

Novorossiysk Commercial Sea Port

**Interim Condensed Consolidated
Financial Statements**
For the Six Months Ended 30 June 2016

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

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 2016, 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").

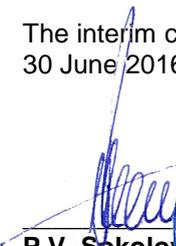
In preparing the interim condensed consolidated financial statements, management is responsible for:

- 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.

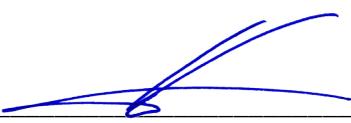
Management is also responsible for:

- 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 2016 were approved by management on 29 August 2016:


P.V. Sokolov
Senior Deputy 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 2016 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period 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.

Deloitte & Touche

Moscow, Russian Federation
29 August 2016

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in thousands of US Dollars, except earnings per share)**

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
REVENUE	5	441,964	438,118
COST OF SERVICES	6	(101,466)	(122,265)
GROSS PROFIT		340,498	315,853
Selling, general and administrative expenses	7	(20,722)	(20,638)
Impairment of deposits in Vneshprombank LLC	16	(19,399)	-
Other operating income, net		41	1,803
OPERATING PROFIT		300,418	297,018
Finance income	8	7,677	35,981
Finance costs	9	(55,217)	(48,257)
Share of profit in joint venture, net	15	12,349	3,719
Foreign exchange gain, net		187,230	7,060
Other income, net		536	3
PROFIT BEFORE INCOME TAX EXPENSE		452,993	295,524
Income tax expense	10	(89,011)	(45,242)
PROFIT FOR THE PERIOD		363,982	250,282
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Effect of translation to presentation currency		43,183	12,174
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of net defined benefit liability		(6)	3
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX			
		43,177	12,177
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		407,159	262,459
Profit for the period attributable to:			
Equity shareholders of the parent company		359,262	244,585
Non-controlling interests		4,720	5,697
		363,982	250,282
Total comprehensive income attributable to:			
Equity shareholders of the parent company		400,173	256,212
Non-controlling interests		6,986	6,247
		407,159	262,459
Weighted average number of ordinary shares outstanding		18,743,128,904	18,743,128,904
Basic and diluted earnings per share, US Dollars		0.0192	0.0130

P.V. Sokolov
Senior Deputy Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 10 to 22 are an integral part of these interim condensed consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	<u>30 June 2016</u>	<u>31 December 2015</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	1,043,964	910,008
Goodwill	13	553,194	487,727
Mooring rights		2,731	2,532
Other financial assets	14	12,308	16,724
Investment in joint venture		16,883	3,249
Spare parts		5,879	4,312
Deferred tax assets		145,474	182,446
Other intangible assets		1,797	1,370
Other non-current assets		1,795	4,105
		<u>1,784,025</u>	<u>1,612,473</u>
CURRENT ASSETS:			
Inventories		6,878	7,478
Advances to suppliers		5,044	5,993
Trade and other receivables, net	16	32,003	16,309
VAT recoverable and other taxes receivable		14,288	11,654
Income tax receivable		84	407
Cash and cash equivalents	17	331,653	108,671
		<u>389,950</u>	<u>150,512</u>
TOTAL ASSETS		<u>2,173,975</u>	<u>1,762,985</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(490,691)	(531,609)
Retained earnings		944,458	599,056
Equity attributable to shareholders of the parent company		<u>463,957</u>	<u>77,637</u>
Non-controlling interests		20,859	15,134
TOTAL EQUITY		<u>484,816</u>	<u>92,771</u>
NON-CURRENT LIABILITIES:			
Long-term debt	18	1,288,720	1,149,296
Obligations under finance leases	19	4,976	6,683
Defined benefit obligation		5,920	5,043
Deferred tax liabilities		125,292	111,547
Other non-current liabilities		1,247	982
		<u>1,426,155</u>	<u>1,273,551</u>
CURRENT LIABILITIES:			
Current portion of long-term debt	18	200,007	351,825
Current portion of obligations under finance leases	19	3,387	3,712
Trade and other payables		14,081	6,679
Advances received from customers		2,276	11,671
Taxes payable		3,637	2,421
Income tax payable		4,146	7,258
Accrued expenses	20	35,470	13,097
		<u>263,004</u>	<u>396,663</u>
TOTAL EQUITY AND LIABILITIES		<u>2,173,975</u>	<u>1,762,985</u>

