

Novorossiysk Commercial Sea Port

Interim Condensed Consolidated
Financial Statements
For the Six Months Ended 30 June 2017

NOVOROSSIYSK COMMERCIAL SEA PORT

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NOVOROSSIYSK COMMERCIAL SEA PORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 30 June 2017, and the consolidated results of its operations, cash flows and changes in shareholder's equity for the six months then ended, in compliance with International Standard of Financial Statements IAS 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed 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 IAS 34 are 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 interim condensed consolidated financial statements of the Group comply with IAS 34;
- 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 interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 were approved by management on 29 August 2017:



S.K. Bato
Chief Executive Officer





G.I. Kachan
Chief Accountant

REPORT ON THE REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively – the “Group”) as of 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.


Egor Metelkin
Engagement partner




29 August 2017

The Entity: PJSC “Novorossiysk Commercial Sea Port”

Certificate of state registration №3207, issued by the Administration of Novorossiysk by 11.12.1992

Certificate of registration in the Unified State Register № 1022302380638 of 23.08.2002, issued by Novorossiysk Inspectorate of Russian Ministry of Taxation.

Address: 353901, Russian Federation, Krasnodar region, Novorossiysk, Portovaya st., 14.

Audit Firm: ZAO “Deloitte & Touche CIS”

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organisation of auditors “Russian Union of auditors” (Association), ORNZ 11603080484.

NOVOROSSIYSK COMMERCIAL SEA PORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) *(in thousands of US Dollars, except for earnings per share)*

| | Notes | Six months ended 30 June 2017 | Six months ended 30 June 2016* |
|--|-------|----------------------------------|-----------------------------------|
| REVENUE | 5 | 448,859 | 441,964 |
| COST OF SERVICES | 6 | <u>(127,458)</u> | <u>(101,466)</u> |
| GROSS PROFIT | | 321,401 | 340,498 |
| Selling, general and administrative expenses | 7 | (33,066) | (20,722) |
| Other operating (loss) / income, net | | <u>(485)</u> | <u>41</u> |
| OPERATING PROFIT | | 287,850 | 319,817 |
| Finance income | | 11,377 | 7,677 |
| Finance costs | 8 | (36,461) | (55,217) |
| Share of profit in joint venture, net | 13 | 2,951 | 12,349 |
| Foreign exchange gain, net | | 37,040 | 167,831 |
| Other income, net | | <u>3,518</u> | <u>536</u> |
| PROFIT BEFORE INCOME TAX EXPENSE | | 306,275 | 452,993 |
| Income tax | 9 | <u>(60,274)</u> | <u>(89,011)</u> |
| PROFIT FOR THE PERIOD | | 246,001 | 363,982 |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | | | |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | | |
| Effect of translation to presentation currency | | 20,857 | 43,183 |
| <i>Items that will not be subsequently reclassified to profit or loss:</i> | | | |
| Remeasurement of net defined benefit liability | | 2 | (6) |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | | <u>20,859</u> | <u>43,177</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 266,860 | 407,159 |
| Profit for the period attributable to: | | | |
| Equity shareholders of the parent company | | 243,991 | 359,262 |
| Non-controlling interests | | <u>2,010</u> | <u>4,720</u> |
| | | 246,001 | 363,982 |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the parent company | | 264,531 | 400,173 |
| Non-controlling interests | | <u>2,329</u> | <u>6,986</u> |
| | | 266,860 | 407,159 |
| Weighted average number of ordinary shares outstanding | | 18,481,516,593 | 18,743,128,904 |
| BASIC AND DILUTED EARNINGS PER SHARE (US Dollars) | | 0.0132 | 0.0192 |

S.K. Balov
Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 7 to 23 are an integral part of these interim condensed consolidated financial statements.
* Presentation for comparative information was revised to conform with the current period presentation, refer to Note 3.



NOVOROSSIYSK COMMERCIAL SEA PORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

| | Notes | 30 June 2017 | 31 December 2016 |
|---|-------|-------------------------|-------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 11 | 1,227,558 | 1,144,539 |
| Goodwill | 12 | 601,618 | 586,032 |
| Mooring rights | | 2,664 | 2,744 |
| Investment in joint venture | | 25,971 | 27,824 |
| Spare parts | | 7,308 | 6,196 |
| Deferred tax assets | | 99,749 | 113,244 |
| Other intangible assets | | 2,186 | 2,059 |
| Other non-current assets | | 678 | 24 |
| | | <u>1,967,732</u> | <u>1,882,662</u> |
| CURRENT ASSETS: | | | |
| Inventories | | 11,318 | 7,908 |
| Advances to suppliers | | 4,850 | 4,146 |
| Trade and other receivables, net | 14 | 30,008 | 28,087 |
| VAT recoverable and other taxes receivable | | 15,255 | 18,325 |
| Income tax receivable | | 5,428 | 127 |
| Other financial assets | | - | 6,557 |
| Cash and cash equivalents | 15 | 122,743 | 234,138 |
| | | <u>189,602</u> | <u>299,288</u> |
| TOTAL ASSETS | | <u>2,157,334</u> | <u>2,181,950</u> |
| EQUITY AND LIABILITIES | | | |
| EQUITY: | | | |
| Share capital | | 10,471 | 10,471 |
| Treasury shares | | (423) | (423) |
| Foreign currency translation reserve | | (445,116) | (465,655) |
| Retained earnings | | 1,024,189 | 1,035,134 |
| Equity attributable to shareholders of the parent company | | <u>589,121</u> | <u>579,527</u> |
| Non-controlling interests | | <u>9,720</u> | <u>11,774</u> |
| TOTAL EQUITY | | <u>598,841</u> | <u>591,301</u> |
| NON-CURRENT LIABILITIES: | | | |
| Long-term debt | 16 | 1,089,782 | 1,189,055 |
| Obligations under finance leases | 17 | 1,201 | 2,743 |
| Defined benefit obligation | | 6,280 | 5,986 |
| Deferred tax liabilities | | 137,869 | 134,319 |
| Other non-current liabilities | | 3,987 | 1,972 |
| | | <u>1,239,119</u> | <u>1,334,075</u> |
| CURRENT LIABILITIES: | | | |
| Current portion of long-term debt | 16 | 199,823 | 200,097 |
| Current portion of obligations under finance leases | 17 | 3,775 | 3,940 |
| Trade and other payables | | 33,829 | 11,944 |
| Advances received from customers | | 4,443 | 15,925 |
| Taxes payable, excluding income tax | | 4,168 | 3,828 |
| Income tax payable | | 3,035 | 4,373 |
| Accrued expenses | 20 | 70,301 | 16,467 |
| | | <u>319,374</u> | <u>256,574</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>2,157,334</u> | <u>2,181,950</u> |

