

# **Novorossiysk Commercial Sea Port**

Consolidated Financial Statements  
For the year ended 31 December 2016  
and Auditor's Report

# NOVOROSSIYSK COMMERCIAL SEA PORT

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## NOVOROSSIYSK COMMERCIAL SEA PORT

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 31 December 2016, and the consolidated results of its operations, cash flows and changes in shareholder's equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 31 March 2017.

**S. K. Batov**  
Chief Executive Officer



**G. I. Kachan**  
Chief Accountant

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively – the “Group”), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income and loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Russia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

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**Why the matter was determined to be a key audit matter****How the matter was addressed in the audit**

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**Carrying value of goodwill**

The Group has a material goodwill (Note 14) balance of 586,032 (2015: 487,727).

Due to the significance of the goodwill amount and the fact that the impairment reviews performed by the Group contain a number of significant judgements and estimates for each cash-generating unit including revenue growth, pricing model, terminal values and discount rate, we identified the goodwill impairment test as a key audit matter.

We obtained an understanding of the management's process of goodwill impairment analysis.

Our audit procedures on the goodwill impairment analysis included:

- determining whether the input data used in the impairment model are in line with the approved budgets and forecasts;
- challenging the reasonableness of the assumptions which are used in management's forecasts with reference to recent performance, forecasts provided by the key customers, market conditions and historical trend analysis;
- testing the integrity and the accuracy of the underlying model to assess whether the processes are applied to the correct input data;
- a review by our internal valuation specialists, of the discount rates applied in the impairment model;
- reviewing the sensitivity analysis of key assumptions based on comparison to readily available economic and industry data; and
- validating of the completeness and appropriateness of the related disclosures.

The results of our testing were satisfactory.

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**Capitalisation of property, plant and equipment**

The Group has extensive investment program with capital expenditure of USD 102 million during the year ended 31 December 2016 (2015: USD 64 million), as detailed in Note 13.

The significant level of capital expenditure (including those related to repairs and maintenance) along with significant diversity of fixed assets types require consideration of the nature of costs incurred to ensure that capitalisation of property, plant and equipment meets the specific recognition criteria in IAS 16 "Property, Plant and Equipment" ("IAS 16"). Therefore, we identified this as a key audit matter.

We assessed whether the Group's accounting policies in relation to the capitalisation of expenditures complied with IFRS.

Our audit work included obtaining an understanding of the business processes related to the capitalisation, on a sample basis tracing the amounts capitalised to the respective supporting documents, assessing the nature of the amounts capitalised and evaluating whether the assets capitalised met the recognition criteria set out in IAS 16.

The results of our testing were satisfactory.

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**Why the matter was determined to be a key audit matter****How the matter was addressed in the audit**

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**Compliance with restrictive covenants under loan agreement**

Certain financial covenants are imposed on the Group under a loan agreement with Bank VTB (Note 23). As at 31 December 2016, the long-term and short-term portions of this debt equaled USD 1,189 and 200 million respectively.

In case of non-compliance with covenants, the bank may demand early repayment of the loan. Due to the significance of the loan balance and material impact of non-compliance with covenants on the financial statements we consider this issue to be a key audit matter.

We assessed the completeness of the covenants register by:

- reviewing a loan agreement and comparing details of the covenants to those stated in the register; and
- reviewing minutes of board of directors meetings held during the reporting period and comparing the list of approved loan agreements and related covenants with the register.

We recalculated all covenants stated in the register for the borrowings and made sure that the Group complied with all covenants.

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**Contingent liabilities**

The Group is subject to claims and other proceedings, which could have a significant impact on the Group's results if the potential exposures were to materialise. In Notes 29, 32 and 36 of the consolidated financial statements the most significant legal proceedings, investigations and other regulatory and government actions involving the Group are summarised.

The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of litigation and regulatory investigations requires significant judgement by management of the Group and as a result is a key area of focus in our audit.

Our procedures included the following:

- analysing the Group correspondence with regulators received in connection with legal proceedings, investigations and regulatory matters;
- inquiring the Group general counsel, regulatory, tax and other specialists regarding the status of investigations on regulatory matters; and
- assessing and challenging management's conclusions through understanding the existing precedents.

Based on the evidence obtained, while noting the inherent uncertainty with such legal, regulatory and tax matters, we determined the level of provisioning at 31 December 2016 to be appropriate.

We validated the completeness and appropriateness of the related disclosures in Notes 29, 32 and 36.

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**Other Information**

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

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

*Deloitte & Touche CIS*



Egor Metelkin  
Engagement partner

31 March 2017

The Entity: PJSC "Novorossyisk Commercial Sea Port"

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

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

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

Audit Firm: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

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



# NOVOROSSIYSK COMMERCIAL SEA PORT

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except for earnings / (losses) per share)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
REVENUE	6	865,591	877,191
COST OF SERVICES	7	(214,954)	(237,643)
<b>GROSS PROFIT</b>		<b>650,637</b>	<b>639,548</b>
Selling, general and administrative expenses	8	(50,549)	(44,815)
Impairment of restricted cash in Vneshprombank	4, 20, 21	-	(305,794)
Other operating (loss) / income, net		(2)	1,467
<b>OPERATING PROFIT</b>		<b>600,086</b>	<b>290,406</b>
Finance income	9	16,150	47,403
Finance costs	10	(93,573)	(92,289)
Share of profit in joint venture, net	17	21,973	4,147
Foreign exchange gain / (loss), net		247,784	(375,697)
Other (expense) / income, net		(784)	2,417
<b>PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE</b>		<b>791,636</b>	<b>(123,613)</b>
Income tax	11	(158,802)	40,186
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b>632,834</b>	<b>(83,427)</b>
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Effect of translation to presentation currency		68,792	(30,491)
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Remeasurement of net defined benefit liability	26	395	(1,615)
OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX		69,187	(32,106)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>		<b>702,021</b>	<b>(115,533)</b>
Profit / (loss) for the year attributable to:			
Equity shareholders of the parent company		626,527	(84,286)
Non-controlling interests		6,307	859
		<b>632,834</b>	<b>(83,427)</b>
Total comprehensive income / (loss) attributable to:			
Equity shareholders of the parent company		692,879	(111,759)
Non-controlling interests		9,142	(3,774)
		<b>702,021</b>	<b>(115,533)</b>
Weighted average number of ordinary shares outstanding		18,680,255,999	18,743,128,904
Basic and diluted earnings / (losses) per share, US Dollars		0.034	(0.004)

**S. K. Batov**  
Chief Executive Officer



**G. I. Kachan**  
Chief Accountant

The notes on pages 11 to 39 are an integral part of these consolidated financial statements.

# NOVOROSIYSK COMMERCIAL SEA PORT

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

(in thousands of US Dollars, except as otherwise stated)

	Notes	31 December 2016	31 December 2015
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	1,144,539	910,008
Goodwill	14	586,032	487,727
Mooring rights	15	2,744	2,532
Other financial assets	16	-	16,724
Investment in joint venture	17	27,824	3,249
Spare parts		6,196	4,312
Deferred tax assets	11	113,244	182,446
Other intangible assets		2,059	1,370
Other non-current assets		24	4,105
		<u>1,882,662</u>	<u>1,612,473</u>
CURRENT ASSETS:			
Inventories	19	7,908	7,478
Advances to suppliers		4,146	5,993
Trade and other receivables, net	20	28,087	16,309
VAT recoverable and other taxes receivable		18,325	11,654
Income tax receivable		127	407
Other financial assets	16	6,557	-
Cash and cash equivalents	21	234,138	108,671
		<u>299,288</u>	<u>150,512</u>
<b>TOTAL ASSETS</b>		<b><u>2,181,950</u></b>	<b><u>1,762,985</u></b>
<b>EQUITY AND LIABILITIES</b>			
EQUITY:			
Share capital	22	10,471	10,471
Treasury shares	22	(423)	(281)
Foreign currency translation reserve		(465,655)	(531,609)
Retained earnings		1,035,134	599,056
Equity attributable to shareholders of the parent company		<u>579,527</u>	<u>77,637</u>
Non-controlling interests		11,774	15,134
<b>TOTAL EQUITY</b>		<b><u>591,301</u></b>	<b><u>92,771</u></b>
NON-CURRENT LIABILITIES:			
Long-term debt	23	1,189,055	1,149,296
Obligations under finance leases	24	2,743	5,697
Defined benefit obligation	26	5,986	5,043
Deferred tax liabilities	11	134,319	111,547
Other non-current liabilities		1,972	982
		<u>1,334,075</u>	<u>1,272,565</u>
CURRENT LIABILITIES:			
Current portion of long-term debt	23	200,097	351,825
Current portion of obligations under finance leases	24	3,940	4,698
Trade and other payables	28	11,944	6,679
Advances received from customers		15,925	11,671
Taxes payable, excluding income tax		3,828	2,421
Income tax payable		4,373	7,258
Accrued expenses	29	16,467	13,097
		<u>256,574</u>	<u>397,649</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>2,181,950</u></b>	<b><u>1,762,985</u></b>

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

# NOVOROSSIYSK COMMERCIAL SEA PORT

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

*(in thousands of US Dollars, except as otherwise stated)*

	Notes	Attributable to shareholders of the parent company				Non-controlling interests	Total
		Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings		
<b>At 1 January 2015</b>		<b>10,471</b>	<b>(281)</b>	<b>(505,673)</b>	<b>763,735</b>	<b>25,521</b>	<b>293,773</b>
Loss for the year		-	-	-	(84,286)	859	(83,427)
Other comprehensive loss for the year, net of tax		-	-	(25,936)	(1,537)	(4,633)	(32,106)
<b>Total comprehensive loss for the year</b>		-	-	<b>(25,936)</b>	<b>(85,823)</b>	<b>(3,774)</b>	<b>(115,533)</b>
Dividends	12	-	-	-	(78,856)	(6,613)	(85,469)
<b>At 31 December 2015</b>		<b>10,471</b>	<b>(281)</b>	<b>(531,609)</b>	<b>599,056</b>	<b>15,134</b>	<b>92,771</b>
Profit for the year		-	-	-	626,527	6,307	632,834
Other comprehensive income for the year, net of tax		-	-	65,954	398	2,835	69,187
<b>Total comprehensive income for the year</b>		-	-	<b>65,954</b>	<b>626,925</b>	<b>9,142</b>	<b>702,021</b>
Dividends	12	-	-	-	(149,263)	(2,947)	(152,210)
Buy-back of shares	22	-	(143)	-	(34,105)	-	(34,248)
Sale of treasury shares	22	-	1	-	117	-	118
Acquisition of non-controlling interests through business combinations and increase of ownership in subsidiaries	27	-	-	-	(7,596)	(9,555)	(17,151)
<b>At 31 December 2016</b>		<b>10,471</b>	<b>(423)</b>	<b>(465,655)</b>	<b>1,035,134</b>	<b>11,774</b>	<b>591,301</b>