The notes on pages 7 to 22 are an integral part of these interim condensed consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in thousands of US Dollars)**

	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 2015		10,471	(281)	(505,673)	763,735	268,252	25,521	293,773
Profit for the period		-	-	-	244,585	244,585	5,697	250,282
Other comprehensive income for the period, net of tax		-	-	11,622	5	11,627	550	12,177
Total comprehensive income for the period		-	-	11,622	244,590	256,212	6,247	262,459
Dividends	11	-	-	-	(78,856)	(78,856)	(4,797)	(83,653)
At 30 June 2015		10,471	(281)	(494,051)	929,469	445,608	26,971	472,579
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	11	-	-	-	(13,853)	(13,853)	(1,249)	(15,102)
Acquisition of non-controlling interests under business combinations	25	-	-	-	-	-	(12)	(12)
At 30 June 2016		10,471	(281)	(490,691)	944,458	463,957	20,859	484,816

The notes on pages 7 to 22 are an integral part of these interim condensed consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash flows from operating activities			
Cash from operations	22	348,090	298,907
Income tax paid		(37,399)	(36,888)
Interest paid		(64,430)	(47,095)
		<u>246,261</u>	<u>214,924</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		81	290
Purchases of property, plant and equipment		(31,961)	(27,582)
Proceeds from sale of other financial assets		4,202	224
Purchases of other financial assets		-	(984)
Net cash inflow on acquisition of subsidiaries	25	218	-
Interest received		12,284	17,005
Purchases of other intangible assets		(702)	(667)
		<u>(15,878)</u>	<u>(11,714)</u>
Cash flows from financing activities			
Proceeds from long-term borrowings		1,500,000	-
Repayments of loans and borrowings		(1,500,000)	(151,476)
Dividends paid	11	(1,265)	(569)
Payments for cross-currency and interest rate swap		-	(57,872)
Payments under finance leases		(2,821)	(5,451)
		<u>(4,086)</u>	<u>(215,368)</u>
Net increase/(decrease) in cash and cash equivalents		226,297	(12,158)
Cash and cash equivalents at the beginning of the period	17	108,671	310,723
Effect of translation into presentation currency on cash and cash equivalents		(3,315)	2,464
		<u>331,653</u>	<u>301,029</u>
Cash and cash equivalents at the end of the period		331,653	301,029

The notes on pages 7 to 22 are an integral part of these interim condensed consolidated financial statements.

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED) (in thousands of US Dollars, except as otherwise stated)

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.

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 as at and for the year 2015 (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 2015, 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 January 1, 2016 the following standards and interpretations were adopted by the Group:

- Amendments to IFRS 11 – *Accounting for Acquisition of Interests in Joint Operations*;
- Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Amendments to IAS 16 and IAS 41 – *Agriculture: Bearer Plants*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment Entities: Applying the Consolidation Exception*;
- IFRS 14 – *Regulatory Deferral Accounts*;
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements*;
- Annual Improvements to IFRSs 2012-2014 Cycle.

