548	41,434	115,982
	1,718,362	87,837	1,806,199
Between 1 and 2 years	-	74,318	74,318
Between 2 and 5 years	-	54,469	54,469
Total	1,718,362	216,624	1,934,986

Contractual interest liability are calculated based on assumption that no early repayment claims will be received from Sberbank and that the loan will be repaid according to payment schedule under the agreement. Such amounts are undiscounted.

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 2015 of 5.57% (31 December 2014: 5.25%).

The financial obligations of the Group consist of borrowings 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 2015, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 426,042 (during the year ended 31 December 2014, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 1,007,139).



24. FINANCE LEASE

The Group rents transshipment machinery and equipment under finance lease agreements with terms ranging from two to five years. 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 5.12% to 17.14% per annum.

	Minimum lease payments		Present value of lease payments	
	as at 31 December 2015	as at 31 December 2014	as at 31 December 2015	as at 31 December 2014
Less than one year	5,077	10,901	4,698	10,303
In the second and fifth year	7,772	12,892	5,697	8,943
Less: future financing costs	(2,454)	(4,547)	-	-
Present value of minimum lease payments	10,395	19,246	10,395	19,246

	31 December 2015	31 December 2014
Non-current obligations under finance leases	6,683	10,437
Current portion of obligations under finance leases	3,712	8,809
	10,395	19,246

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 statement of comprehensive 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, Ship-yard 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 (USD 5) to RUR 733 (USD 10) 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 2015. 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 2015	31 December 2014
Discount rate	9.7%	13.0%
Employees turnover per annum	5.0%	5.0%
Expected annual rate of salary increase	10.0%	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 2015	31 December 2014
Interest on obligation	534	636
Current service cost	157	219
Past service cost	-	367
Total	691	1,222

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

The amount of actuarial losses/(gains) recognized during the years ended 31 December 2015 and 2014 relates to changes in discount rate used as principal assumptions for actuarial valuation.

In 2015, the number of retired employees who received benefits was 2,470 (2014: 2,604).

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	31 December 2015	31 December 2014
Present value of unfunded benefit obligation	5,043	4,448
Net liability arising from defined benefit obligation	5,043	4,448

As of 31 December 2015 and 2014 the weighted average duration of the defined benefit obligation is 13.5 years.

The current portion of unfunded benefit obligations as of 31 December 2015 equals to 638 (31 December 2014: 599).



Movements in the present value of the defined benefit obligations in the current period were as follows:

	Year ended	
	31 December 2015	31 December 2014
Opening defined benefit obligation	4,448	9,184
Included in cost of service	691	1,222
Current service cost	157	219
Interest cost	534	636
Past service cost	-	367
Benefits paid	(381)	(631)
Actuarial losses/(gains) in other comprehensive loss	1,615	(1,603)
Effect of translation to presentation currency	(1,330)	(3,724)
Closing defined benefit obligation	5,043	4,448

The history of experience adjustments for defined benefit plan is as follows:

	31 December 2015	31 December 2014	31 December 2013	31 December 2012	31 December 2011
Present value of defined benefit obligation	5,043	4,448	9,184	9,551	7,286
Experience adjustments on plan liabilities	1,615	(1,603)	(178)	1,624	46

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 221;
- If the expected salary growth increases by 1%, the defined benefit obligation would increase by 97;
- If the death rate decreases by 10%, the defined benefit obligation would increase by 130.

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 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 13,541 and 19,708 for the years ended 31 December 2015 and 2014, respectively, which related to employee services rendered during each year.

27. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
Trade payables (RUR)	3,102	2,825
Trade payables (USD)	5	74
Trade payables (EUR)	168	451
Trade payables (GBP)	3	-
Payables for property, plant and equipment	3,185	4,207
Other accounts payable	216	266
Total	6,679	7,823

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 2015	31 December 2014
Past due	491	440
Due within three months	5,724	6,554
Due from three to six months	82	133
Due from six months to twelve months	382	696
Total	6,679	7,823

28. ACCRUED EXPENSES

	31 December 2015	31 December 2014
Accrued salaries and wages	8,650	10,199
Accrued rent expenses	2,192	-
Settlements with shareholders (Note 12)	1,767	868
Other accrued expenses	284	274
Accrued professional service expenses	204	229
Tax contingencies	-	6,169
Total	13,097	17,739

At the reporting date, the Group's subsidiary IPP is involved in legal proceedings with the Russian Federation tax authorities in connection with a decision reached by these authorities relating to VAT. In particular, IPP applies a VAT rate of 0% when providing transshipment and stevedoring services. The Russian Federation tax authorities have asserted that a rate of 18% is required to be applied.

At the end of 2014 the full amount of the additional assessed taxes of 6,169 was provided for by the Group because it was deemed probable that court decision would be for the benefit of tax authorities. However, as a result of the court decision on 27 April 2015 which partly allowed IPP's claim, the total amount of assessed taxes and penalties was only 3,764. The remaining portion of the provision was reversed as of 31 December 2015 due to subsequent positive court decisions in favour of IPP during 2015.



29. 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 JSC Transneft and members of the Magomedov family.

The owner of 100% of the JSC Transneft ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation. The JSC 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 2015 and 31 December 2014, the Group transacted with Sberbank, VTB Bank, Rosneft, Russian Railways and other state-controlled entities (apart from JSC 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 JSC Transneft):

	Year ended	
	31 December 2015	31 December 2014
Sales		
Sales of goods and services	87,544	108,666
Interest income	515	588
Purchases		
Services and materials received	4,233	7,472
Finance costs	88,185	104,981

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

	31 December 2015	31 December 2014
Cash and cash equivalents		
Cash and cash equivalents	35,627	3,259
Receivables		
Trade and other receivables	1,138	683
Advances to suppliers	313	230
Payables		
Trade and other payables	19	26
Advances received from customers	93	888
Debt		
Long-term debt	1,149,296	-
Current portion of long-term debt	351,825	1,649,939

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

Transactions with NFT:

	Year ended	
	31 December 2015	31 December 2014
Sales and income		
Sales of goods and services	13,815	12,705
Interest income	973	1,027
Purchases		
Services and materials received	1,714	143

Balances with NFT:

	31 December 2015	31 December 2014
Receivables		
Trade and other receivable	266	200
Long-term loans and interest receivable	20,802	20,859
Payables to related parties		
Advances received from customers	7	3

Other related parties include the shareholders of the ultimate parent parties controlled by them and their subsidiaries and associates.



Transactions with other related parties:

	Year ended	
	31 December 2015	31 December 2014
Sales		
Sales of goods and services	114,332	67,268
Interest income	3	51
Purchases		
Services and materials received	36,012	50,162

Balances with other related parties:

	31 December 2015	31 December 2014
Receivables		
Trade and other receivables	399	738
Advances to suppliers	62	3,296
Short-term loans and interest receivable	-	52
Payables		
Trade and other payables	1,478	1,576
Advances received from customers	2,785	1,858

Compensation of key management personnel

For the years ended 31 December 2015 and 31 December 2014, the remuneration of the directors and members of key management was 8,511 (including termination benefits in the amount of 6) and 13,854 (including termination benefits in the amount of 1,454), 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.

30. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended	
	31 December 2015	31 December 2014
Loss for the period	(83,427)	(414,663)
Adjustments for:		
Depreciation and amortisation	54,003	74,841
Loss/(gain) on disposal of property, plant and equipment	251	(411)
Impairment of property,plant and equipment	-	344
Finance income	(47,403)	(33,437)
Finance costs	92,289	200,733
Share of (profit)/loss in joint venture, net	(4,147)	7,123
Foreign exchange loss, net	375,697	789,115
Income tax	(40,186)	(77,350)
Change in defined benefit obligation	310	591
Impairment of goodwill	-	29,539
Impairment of restricted cash in Vneshprombank	305,794	-
Impairment loss recognised on trade and other receivables	1,006	5,287
Change in allowance for spare parts and slow-moving inventories	529	222
Other adjustments	(152)	6,112
	654,564	588,046
Working capital changes:		
Increase in inventories	(1,900)	(2,985)
Decrease/(increase) in receivables	4,037	(2,880)
Increase/(decrease) in liabilities	91	(1,621)
Cash flows generated from operating activities	656,792	580,560



31. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

In 2015 FGUP «Rosmorport» filed in the Arbitration Court of Krasnodar region claim against NCSP to increase the amount of rental fee under the contract for the rent of the state owned real estate properties located in Novorossiysk and Anapa seaports. According to the Group’s assessment possible increase in the annual rental fee does not exceed 2% of Group revenues for the 2015. Currently this litigation is still in process and its final outcome cannot be reliably estimated.

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 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 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 2014 certain entites of the Group had such controlled transactions. The required notifications of these transactions were submitted to the tax authorities in 2015. As of the date when these financial statements were authorized 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 2015. The deadline for submission of formal notifications on these transactions to the tax authorities is 20 May 2016. 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 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Certain subsidiaries of the Group have litigations with the tax authorities, relating to accrual of additional VAT and respective penalties and fines. Total amount of additional tax charges from the tax authorities under these litigations is approximately 8,403. Currently these litigations are still in process and their final outcome cannot be reliably estimated.

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political 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 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from March 2014, sanctions have been imposed in several packages by the U. S. and the E. U. on certain Russian officials, businessmen and companies.

In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates 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 3 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

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

	31 December 2015	31 December 2014
Within 1 year	37,221	42,731
Between 1 and 2 years	34,901	42,483
Between 2 and 3 years	32,794	41,933
Between 3 and 4 years	32,363	39,482
Between 4 and 5 years	32,451	36,278
Thereafter	481,621	543,366
Total	651,351	746,273

As of 31 December 2015 minimum lease payments were calculated according to the existing contract terms but at the moment conditions on a number of contracts are being renegotiated and this can lead to changes in lease periods and lease rates. Under one of lease agreements, which term expires on 1 August 2016 the sum of minimum lease payments in amount of 247 is specified for up to the validity date. Currently the Group is negotiating the prolongation of the above mentioned agreement for 49 years.



32. CAPITAL COMMITMENTS

As at 31 December 2015 and 31 December 2014, the Group had the following commitments for acquisition of property, plant and equipment and construction works at:

	31 December 2015	31 December 2014
NCSP	67,195	54,111
Novoroslesexport	2,769	5,493
PTP	889	25
Shipyards	703	160
IPP	390	1,432
BSC	-	1,009
Fleet	-	25
Total	71,946	62,255

As at 31 December 2015 and 31 December 2014 there were no capital commitments relating to obligations under finance lease contracts.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2015 and 31 December 2014, management believes that the carrying values of financial assets (Notes 16, 20 and 21) and financial liabilities recorded at amortised cost (Note 23 and 27) and also finance lease liability (Note 24) in the consolidated financial statements approximate their fair values except for liabilities under credit agreement with 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, Basis of preparation.

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 organizations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of the Russian Central Bank. As at 31 December 2015 the discount rate used for obligations under agreement with Sberbank comprised 8.21% (31 December 2014: 6.57%).

