ANNUAL REPORT 2018

About the NCSP Group

NCSP Group is a well-established stevedore company with the market share in Russia about 17%. The Group comprises Novorossiysk port (Black Sea), Primorsk port (Baltic Sea) and Baltiysk port (Baltic Sea). The Group's ports are integrated in the international logistic corridors, connecting Russia with the Mediterranean states, Middle East, North Africa, South-East Asia and South America, which makes them the key transit channel of Russian import and export cargo. NCSP's shares are traded at Moscow Stock Exchange, whereas GDR are traded on London Stock Exchange.

Disclaimer

In this Annual Report, the terms PJSC NCSP are understood as Public Joint Stock Company NCSP. The terms NCSP, NCSP Group, the Group are understood as PJSC NCSP and its subsidiaries, defined in accordance with International Financial Reporting Standards (IFRS).

We approve that this report contains the trustworthy development analysis, operating results, market share of PJSC NCSP and its subsidiaries (NCSP Group), as well as the description of the major risks and uncertainties, which the NCSP Group is subject to.

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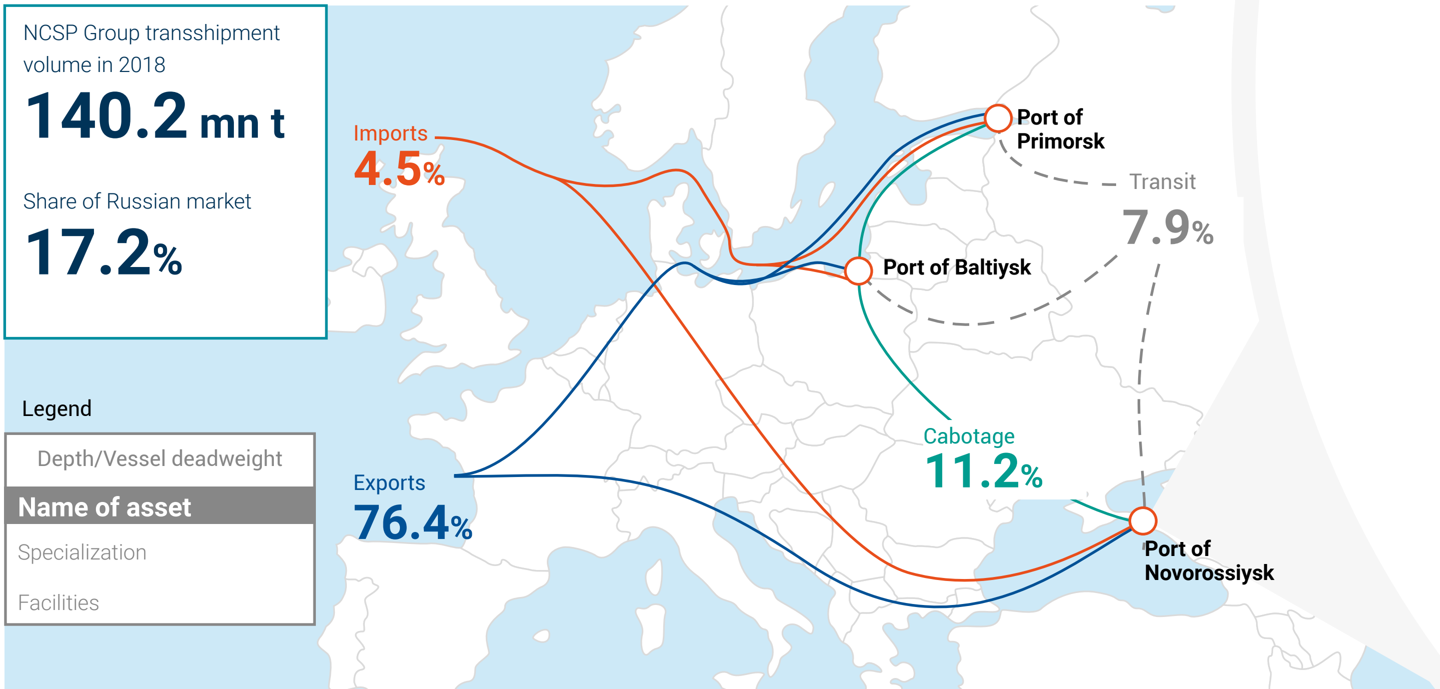
The Consolidated financial statements of PJSC NCSP for 2018, prepared according to International Financial Reporting Standards fairly discloses the value of assets, liabilities, financial position and financial results of NCSP Group.