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (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 for the current year:

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>	1 January 2018
IFRS 16 – <i>Leases</i>	1 January 2019
Amendments to IAS 1 – <i>Disclosure Initiative</i>	1 January 2016
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
Amendments to IAS 12 – <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	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 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 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:

	30 June 2016	31 December 2015
Period-end rates		
RUR / 1 USD	64.26	72.88
RUR / 1 EUR	71.21	79.70
	Six months ended	
	30 June 2016	30 June 2015
Average for the period		
RUR / 1 USD	70.26	57.40
RUR / 1 EUR	78.37	64.31

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 2016 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the 2015.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in thousands of US Dollars, except as otherwise stated)**

In the course of the legal proceedings, disclosed in the consolidated financial statements of the Group for the 2015, 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 disclosed in Note 20.

As at 30 June 2016, the management of the Group believes that the carrying values of financial assets (Notes 14, 16 and 17) and financial liabilities recorded at amortised cost (Note 18) and also finance lease liability (Note 19) in the interim condensed consolidated financial statements approximate their fair values.

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 and 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 is 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 set by the Group and monitored by the state and other services for which prices are not regulated. Non-regulated services are delivered at market prices.

The segment revenue and results for the six months ended 30 June 2016 and 2015 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Six months ended		Six months ended		Six months ended	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Stevedoring and additional port services	399,437	392,696	1,521	1,958	293,861	260,797
Novorossiysk	307,679	320,844	1,399	1,852	226,010	215,615
Primorsk	87,218	67,395	122	106	65,712	43,114
Baltiysk	4,540	4,457	-	-	2,139	2,068
Fleet services	39,275	40,369	790	849	26,453	25,777
Novorossiysk	21,402	24,398	768	841	12,606	14,610
Primorsk	17,873	15,971	22	8	13,847	11,167
Total reportable segments	438,712	433,065	2,311	2,807	320,314	286,574
Other	3,252	5,053	5,489	4,971	4,229	7,068
Total segments	441,964	438,118	7,800	7,778	324,543	293,642
Unallocated amounts (see following table)					128,450	1,882
Profit before income tax					452,993	295,524

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)**
(in thousands of US Dollars, except as otherwise stated)

Revenue from JSC TRANSNEFT-SERVICE of 46,267 for the six months ended 30 June 2016 (the six months ended 30 June 2015: 54,038) represent more than 10% of revenue from stevedoring and additional port 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 profit before income tax through the following adjustments and eliminations:

	Six months ended	
	30 June 2016	30 June 2015
Total segment profit	324,543	293,642
<i>Differences between Russian statutory accounting standards and IFRS:</i>		
Depreciation and amortisation	(2,844)	(4,069)
Professional services	311	293
Finance lease	2,862	5,520
Correction of fuel resale cost	(3,944)	-
Other	(975)	(31)
<i>Unallocated operating income and expenses:</i>		
Impairment of restricted cash in Vneshprombank	(19,399)	-
Other operating income, net	41	1,803
Defined benefit obligation expense	(177)	(140)
Operating profit	300,418	297,018
Finance income	7,677	35,981
Finance costs	(55,217)	(48,257)
Share of profit in joint venture, net	12,349	3,719
Foreign exchange gain, net	187,230	7,060
Other income, net	536	3
Profit before income tax	452,993	295,524

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Six months ended		Six months ended	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Stevedoring and additional port services				
Novorossiysk	19,429	21,321	34,296	22,362
Primorsk	16,153	17,461	30,708	21,961
Baltiysk	2,339	3,019	3,503	89
Baltiysk	937	841	85	312
Fleet services	1,669	2,133	363	311
Novorossiysk	1,032	1,363	360	263
Primorsk	637	770	3	48
Total reportable segments	21,098	23,454	34,659	22,673
Other	944	1,075	371	137
Total segments	22,042	24,529	35,030	22,810
Unallocated amounts	2,759	2,850	1,451	1,964
Consolidated	24,801	27,379	36,481	24,774

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid for the period (Note 12).