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

# NOVOROSSIYSK COMMERCIAL SEA PORT

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

*(in thousands of US Dollars, except as otherwise stated)*

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
<b>Cash flows from operating activities</b>			
Cash from operations	31	650,005	656,792
Income tax paid		(66,007)	(68,801)
Interest paid		(75,484)	(91,525)
Commission for early repayment of debt	23	(13,250)	-
<b>Net cash generated by operating activities</b>		<b>495,264</b>	<b>496,466</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		282	109
Purchases of property, plant and equipment		(99,055)	(63,803)
Proceeds from disposal of other financial assets		9,979	1,485
Interest received		20,737	28,504
Purchases of other intangible assets		(1,441)	(1,252)
Net cash inflow on acquisition of subsidiary		228	-
<b>Net cash used in investing activities</b>		<b>(69,270)</b>	<b>(34,957)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings	23	1,487,015	-
Repayments of loans and borrowings	23	(1,600,000)	(226,476)
Increase of ownership in subsidiary	27	(17,138)	-
Dividends paid	12	(163,837)	(79,978)
Payments for cross-currency and interest rate swap	25	-	(57,857)
Advances paid under lease contracts		(5,143)	(10,405)
Buy-back of shares	22	(34,248)	-
Sale of treasury shares	22	118	-
<b>Net cash used in financing activities</b>		<b>(333,233)</b>	<b>(374,716)</b>
<b>Net increase in cash and cash equivalents</b>		<b>92,761</b>	<b>86,793</b>
Cash and cash equivalents at the beginning of the year	21	108,671	310,723
Effect of translation into presentation currency on cash and cash equivalents		32,706	(288,845)
<b>Cash and cash equivalents at the end of the year</b>	21	<b>234,138</b>	<b>108,671</b>

The notes on pages 11 to 56 are an integral part of these consolidated financial statements.

# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

### 1. GENERAL INFORMATION

#### Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP" or "Company") was founded in 1845. NCSP was transformed from a state-owned enterprise to a joint-stock company in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation. The principal activities and significant entities of the Group as at 31 December 2016 were as follows:

Significant subsidiaries	Effective ownership % held*	
	31 December 2016	31 December 2015
<b>Stevedoring and additional port services</b>		
LLC Primorsk Trade Port	100.00%	100.00%
JSC Novorossiysk Grain Terminal	100.00%	100.00%
JSC Novoroslesexport	91.38%	91.38%
OJSC IPP	99.99%	99.99%
JSC Novorossiysk Shipyard	95.45%	65.18%
LLC Baltic Stevedore Company	100.00%	100.00%
<b>Tug and towing services and bunkering</b>		
JSC Fleet Novorossiysk Commercial Sea Port	95.19%	95.19%
<b>Tug and towing services</b>		
JSC SoyuzFlot Port	99.99%	99.99%

\* The effective ownership is calculated based on the total number of shares owned by the Group as at the reporting dates including voting preferred shares.

The main subsidiaries of the Group are located in the eastern sector of the Black Sea in Tsemesskaya Bay as well as in the Leningrad and Kaliningrad Districts.

NCSP is the largest stevedore of the Group and the holding company. It operates the primary cargo-loading district, the Sheskhari oil terminal and the passenger terminal in Novorossiysk. NCSP has eight significant subsidiaries, the primary activities of which are as follows:

#### **LLC Primorsk Trade Port ("PTP")**

PTP is involved in the transshipment of oil and oil products in the port of Primorsk, Leningrad Region.

#### **JSC Novorossiysk Grain Terminal ("Grain Terminal")**

Grain Terminal manages grain storage and a shipment terminal in Novorossiysk, in the western part of the Tsemesskaya Bay.

#### **JSC Novoroslesexport ("Novoroslesexport")**

Novoroslesexport provides stevedoring and storage services for the export of timber, containerised cargo, nonferrous metals and perishable goods.

#### **OJSC IPP ("IPP")**

IPP is a liquid-cargo processing enterprise, and also provides bunkering services.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### ***JSC Novorossiysk Shipyard ("Shipyard")***

Shipyard specialises in transshipment of ferrous metals, cement and perishable goods.

#### ***LLC Baltic Stevedore Company ("BSC")***

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

#### ***JSC Fleet Novorossiysk Commercial Sea Port ("Fleet")***

Fleet is a maritime tug and towing company. It provides most of the tug and towing, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysky Port ("Port"). In addition, it carries out emergency services such as transferring vessels to shelter zones during emergencies, cleaning and containment services for oil or other liquid spills in and around the Port and hazardous material response and waste management services.

#### ***JSC SoyuzFlot Port ("SFP")***

SFP is a subsidiary of PTP. SFP is the operator of pilotage and tug and towing services in the Port of Primorsk in the Leningrad District.

#### **Golden share**

The Government of the Russian Federation holds a "golden share" in NCSP. This "golden share" allows the state to veto decisions made by the shareholders to amend the charter, as well as decisions relating to liquidation, corporate restructuring and significant transactions.

#### **Going concern assumption**

The accompanying consolidated financial statements of the Group have been prepared assuming that the Group will continue as a going concern, which presumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business.

#### **Price Monitoring**

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

In 2016 FAS initiated the return to the state price regulation of the stevedoring services tariffs (i.e. FAS will approve the fixed maximum rates for such referenced hereinabove services in Russian Roubles). At the same time, according to the methodology drafted by FAS, it is supposed to set maximum profitability of stevedoring operations and to repeal the Federal Tariff Service of Russia ("FTS") orders on cancellation of price regulation in ports. As at the moment, the probability of implementation of this initiative cannot be estimated. In 2016 FAS initiated litigation against NCSP and PTP upon the breach of antimonopoly law № FZ-135 "On Protection of Competition", further details are disclosed in Note 32 and 36.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

##### New and revised standards

On 1 January 2016 the following standards and interpretations were adopted by the Group:

- Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations;
- Amendments to IAS 1 – Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants;
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception;
- IFRS 14 "Regulatory Deferral Accounts";
- Amendments to IAS 27 – Equity Method in Separate Financial Statements;
- Annual Improvements to IFRSs 2012-2014 Cycle.

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

##### Standards and Interpretations issued but not yet effective

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

New or amended standard or interpretation	Effective date <sup>1</sup> - for annual periods beginning on or after
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers" (and Amendments to IFRS 15)	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB <sup>2</sup>
Amendments to IAS 7 – Disclosure Initiative	1 January 2017
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2017 <sup>3</sup>

<sup>1</sup> 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.

<sup>2</sup> 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.

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

Management anticipates that standards and interpretations, which are relevant to the Group's business, will be adopted by the Group in the periods they become effective. The impact of adoption of these standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### **IFRS 9 "Financial Instruments" ("IFRS 9")**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date, management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

#### Classification and measurement

- Loans carried at amortised cost as disclosed in Note 16 are held to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

#### Impairment

Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted by IFRS 15 "Revenue from Contracts with Customers". In relation to the loans issued (Note 16), whether lifetime or 12-month expected credit losses should be recognised would depend on whether there has been a significant increase in credit risk of these items from initial recognition to the date of initial application of IFRS 9. The management is currently assessing the extent of this impact.

In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and is currently assessing the potential impact on the Group's consolidated financial statements.

The above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

#### **IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")**

In May 2014 IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.



## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract (contracts) with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Group recognises revenue from the following major sources:

- Stevedoring services;
- Additional port services; and
- Fleet services.

Revenue from cargo-transshipment, fleet and additional port services is recognised when the services are accepted by the customers (typically, for cargo-transshipment services, after the loading or unloading of cargo, as defined by the sales terms). Sales contract terms are relatively simple, and the management of the Group does not expect that IFRS 15 requirement regarding contract combinations, contract modifications or transaction price allocation will significantly impact the accounting for revenue.

Management of the Group have preliminarily assessed that the timing of revenue recognition is expected to be consistent with current practice.

Management is still in the process of assessing the full impact of the application of IFRS 15 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. As a result, the above preliminary assessment is subject to change. Management does not intend to early adopt the standard and intend to use the full retrospective method upon adoption.

#### **IFRS 16 "Leases" ("IFRS 16")**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" ("IAS 17") and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of 1,087,289. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of the available practical expedients within IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until management completes the review.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, management of the Group does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

#### Functional and presentation currency

The functional currency of NCSP and principally all of its subsidiaries is the Russian Rouble ("RUR"). The consolidated financial statements are presented in US Dollars ("USD") as management considers the USD to be a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation from functional currency into presentation currency is performed in accordance with the requirements of IAS 21 "The Effect of Changes in Foreign Exchange Rates", as described below:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;
- Income and expense items are translated in the consolidated statement of comprehensive income / (loss) at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used;
- All resulting exchange differences are included in equity and presented separately as an effect of translation into presentation currency (foreign currency translation reserve);
- In the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used; and
- All items included in shareholder's equity, other than net profit / (loss) for the period and other comprehensive income / (loss) for the reporting period, have been translated at historical rate, except for balances converted to USD at the rate effective from 1 January 2005, date of transition to IFRS.