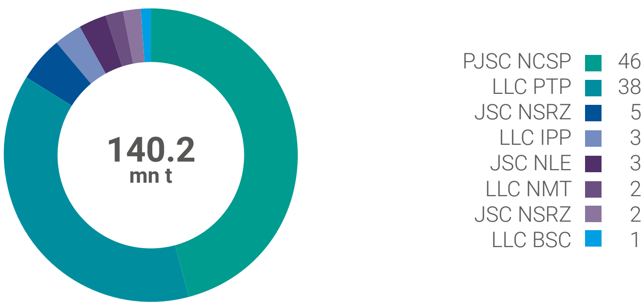
CEO
Kireev S.

First Deputy of the Chief Accountant
Nizhnik Y.

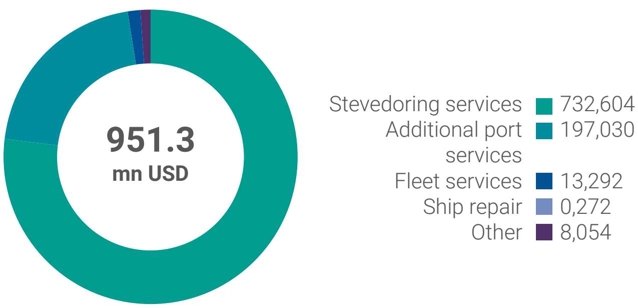
NCSP Group assets



GROUP CARGO TURNOVER IN 2018, %



GROUP REVENUE IN 2018, '000 USD



PORT OF PRIMORSK

17.8 m / 150,000 t

PTP

Crude oil, oil products

Storage capacity:
20,000 m³

SFP

Port fleet services

7 Azimuth tugboats,
3,500-5,500 hp
Arc4/Arc5 ice-class

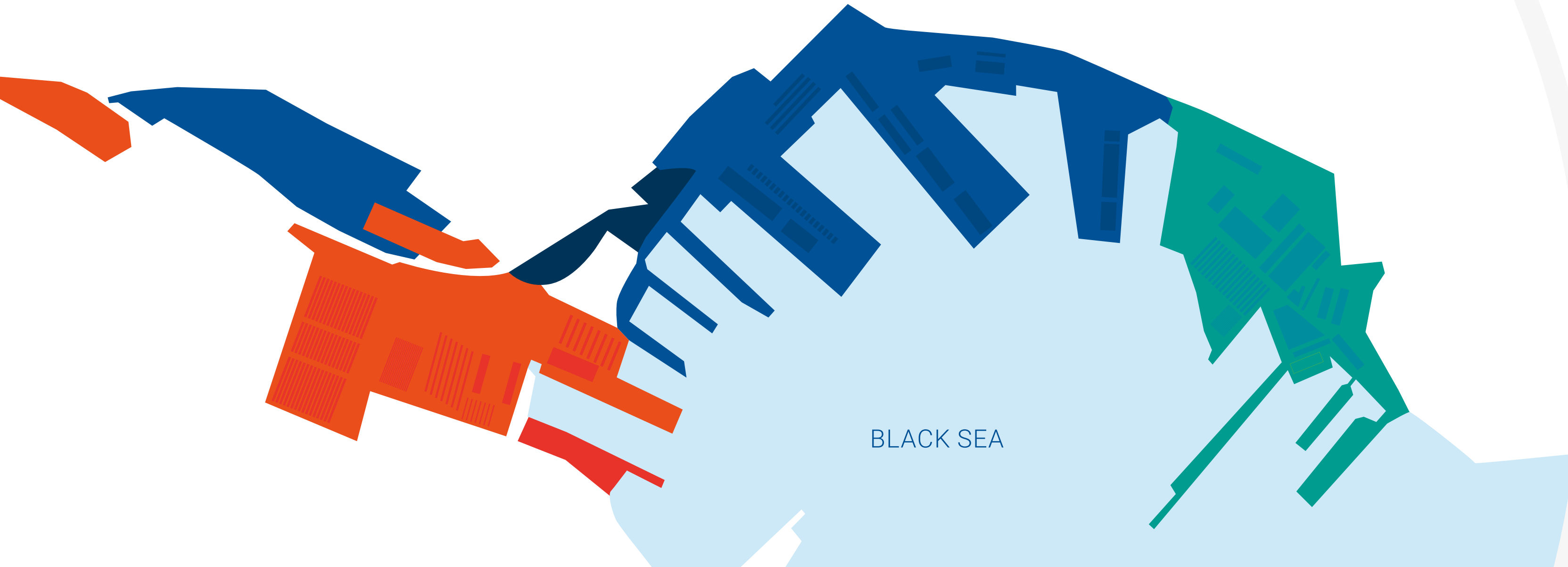
PORT OF BALTIYSK

9 m / 20,000 t

BSC

Containers

Storage facilities:
11.7 ha
1,700 m² covered
10,000 TEU containers
Cranes:
5, cap. 75-100 t or more
6, cap. 25-50 t
Container handlers:
2, cap. 25-50 t
3, cap. 10-25 t
Tractors:
12, cap. 25-50 t
Roll trailers:
16, cap. 25-50 t



PORT OF NOVOROSSIYSK

13.9 m / 65,500 t

NLE

Ferrous and nonferrous metals, perishables, big bags, ro-ro, oversized cargo

Storage facilities:
229,700 m^2 open
14,528 m^2 covered
11,200 TEU containers
Train receiving:
223 freight cars
Cranes:
2, cap. 104 t
3, cap. 42 t
3, cap. 41 t
11, cap. 12.5 t
4, cap. 6 t
1, cap. 5 t
Forklifts:
19, cap. 10-25 t
53, cap. up to 10 t
Container handlers:
1, cap. 10-25 t
Semi-trailers:
32, cap. up to 36 t
Roll trailers:
7, cap. 50-75 t

Sheskharis
24.0 m / 242,000 t
Cargo Area
13.5 m / 80,000 t

NCSP

All types of cargo

Storage facilities:
141,900 m^2 open
51,6000 m^2 covered
6,700 m^2 refrigerated
5,300 TEU containers
Train receiving:
697 freight cars
Cranes:
1, cap. 208 t or more
15, cap. 100-125 t
29, cap. 40-85 t
20, cap. 10-32 t
Manipulators:
11
Forklifts:
35, cap. 25-50 t
55, cap. 10-25 t
125, cap. up to 10 t
Container handlers:
16, cap. 25-50 t
Clamshell loaders:
8, cap. 15-20 t
Bucket loaders:
23
Tractors:
53, cap. 25-50 t
Roll trailers:
93, cap. 25-75 t

11 m / 61,400 t

NSRZ

General cargo, ferrous and nonferrous metals, big bags, specialized containers, perishables and ro-ro

Ship repair:
Four-deck Floating Dock No. 190
Up to 45,000 t
Storage facilities:
4,500 m^2 open
4,500 m^2 covered
Train receiving:
64 freight cars
Cranes:
1, cap. 50 t
13, cap. 30-45 t
2, cap. 20 t
Forklifts:
19, cap. 16-37 t
18, cap. 1.5-3 t
4, cap. 7-10 t
Tractors:
12, cap. 32 t
Roll trailers:
45, cap. up to 80 t

12.8 m / 70,000 t

IPP

Liquid cargo

Storage capacity:
143,000 m^3
Train receiving:
4 receiving racks
for 74 tank cars