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)
(in thousands of US Dollars, except as otherwise stated)**

5. REVENUE

	Six months ended	
	30 June 2016	30 June 2015
Stevedoring services	347,037	336,105
Additional port services	52,400	56,591
Fleet services	39,275	40,369
Other	3,252	5,053
Total	441,964	438,118

6. COST OF SERVICES

	Six months ended	
	30 June 2016	30 June 2015
Salaries	23,531	25,145
Depreciation and amortisation	23,222	25,735
Rent	17,031	18,985
Fuel for resale and own consumption	16,064	29,598
Taxes directly attributable to salaries	6,371	6,990
Repairs and maintenance	5,182	4,620
Subcontractors	3,207	3,880
Materials	2,946	2,997
Energy and utilities	2,346	2,662
Insurance	376	419
Defined benefit obligation expense	356	355
Other	834	879
Total	101,466	122,265

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended	
	30 June 2016	30 June 2015
Salaries	8,572	8,994
Taxes other than income tax	2,333	2,554
Advertising services	2,258	160
Taxes directly attributable to salaries	1,863	2,071
Depreciation and amortisation	1,579	1,644
Security services	1,187	1,309
Charitable donations	655	762
Repairs and maintenance	427	338
Materials	315	330
Travel and representation expenses	269	244
Bank charges	144	181
Professional services	133	240
Rent	53	91
(Recovery of impairment loss)/impairment loss of trade and other receivables	(196)	391
Other	1,130	1,329
Total	20,722	20,638

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8. FINANCE INCOME

	Six months ended	
	30 June 2016	30 June 2015
Interest income	7,677	17,329
Gain on cross currency and interest rate swap	-	18,652
Total	7,677	35,981

Interest income during the six months ended 30 June 2016 is presented net of expense relating to impairment of interest receivable from LLC Vneshprombank ("Vneshprombank") as of 30 June 2016 in the amount of 918.

9. FINANCE COSTS

	Six months ended	
	30 June 2016	30 June 2015
Interest on loans and borrowings	42,124	47,107
Commission for early redemption of Sberbank loan	12,341	-
Interest expense – finance lease	752	1,150
Total	55,217	48,257

10. INCOME TAX EXPENSE

	Six months ended	
	30 June 2016	30 June 2015
Current income tax expense	33,922	28,570
Deferred income tax charge	55,089	16,672
Total	89,011	45,242

Income tax expense relating to the Group's activities in the Russian Federation 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. Within three months of 2016 LLC Primorsk Trade Port ("PTP") applied a reduced income tax rate of 15.5%.

During the six months ended 30 June 2016 the Group utilised tax loss carry forward incurred in the previous periods in the amount of 49,697 (the six months ended 30 June 2015: 12,017).

11. DIVIDENDS

Dividends declared by the Group during the six months ended 30 June 2016 and 30 June 2015 were 15,102 and 83,653, respectively, including dividends to non-controlling interest. Dividends declared by the parent company per share for the six months ended 30 June 2016 and 30 June 2015 were US cents 0.074 and 0.421, respectively. The total dividends paid during the six months ended 30 June 2016 and 30 June 2015 were 1,265 and 569, respectively.

As at 30 June 2016 the dividend liability of the Group amounted to 17,134 (31 December 2015: 1,767). It is included in accrued expenses in statement of financial position as at 30 June 2016 and 31 December 2015 (Note 20).

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12. PROPERTY, PLANT AND EQUIPMENT

	<u>Property, plant and equipment</u>
Cost	
As at 1 January 2015	1,163,391
Additions	24,774
Disposals	(111)
Depreciation expense	(26,727)
Effect of translation into presentation currency	15,196
As at 30 June 2015	1,176,523
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

During the six months ended 30 June 2016 and 30 June 2015, the Group disposed of assets resulting in a net loss/(gain) on disposal of 310 and (179), respectively.

As at 30 June 2016 the total amount of advances paid for property, plant and equipment and construction in progress equals 30,078 (31 December 2015: 10,409).