#### Exchange rates

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

	2016	2015
<b>Year-end rates</b>		
RUR / 1 USD	60.66	72.88
RUR / 1 EUR	63.81	79.70
<b>Average rates</b>		
RUR / 1 USD	67.03	60.96
RUR / 1 EUR	74.23	67.78

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of preparation**

The consolidated financial statements of the Group has been prepared on the historical cost basis except for assets and liabilities at the date of acquisition of control and financial instruments that are measured at fair values at the end of each reporting period.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of NCSP and entities controlled by NCSP and its subsidiaries.

Control is achieved when NCSP:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its variable returns.

NCSP reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When NCSP has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. NCSP considers all relevant facts and circumstances in assessing whether or not NCSP's voting rights in an investee are sufficient to give it power, including:

- The size of NCSP's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by NCSP, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that NCSP has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made including voting patterns, at previous shareholders' meetings.

Consolidation of a subsidiary begins when NCSP obtains control over the subsidiary and ceases when NCSP loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income / (loss) from the date NCSP gains control until the date when NCSP ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income / (loss) are attributed to the owners of NCSP and to the non-controlling interests. Total comprehensive income / (loss) of subsidiaries is attributed to the owners of NCSP and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

##### **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### Investments in joint ventures

IFRS 11 "Joint Arrangements" ("IFRS 11") replaced IAS 31 "Interests in Joint Ventures". IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets and Held for Sale and Discontinued Operations".

Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of joint venture, less any impairment in the value of individual investments. Losses of joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, forms part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use or fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a Group entity transacts with joint venture of the Group, profit and losses resulting from transactions with joint ventures are eliminated to the extent of the Group's interest in these joint ventures.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less accumulated impairment loss, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergy of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in joint ventures" above.

#### **Foreign currencies**

In preparing the financial statements of the individual entities forming part of the Group, transactions in currencies other than the functional currency of each entity (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of each reporting period presented. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date the fair value was determined. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction. Exchange differences are recognised in profit or loss in the period in which they arise as a separate component, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income / (loss) and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred, services have been rendered or works are fully completed, the amount of the revenue can be measured reliably, persuasive evidence of an arrangement exists.

The Group's revenue is derived as follows:

- (i) Stevedoring services (liquid cargo, dry bulk cargo, general cargo and containers transshipment) including loading and unloading of oil, oil products, grain, mineral fertilisers, chemicals, containers, timber, timber products, metal products (slabs, tubing, rolled metal and others), sugar, and other cargo, fuel bunkering;
- (ii) Additional port services provided to customers at their requests (e.g. freight forwarding, storage, customs documentation, repacking, ship repair services for all types of vessels and maintenance in docks, etc.);
- (iii) Fleet services including tugging, towing and other related services; and
- (iv) Other services mainly including the rental and resale of energy and utilities to external customers.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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Revenue from cargo-transshipment, fleet and additional port services is recognised when the services are accepted by the customers (typically, for cargo-transshipment services, after the loading or unloading of cargo, as defined by the sales terms). Revenue from other services is recognised when the services are provided to the customers.

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding (excluding interest) and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Leasing**

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

#### ***Operating lease***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### ***Finance lease***

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income / (loss).

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Transaction costs associated with the issuance of a debt instrument are recorded as a reduction of the liability, and are amortised to interest expense over the term of the related borrowing. In any period in which the borrowing is redeemed, the related unamortised costs are expensed.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### **Employee benefits**

##### ***Defined contribution plan***

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund. The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to the consolidated statement of comprehensive income or comprehensive loss in the period to which they relate.

In the Russian Federation, all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes of 0% to 30%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 22%. When the annual gross remuneration of an employee exceeds 796 thousand RUR (USD 11.9), the 10% tax rate is applied to the exceeding amount.

##### ***Defined benefit plans***

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations performed at the end of each reporting period presented. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions include the financial assumptions dealing with items such as taxes paid by the plan in respect of services-related contributions to the balance sheet date, or in respect of remuneration granted in connection with the services. Remeasurement comprising actuarial gains and losses are recognised immediately in the consolidated statement of financial position with a charge or credit to other comprehensive income or comprehensive loss in the period in which they occur. Remeasurement recorded in the other comprehensive income or other comprehensive loss is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment.

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

#### **Income tax**

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income or comprehensive loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the end of each reporting period presented.

##### ***Deferred tax***

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised in the consolidated financial statement if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period presented and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax laws and rates that have been enacted or substantively enacted at the end of each reporting period presented.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in the consolidated statement of comprehensive income / (loss), except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or they arise from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or income from bargain purchase.

#### **Property, plant and equipment**

The Group adopted IFRS effective 1 January 2005. As part of the adoption, the Group elected to utilise exemptions available for first-time adopters under IFRS 1 "First-time Adoption of International Financial Reporting Standards", choosing to record property, plant and equipment at fair value (deemed cost). Valuations were performed by management with the assistance of independent appraisers as at 1 January 2005 and approved by the Group management. After that date, property, plant and equipment are stated at deemed cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment acquired through acquisitions of subsidiaries are recorded at fair value on the date of the acquisition, as determined by management with the assistance of an independent appraiser.

Additions to property, plant and equipment are recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to consolidated statement of comprehensive income / (loss) as incurred.



## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

Depreciation is charged so as to write off the cost or deemed cost of assets, other than land and property under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

	<b>Number of years</b>
Buildings and constructions	3-75
Machinery and equipment	2-40
Marine vessels	4-25
Motor transport	3-15
Other	2-30

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

Construction in progress comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Advances paid for property, plant and equipment are included in line "Property, plant and equipment" in consolidated statement of financial position.

#### **Mooring rights and other intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortisation of mooring rights and other intangible assets is charged to profit or loss.

Mooring rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, mooring rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets acquired separately.

Useful lives of mooring rights and other intangible assets are as follows:

	<b>Number of years</b>
Mooring rights	20
Other intangible assets	3-5

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### **Impairment of tangible and intangible assets excluding goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Spare parts**

Major spare parts and stand-by equipment qualify as non-current assets when an entity expects to use them during more than one year. Such spare parts are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the spare parts to their present location and condition. Spare parts are recognised in profit or loss as consumed.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### **Financial assets**

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group's financial assets consist of cash and cash equivalents, loans and receivables.

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### ***Loans and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

#### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of each reporting period presented. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows have been impacted. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale ("AFS") equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income or other comprehensive loss and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### ***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **Financial liabilities and equity instruments issued by the Group**

##### ***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the asset of an entity deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### **Financial liabilities**

The Group's financial liabilities can be classified into financial liabilities at fair value through profit and loss ("FVTPL") and other financial liabilities.

#### **Financial liabilities as at FVTPL**

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 34.

#### **Other financial liabilities**

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

#### **Derivative financial instruments**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period presented. The resulting gain or loss is recognised in profit or loss immediately if the derivative is not designated and effective as a hedging instrument, in the event of designation the timing of the recognition in profit or loss depends on the type of hedge accounting and on the accounting of hedged object.

The Group uses derivative instruments, including cross-currency and interest rate swap, to manage exchange rate exposures. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

The Group does not use derivative financial instruments for trading or speculative purposes.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period presented, taking into account the risks and uncertainties surrounding the obligation. Where provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### **Dividends declared**

Dividends paid to shareholders are determined by the board of directors but declared and approved at the annual shareholders' meeting.

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and legally payable.

Accumulated profits distributable by the Group's entities are based on the amounts available for distribution in accordance with the applicable legislation of the jurisdictions where each entity operates and as reflected in the statutory financial statements of the individual entities of the Group based on calendar reporting years (years ended 31 December). These amounts may differ significantly from the amounts calculated on the basis of IFRS.

## **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods of the revision affects both current and future periods.

#### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period presented that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### **Allowance for trade and other receivables**

The Group creates allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments, and/or when a contractor does not fulfill its obligations in the amount of advance. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful receivables in the consolidated financial statement.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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#### **Useful lives of fixed assets**

The useful economic lives of the Group's assets are determined by management at the time the asset is acquired and regularly analysed. The Group defines useful lives of its assets in terms of the assets' expected utility to the Group. This judgment is based on the experience of the Group with similar assets. In determining the useful life of an asset, the Group also follows technical and / or commercial obsolescence arising on changes or improvements from a change in the market.

#### **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Key estimates used in the Group's annual impairment testing are presented in Note 14.

#### **Impairment of assets (excluding goodwill)**

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

#### **Taxation**

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation where the Group's operations are principally located. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

The Group management believes that all deferred tax assets recognised as at the reporting date will be fully realised. It is probable that taxable profits will be available against which deductible temporary differences can be utilised. Losses during recent years relate mainly to forex losses arising from revaluation of PJSC "Sberbank Russia" ("Sberbank") USD loan and PJSC "Bank VTB" ("Bank VTB") USD loan (Note 23). They are not connected with operating activities and Group considers that it will gain profit in future and, therefore, deferred tax assets ("DTA") are recoverable. Under the Russian legislation tax loss carry forward may be used to reduce tax base.

#### **Allowance for obsolete and slow-moving inventory**

The Group creates an allowance for obsolete and slow-moving raw materials. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the end of each reporting period represented to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products or any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving raw materials.

#### **Impairment of cash and cash equivalents in Vnesheprombank**

During 2015 the Group placed cash and deposits in the bank Vnesheprombank.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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On 18 December 2015 the Central Bank of Russia ("CBR") appointed the external administration for management of Vneshprombank due to significant reduction in its shareholders' equity and the violation of one of the mandatory standards set by the CBR.

On 22 December 2015 the CBR declared a moratorium for the satisfaction of the Vneshprombank creditors' claims, which restricted access of the Group to the cash and deposits placed in Vneshprombank.

As of 31 December 2015 total cash and deposits placed by the Group in Vneshprombank amounted to 255,761 (Note 21). In addition, the accrued interest on deposits due from Vneshprombank amounted to 2,490 (disclosed within "Interest receivable" line in Note 20).

On 21 January 2016 the CBR revoked from Vneshprombank the license for banking operations.

On 14 March 2016 Moscow Arbitration Court declared Vneshprombank bankrupt.