The notes on pages 7 to 21 are an integral part of these interim condensed consolidated financial statements.

NOVOROSSIYSK COMMERCIAL SEA PORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

| | Notes | Attributable to shareholders of the parent company | | | | Total | Non-controlling interests | Total |
|--|-------|--|-----------------|--------------------------------------|-------------------|------------------|---------------------------|------------------|
| | | Share capital | Treasury shares | Foreign currency translation reserve | Retained earnings | | | |
| At 1 January 2016 | | 10,471 | (281) | (531,609) | 599,056 | 77,637 | 15,134 | 92,771 |
| Profit for the period | | - | - | - | 359,262 | 359,262 | 4,720 | 363,982 |
| Other comprehensive income for the period, net of tax | | - | - | 40,918 | (7) | 40,911 | 2,266 | 43,177 |
| Total comprehensive income for the period | | - | - | 40,918 | 359,255 | 400,173 | 6,986 | 407,159 |
| Dividends | 10 | - | - | - | (13,853) | (13,853) | (1,249) | (15,102) |
| Acquisition of non-controlling interests under business combinations | | - | - | - | - | - | (12) | (12) |
| At 30 June 2016 | | 10,471 | (281) | (490,691) | 944,458 | 463,957 | 20,859 | 484,816 |
| At 1 January 2017 | | 10,471 | (423) | (465,655) | 1,035,134 | 579,527 | 11,774 | 591,301 |
| Profit for the period | | - | - | - | 243,991 | 243,991 | 2,010 | 246,001 |
| Other comprehensive income for the period, net of tax | | - | - | 20,539 | 1 | 20,540 | 319 | 20,859 |
| Total comprehensive income for the period | | - | - | 20,539 | 243,992 | 264,531 | 2,329 | 266,860 |
| Dividends | 10 | - | - | - | (253,609) | (253,609) | (3,228) | (256,837) |
| Acquisition of non-controlling interests through increase of ownership in subsidiaries | 18 | - | - | - | (1,328) | (1,328) | (1,155) | (2,483) |
| At 30 June 2017 | | 10,471 | (423) | (445,116) | 1,024,189 | 589,121 | 9,720 | 598,841 |

The notes on pages 7 to 21 are an integral part of these interim condensed consolidated financial statements.

NOVOROSSIYSK COMMERCIAL SEA PORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

| | Notes | Six months ended 30 June 2017 | Six months ended 30 June 2016* |
|---|-------|----------------------------------|-----------------------------------|
| Cash flows from operating activities | | | |
| Profit for the period | | 246,001 | 363,982 |
| Adjustments for: | | | |
| Finance income | | (11,377) | (7,677) |
| Finance costs | | 36,461 | 55,217 |
| Share of profit in joint venture, net | | (2,951) | (12,349) |
| Foreign exchange gain, net | | (37,040) | (167,831) |
| Income tax | | 60,274 | 89,011 |
| Depreciation and amortisation | | 35,162 | 24,801 |
| Change in defined benefit obligation | | 365 | 356 |
| Impairment loss / (reversal) recognised on trade and other receivables | | 3,513 | (196) |
| Loss on disposal of property, plant and equipment | | 986 | 310 |
| Accrual of tax contingencies | | - | 4,501 |
| Other adjustments | | 599 | (4) |
| | | 331,993 | 350,121 |
| Working capital changes: | | | |
| (Increase) / decrease in inventories | | (4,368) | 654 |
| (Increase) / decrease in receivables | | (4,717) | 5,805 |
| Decrease in liabilities | | (15,642) | (8,490) |
| Cash flows generated from operating activities | | 307,266 | 348,090 |
| Income tax paid | | (48,645) | (37,399) |
| Interest paid | | (35,255) | (64,430) |
| Net cash generated by operating activities | | 223,366 | 246,261 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | 280 | 81 |
| Purchases of property, plant and equipment | | (66,026) | (31,961) |
| Proceeds from disposal of other financial assets | | 6,773 | 4,202 |
| Interest received | | 11,950 | 12,284 |
| Purchases of other intangible assets | | (609) | (702) |
| Dividends received from joint venture, net of dividend tax | 13 | 5,293 | - |
| Net cash inflow on acquisition of subsidiaries | | - | 218 |
| Net cash used in investing activities | | (42,339) | (15,878) |
| Cash flows from financing activities | | | |
| Proceeds from long-term borrowings | 16 | - | 1,500,000 |
| Repayments of loans and borrowings | 16 | (100,000) | (1,500,000) |
| Increase of ownership in subsidiary | 18 | (2,483) | - |
| Dividends paid | 10 | (193,541) | (1,265) |
| Advances paid under lease contracts | | (2,191) | (2,821) |
| Net cash used in financing activities | | (298,215) | (4,086) |
| Net (decrease) / increase in cash and cash equivalents | | (117,188) | 226,297 |
| Cash and cash equivalents at the beginning of the period | 15 | 234,138 | 108,671 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies and effect of translation into presentation currency on cash and cash equivalents | | 5,793 | (3,315) |
| Cash and cash equivalents at the end of the period | 15 | 122,743 | 331,653 |