The carrying value of property, plant and equipment held under finance leases as at 30 June 2016 was 7,623 (31 December 2015: 9,409). There were no additions of property, plant and equipment under finance leases during the six months ended 30 June 2016 and 30 June 2015. During the six month ended 30 June 2016 the Group purchased 2 leased assets at the end of lease agreements. Leased assets are pledged as security for the related finance lease liabilities.

13. GOODWILL

	<u>30 June 2016</u>	<u>31 December 2015</u>
Cost	748,564	659,976
Accumulated impairment loss	(195,370)	(172,249)
Carrying amount	553,194	487,727

For the six months ended 30 June 2016 changes in the carrying amount of goodwill relate to effect of translation into the presentation currency.

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

	Cost		Accumulated impairment loss		Carrying amount	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Stevedoring and additional services segment:						
PTP	382,065	336,850	(99,561)	(87,778)	282,504	249,072
JSC Novorossiysk Grain Terminal ("Grain Terminal")	73,897	65,151	-	-	73,897	65,151
JSC Novoroslesexport ("Novoroslesexport")	59,635	52,578	-	-	59,635	52,578
OJSC IPP ("IPP")	12,854	11,332	-	-	12,854	11,332
OJSC Novorossiysk Shipyard ("Shipyard")	5,819	5,131	(1,466)	(1,293)	4,353	3,838
LLC Baltic Stevedore Company ("BSC")	1,330	1,173	-	-	1,330	1,173
Fleet services segment:						
JSC SoyuzFlot Port ("SFP")	179,291	158,073	(94,343)	(83,178)	84,948	74,895
OJSC Fleet Novorossiysk Commercial Sea Port ("Fleet")	33,673	29,688	-	-	33,673	29,688
Total	748,564	659,976	(195,370)	(172,249)	553,194	487,727

14. OTHER FINANCIAL ASSETS

As at 30 June 2016 other financial assets consist of loan issued in USD to LLC Novorossiysk Fuel Oil Terminal ("NFT"), a joint venture created in 2009 (Note 15), in the amount of 12,307 (2015: 16,723) maturing in March 2020 with an interest rate of 7% per annum and other assets in the amount of 1.

15. INVESTMENT IN JOINT VENTURE

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

The Group owns 50% of NFT and its share in profit of the joint venture for the six months ended 30 June 2016 and 30 June 2015 recognised in comprehensive income amounted to 12,349 and 3,719, respectively.

Joint venture	Ownership % held	
	30 June 2016	31 December 2015
NFT	50.00%	50.00%

Loans issued by the Group to NFT are disclosed in Note 14.

16. TRADE AND OTHER RECEIVABLES, NET

	30 June 2016	31 December 2015
Trade receivables (RUR)	16,763	9,325
Trade receivables (USD)	11,338	6,876
Other receivables and prepayments	9,314	4,927
Other receivables from Vneshprombank deposits	315,130	-
Interest receivable	488	3,064
Less: allowance for doubtful trade and other receivables	(5,900)	(7,883)
Less: allowance for Vneshprombank deposits	(315,130)	-
Total	32,003	16,309

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

	Six months ended	
	30 June 2016	30 June 2015
As at beginning of the period	7,883	5,951
(Recovery of impairment loss)/impairment loss recognised in the consolidated statement of comprehensive income	(196)	391
Impairment of deposit interest from Vneshprombank	918	-
Vneshprombank deposits impairment adjustment in amount of revaluation as at the licence revocation date	19,399	-
Reclassification of Vneshprombank deposits to other receivables	265,315	-
Amounts written-off as uncollectable	(3)	(19)
Effect of translation into presentation currency	27,714	92
As at end of the period	321,030	6,415

At the date of Vneshprombank license revocation (21 January 2016), the Group reclassified deposits recorded at 31 December 2015 as cash and cash equivalents in the line "Restricted cash in Vneshprombank" (Note 17) to other receivables. Deposits receivables in foreign currency were converted into rubles at the exchange rate at the date of the license revocation.