The fair value compared to the carrying value of long-term financial liabilities as at 31 December 2015 and 31 December 2014 is as follows:

	31 December 2015		31 December 2014	
	Carrying value	Fair value	Carrying value	Fair value
LIBOR+ rate agreement with Sberbank (Level 2)	1,501,121	1,445,297	1,649,939	1,604,799

33. 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 Sberbank (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 2015	31 December 2014
Financial assets		
Cash and cash equivalents	108,671	310,723
Deposits	-	409
Trade and other receivables including long-term	20,400	24,157
Loans issued	16,724	18,269
Total financial assets	145,795	353,558
Financial liabilities carried at amortised cost		
Borrowings	(1,501,121)	(1,722,119)
Trade and other payables	(3,542)	(3,642)
Payables for property, plant and equipment	(4,119)	(4,892)
Finance lease	(10,395)	(19,246)
	(1,519,177)	(1,749,899)
Financial liabilities at FVTPL		
Cross-currency and interest rate swap	-	(72,820)
	-	(72,820)
Total financial liabilities	(1,519,177)	(1,822,719)

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



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 2015	31 December 2014
Assets		
Cash and cash equivalents	13,244	270,345
Investments and receivables carried at amortised cost	23,784	25,526
Total assets	37,028	295,871
Liabilities		
Borrowings	(1,501,121)	(1,649,939)
Finance lease	(10,016)	(13,254)
Trade payables	(368)	(74)
Total liabilities	(1,511,505)	(1,663,267)
Total net liability position	(1,474,477)	(1,367,396)

The table below details the sensitivity of the Group's financial instruments (excluding the cross-currency and interest rate swap disclosed in Note 25) to a 20% (2014: 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 US Dollar would have an equal opposite impact:

	31 December 2015	31 December 2014
Loss	(294,895)	(273,479)

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

	31 December 2015	31 December 2014
Assets		
Cash and cash equivalents	-	780
Investments and receivables carried at amortised cost	-	5
Total assets	-	785
Liabilities		
Finance lease	(379)	(5,992)
Trade payables	(551)	(2,101)
Total liabilities	(930)	(8,093)
Total net liability position	(930)	(7,308)

The table below details the Group's sensitivity to a 20% (2014: 20%) depreciation of the RUR against the EURO if all other variables are held constant. The analysis was applied to monetary items at the year end dates denominated in the EURO. A 20% appreciation of the RUR against the EURO would have an equal opposite impact:

	31 December 2015	31 December 2014
Loss	(186)	(1,462)

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 maintains only one loan subject to a variable interest rate. On 21 January 2011, NCSP received a loan in the amount of 1,950,000 from Sberbank pursuant to a contract dated 19 January 2011 relating to a new credit line to be used for the acquisition of PTP. Floating interest rate of LIBOR 3M + 4.85% per annum is applied during the first 3 years of the loan, floating interest rate of LIBOR 3M + 5% per annum is applied from 19 January 2014. The change in LIBOR rate by 1% would lead to an increase in interest expense and, consequently, net profit or loss by 15,011 and 12,009 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 2015 and 2014 and outstanding balances as at 31 December 2015 and 2014 of the top five counterparties:

	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

	Customer location	Revenue for 2014	31 December 2014
LINK OIL TRADING LTD	United States of America	91,225	-
ROSNEFT	Russia	71,580	359
TRANSNEFT-SERVICE	Russia	55,841	1,088
CHERNOMORSERVICE	Russia	49,542	13
MEDITERRANEAN SHIPPING COMPANY	Russia	38,460	2,485
Total		306,648	3,945

The carrying amount of financial assets recorded in the 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. Generally, net cash flows from operating activities provide an adequate amount of working capital for conducting the Group's underlying business activities. Negative working capital as of 31 December 2015 was caused by impairment of cash and deposits placed in Vneshprombank (Note 21).

For a maturity analysis of financial liabilities, see Notes 23 and 27.

35. EVENTS AFTER THE BALANCE SHEET DATE

On 21 January 2016 the the Central Bank of Russia by its official order № OD-141 revoked from Vneshprombank the licence for banking operations.

According to the decision of Moscow Arbitration court dated 14 March 2016 on the case A40-17434/2016 Vneshprombank is declared bankrupt, the bankruptcy proceeding for a period of 1 year are opened. The temporary administration has included requirements of Group in the list of creditors' claims of Vneshprombank.

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 Group faces.

The 2015 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
CEO of PJSC NCSP

G.I. Kachan
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 and 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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