The notes on pages 7 to 21 are an integral part of these interim condensed consolidated financial statements.

* Presentation of comparative information was revised to conform with the current period presentation, refer to Note 3.

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) *(in thousands of US Dollars, except as otherwise stated)*

1. GENERAL INFORMATION

Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP" or "Company") was founded in 1845. NCSP was transformed from a state-owned enterprise to a joint-stock company in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation.

Statement of compliance

These interim condensed consolidated financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements for the year 2016 (with the exception of new standards implemented during the period, detailed below) and in compliance with the requirements of International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements are unaudited, do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements for the year 2016, prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements reflect all adjustments which are, in the opinion of Group management, necessary to fairly state the results of interim periods. Interim results are not necessarily indicative of results to be expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

New and revised standards

On 1 January 2017 the following standards and interpretations were adopted by the Group:

- Amendments to IAS 7 – *Disclosure Initiative*;
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle.

The above standards and amendments did not affect the interim condensed consolidated financial statements.

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

Standards and Interpretations issued but not yet effective

At the date of approval of the Group's interim condensed consolidated financial statements, the following new and revised standards and interpretations have been issued, but are not effective:

| New or amended standard or interpretation | Effective date¹ - for annual periods beginning on or after |
|---|--|
| IFRS 9 <i>Financial Instruments</i> | 1 January 2018 |
| IFRS 15 <i>Revenue from Contracts with Customers</i> (and Amendments to IFRS 15) | 1 January 2018 |
| IFRS 16 <i>Leases</i> | 1 January 2019 |
| IFRS 17 <i>Insurance Contracts</i> | 1 January 2021 |
| Amendments to IFRS 2 – <i>Classification and Measurement of Share-based Payment Transactions</i> | 1 January 2018 |
| IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> | 1 January 2018 |
| IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> | 1 January 2019 |
| Amendments to IFRS 4 – <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> | 1 January 2018 |
| Amendments to IAS 40 – <i>Transfers of Investment Property</i> | 1 January 2018 |
| Amendments to IFRS 10 and IAS 28 – <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | Date to be determined by the IASB ² |
| Annual Improvements to IFRS Standards 2014-2016 Cycle | 1 January 2018 ³ |

¹ Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 has also been applied.

² The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

³ The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

Management anticipates that these 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 interim condensed consolidated financial statements are presented in US Dollars ("USD") as management considers the USD to be a more relevant presentation currency for international users of the interim condensed consolidated financial statements of the Group.

Exchange rates

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

| Period-end rates | 30 June 2017 | 31 December 2016 |
|-------------------------------|-------------------------|-----------------------------|
| RUR / 1 USD | 59.09 | 60.66 |
| RUR / 1 EUR | 67.50 | 63.81 |
| | Six months ended | |
| Average for the period | 30 June 2017 | 30 June 2016 |
| RUR / 1 USD | 57.99 | 70.26 |
| RUR / 1 EUR | 62.72 | 78.37 |

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments, estimates and assumptions made by the management of the Group and applied in the accompanying interim condensed consolidated financial statements for the six months ended 30 June 2017 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the 2016.

In the course of the legal proceedings, disclosed in the consolidated financial statements of the Group for the 2016, the Group has no significant changes in its position and the Russian tax authorities have no claims to the Group's subsidiaries, which would result in the accrual of estimated liabilities or commitments, except for those disclosed in Note 22.

Management believes that as at 30 June 2017 the carrying values of financial assets (Notes 14 and 15) and financial liabilities recorded at amortised cost (Note 16) and also finance lease liability (Note 17) in the interim condensed consolidated financial statements approximate their fair values.

Due to the revocation of the banking license of Vneshprombank ("VPB"), the declaration of its bankruptcy in early 2016, and the subsequent inclusion of the Group entities on a list of VPB creditors that will only be paid once bankruptcy proceedings have been completed, the Group concluded that cash and deposits in VPB (previously treated as restricted cash at 31 December 2015 with an offsetting full impairment and treated as other receivables with 100% impairment in the interim financial statements for the 6 months ended 30 June 2016) should be accounted for as contingent assets. This accounting treatment was applied starting from 2016 annual financial statements. The comparative information for the 6 months ended 30 June 2016 included into these interim condensed consolidated financial statements was restated accordingly.