Allowances for overdue trade and other receivables are created based on estimated irrecoverable amounts, determined on the basis of past experience, and are regularly revalued in accordance with the facts and circumstances existing at each reporting date.

17. CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Bank deposits in USD	189,678	11,440
Bank deposits in RUR	136,550	94,645
Current accounts in USD	3,328	1,804
Current accounts in RUR	2,073	769
Current accounts in EUR	10	-
Cash in hand	14	13
Restricted cash in Vneshprombank	-	255,761
Accumulated impairment loss of restricted cash in Vneshprombank	-	(255,761)
Total	331,653	108,671

Restricted cash in Vneshprombank as at 31 December 2015 consisted of cash and deposits placed by the Group in the bank that at that date was under the bankruptcy administration by the Central Bank of the Russian Federation. In addition, the moratorium for the satisfaction of the bank's creditors was declared. As at 31 December 2015, the Group recognized the 100% impairment of cash and deposit balances.

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Bank deposits as at 30 June 2016 are summarised below:

Bank	Currency	Rate, %	30 June 2016
PJSC VTB Bank	USD	0.35–0.77	171,191
PJSC VTB Bank	RUR	9.55–10.45	99,911
PJSC Sberbank of Russia	USD	0.23–0.97	17,775
PJSC Sberbank of Russia	RUR	6.99–9.45	33,145
PJSC Bank Otkritie Financial Corporation	USD	1.85	713
PJSC Bank Otkritie Financial Corporation	RUR	9.75–11.60	2,871
Other	RUR	9.50	622
Total			326,228

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

18. DEBT

	Interest rate	Maturity date	30 June 2016	31 December 2015
Secured bank loans				
VTB Bank (USD)	LIBOR 3M + 3.99%	June 2023	1,488,727	-
Sberbank (USD)	LIBOR 3M + 5%	January 2018	-	1,501,121
Total debt			1,488,727	1,501,121
Current portion of long-term borrowings			(200,007)	(351,825)
Total non-current debt			1,288,720	1,149,296

PJSC VTB Bank (“VTB Bank”)

On 20 June 2016 NCSP received a loan in the amount of 1,500,000 from VTB Bank 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 amortization (“EBITDA”), EBITDA to financial expenses ratio, share of cumulative indicators of EBITDA, revenue and fixed assets of the NCSP and guarantors in similar indicators of the Group, and othes covenants). As at the reporting date the Group met all the financial covenants under the loan agreement with Bank VTB.

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The Group borrowings as of 30 June 2016 are repayable as follows:

	<u>Principal amount</u>	<u>Contractual interest liability</u>	<u>Total</u>
Due within three months	-	15,808	15,808
Due from three to six months	100,000	17,255	117,255
Due from six months to twelve months	100,000	31,108	131,108
	200,000	64,171	264,171
Between 1 and 2 years	200,000	57,784	257,784
Between 2 and 5 years	600,000	117,841	717,841
Over 5 years	500,000	30,892	530,892
Total	1,500,000	270,688	1,770,688

The Group borrowings as of 31 December 2015 are repayable as follows:

	<u>Principal amount</u>	<u>Contractual interest liability</u>	<u>Total</u>
Due within three months	-	20,790	20,790
Due from three to six months	174,648	21,057	195,705
Due from six months to twelve months	174,648	36,999	211,647
	349,296	78,846	428,142
Between 1 and 2 years	349,648	54,276	403,924
Between 2 and 5 years	799,648	3,540	803,188
Total	1,498,592	136,662	1,635,254

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at 30 June 2016 of 4.63% (31 December 2015: 5.57%).

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 2016 the foreign exchange gain on financial obligations increased the Group's profit before income tax by 185,654 (during six months ended 30 June 2015: by 24,376).

19. 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 ranging from 14.73% to 17.14% per annum for all obligations under the finance lease are fixed at the dates of the lease agreements.