13.0 m / 64,000 t

NGT

Grain

Elevator capacity:
162,700 m^3
Train receiving:
3 × 800 t/hr
Truck receiving:
2 × 200 t/hr
1 × 400 t/hr
Ship loaders:
2 × 800 t/hr

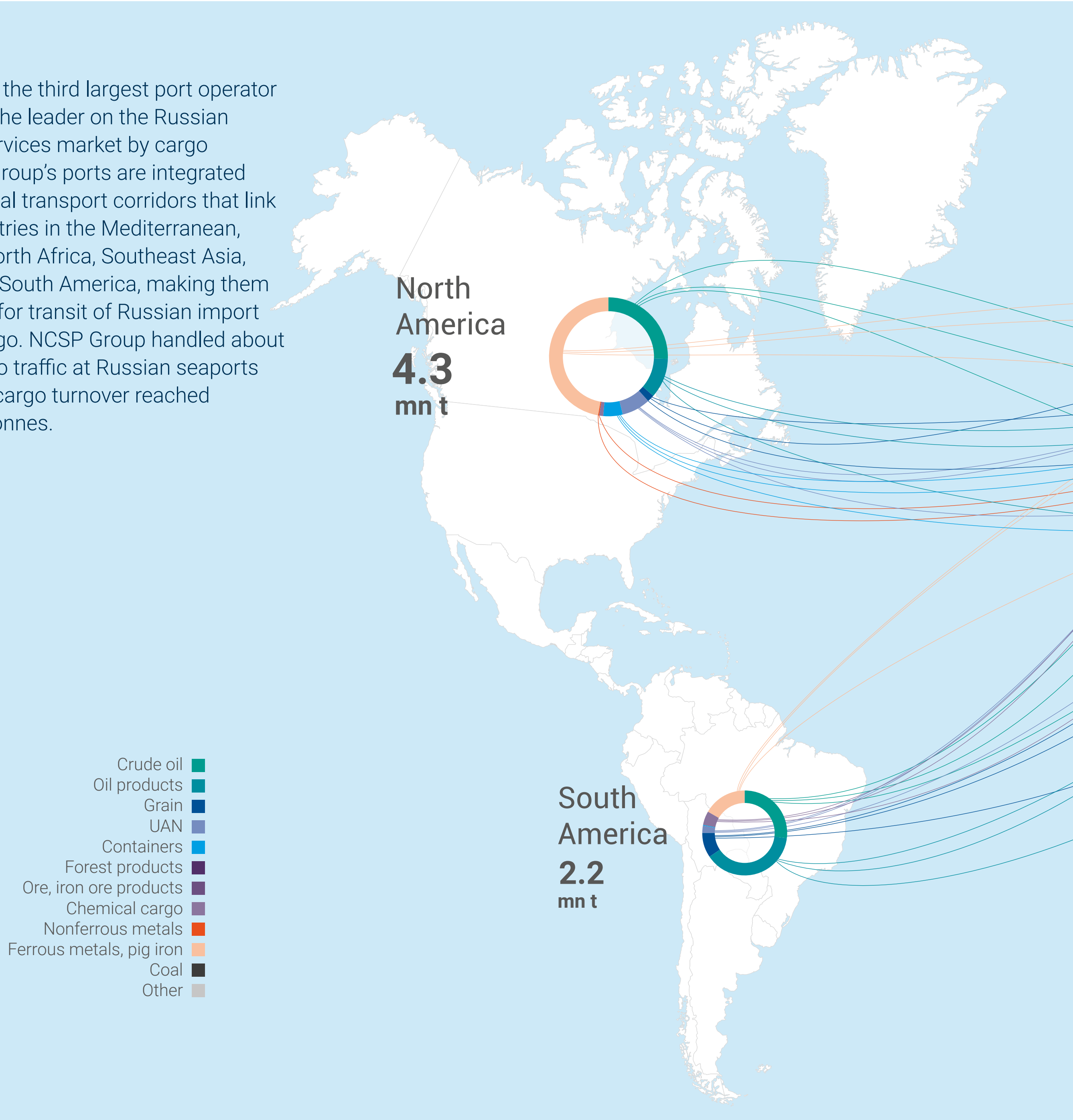