Price monitoring

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

In 2016 FAS initiated a return to state price regulation of the stevedoring services tariffs (i.e. FAS will approve the fixed maximum rates for such services in Russian Roubles). At the same time, according to the methodology drafted by FAS, the maximum profitability of stevedoring operations will be set and FAS will repeal the Federal Tariff Service of Russia ("FTS") orders on cancellation of price regulation in ports. As at the moment, the probability of implementation of this initiative cannot be estimated. In 2016 FAS initiated litigation against NCSP and PTP upon the breach of antimonopoly law № FZ-135 "On Protection of Competition", further details are disclosed in Note 24.

4. 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.

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

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

Segment revenue and segment results

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

The segment revenue and results for the six months ended 30 June 2017 and 2016 are as follows:

| | Segment revenue from external customers | | Inter-segment sales | | Segment profit | |
|--|--|-----------------|---------------------|-----------------|------------------|-----------------|
| | Six months ended | | Six months ended | | Six months ended | |
| | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 |
| Stevedoring and additional port services | 406,704 | 399,437 | 1,021 | 1,521 | 269,045 | 293,861 |
| Novorossiysk | 315,174 | 307,679 | 856 | 1,399 | 210,274 | 226,010 |
| Primorsk | 84,672 | 87,218 | 165 | 122 | 55,299 | 65,712 |
| Baltiysk | 6,858 | 4,540 | - | - | 3,472 | 2,139 |
| Fleet services | 36,973 | 39,275 | 1,036 | 790 | 18,443 | 26,453 |
| Novorossiysk | 17,979 | 21,402 | 971 | 768 | 7,460 | 12,606 |
| Primorsk | 18,994 | 17,873 | 65 | 22 | 10,983 | 13,847 |
| Total reportable segments | 443,677 | 438,712 | 2,057 | 2,311 | 287,488 | 320,314 |
| Other | 5,182 | 3,252 | 5,276 | 5,489 | 5,289 | 4,229 |
| Total segments | 448,859 | 441,964 | 7,333 | 7,800 | 292,777 | 324,543 |
| Unallocated amounts (see following table) | | | | | 13,498 | 128,450 |
| Profit before income tax | | | | | 306,275 | 452,993 |

Revenue from JSC TRANSNEFT-SERVICE of 45,616 for the six months ended 30 June 2017 (the six months ended 30 June 2016: 46,267) 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.

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

| | Six months ended | |
|---|-------------------------|---------------------|
| | 30 June 2017 | 30 June 2016 |
| Total segment profit | 292,777 | 324,543 |
| <i>Differences between Russian statutory accounting standards and IFRS:</i> | | |
| Depreciation and amortisation | (3,370) | (2,844) |
| Professional services | (334) | 311 |
| Finance lease | 2,242 | 2,862 |
| Correction of fuel resale cost | - | (3,944) |
| Other | (2,841) | (975) |
| <i>Unallocated operating income and expenses:</i> | | |
| Other operating (loss) / income, net | (485) | 41 |
| Defined benefit obligation expense | (139) | (177) |
| Operating profit | 287,850 | 319,817 |
| Finance income | 11,377 | 7,677 |
| Finance costs | (36,461) | (55,217) |
| Share of profit in joint venture, net | 2,951 | 12,349 |
| Foreign exchange gain, net | 37,040 | 167,831 |
| Other income, net | 3,518 | 536 |
| Profit before income tax | 306,275 | 452,993 |

Other segment information

| | Depreciation and amortisation charge | | Capital expenditures | |
|--|---|---------------------|-----------------------------|---------------------|
| | Six months ended | | Six months ended | |
| | 30 June 2017 | 30 June 2016 | 30 June 2017 | 30 June 2016 |
| Stevedoring and additional port services | 28,801 | 19,429 | 58,146 | 34,296 |
| Novorossiysk | 23,205 | 16,153 | 55,907 | 30,708 |
| Primorsk | 4,467 | 2,339 | 1,429 | 3,503 |
| Baltiysk | 1,129 | 937 | 810 | 85 |
| Fleet services | 2,096 | 1,669 | 965 | 363 |
| Novorossiysk | 1,249 | 1,032 | 424 | 360 |
| Primorsk | 847 | 637 | 541 | 3 |
| Total reportable segments | 30,897 | 21,098 | 59,111 | 34,659 |
| Other | 972 | 944 | 190 | 371 |
| Total segments | 31,869 | 22,042 | 59,301 | 35,030 |
| Unallocated amounts | 3,293 | 2,759 | 30,069 | 1,451 |
| Consolidated | 35,162 | 24,801 | 89,370 | 36,481 |

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid for the period (Note 11).