	<u>Minimum lease payments as at 30 June 2016</u>	<u>Minimum lease payments as at 31 December 2015</u>	<u>Present value of lease payments as at 30 June 2016</u>	<u>Present value of lease payments as at 31 December 2015</u>
Less than one year	4,483	5,077	4,123	4,698
In the second and fifth year	5,584	7,772	4,240	5,697
Less: future financing costs	(1,704)	(2,454)	-	-
Present value of minimum lease payments	8,363	10,395	8,363	10,395

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	<u>30 June 2016</u>	<u>31 December 2015</u>
Non-current obligations under finance leases	4,976	6,683
Current portion of obligations under finance leases	<u>3,387</u>	<u>3,712</u>
	<u>8,363</u>	<u>10,395</u>

The Group's obligations under finance leases secured by the lessors' rights over the leased assets are disclosed in Note 12.

20. ACCRUED EXPENSES

	<u>30 June 2016</u>	<u>31 December 2015</u>
Dividend accrued (Note 11)	17,134	1,767
Accrued salaries and wages	8,725	8,650
Tax contingencies	4,921	-
Accrued rent expenses	3,727	2,192
Accrued professional service expenses	79	204
Other accrued expenses	<u>884</u>	<u>284</u>
Total	<u>35,470</u>	<u>13,097</u>

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.

The full amount of the additional assessed taxes of 4,921 was provided for by the Group because it is probable that court decision will be for the benefit of tax authorities.

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 2016 and 30 June 2015, 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. No provisions have been made in respect of the amounts owed by related parties.

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

	Six months ended	
	30 June 2016	30 June 2015
Sales		
Sales of goods and services	50,160	40,318
Interest income	4,652	138
Purchases		
Services and materials received	1,624	2,183
Finance costs	54,465	44,960

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

	30 June 2016	31 December 2015
Cash and cash equivalents		
Cash and cash equivalents	327,714	35,627
Receivables		
Trade and other receivables	3,259	1,138
Advances to suppliers	327	313
Payables		
Trade and other payables	12	19
Advances received from customers	1	93
Debt		
Long-term debt	1,288,720	1,149,296
Current portion of long-term debt	200,007	351,825

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

Transactions with NFT:

	Six months ended	
	30 June 2016	30 June 2015
Sales and income		
Sales of goods and services	7,195	7,024
Interest income	273	376
Purchases		
Services and materials received	1,326	49

Balances with NFT:

	30 June 2016	31 December 2015
Receivables		
Trade and other receivable	101	266
Long-term loans and interest receivable (Note 14)	12,364	20,802
Payables to related parties		
Advances received from customers	-	7

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

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Transactions with other related parties:

	Six months ended	
	30 June 2016	30 June 2015
Sales		
Sales of goods and services	58,333	63,929
Interest income	1	1
Purchases		
Services and materials received	14,163	17,137

Balances with other related parties:

	30 June 2016	31 December 2015
Receivables		
Trade and other receivables	1,730	399
Advances to suppliers	9	62
Payables		
Trade and other payables	1,787	1,478
Advances received from customers	267	2,785

Compensation of key management personnel

For the six months ended 30 June 2016 and 30 June 2015 the remuneration of the directors and members of key management was 3,096 (including termination benefits in the amount of 54) and 2,929 (including termination benefits in the amount of 6), respectively, which represented short-term employee benefits and social security contributions.

The remuneration of directors and key executives is determined by the Board of Directors with regard to the performance of individuals and market trends.