As Vneshprombank was declared bankrupt as of the date when consolidated financial statements as at 31 December 2015 were authorised for issuance, the Group as at 31 December 2015 classified its total balance of cash and deposits in Vneshprombank as restricted cash but with an offsetting full impairment recognised due to the uncertainty associated with the asset's value.

Subsequently, the Group entities have been included in the list of creditors of Vneshprombank, whose claims will now be satisfied in the course of the normal bankruptcy procedures. The total amount of claims has been defined in RUR as of 21 January 2016, including the accrued interest and the revaluation of certain deposits denominated in foreign currencies calculated using the CBR exchange rate at this date.

However, due to the revocation of the license of Vneshprombank, the declaration of its bankruptcy in early 2016, and the subsequent inclusion of the Group entities on a list of creditors that will only be paid once bankruptcy proceedings have been completed, the Group concluded that cash and deposits in Vneshprombank (previously treated as restricted cash at 31 December 2015 with an offsetting full impairment) are no longer assets of the Group and, rather, represent contingent assets as of 31 December 2016. As such, amounts previously recognised relating to the deposits in Vneshprombank have been derecognised.

## **5. SEGMENT INFORMATION**

The Group's operations are managed by type of services: stevedoring services and additional port services; fleet services; and other services mainly comprising rent, resale of energy and utilities to external customers (which individually do not constitute separate reportable segments). Stevedoring services, additional port services and fleet services are then managed by regions. As a result, all decisions regarding allocation of resources and further assessment of performance are made separately for Novorossiysk, Primorsk and Baltiysk in respect of stevedoring and additional services and for Novorossiysk and Primorsk in respect of fleet services. All segments have different segment managers responsible for each segment's operations. The chief operating decision maker is responsible for allocating resources to and assessing the performance of each segment of the business.

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

### **Segment revenue and segment results**

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

# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

The segment revenue and results for the years ended 31 December 2016 and 2015 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Stevedoring and additional port services	783,781	792,945	2,690	3,464	552,645	534,354
Novorossiysk	602,742	633,719	2,406	3,257	425,620	430,222
Primorsk	171,207	149,074	284	207	122,275	98,902
Baltiysk	9,832	10,152	-	-	4,750	5,230
Fleet services	74,111	77,642	1,667	1,613	41,910	47,840
Novorossiysk	39,882	47,142	1,618	1,595	19,825	27,060
Primorsk	34,229	30,500	49	18	22,085	20,780
<b>Total reportable segments</b>	<b>857,892</b>	<b>870,587</b>	<b>4,357</b>	<b>5,077</b>	<b>594,555</b>	<b>582,194</b>
Other	7,699	6,604	11,145	9,210	9,492	9,629
<b>Total segments</b>	<b>865,591</b>	<b>877,191</b>	<b>15,502</b>	<b>14,287</b>	<b>604,047</b>	<b>591,823</b>
Unallocated amounts (see following table)					187,589	(715,436)
<b>Profit / (loss) before income tax</b>					<b>791,636</b>	<b>(123,613)</b>

Revenue from JSC TRANSNEFT-SERVICE of 87,507 for the year ended 31 December 2016 (2015: 94,255) represent more than 10% of revenue from stevedoring and additional services for respective period. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

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

	Year ended	
	31 December 2016	31 December 2015
<b>Total segment profit</b>	<b>604,047</b>	<b>591,823</b>
<i>Differences between Russian statutory accounting standards and IFRS:</i>		
Depreciation and amortisation	(6,218)	(7,636)
Professional services	(35)	(63)
Finance lease	5,231	10,699
Other	(2,609)	220
<i>Unallocated operating income and expenses:</i>		
Impairment of restricted cash in Vneshprombank (Note 4)	-	(305,794)
Other operating (expense) / income, net	(2)	1,467
Defined benefit obligation expense	(328)	(310)
<b>Operating profit</b>	<b>600,086</b>	<b>290,406</b>
Finance income	16,150	47,403
Finance costs	(93,573)	(92,289)
Share of profit in joint venture, net	21,973	4,147
Foreign exchange gain / (loss), net	247,784	(375,697)
Other (expense) / income, net	(784)	2,417
<b>Profit / (loss) before income tax</b>	<b>791,636</b>	<b>(123,613)</b>



# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

### Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Stevedoring and additional port services	42,323	42,481	94,521	58,963
Novorossiysk	35,405	35,040	81,981	56,871
Primorsk	4,950	5,652	12,068	941
Baltiysk	1,968	1,789	472	1,151
Fleet services	3,532	3,944	845	778
Novorossiysk	2,163	2,492	453	538
Primorsk	1,369	1,452	392	240
<b>Total reportable segments</b>	<b>45,855</b>	<b>46,425</b>	<b>95,366</b>	<b>59,741</b>
Other	1,968	2,086	231	901
<b>Total segments</b>	<b>47,823</b>	<b>48,511</b>	<b>95,597</b>	<b>60,642</b>
Unallocated amounts	5,801	5,492	5,971	3,574
<b>Consolidated</b>	<b>53,624</b>	<b>54,003</b>	<b>101,568</b>	<b>64,216</b>

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

### 6. REVENUE

	Year ended	
	31 December 2016	31 December 2015
Stevedoring services	684,751	681,928
Additional port services	99,030	111,017
Fleet services	74,111	77,642
Other	7,699	6,604
<b>Total</b>	<b>865,591</b>	<b>877,191</b>

### 7. COST OF SERVICES

	Year ended	
	31 December 2016	31 December 2015
Depreciation and amortisation	49,650	50,804
Salaries	49,413	49,560
Rent	38,750	38,448
Fuel for resale and own consumption	25,690	50,074
Repairs and maintenance	15,863	13,652
Taxes directly attributable to salaries	12,826	13,033
Subcontractors	7,770	7,665
Materials	6,604	6,309
Energy and utilities	4,894	4,846
Insurance	807	781
Defined benefit obligation expense (Note 26)	703	691
Other	1,984	1,780
<b>Total</b>	<b>214,954</b>	<b>237,643</b>

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended	
	31 December 2016	31 December 2015
Salaries	21,468	20,643
Taxes other than income tax	4,633	4,662
Depreciation and amortisation	3,974	3,199
Taxes directly attributable to salaries	3,784	3,713
Advertising	3,253	436
Security services	2,496	2,477
Charitable donations	1,688	1,736
Repairs and maintenance	1,501	1,310
Professional services	778	1,172
Materials	759	750
Impairment loss recognised on trade and other receivables	714	1,006
Travel and representation expenses	678	604
Bank charges	355	381
Rent	161	170
Other	4,307	2,556
<b>Total</b>	<b>50,549</b>	<b>44,815</b>

#### 9. FINANCE INCOME

	Year ended	
	31 December 2016	31 December 2015
Interest income	16,150	29,841
Gain on cross currency and interest rate swap (Note 25)	-	17,562
<b>Total</b>	<b>16,150</b>	<b>47,403</b>

#### 10. FINANCE COSTS

	Year ended	
	31 December 2016	31 December 2015
Interest on loans and borrowings	79,263	90,232
Commission for early repayment of debt (Note 23)	12,935	-
Interest expense – finance lease	1,375	2,057
<b>Total</b>	<b>93,573</b>	<b>92,289</b>

#### 11. INCOME TAX

	Year ended	
	31 December 2016	31 December 2015
Current income tax expense	62,648	66,306
Deferred income tax expense / (benefit)	96,154	(106,492)
<b>Total</b>	<b>158,802</b>	<b>(40,186)</b>

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.

# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

Income tax expense calculated by applying the Russian Federation statutory income tax rate to profit / (loss) before income tax differs from income tax expense recognised in the consolidated statement of comprehensive income / (loss) as a consequence of the following factors:

	Year ended	
	31 December 2016	31 December 2015
<b>Profit / (loss) before income tax</b>	<b>791,636</b>	<b>(123,613)</b>
Tax at the Russian Federation statutory rate of 20%	158,327	(24,723)
Different tax rates of subsidiaries	(2,878)	(5,500)
Revaluation of cross-currency and interest rate swap	-	(11,820)
Other non-deductible expenses	3,353	1,857
<b>Total</b>	<b>158,802</b>	<b>(40,186)</b>

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

	31 December 2016	31 December 2015
<b>Net balance at the beginning of the year</b>	<b>(70,899)</b>	<b>23,538</b>
Expense / (benefit) recognised during the year	96,154	(106,492)
Effect of translation into presentation currency	(4,180)	12,055
<b>Net balance at the end of the year</b>	<b>21,075</b>	<b>(70,899)</b>

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The tax effects of temporary differences that give rise to deferred taxation are as follows:

	31 December 2016	31 December 2015
<b>Deferred tax assets</b>		
Tax loss carry forward	68,777	142,107
Impairment of restricted cash in Vneshprombank (Note 4)	65,638	50,713
Accrued expenses	5,985	5,513
Allowance for doubtful receivables	243	133
Allowance for obsolete and slow-moving inventories	205	147
Investment valuation	-	846
<b>Total</b>	<b>140,848</b>	<b>199,459</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	155,285	127,772
Investment valuation	3,500	-
Debt	2,589	282
Mooring rights	549	506
<b>Total</b>	<b>161,923</b>	<b>128,560</b>
<b>Net deferred tax liability / (asset)</b>	<b>21,075</b>	<b>(70,899)</b>

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 *(in thousands of US Dollars, except as otherwise stated)*

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Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Deferred tax assets	113,244	182,446
Deferred tax liabilities	134,319	111,547
<b>Net deferred tax liability / (asset)</b>	<b>21,075</b>	<b>(70,899)</b>

## 12. DIVIDENDS

Dividends declared by the Group during the years ended 31 December 2016 and 2015 were 152,210 and 85,469, respectively, including dividends to non-controlling interest. The total dividends paid during the years ended 31 December 2016 and 2015 were 163,837 and 79,978, respectively.

As at 31 December 2016 the dividend liability of the Group amounted to 932 (31 December 2015: 1,767). It is included in accrued expenses as at 31 December 2016 and 2015 (Note 29).

## NOVOROSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
<b>Cost</b>								
<b>As at 1 January 2015</b>	<b>684,606</b>	<b>338,419</b>	<b>277,068</b>	<b>94,886</b>	<b>19,435</b>	<b>7,805</b>	<b>57,379</b>	<b>1,479,598</b>
Additions	86	9,719	41,900	851	1,331	1,663	8,666	64,216
Transfer	177	21,998	12,479	-	-	43	(34,697)	-
Disposals	-	(5,696)	(9,856)	(1,459)	(1,069)	(184)	(98)	(18,362)
Effect of translation into presentation currency	(156,200)	(81,451)	(70,482)	(18,096)	(4,476)	(2,028)	(8,813)	(341,546)
<b>As at 31 December 2015</b>	<b>528,669</b>	<b>282,989</b>	<b>251,109</b>	<b>76,182</b>	<b>15,221</b>	<b>7,299</b>	<b>22,437</b>	<b>1,183,906</b>
<b>Accumulated depreciation and impairment</b>								
<b>As at 1 January 2015</b>	<b>-</b>	<b>(110,134)</b>	<b>(153,900)</b>	<b>(35,680)</b>	<b>(10,361)</b>	<b>(5,842)</b>	<b>(290)</b>	<b>(316,207)</b>
Depreciation expense	-	(18,934)	(24,511)	(5,787)	(2,172)	(1,354)	-	(52,758)
Disposals	-	5,653	9,676	1,444	1,058	172	-	18,003
Effect of translation into presentation currency	-	27,294	37,531	8,101	2,546	1,525	67	77,064
<b>As at 31 December 2015</b>	<b>-</b>	<b>(96,121)</b>	<b>(131,204)</b>	<b>(31,922)</b>	<b>(8,929)</b>	<b>(5,499)</b>	<b>(223)</b>	<b>(273,898)</b>

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
<b>Cost</b>								
<b>As at 1 January 2016</b>	<b>528,669</b>	<b>282,989</b>	<b>251,109</b>	<b>76,182</b>	<b>15,221</b>	<b>7,299</b>	<b>22,437</b>	<b>1,183,906</b>
Additions	179	14,093	37,978	899	2,953	1,853	43,613	101,568
Acquisition of subsidiary	-	-	12	-	39	8	-	59
Transfer	-	7,845	8,265	-	4	6	(16,120)	-
Disposals	-	(2,754)	(8,895)	(676)	(716)	(204)	(672)	(13,917)
Effect of translation into presentation currency	106,576	59,056	54,542	11,910	3,310	1,648	7,342	244,384
<b>As at 31 December 2016</b>	<b>635,424</b>	<b>361,229</b>	<b>343,011</b>	<b>88,315</b>	<b>20,811</b>	<b>10,610</b>	<b>56,600</b>	<b>1,516,000</b>
<b>Accumulated depreciation and impairment</b>								
<b>As at 1 January 2016</b>	<b>-</b>	<b>(96,121)</b>	<b>(131,204)</b>	<b>(31,922)</b>	<b>(8,929)</b>	<b>(5,499)</b>	<b>(223)</b>	<b>(273,898)</b>
Depreciation expense	-	(17,234)	(26,082)	(5,237)	(2,131)	(1,597)	-	(52,281)
Disposals	-	2,510	8,862	676	651	169	-	12,868
Effect of translation into presentation currency	-	(20,921)	(28,257)	(5,708)	(1,957)	(1,261)	(46)	(58,150)
<b>As at 31 December 2016</b>	<b>-</b>	<b>(131,766)</b>	<b>(176,681)</b>	<b>(42,191)</b>	<b>(12,366)</b>	<b>(8,188)</b>	<b>(269)</b>	<b>(371,461)</b>
<b>Carrying value</b>								
<b>As at 1 January 2015</b>	<b>684,606</b>	<b>228,285</b>	<b>123,168</b>	<b>59,206</b>	<b>9,074</b>	<b>1,963</b>	<b>57,089</b>	<b>1,163,391</b>
<b>As at 31 December 2015</b>	<b>528,669</b>	<b>186,868</b>	<b>119,905</b>	<b>44,260</b>	<b>6,292</b>	<b>1,800</b>	<b>22,214</b>	<b>910,008</b>
<b>As at 31 December 2016</b>	<b>635,424</b>	<b>229,463</b>	<b>166,330</b>	<b>46,124</b>	<b>8,445</b>	<b>2,422</b>	<b>56,331</b>	<b>1,144,539</b>

As at 31 December 2016 the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 29,884 (31 December 2015: 10,409).

During the years ended 31 December 2016 and 2015 no interest expense was capitalised.

The carrying value of property, plant and equipment held under finance leases as at 31 December 2016 was 7,748 (31 December 2015: 9,409). There were no additions of property, plant and equipment under finance leases during the years ended 31 December 2016 and 2015. During 2016 the Group purchased 2 leased assets at the end of lease agreement. Leased assets are pledged as security for the related finance liabilities (no other property, plant and equipment items are pledged).

In 2016, the Group acquired property, plant and equipment with an aggregate cost of 101,568 (2015: 64,216). Cash payments of 104,198 were made to purchase property, plant and equipment (2015: 74,208).

During the years ended 31 December 2016 and 2015, the Group disposed of assets resulting in net losses of 582 and 251, respectively.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 14. GOODWILL

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Carrying amount</b>		
<b>Balance at the beginning of the year</b>	<b>487,727</b>	<b>631,850</b>
Effect of translation into presentation currency	98,305	(144,123)
<b>Balance at the end of the year</b>	<b>586,032</b>	<b>487,727</b>

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

	<b>Carrying amount 31 December 2016</b>	<b>31 December 2015</b>
<b>Stevedoring and additional services segment:</b>		
PTP	299,273	249,072
Grain Terminal	78,283	65,151
Novoroslesexport	63,175	52,578
IPP	13,617	11,332
Shipyard	4,612	3,838
BSC	1,409	1,173
<b>Fleet services segment:</b>		
SFP	89,991	74,895
Fleet	35,672	29,688
<b>Total</b>	<b>586,032</b>	<b>487,727</b>

#### Annual impairment test information

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

The most significant estimates and assumptions used by management in the value in use calculations as at 31 December 2016 were as follows:

- Cash flow projections were based on the business plans of the Company for the years 2017-2021, approved by management. Such business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.;
- Due to highly significant uncertainty in respect to foreign currency rates, cash flow projections were prepared in USD using RUR / USD currency rates projections from the Economist Intelligence Unit and adjusted by inflation rate for each respective year;
- Cash flow projections beyond 2021 were extrapolated using a steady 2.0% per annum growth rate assessed based on past performance of the Group and management expectations of market development; and
- Discount rates were determined for each CGU in nominal terms based on the Group's weighted average cost of capital adjusted for tax effect to arrive at pre-tax rate of 11.08%.

The Group's CGUs operate within a consistent industry within the same geographic regions. As such, within the development of the Group's business plan, management applies consistent assumptions across each CGU.

Management believes that the values assigned to the key assumptions and estimates represent the most probable assessment of future trends.

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

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### Sensitivity analysis

For all such CGUs, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of a CGU to exceed its recoverable amount.

Management prepared a sensitivity analysis and determined that neither a 10% reduction in revenue nor a 10% increase in capital expenditure or in the costs applied in the impairment testing would lead to recognition of impairment loss. These are the most sensitive assumptions used in the impairment test for all CGUs.

#### 15. MOORING RIGHTS

	31 December 2016	31 December 2015
Cost	5,877	4,891
Accumulated amortisation	(3,133)	(2,359)
<b>Carrying value</b>	<b>2,744</b>	<b>2,532</b>
	31 December 2016	31 December 2015
<b>Cost</b>		
Balance at the beginning of year	4,891	6,336
Effect of translation into presentation currency	986	(1,445)
<b>Balance at the end of the year</b>	<b>5,877</b>	<b>4,891</b>
<b>Accumulated amortisation</b>		
Balance at the beginning of year	(2,359)	(2,734)
Charge for the year	(270)	(297)
Effect of translation into presentation currency	(504)	672
<b>Balance at the end of the year</b>	<b>(3,133)</b>	<b>(2,359)</b>

Mooring rights represent the long-term lease rights for hydrotechnical infrastructure (e.g. berths, piers and other) owned by the state.

#### 16. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
<b>Current</b>		
Loans issued	6,557	-
<b>Total current</b>	<b>6,557</b>	<b>-</b>
<b>Non-current</b>		
Loans issued	-	16,724
<b>Total non-current</b>	<b>-</b>	<b>16,724</b>

As at 31 December 2016 current loans issued of 2,943 (2015: 2,448) were fully provided for due to uncertainty of their recoverability.

As at 31 December 2016, long-term loans issued in USD to LLC Novorossiysk Fuel Oil Terminal ("NFT"), a joint venture (Note 17), in the amount of 6,557 (2015: 16,723) maturing in March 2020 with an interest rate of 7% per annum were reclassified to short-term loans in order to reflect the decision related to the repayment of the loan in advance, which was accepted by board of directors of NFT on 30 December 2016. On 10 January 2017, NFT repaid the loan.



# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

### 17. 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 years 2016 and 2015 recognised in comprehensive income / (loss) amounted to 21,973 and 4,147, respectively.