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5. REVENUE

| | Six months ended | |
|--------------------------|------------------|----------------|
| | 30 June 2017 | 30 June 2016 |
| Stevedoring services | 349,697 | 347,037 |
| Additional port services | 57,007 | 52,400 |
| Fleet services | 36,973 | 39,275 |
| Other | 5,182 | 3,252 |
| Total | 448,859 | 441,964 |

6. COST OF SERVICES

| | Six months ended | |
|---|------------------|----------------|
| | 30 June 2017 | 30 June 2016 |
| Depreciation and amortisation | 32,573 | 23,222 |
| Salaries | 29,355 | 23,531 |
| Rent | 24,527 | 17,031 |
| Fuel for resale and own consumption | 11,519 | 16,064 |
| Taxes directly attributable to salaries | 7,807 | 6,371 |
| Repairs and maintenance | 6,796 | 5,182 |
| Subcontractors | 6,087 | 3,207 |
| Materials | 3,465 | 2,946 |
| Energy and utilities | 3,368 | 2,346 |
| Insurance | 504 | 376 |
| Defined benefit obligation expense | 365 | 356 |
| Other | 1,092 | 834 |
| Total | 127,458 | 101,466 |

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Six months ended | |
|--|------------------|---------------|
| | 30 June 2017 | 30 June 2016 |
| Salaries | 11,558 | 8,572 |
| Charitable donations | 3,566 | 655 |
| Impairment loss / (Recovery of impairment loss) of trade and other receivables | 3,513 | (196) |
| Depreciation and amortisation | 2,589 | 1,579 |
| Taxes other than income tax | 2,576 | 2,333 |
| Taxes directly attributable to salaries | 2,558 | 1,863 |
| Professional services | 1,829 | 133 |
| Security services | 1,529 | 1,187 |
| Repairs and maintenance | 447 | 427 |
| Travel and representation expenses | 404 | 269 |
| Materials | 380 | 315 |
| Advertising services | 283 | 2,258 |
| Bank charges | 194 | 144 |
| Rent | 97 | 53 |
| Other | 1,543 | 1,130 |
| Total | 33,066 | 20,722 |

8. FINANCE COSTS

| | Six months ended | |
|--|------------------|---------------|
| | 30 June 2017 | 30 June 2016 |
| Interest on loans and borrowings | 35,980 | 42,124 |
| Commission for early repayment of debt | - | 12,341 |
| Interest expense – finance lease | 481 | 752 |
| Total | 36,461 | 55,217 |

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9. INCOME TAX EXPENSE

| | Six months ended | |
|----------------------------|------------------|---------------|
| | 30 June 2017 | 30 June 2016 |
| Current income tax expense | 43,476 | 33,922 |
| Deferred income tax charge | 16,798 | 55,089 |
| Total | 60,274 | 89,011 |

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP which was permitted to apply a reduced income tax rate of 15.5% until 31 March 2016 inclusively, is calculated at 20% of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

During the six months ended 30 June 2017 the Group utilised tax loss carry forward incurred in the previous periods in the amount of 20,284 (the six months ended 30 June 2016: 49,697).

10. DIVIDENDS

Dividends declared by the Group during the six months ended 30 June 2017 and 30 June 2016 were 256,837 and 15,102, respectively, including dividends to non-controlling interest. Dividends declared by the parent company per share for the six months ended 30 June 2017 and 30 June 2016 were US cents 1.372 and 0.074, respectively. The total dividends paid during the six months ended 30 June 2017 and 30 June 2016 were 193,541 and 1,265, respectively.

As at 30 June 2017 the dividend liability of the Group amounted to 57,790 (31 December 2016: 932). It is included in accrued expenses in consolidated statement of financial position as at 30 June 2017 and 31 December 2016 (Note 20).

11. PROPERTY, PLANT AND EQUIPMENT

| | Property, plant and equipment |
|--|-------------------------------|
| Net book value | |
| As at 1 January 2016 | 910,008 |
| Additions | 36,481 |
| Acquisition of subsidiary | 58 |
| Disposals | (159) |
| Depreciation expense | (24,187) |
| Effect of translation into presentation currency | 121,763 |
| As at 30 June 2016 | 1,043,964 |
| As at 1 January 2017 | 1,144,539 |
| Additions | 89,370 |
| Disposals | (1,022) |
| Depreciation expense | (34,471) |
| Effect of translation into presentation currency | 29,142 |
| As at 30 June 2017 | 1,227,558 |

During the six months ended 30 June 2017 and 30 June 2016, the Group disposed of assets resulting in a net loss on disposal of 986 and 310, respectively.

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As at 30 June 2017 the total amount of advances paid for property, plant and equipment and construction works recorded in construction in progress equals 29,081 (31 December 2016: 29,884).

The carrying value of property, plant and equipment held under finance leases as at 30 June 2017 was 7,617 (31 December 2016: 7,748). There were no additions of property, plant and equipment under finance leases during the six months ended 30 June 2017 and 30 June 2016. Leased assets are pledged as security for the related finance liabilities.

12. GOODWILL

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|--|-------------------------|-----------------------------|
| Carrying amount | | |
| Balance at the beginning of the period | 586,032 | 487,727 |
| Effect of translation into presentation currency | 15,586 | 98,305 |
| Balance at the end of the period | <u>601,618</u> | <u>586,032</u> |

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

| | <u>Carrying amount</u> | |
|---|-------------------------|-----------------------------|
| | <u>30 June 2017</u> | <u>31 December 2016</u> |
| Stevedoring and additional services segment: | | |
| PTP | 307,233 | 299,273 |
| Grain Terminal | 80,365 | 78,283 |
| Novoroslesexport | 64,855 | 63,175 |
| IPP | 13,979 | 13,617 |
| Shipyards | 4,734 | 4,612 |
| BSC | 1,447 | 1,409 |
| Fleet services segment: | | |
| SFP | 92,384 | 89,991 |
| Fleet | 36,621 | 35,672 |
| Total | <u>601,618</u> | <u>586,032</u> |

13. INVESTMENT IN JOINT VENTURE

NFT is a fuel oil terminal in Novorossyisk with maximum transshipment capacity of four million tons per year.