22. CASH FLOWS FROM OPERATING ACTIVITIES

	Six months ended	
	30 June 2016	30 June 2015
Profit for the period	363,982	250,282
Adjustments for:		
Depreciation and amortisation	24,801	27,379
Loss/(gain) on disposal of property, plant and equipment	310	(179)
Finance income	(7,677)	(35,981)
Finance costs	55,217	48,257
Share of profit in joint venture, net	(12,349)	(3,719)
Foreign exchange gain, net	(187,230)	(7,060)
Income tax	89,011	45,242
Change in defined benefit obligation	356	140
Impairment of restricted cash in Vneshprombank	19,399	-
Impairment (reversal)/loss recognised on trade and other receivables	(196)	391
Change in allowance for spare parts and slow-moving inventories	61	322
Other adjustments	(65)	(63)
	345,620	325,011
Working capital changes:		
Decrease/ (increase) in inventories	654	(1,694)
Decrease/ (increase) in receivables	5,805	(10,782)
Decrease in liabilities	(3,989)	(13,628)
Cash flows generated from operating activities	348,090	298,907

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23. 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:

	30 June 2016	31 December 2015
Within 1 year	41,114	37,221
Between 1 and 2 years	39,153	34,901
Between 2 and 3 years	37,280	32,794
Between 3 and 4 years	37,382	32,363
Between 4 and 5 years	37,245	32,451
Thereafter	556,416	481,621
Total	748,590	651,351

As at 30 June 2016 minimum lease payments were calculated according to the existing contract terms but at the date of approval of the financial statements the renewal conditions on a number of contracts are being renegotiated and this may lead to changes in lease periods and lease rates.

24. CAPITAL COMMITMENTS

As at 30 June 2016 and 31 December 2015, the Group commitments for acquisition of property, plant and equipment and construction works are as follows:

	30 June 2016	31 December 2015
NCSP	67,393	68,294
PTP	9,269	889
Novoroslesexport	2,356	2,769
Shipyard	1,902	703
IPP	1,841	390
Grain terminal	1,578	-
BSC	100	-
SFP	77	-
Total	84,516	73,045

As at 30 June 2016 and 31 December 2015 there were no capital commitments relating to obligations under finance lease contracts.

25. BUSINESS COMBINATIONS

On 1 April 2016, the Group acquired 95% of the shares in LLC Night Hockey League ("NHL") for cash consideration of 0.14 from the existing shareholders. Management assumes receipt of additional economic benefits due to advertizing during matches by acquiring NHL.

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As at the issuance date of these financial statements, the Group has determined the following fair value of the assets acquired and liabilities assumed as at the acquisition date:

	<u>1 April 2016</u>
Current assets	
Cash and cash equivalents	226
Trade and other receivables	568
Other current assets	99
Non-current assets	
Property, plant and equipment	58
Other non-current assets	2
Current liabilities	
Trade and other payables	<u>1,205</u>
Net assets	<u><u>(252)</u></u>

Goodwill arising on acquisition

	<u>1 April 2016</u>
Amount of consideration	0.14
Acquisition of non-controlling interests	(12)
Fair value of the identified acquired negative net assets	<u>252</u>
Goodwill	<u><u>240</u></u>

Goodwill arose on the acquisition of NHL because the cost of the combination included a control premium, which is not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill on these acquisitions is not deductible for tax.

Goodwill was fully impaired instantly, as the Group has no certainty that NHL will be able to generate revenue in future periods.

At the date of the approval of these condensed consolidated financial statements the Group have not finalised the valuation of certain assets and liabilities as of the date of NHL acquisition because more time is required to perform a reliable and detailed measurement of assets and contingent liabilities fair values. Therefore, the acquired assets and liabilities were recognized on a provisional basis and can be adjusted during the measurement period (until 1 April 2017).

Had this business combination occurred as at 1 January 2016, the revenue of the Group would have been 442,024 and the profit for the period would have been 363,986. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

NHL contributed 173 of revenue and (1,482) of loss before tax from the date of acquisition to 30 June 2016.

26. EVENTS AFTER THE BALANCE SHEET DATE

On 13 July 2016, the Group has increased an effective ownership share in OJSC Novorossiysk Shipyard up to 95.46%. The share was purchased from JSC Southern shipbuilding and repair center for 17,237, the number of common shares is 1,885,176 (30.28%).