Summarised financial information of NFT is represented below:

	31 December 2016	31 December 2015
Current assets	29,339	42,443
Non-current assets	50,694	47,214
<b>Total assets</b>	<b>80,033</b>	<b>89,657</b>
Current liabilities	(18,769)	(21,085)
Non-current liabilities	(2,374)	(59,980)
<b>Total liabilities</b>	<b>(21,143)</b>	<b>(81,065)</b>
<b>Net assets</b>	<b>58,890</b>	<b>8,592</b>
<b>Group's share of joint venture net assets</b>	<b>29,445</b>	<b>4,296</b>
Elimination of unrealised profit	(1,621)	(1,047)
<b>Carrying value of investment</b>	<b>27,824</b>	<b>3,249</b>

The above amounts of assets and liabilities include the following:

	31 December 2016	31 December 2015
Cash and cash equivalents	26,550	40,254
Current financial liabilities (excluding trade and other payables and provisions)	(13,867)	(16,746)
Non-current financial liabilities (excluding trade and other payables and provisions)	-	(57,566)

	Year ended	
	31 December 2016	31 December 2015
Revenue	86,813	84,073
Operating profit	51,176	48,283
Profit for the year	43,945	19,110
Group's share in profit for the year at 50%	21,973	9,555
Other comprehensive income / (loss)	6,353	(943)

The above profit for the year includes the following:

	Year ended	
	31 December 2016	31 December 2015
Depreciation and amortization	(8,277)	(9,047)
Interest income	1,352	1,192
Interest expense	(1,971)	(5,914)
Income tax	(1,934)	(4,740)

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

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

As at 31 December 2015 the Group pledged its 50% share in NFT under a credit agreement between NFT and JSC Raiffeisenbank ("Raiffeisenbank"). The Group also issued a guarantee of 20,000 to secure NFT obligations under the credit agreement. NFT also concluded pledge agreements with Raiffeisenbank to secure obligations under the credit agreement.

It was agreed that dividends and other payments to shareholders of NFT should not be made without prior written consent of Raiffeisenbank.

In February 2016, NFT fully repaid the loan from Raiffeisenbank, including principal and interest due.

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

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests		Profit / (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	31 December 2016	31 December 2015	2016	2015	31 December 2016	31 December 2015
Shipyard	4.55%	34.82%	2,472	(980)	1,798	7,638
Fleet	4.81%	4.81%	1,002	1,721	3,216	3,698
Novoroslesexport	8.62%	8.62%	2,807	211	6,505	3,481
Other subsidiaries with non-controlling interests					255	317
<b>Total</b>					<b>11,774</b>	<b>15,134</b>

JSC Southern Shipbuilding and Repair Center, a wholly owned subsidiary of JSC United Shipbuilding Corporation, is a shareholder with significant influence over Shipyard in 2015 and in January – July of 2016. The owner of 100% of the JSC United Shipbuilding Corporation ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation.

In July 2016, JSC Southern Shipbuilding and Repair Center sold its shares in Shipyard to PJSC NCSP (Note 27).

#### 19. INVENTORIES

	31 December 2016	31 December 2015
Materials	5,709	3,862
Goods for resale	1,760	3,220
Fuel	1,192	977
Less: allowance for obsolete and slow-moving inventories	(753)	(581)
<b>Total</b>	<b>7,908</b>	<b>7,478</b>

#### 20. TRADE AND OTHER RECEIVABLES, NET

	31 December 2016	31 December 2015
Trade receivables (RUR)	18,685	9,325
Trade receivables (USD)	5,374	6,876
Other receivables and prepayments	10,090	4,927
Interest receivable	884	3,064
Less: allowance for doubtful trade and other receivables	(6,946)	(7,883)
<b>Total</b>	<b>28,087</b>	<b>16,309</b>

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

The average credit period for the Group's customers is 8 days. During this period no interest is charged on the outstanding balances. Thereafter, interest is charged according to the contracts determined on a customer specific basis, determined based on size, volume and history of operations with the Group at between 0.3% and 15% per month on the outstanding balance.

The Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's 8 largest customers (2015: 7) in total represent 45% (2015: 35%) of the outstanding balance.

Included in the Group's receivable balance are debtors with carrying value of 2,090 (2015: 759) which are past due at the respective reporting date but not impaired and which the Group still considers recoverable.

A maturity analysis of trade and other receivables is as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Not past due and not impaired</b>	<b>25,997</b>	<b>15,550</b>
<b>Past due but not impaired</b>		
less than 45 days	1,130	649
45-90 days	783	64
90-180 days	20	9
180-365 days	15	35
Over 1 year	142	2
	<b>2,090</b>	<b>759</b>
<b>Impaired receivables</b>	<b>6,946</b>	<b>7,883</b>
<b>Total</b>	<b>35,033</b>	<b>24,192</b>

The Group does not hold any collateral over these outstanding balances.

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

	<b>Year ended 31 December 2016</b>	<b>31 December 2015</b>
<b>As at beginning of the year</b>	<b>7,883</b>	<b>5,951</b>
Impairment loss recognised in the consolidated statement of comprehensive income / (loss)	714	1,006
Impairment of interest receivable from Vneshprombank (Note 4)	-	2,977
Amounts written-off as uncollectable	(3,055)	(50)
Amounts recovered during the year	57	-
Effect of translation into presentation currency	1,347	(2,001)
<b>As at end of the year</b>	<b>6,946</b>	<b>7,883</b>

Past due trade receivables and other receivables were provided for based on estimated irrecoverable amounts. These were determined by reference to past experience, and are regularly reassessed based on the facts and circumstances existing as at each reporting date.

Included in the allowance for doubtful trade and other receivables are individually impaired trade receivables with a balance of 6,946 (2015: 7,883) due from companies which have been considered as insolvent based on the Group's legal department analysis. The impairment recognised represents the difference between the carrying amount of these receivables and the present value of the expected proceeds.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 21. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Bank deposits in USD	64,778	11,440
Bank deposits in RUR	163,775	94,645
Current accounts in USD	2,833	1,804
Current accounts in RUR	2,711	769
Current accounts in EUR	26	-
Cash in hand	15	13
Restricted cash in Vneshprombank (Note 4)	-	255,761
Less: accumulated impairment loss of restricted cash in Vneshprombank (Note 4)	-	(255,761)
<b>Total</b>	<b>234,138</b>	<b>108,671</b>

Due to the revocation of the banking license of Vneshprombank and the declaration of its bankruptcy during 2016, the Group considered that the restricted cash in Vneshprombank shall be treated as a contingent asset as at 31 December 2016, thus such amounts were derecognised in 2016 (Note 4).

Bank deposits as at 31 December 2016 are summarised below:

Bank	Currency	Rate, %	31 December 2016
Bank VTB	RUR	6.97 - 10.00	69,280
Bank VTB	USD	1.00 - 1.45	12,247
Sberbank	RUR	6.84 - 8.48	10,976
Sberbank	USD	0.49 - 0.93	45,507
JSC Gazprombank	RUR	8.00 - 10.35	48,304
Other	RUR	9.48 - 10.20	35,214
Other	USD	1.35 - 1.75	7,025
<b>Total</b>			<b>228,553</b>

Bank deposits as at 31 December 2015 are summarised below:

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

#### 22. SHARE CAPITAL

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

On 26 September 2016, 1,300,000 previously repurchased ordinary shares which were classified as treasury shares as at 31 December 2015, were sold to the Company's immediate parent Novoport Holding Ltd. for a cash consideration of 118.

On 4 October 2016, 262,912,311 shares received under the compulsory redemption at a price of 0.013 US cents (RUR 8.22) in total amount of 34,248 were credited to the personal account of NCSP. The direct costs associated with the buy-back of shares were 80. The compulsory redemption was performed in accordance with the Federal Law "On Joint Stock Companies" in accordance with the decision of the board of directors of NCSP dated 15 June 2016. The Group's repurchased shares are classified as treasury shares as at 31 December 2016.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

The number of shares outstanding is 18,481,516,593 and 18,743,128,904 as at 31 December 2016 and 2015 respectively.

#### 23. DEBT

	Interest rate	Maturity date	31 December 2016	31 December 2015
<b>Secured bank loans</b>				
Bank VTB (USD)	LIBOR 3M + 3.99%	June 2023	1,389,152	-
Sberbank (USD)	LIBOR 3M + 5%	January 2018	-	1,501,121
<b>Total debt</b>			<b>1,389,152</b>	<b>1,501,121</b>
Current portion of long-term debt			(200,097)	(351,825)
<b>Total non-current debt</b>			<b>1,189,055</b>	<b>1,149,296</b>

#### Bank VTB

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

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

In December 2016, 100,000 was paid according to the payment schedule.

As at 31 December 2016 the long-term borrowings are disclosed net of unamortised expense for raising a loan in amount of 12,946 (31 December 2015: 1,408).

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

	Principal amount	Contractual interest liability	Total
Due within three months	-	17,206	17,206
Due from three to six months	100,000	17,520	117,520
Due from six months to twelve months	100,000	32,418	132,418
	<b>200,000</b>	<b>67,144</b>	<b>267,144</b>
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
<b>Total</b>	<b>1,400,000</b>	<b>258,417</b>	<b>1,658,417</b>

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

Contractual interest liabilities as at 31 December 2015 are calculated based on assumption that no early repayment claims will be received from Sberbank and that the loan will be repaid according to the payment schedule under the agreement. Such amounts are undiscounted. The Group's borrowings as at 31 December 2015 are repayable as follows:

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

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at 31 December 2016 of 4.98% (31 December 2015: 5.57%).

The financial obligations of the Group denominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2016, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 275,483 (during the year ended 31 December 2015, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 426,042).

## 24. FINANCE LEASE

The Group rents 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.

	Minimum lease payments as at 31 December 2016	Minimum lease payments as at 31 December 2015	Present value of lease payments as at 31 December 2016	Present value of lease payments as at 31 December 2015
Less than one year	4,285	5,077	3,940	4,698
In the second and fifth year	3,487	7,772	2,743	5,697
Less: future financing costs	(1,089)	(2,454)	-	-
<b>Present value of minimum lease payments</b>	<b>6,683</b>	<b>10,395</b>	<b>6,683</b>	<b>10,395</b>

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in Note 13.

## 25. CROSS-CURRENCY AND INTEREST RATE SWAP

On 29 April 2015, the Group fully repaid its obligations under the cross-currency interest rate swap, paying 57,857.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

Net income from swap for the year ended 31 December 2015 of 17,562 is reflected in the line "Finance income" in the consolidated statement of comprehensive income / (loss), including foreign exchange loss of 49,644 and an increase in its fair value of 67,206.