The Group owns 50% of NFT and its share in profit of the joint venture for the six months ended 30 June 2017 and 30 June 2016 recognised in consolidated comprehensive income amounted to 2,951 and 12,349, respectively.

| | <u>Ownership % held</u> | |
|----------------------|-------------------------|-----------------------------|
| Joint venture | <u>30 June 2017</u> | <u>31 December 2016</u> |
| NFT | 50.00% | 50.00% |

In June 2017, NFT distributed profit to NCSP in the amount of 5,293, with the 0% tax rate.

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14. TRADE AND OTHER RECEIVABLES, NET

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|--|-------------------------|-----------------------------|
| Trade receivables (RUR) | 16,598 | 18,685 |
| Trade receivables (USD) | 6,598 | 5,374 |
| Trade receivables (EUR) | 30 | - |
| Other receivables and prepayments | 16,829 | 10,090 |
| Interest receivable | 357 | 884 |
| Less: allowance for doubtful trade and other receivables | <u>(10,404)</u> | <u>(6,946)</u> |
| Total | <u>30,008</u> | <u>28,087</u> |

The movement in the allowance for doubtful trade and other receivables is as follows:

| | <u>Six months ended</u> | |
|--|-------------------------|---------------------|
| | <u>30 June 2017</u> | <u>30 June 2016</u> |
| As at beginning of the period | 6,946 | 7,883 |
| Impairment loss / (Recovery of impairment loss) recognised in the consolidated statement of comprehensive income | 3,513 | (196) |
| Amounts written-off as uncollectable | (177) | (2,586) |
| Effect of translation into presentation currency | <u>122</u> | <u>799</u> |
| As at end of the period | <u>10,404</u> | <u>5,900</u> |

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.

15. CASH AND CASH EQUIVALENTS

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|-------------------------|-------------------------|-----------------------------|
| Bank deposits in USD | 16,911 | 64,778 |
| Bank deposits in RUR | 99,408 | 163,775 |
| Current accounts in USD | 3,382 | 2,833 |
| Current accounts in RUR | 2,693 | 2,711 |
| Current accounts in EUR | 334 | 26 |
| Cash in hand | <u>15</u> | <u>15</u> |
| Total | <u>122,743</u> | <u>234,138</u> |

Bank deposits as at 30 June 2017 are summarised below:

| Bank | Currency | Rate, % | <u>30 June 2017</u> |
|--|-----------------|----------------|--------------------------------|
| PJSC VTB Bank ("Bank VTB") | RUR | 8.00-8.90 | 67,275 |
| PJSC Bank Otkritie Financial Corporation | RUR | 8.40-9.00 | 18,543 |
| PJSC Bank Otkritie Financial Corporation | USD | 1.00 | 350 |
| JSC Rosselkhozbank | USD | 0.80-1.42 | 10,931 |
| JSC Rosselkhozbank | RUR | 8.30-8.32 | 677 |
| Other – various | RUR | 6.01-8.90 | 12,913 |
| Other – various | USD | 0.52-0.96 | <u>5,630</u> |
| Total | | | <u>116,319</u> |

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Bank deposits as at 31 December 2016 are summarised below:

| Bank | Currency | Rate, % | 31 December 2016 |
|-----------------------------------|-----------------|----------------|-------------------------|
| Bank VTB | RUR | 6.97–10.00 | 69,280 |
| Bank VTB | USD | 1.00–1.45 | 12,247 |
| PJSC Sberbank Russia ("Sberbank") | RUR | 6.84–8.48 | 10,976 |
| Sberbank | USD | 0.49–0.93 | 45,507 |
| JSC Gazprombank | RUR | 8.00–10.35 | 48,304 |
| Other – various | RUR | 9.48–10.20 | 35,214 |
| Other – various | USD | 1.35–1.75 | 7,025 |
| Total | | | 228,553 |

16. DEBT

| | Interest rate | Maturity date | 30 June 2017 | 31 December 2016 |
|-----------------------------------|----------------------|----------------------|---------------------|-------------------------|
| Secured bank loans | | | | |
| Bank VTB (USD) | LIBOR 3M + 3.99% | June 2023 | 1,289,605 | 1,389,152 |
| Total debt | | | 1,289,605 | 1,389,152 |
| Current portion of long-term debt | | | (199,823) | (200,097) |
| Total non-current debt | | | 1,089,782 | 1,189,055 |

Bank VTB

On 20 June 2016 NCSP received a loan in the amount of 1,500,000 from Bank VTB to be used for the repayment of financial debt to Sberbank prior to maturity under the following terms:

- The term of the facility is seven years;
- Floating interest of LIBOR 3M + 3.99% per annum;
- A lump sum commission of 12,985 was paid for the receipt of the loan;
- The loan is secured by independent guarantees of PTP and SFP as well as by the indemnity guarantee of Novoport Holding Ltd.;
- Certain financial covenants are imposed on the Group (such as: the ratio of total net debt of the Group to earnings before interest, taxes, depreciation and amortisation ("Adjusted EBITDA"), adjusted EBITDA to financial expenses ratio, share of cumulative indicators of adjusted EBITDA, revenue and fixed assets of the NCSP and guarantors in similar indicators of the Group, and other covenants). As at the reporting date the Group met all the financial covenants under the loan agreement with Bank VTB.