NCSP Fleet

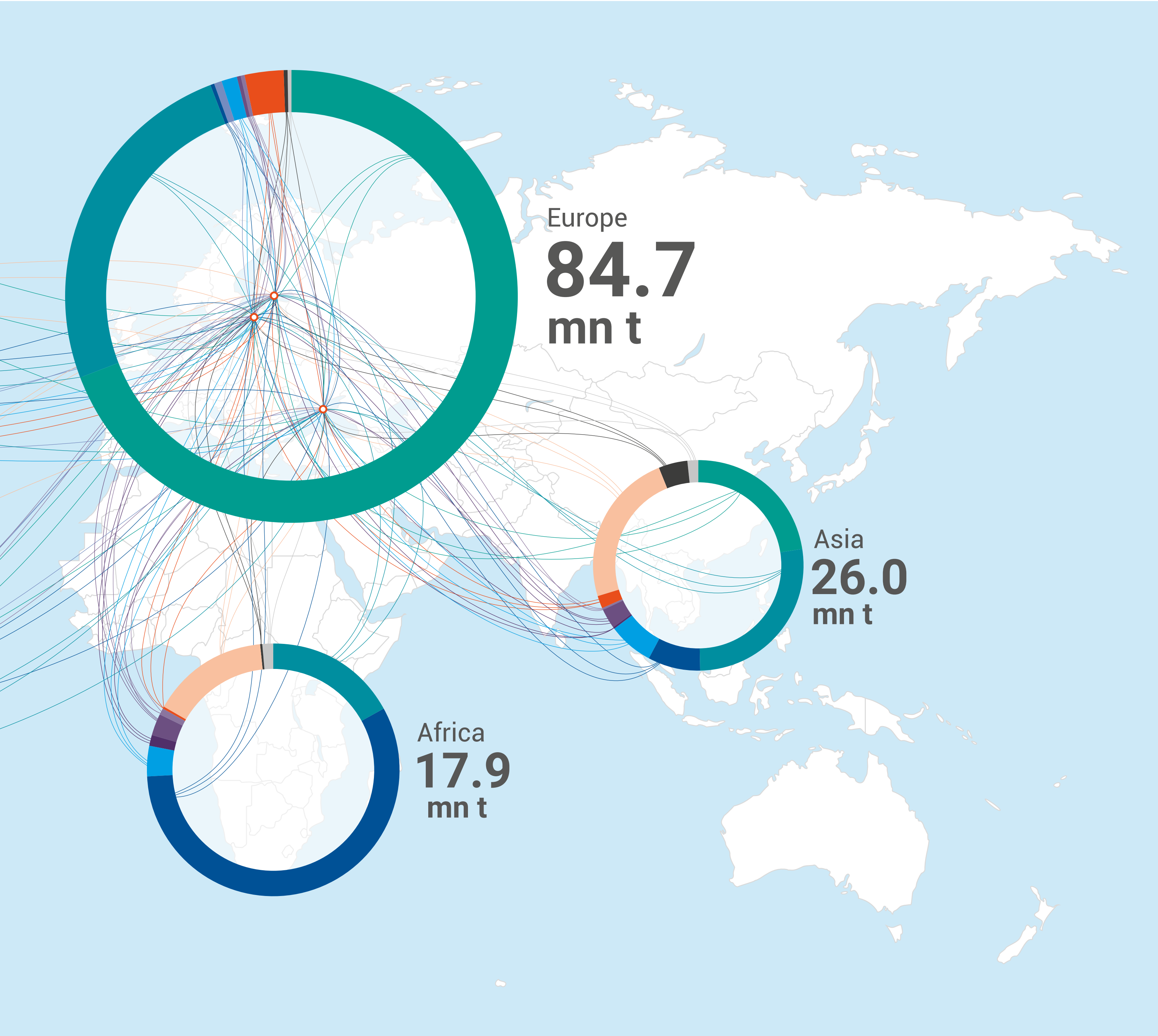
Port fleet services

16 tugboats, 208-5712 hp
1 Mars fire boat
4 fuel vessels,
cap. 250-2,800 t
12 auxiliary fleet vessels