#### 26. EMPLOYEE BENEFITS

##### Unfunded defined benefit plans

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries (Novorosseexport, Shipyard and Fleet). Certain one-time benefits are stipulated by the plans, and upon attainment of a retirement age the employees are entitled to regular retirement benefits. Also post-retirement benefits are provided to these employees ranging from RUR 333 to RUR 733 (from USD 5 to 11 USD) per month per employee, depending on each employee's years of service and qualifications.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2016. The present value of the defined benefit obligation, the related current service cost and the past service cost were all measured using the projected unit credit method.

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

	Valuation at	
	31 December 2016	31 December 2015
Discount rate	8.5%	9.7%
Employees turnover per annum	5.0%	5.0%
Expected annual rate of salary increase	7.0%	10.0%
Expected annual rate of post retirement benefits increase	0.0%	0.0%
Average residual period of work	7 years	7 years

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	Year ended	
	31 December 2016	31 December 2015
Interest on obligation	532	534
Current service cost	171	157
<b>Total</b>	<b>703</b>	<b>691</b>

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

The amount of actuarial (gains) / losses recognised during the years ended 31 December 2016 and 2015 relates to changes in discount rate used as principal assumption for actuarial valuation.

In 2016, the number of retired employees who received benefits was 2,478 (2015: 2,470).

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans as of 31 December 2016 was 5,986 (31 December 2015: 5,043)

As at 31 December 2016 and 2015, the weighted average duration of the defined benefit obligation is 12.5 years.

The current portion of unfunded benefit obligations as at 31 December 2016 equals to 645 (31 December 2015: 638).

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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

	Year ended	
	31 December 2016	31 December 2015
<b>Opening defined benefit obligation</b>	<b>5,043</b>	<b>4,448</b>
<b>Included in cost of service</b>	<b>703</b>	<b>691</b>
Current service cost	171	157
Interest cost	532	534
Benefits paid	(374)	(381)
Actuarial (gains) / losses in other comprehensive income / (loss)	(395)	1,615
Effect of translation to presentation currency	1,009	(1,330)
<b>Closing defined benefit obligation</b>	<b>5,986</b>	<b>5,043</b>

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

	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
Present value of defined benefit obligation	5,986	5,043	4,448	9,184	9,551
Experience adjustments on plan liabilities	(395)	1,615	(1,603)	(178)	1,624

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

- If the discount rate increases by 1%, the defined benefit obligation would decrease by 314;
- If the expected salary growth increases by 1%, the defined benefit obligation would increase by 122; and
- If the mortality rate decreases by 10%, the defined benefit obligation would increase by 125.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

#### Defined contribution plans

Contributions to the Russian Federation State Pension Fund charged to profit or loss amounted to 13,520 and 13,541 for the years ended 31 December 2016 and 2015, respectively, which related to employee services rendered during each year.



## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 27. INCREASE OF OWNERSHIP IN SUBSIDIARY

In July 2016, the Group acquired an additional 30.27% of interest in Shipyard for a cash consideration of 17,138. The carrying value of Shipyard's net assets in the consolidated financial statements on the date of acquisition shares was 31,552 in total. As a result of these transactions, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of 9,542. The excess of the consideration paid over the Group's share in net assets acquired in the amount of 7,596 was recognised in the consolidated statement of changes in equity as a decrease of retained earnings.

Under the Federal Law "On Joint Stock Companies", the Company has an obligation to issue a public offer to purchase shares from the remaining shareholders of Shipyard. Purchase of shares from minority shareholders under the compulsory redemption procedure occurred in January 2017 (Note 36).

#### 28. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables	5,286	3,278
Payables for property, plant and equipment	6,206	3,185
Other accounts payable	452	216
<b>Total</b>	<b>11,944</b>	<b>6,679</b>

The average credit period for trade payables relating to the purchase of inventories (e.g. fuel) and services (e.g. utilities) is 15 days. No interest is charged on the outstanding balance for trade and other payables during the credit period. Thereafter, interest may be charged from 0.3% to 15% per month on the outstanding balance.

The maturity profile of trade and other payables is as follows:

	31 December 2016	31 December 2015
Past due	924	491
Due within three months	9,195	5,724
Due from three to six months	42	82
Due from six months to twelve months	1,783	382
<b>Total</b>	<b>11,944</b>	<b>6,679</b>

#### 29. ACCRUED EXPENSES

	31 December 2016	31 December 2015
Accrued salaries and wages	11,310	8,650
Tax contingencies	2,143	-
Accrued rent expenses	1,404	2,192
Settlements with shareholders (Note 12)	932	1,767
Other accrued expenses	505	284
Accrued professional service expenses	173	204
<b>Total</b>	<b>16,467</b>	<b>13,097</b>

At the reporting date, the Group's subsidiaries IPP and Fleet were involved in legal proceedings with the Russian Federation tax authorities in connection with a decisions reached by these authorities relating to VAT.

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

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 30. RELATED PARTY TRANSACTIONS

Transactions between NCSP and its subsidiaries are eliminated on consolidation and are not disclosed in this Note. Related party receivables and payables resulting from operating activities are settled in the normal course of business. Details of transactions with related parties are disclosed below.

OMIRICO LIMITED, which owns 50.1% of the Group, is the ultimate parent of the Group. OMIRICO LIMITED is registered under the legislation of the Republic of Cyprus, and is jointly controlled by PJSC Transneft and members of the Magomedov family.

The owner of 100% of the PJSC Transneft ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation. The PJSC Transneft preferential shares are owned by various legal entities and private individuals and are traded on the secondary stock market.

Due to the fact that the Federal Property Agency of the Russian Federation owns a direct 20% interest in NCSP and has significant influence over the Group, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended 31 December 2016 and 31 December 2015, the Group transacted with Sberbank, Bank VTB, PJSC NK Rosneft ("Rosneft"), OJSC Russian Railways and other state-controlled entities (apart from PJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees have been given or received. No provisions have been made in respect of the amounts owed by related parties except those disclosed in Note 16.

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

	Year ended	
	31 December 2016	31 December 2015
<b>Sales</b>		
Sales of goods and services	98,252	87,544
Interest income	10,662	515
<b>Purchases</b>		
Services and materials received	3,501	4,233
Finance costs	92,157	88,185

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

	31 December 2016	31 December 2015
<b>Cash and cash equivalents</b>		
Cash and cash equivalents	205,414	35,627
<b>Receivables</b>		
Trade and other receivables	3,562	1,138
Advances to suppliers	188	313
<b>Payables</b>		
Trade and other payables	43	19
Advances received from customers	1,976	93
<b>Debt</b>		
Long-term debt	1,189,055	1,149,296
Current portion of long-term debt	200,097	351,825

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

# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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

	Year ended	
	31 December 2016	31 December 2015
<b>Sales</b>		
Sales of goods and services	113,161	114,332
Interest income	2	3
<b>Purchases</b>		
Services and materials received	33,488	36,012

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

	31 December 2016	31 December 2015
<b>Receivables</b>		
Trade and other receivables	4,826	399
Advances to suppliers	18	62
<b>Payables</b>		
Trade and other payables	2,331	1,478
Advances received from customers	2,758	2,785

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

### Transactions with NFT:

	Year ended	
	31 December 2016	31 December 2015
<b>Sales and income</b>		
Sales of goods and services	13,975	13,815
Interest income	559	973
<b>Purchases</b>		
Services and materials received	1,909	1,714

### Balances with NFT:

	31 December 2016	31 December 2015
<b>Receivables</b>		
Trade and other receivable	100	266
Long-term loans and interest receivable	-	20,802
Short-term loans and interest receivable	6,933	-
<b>Payables to related parties</b>		
Advances received from customers	14	7

### Compensation of key management personnel

For the years ended 31 December 2016 and 2015, the remuneration of the directors and members of key management was 9,593 (including termination benefits in the amount of 62) and 8,511 (including termination benefits in the amount of 6), respectively, which represented short-term employee benefits and social security contributions.

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

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 31. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended	
	31 December 2016	31 December 2015
<b>Profit / (loss) for the period</b>	<b>632,834</b>	<b>(83,427)</b>
Adjustments for:		
Impairment of restricted cash in Vneshprombank (Note 4)	-	305,794
Finance income	(16,150)	(47,403)
Finance costs	93,573	92,289
Share of profit in joint venture, net	(21,973)	(4,147)
Foreign exchange (gain) / loss, net	(247,784)	375,697
Income tax	158,802	(40,186)
Depreciation and amortisation	53,624	54,003
Change in defined benefit obligation	703	691
Impairment loss recognised on trade and other receivables	714	1,006
Loss on disposal of property, plant and equipment	582	251
Other adjustments	(15)	377
	<b>654,910</b>	<b>654,945</b>
Working capital changes:		
Decrease / (increase) in inventories	388	(1,900)
(Increase) / decrease in receivables	(10,249)	4,037
Increase / (decrease) in liabilities	4,956	(290)
<b>Cash flows generated from operating activities</b>	<b>650,005</b>	<b>656,792</b>

#### 32. COMMITMENTS AND CONTINGENCIES

##### Legal proceedings

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

In 2015 FGUP Rosmorport filed a claim against the Company in the Arbitration Court of Krasnodar region to increase the fee for the rent of the state-owned real estate located in Novorossiysk and Anapa seaports per agreement dated 2 August 2002. The legal proceedings were terminated because FGUP Rosmorport recalled its claim. In 2016, NCSP and FGUP Rosmorport signed an addendum to the rent agreement on the change of annual rent rate up to USD 7,7 million (RUR 521 million), net of VAT.

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

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

PTP filed a lawsuit against FAS to Moscow State Arbitration Court seeking the recognition of prescriptive order unlawful. For the period of litigation proceedings the prescriptive order is suspended. At the date of approval of these financial statements the litigation is still ongoing. The Group is unable to estimate the potential effect of the litigation between PTP and FAS on the consolidated financial statements.

## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)**

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In 2016 FAS filed the claim against NCSP upon the breach of antimonopoly law. On 3 March 2017 FAS found NCSP guilty for breaking the Federal Law №135-FZ "On Protection of Competition", upon the fact of imposing a monopolistically high price for transshipment of oil and oil products, metal products, chemicals, containers.