In June 2017, 100,000 was paid according to the payment schedule.

As at 30 June 2017 the long-term borrowings are disclosed net of unamortised expense for raising a loan in amount of 12,272 (31 December 2016: 12,946).

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The Group borrowings as at 30 June 2017 are repayable as follows:

| | <u>Principal amount</u> | <u>Contractual interest liability</u> | <u>Total</u> |
|--------------------------------------|-----------------------------|---|------------------|
| Due within three months | - | 17,269 | 17,269 |
| Due from three to six months | 100,000 | 17,009 | 117,009 |
| Due from six months to twelve months | 100,000 | 31,462 | 131,462 |
| | 200,000 | 65,740 | 265,740 |
| Between 1 and 2 years | 200,000 | 55,200 | 255,200 |
| Between 2 and 5 years | 600,000 | 102,473 | 702,473 |
| Over 5 years | 300,000 | 13,111 | 313,111 |
| Total | 1,300,000 | 236,524 | 1,536,524 |

The Group borrowings as at 31 December 2016 are repayable as follows:

| | <u>Principal amount</u> | <u>Contractual interest liability</u> | <u>Total</u> |
|--------------------------------------|-----------------------------|---|------------------|
| Due within three months | - | 17,206 | 17,206 |
| Due from three to six months | 100,000 | 17,520 | 117,520 |
| Due from six months to twelve months | 100,000 | 32,418 | 132,418 |
| | 200,000 | 67,144 | 267,144 |
| Between 1 and 2 years | 200,000 | 57,176 | 257,176 |
| Between 2 and 5 years | 600,000 | 111,825 | 711,825 |
| Over 5 years | 400,000 | 22,272 | 422,272 |
| Total | 1,400,000 | 258,417 | 1,658,417 |

For variable rate borrowing, 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 30 June 2017 of 5.27% (31 December 2016: 4.98%).

The financial obligations of the Group are 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 six months ended 30 June 2017, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 41,452 (during the six months ended 30 June 2016: by 185,654).

17. FINANCE LEASE

The Group rents transshipment machinery and equipment under finance lease agreements with five years terms. The Group has the right to purchase the equipment after expiration of lease contracts at a purchase price close to zero. Interest rates for all obligations under the finance lease agreements are fixed at the dates of the agreements at rates ranging from 14.73% to 17.14% per annum.

| | <u>Minimum lease payments as at 30 June 2017</u> | <u>Minimum lease payments as at 31 December 2016</u> | <u>Present value of lease payments as at 30 June 2017</u> | <u>Present value of lease payments as at 31 December 2016</u> |
|--|--|--|---|---|
| Less than one year | 4,105 | 4,285 | 3,775 | 3,940 |
| In the second and fifth year | 1,480 | 3,487 | 1,201 | 2,743 |
| Less: future financing costs | (609) | (1,089) | - | - |
| Present value of minimum lease payments | 4,976 | 6,683 | 4,976 | 6,683 |

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in Note 11.

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18. INCREASE OF OWNERSHIP IN SUBSIDIARY

On 20 January 2017 the Group acquired an additional 2.81% of interest in Shipyard for a cash consideration of 2,483. The carrying value of Shipyard's net assets in the consolidated financial statements on the date of acquisition shares was 41,206 in total. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of 1,155. The excess of the consideration paid over the Group's share in net assets acquired in the amount of 1,328 was recognised in the consolidated statement of changes in equity as a decrease of retained earnings.

19. CREATION OF SUBSIDIARY

On 17 April 2017, NCSP founded a wholly owned subsidiary, LLC NCSP-Capital, which is planned to be utilised as a financial intermediary for the issuance of public debt to be used by the Group for financing investment projects. In order to create this subsidiary, NCSP contributed 262,912,311 of existing treasury shares with a market value of 28,194 as assessed by an independent appraiser. As LLC NCSP-Capital is consolidated within the results of the Group, this transaction had no impact on the interim condensed consolidated financial statements herein.

20. ACCRUED EXPENSES

| | 30 June 2017 | 31 December 2016 |
|---|-------------------------|-----------------------------|
| Settlements with shareholders (Note 10) | 57,790 | 932 |
| Accrued salaries and wages | 9,598 | 11,310 |
| Accrued rent expenses | 1,676 | 1,404 |
| Other accrued expenses | 1,164 | 505 |
| Accrued professional service expenses | 73 | 173 |
| Tax contingencies | - | 2,143 |
| Total | 70,301 | 16,467 |

In 2017, the Group has paid off its tax obligations in full, the legal proceedings were over.

21. RELATED PARTY TRANSACTIONS

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 six months ended 30 June 2017 and 30 June 2016, the Group transacted with Sberbank, VTB Bank, PJSC Rosneft Oil Company, OJSC Russian Railways and other state-controlled entities (apart from PJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees in regards to related parties have been given or received during the reporting period. Provisions have been made in respect of the amounts owed by related parties in respect of current loans issued to other related parties of 2,376 (31 December 2016: 2,303) due to uncertainty of their recoverability and in respect of trade and other receivables in amount 4,279 (31 December 2016: 1,228).