On 22 March 2017 FAS held a hearing resulting in issuance of a prescriptive order to NCSP to transfer proceeds from monopolistic activities to federal budget (further information is disclosed in Note 36).

#### **Taxation contingencies in the Russian Federation**

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management of the Group believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation.

Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities.

However, the relevant authorities may have differing interpretations, and the effects on the consolidated financial statements could be significant.

In accordance with the transfer pricing legislation the tax authorities may have additional requirements in relation to certain transactions, including the transactions with related parties ("controlled transactions"), if, in their opinion, the transaction is priced not at arm's length. During 2015 certain entities of the Group had such controlled transactions. The required notifications of these transactions were submitted to the tax authorities in 2016. As of the date when these financial statements were authorised for issuance the Group was in process of preparing the transfer pricing documentation for the transactions with related parties and foreign counterparties, which took place in 2016. The deadline for submission of formal notifications on these transactions to the tax authorities is 20 May 2017. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, for the year 2015 should be included in the income tax base of the controlling entities for the year 2016.

Fleet is the controlling entity of the foreign company Henford Logistics Ltd., which is registered in Hong Kong. Fleet notified tax authorities about its share in the controlled foreign company in accordance with the Tax Code of the Russian Federation ("Tax Code"). Henford Logistics Ltd.'s profit is subject to profit tax in accordance with Chapter 25 of the Tax Code. In 2016, Fleet received dividends from Henford Logistics Ltd. and accrued the profit tax according to the legislation.

According to the Group's estimates, the amount of other possible tax risks will not exceed 0.5% of the Group's revenue for 2016.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

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#### Operating environment

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

During 2016 the oil prices were low. The management of the Group cannot reliably estimate further price fluctuations and impact on the financial position of the Group.

In 2016 sanctions imposed in March 2014 by the U.S. and the E.U. on certain Russian officials, businessmen and companies, were still in place. Furthermore, international credit agencies downgraded Russia's long-term foreign currency sovereign rating, which led to the reduced access of the Russian businesses to the international capital and export markets, as well as to the inflation increase, capital outflow, slackening of the economic growth and other negative economic consequences.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

#### Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations. Management believes that the Group's operations are in compliance with all current existing environmental legislation in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change, or the cost thereby.

#### Insurance

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position.

#### Operating lease arrangements

The Group rents land plots, mooring installations, vessels and equipment under operating lease agreements with the Russian Federation and related parties. These arrangements have lease terms of between 1 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Within 1 year	53,361	37,221
Between 1 and 2 years	48,148	34,901
Between 2 and 3 years	47,305	32,794
Between 3 and 4 years	47,213	32,363
Between 4 and 5 years	46,796	32,451
Thereafter	844,466	481,621
<b>Total</b>	<b>1,087,289</b>	<b>651,351</b>

As of 31 December 2016 minimum lease payments were calculated according to the existing contract terms.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

#### 33. CAPITAL COMMITMENTS

As at 31 December 2016 and 2015, the Group had the following commitments for acquisition of property, plant and equipment and construction works:

	<b>31 December 2016</b>	<b>31 December 2015</b>
NCSP	88,921	69,335
Novoroslesexport	7,769	2,769
IPP	1,491	390
BSC	1,459	-
NZT	723	-
PTP	122	889
Shipyard	61	703
<b>Total</b>	<b>100,546</b>	<b>74,086</b>

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

#### 34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2016 and 2015, management believes that the carrying values of financial assets (Notes 16, 20 and 21) and financial liabilities recorded at amortised cost (Note 23 and 28) and also finance lease liability (Note 24) in the consolidated financial statements approximate their fair values, due to the fact that they are short-term, except for liabilities under credit agreements with Bank VTB and Sberbank. See disclosure below.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 3 "Significant accounting policies".

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organisations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of CBR. As at 31 December 2016 the discount rate used for obligations under agreement with Bank VTB comprised 6.69%. As at 31 December 2015 the discount rate used for obligations under agreement with Sberbank comprised 8.21%.

The fair value compared to the carrying value of long-term financial liabilities as at 31 December 2016 and 2015 is as follows:

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
LIBOR+ rate agreement with Bank VTB (Level 2)	1,389,152	1,323,670	-	-
LIBOR+ rate agreement with Sberbank (Level 2)	-	-	1,501,121	1,445,297

# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

### 35. RISK MANAGEMENT

#### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance and meet debt to equity ratio covenant of the loan agreement with Bank VTB (Note 23). Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends as well as the issuance of new debt or the redemption of existing debt.

#### Major categories of financial instruments

The Group's principle financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables, investments in securities and cash and cash equivalents.

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Financial assets</b>		
<b>Cash and cash equivalents</b>	<b>234,138</b>	<b>108,671</b>
Cash and cash equivalents	234,138	108,671
<b>Loans and receivables</b>	<b>34,654</b>	<b>37,124</b>
Trade and other receivables including long-term	28,096	20,400
Loans issued	6,558	16,724
<b>Total financial assets</b>	<b>268,792</b>	<b>145,795</b>
<b>Financial liabilities carried at amortised cost</b>		
Borrowings	(1,389,152)	(1,501,121)
Trade and other payables	(5,793)	(3,542)
Payables for property, plant and equipment	(8,122)	(4,119)
Finance lease	(6,683)	(10,395)
	<b>(1,409,750)</b>	<b>(1,519,177)</b>
<b>Total financial liabilities</b>	<b>(1,409,750)</b>	<b>(1,519,177)</b>

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

#### Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies.

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
<b>Assets</b>		
Cash and cash equivalents	67,611	13,244
Investments and receivables carried at amortised cost	8,442	23,784
<b>Total assets</b>	<b>76,053</b>	<b>37,028</b>
<b>Liabilities</b>		
Borrowings	(1,389,152)	(1,501,121)
Finance lease	(6,683)	(10,016)
Trade payables	(104)	(368)
<b>Total liabilities</b>	<b>(1,395,939)</b>	<b>(1,511,505)</b>
<b>Total net liability position</b>	<b>(1,319,886)</b>	<b>(1,474,477)</b>



## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

The table below details the sensitivity of the Group's financial instruments to a 20% (2015: 20%) depreciation of the RUR against the US Dollar if all other variables are held constant. The analysis was applied to monetary items denominated in USD at the year end dates. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A 20% appreciation of the RUR against the USD would have an equal and opposite impact:

	31 December 2016	31 December 2015
Loss	(263,977)	(294,895)

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

	31 December 2016	31 December 2015
<b>Assets</b>		
Cash and cash equivalents	26	-
<b>Total assets</b>	<b>26</b>	<b>-</b>
<b>Liabilities</b>		
Finance lease	-	(379)
Trade payables	(884)	(551)
<b>Total liabilities</b>	<b>(884)</b>	<b>(930)</b>
<b>Total net liability position</b>	<b>(858)</b>	<b>(930)</b>

The table below details the Group's sensitivity to a 20% (2015: 20%) depreciation of the RUR against the EUR if all other variables are held constant. The analysis was applied to monetary items at the year end dates denominated in the EUR. A 20% appreciation of the RUR against the EUR would have an equal and opposite impact:

	31 December 2016	31 December 2015
Loss	(172)	(186)

#### Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

The Group has only one credit agreement on the floating interest rate terms. On 20 June 2016 NCSP received a loan from Bank VTB in the amount of 1,500,000 for early repayment of Sberbank loan. Floating interest rate of LIBOR 3M + 3.99% per annum is applied. The change in LIBOR rate by 1% would lead to an increase in interest expense and, consequently, to a decrease in net profit by 13,892 and 11,114 respectively.

#### Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses for the Group.

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of US Dollars, except as otherwise stated)

The summary below shows revenue for 2016 and 2015 and outstanding balances as at 31 December 2016 and 2015 of the top five counterparties:

	<u>Customer location</u>	<u>Revenue for 2016</u>	<u>31 December 2016</u>
TRANSNEFT-SERVICE	Russia	87,507	1,314
ROSNEFT	Russia	72,522	2,233
UGLEMETTRANS	Russia	56,438	1,135
METALLOINVEST LOGISTICS DWC-LLC	United Arab Emirates	47,077	-
SURGUTNEFTEGAS	Russia	38,310	2,057
<b>Total</b>		<b>301,854</b>	<b>6,739</b>

	<u>Customer location</u>	<u>Revenue for 2015</u>	<u>31 December 2015</u>
TRANSNEFT-SERVICE	Russia	94,255	236
ROSNEFT	Russia	62,685	610
METALLOINVEST LOGISTICS DWC-LLC	United Arab Emirates	50,258	197
KROONKASS LIMITED	Cyprus	39,744	15
CHEMERON LTD	Cyprus	32,076	357
<b>Total</b>		<b>279,018</b>	<b>1,415</b>

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

#### Liquidity risk

In order to manage and control the liquidity needs of the Group, management performs budgeting and forecasting of cash flows, which ensure the availability of the necessary funds for the discharging of payment obligations. Net cash flows from operating activities provide an adequate amount of working capital for conducting the Group's underlying business activities.

For a maturity analysis of financial liabilities, see Notes 23 and 28.

### 36. EVENTS AFTER THE BALANCE SHEET DATE

On 20 January 2017 as a result of the compulsory redemption of Shipyard's shares the Company acquired 174,845 shares which led to increase in its ownership up to 98.26%.

As of 22 March 2017, FAS found NCSP guilty for breaking the Federal Law №135-FZ "On Protection of Competition", due to its dominant position and the view that NCSP imposed and maintained (via monopoly) high prices for the transshipment of certain cargos in Novorossiysk port. FAS issued an order for NCSP to transfer certain proceeds from their activities in an amount of 170,236 to the federal budget. NCSP does not agree with FAS's decision and order, and intends to appeal in accordance with the established law procedures and as the stipulated by the prescriptive order period. The prescriptive order will be suspended for the period of litigation.

The Group's management assumes that NCSP actions do not break the antimonopoly law and therefore, assessed the risk of transferring the proceeds to the federal budget and the risk of other negative consequences as possible given the intended litigation, so no respective provisions were accrued as of 31 December 2016.