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

| | Six months ended | |
|--|-------------------------|---------------------|
| | 30 June 2017 | 30 June 2016 |
| Sales | | |
| Sales of goods and services | 53,272 | 50,160 |
| Interest income | 7,582 | 4,652 |
| Purchases | | |
| Services and materials received | 2,322 | 1,624 |
| Finance costs and commission for early repayment of debt | 35,980 | 54,465 |

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

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|---|-------------------------|-----------------------------|
| Cash and cash equivalents | | |
| Cash and cash equivalents | 94,450 | 205,414 |
| Receivables | | |
| Trade and other receivables, net of allowance for doubtful trade and other receivables of 1 (2016: 0) | 1,868 | 3,563 |
| Advances to suppliers | 377 | 188 |
| Payables | | |
| Trade and other payables | 8 | 43 |
| Advances received from customers | 258 | 1,989 |
| Debt | | |
| Long-term debt | 1,089,782 | 1,189,055 |
| Current portion of long-term debt | 199,823 | 200,097 |

Other related parties include the shareholders (including PJSC Transneft) of the ultimate parent, parties controlled by them and their subsidiaries and associates.

Transactions with shareholders of the parent company and other related parties:

| | <u>Six months ended</u> | |
|---------------------------------|-------------------------|---------------------|
| | <u>30 June 2017</u> | <u>30 June 2016</u> |
| Sales | | |
| Sales of goods and services | 52,935 | 58,333 |
| Interest income | - | 1 |
| Purchases | | |
| Services and materials received | 20,679 | 14,163 |
| Other selling expenses | 2,476 | - |

Balances with shareholders of the parent company and other related parties:

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|---|-------------------------|-----------------------------|
| Receivables | | |
| Trade and other receivables, net of allowance for doubtful trade and other receivables of 4,278 (2016: 1,228) | 1,507 | 4,826 |
| Advances to suppliers | 24 | 18 |
| Payables | | |
| Trade and other payables | 2,564 | 2,331 |
| Advances received from customers | 498 | 2,758 |

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

Transactions with NFT:

| | <u>Six months ended</u> | |
|---------------------------------|-------------------------|---------------------|
| | <u>30 June 2017</u> | <u>30 June 2016</u> |
| Sales and income | | |
| Sales of goods and services | 3,605 | 7,195 |
| Interest income | - | 273 |
| Purchases | | |
| Services and materials received | 1,620 | 1,326 |

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Balances with NFT:

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|--|-------------------------|-----------------------------|
| Receivables | | |
| Trade and other receivable | 28 | 100 |
| Short-term loans and interest receivable | - | 6,933 |
| Payables to related parties | | |
| Advances received from customers | 14 | 14 |

Compensation of key management personnel

For the six months ended 30 June 2017 and 30 June 2016, the remuneration of the directors and members of key management was 4,037 (including termination benefits in the amount of 11) and 3,096 (including termination benefits in the amount of 54), 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.

22. COMMITMENTS AND CONTINGENCIES

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 between 1 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land, mooring installations, vessels and equipment 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:

| | <u>30 June 2017</u> | <u>31 December 2016</u> |
|-----------------------|-------------------------|-----------------------------|
| Within 1 year | 52,599 | 53,363 |
| Between 1 and 2 years | 48,700 | 48,148 |
| Between 2 and 3 years | 48,662 | 47,524 |
| Between 3 and 4 years | 48,762 | 47,653 |
| Between 4 and 5 years | 48,597 | 47,456 |
| Thereafter | 836,253 | 845,346 |
| Total | <u>1,083,573</u> | <u>1,089,490</u> |

As at 30 June 2017 minimum lease payments were calculated according to the existing contract terms.

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23. CAPITAL COMMITMENTS

As at 30 June 2017 and 31 December 2016, the Group commitments for acquisition of property, plant and equipment and construction works are as follows:

| | 30 June 2017 | 31 December 2016 |
|------------------|-------------------------|-----------------------------|
| NCSP | 65,104 | 92,189 |
| Novoroslesexport | 7,682 | 7,769 |
| IPP | 1,618 | 1,491 |
| Grain Terminal | 1,032 | 723 |
| BSC | 1,013 | 1,459 |
| SFP | 471 | - |
| Shipyard | 445 | 61 |
| Fleet | 154 | - |
| PTP | 96 | 122 |
| Total | 77,615 | 103,814 |

As at 30 June 2017 and 31 December 2016, there were no capital commitments relating to obligations under finance lease contracts.

24. EVENTS AFTER THE BALANCE SHEET DATE

On 7 August 2017, Joint Stock Company Novorossiysk Grain Terminal was reorganised into Limited Liability Company Novorossiysk Grain Terminal without changing the ownership share. The purpose of the reorganisation: optimisation of corporate procedures and reduction of corporate costs for the management of the subsidiary.

On 28 July 2017, the Moscow Arbitration Court by its decision declared the decision and the prescriptive order of FAS in respect of NCSP as invalid. The decision can be appealed in accordance with established law procedures.

On 8 June 2017, the Moscow Arbitration Court declared the decision and the prescriptive order of FAS in respect of PTP as invalid. 3 appeal petitions from FAS, PJSC RussNeft, PJSC Rosneft Oil Company were accepted and case hearings are scheduled at 4 September 2017.

On 7 July 2017, the Saint Petersburg Arbitration Court satisfied the claim of PTP in respect of recovery of damages in the amount of 12,306, that were caused by docking impact of "Delta Pioneer" vessel on 20 November 2016. The appeal petition was submitted, the date of hearing has not been scheduled yet. Group's management does not expect any additional liabilities associated with this proceeding.