Geography of cargo turnover (export only)

NCSP Group is the third largest port operator in Europe and the leader on the Russian stevedoring services market by cargo turnover. The Group's ports are integrated into international transport corridors that link Russia to countries in the Mediterranean, Middle East, North Africa, Southeast Asia, and North and South America, making them a key gateway for transit of Russian import and export cargo. NCSP Group handled about 17% of all cargo traffic at Russian seaports in 2018, as its cargo turnover reached 140.2 million tonnes.




Europe
84.7
mn t
Asia
26.0
mn t
Africa
17.9
mn t

Business model

Being a port terminals operator, the NCSP Group provides its clients with the wide range of stevedore services, namely handling various types of cargo, including liquid, bulk, general cargo and containers, as well as provides ship repair services, additional port services and supporting fleet services.

KEY ASSETS

Sea berths	Warehouses and depots	Storage facilities for fuels	Grain storage facilities	Rail roads
Length	Total capacity	Total capacity	Total capacity	
17 km	572.13 m³	283,000 m³	162.7 m³	

SERVICES

Stevedore services include cargo handling on board of a vessel using combined or cargo-specific technology. Cargo receipt or dispatch by the means of pipeline, railway transport or vehicles.

Stevedore

liquid
bulk
general cargo and containers

REVENUE

Total comprehensive income for the year

USD 110.4 mn

EBITDA margin

70.4%

USD 732.6 mn
revenue from stevedoring services

Techniques for profitability improvement

- Construction of new terminals, as well as modernization and reconstruction of existing terminals
- Raising the labor productivity
- Optimization of supply chains
- Implementation of new handling technologies
- Business-process automatization

Handling equipment and machinery

Port terminals

Terminals, accommodate tankers with deadweight up to

242,000 t

Support fleet

40 units

Personnel

7,885 Employees

Additional

ship repair
port services
fleet services

Additional port services include temporary cargo warehousing, forwarding service, packaging/repackaging of cargo, loading/unloading of containers

Labor productivity

8,262 thousand RUB
per employee

USD 197.3 mn
revenue from additional port services

EBITDA

USD 669.4 mn

Net debt / EBITDA

1.26

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

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

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

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

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

NCSP Group creates added value for its customers by providing access to the most economically efficient means of transport – marine – and optimization of costs at related links in the logistics chain.

Increasing the efficiency and throughput capacity of port facilities makes it possible to handle more cargo while optimizing shippers' variable expenditures on delivery of cargo to port, cargo storage and shipment by marine transport.

The stevedoring business

The stevedoring business involves:

- transferring cargo to ships using multipurpose and specialized equipment
- receiving/shipping cargo by pipeline, train and truck
- assembling shiploads

Additional port services

Additional port services include temporary storage of cargo, partial freight forwarding support, packing and repacking of cargo, packing/unpacking of containers and special processing of grain, among others.

Ship repair

The Group carried out repairs on 12 vessels in 2018. NSRZ does repairs on the hulls and mechanical parts of vessels, ship gear and service systems, propeller and rudder systems, and electrical equipment. It also provides cleaning and painting services, and dry docking services.

The ship repair division has 182 employees.

Floating Dock Bldg. No. 190 is a floating metal four-deck dock with capacity of up to 45,000 tonnes, 311.28 meters in length, 53.3 meters internal width, 22.5 meters in height and maximum immersion depth of 16.1 meters.

The Group's operational assets

The Group's operational assets include docks with transshipment equipment; land parcels in the port zone with industrial and administrative buildings and installations, including storage yards, tanks for oil products, elevators for grain and approach rail lines; as well as a fleet of cargo handling equipment and auxiliary fleet vessels.

The Group owns the land parcels where production facilities, transshipment equipment, buildings and installations are located, as well as the vessels of the auxiliary fleet. The Group has long-term leases for docks that are federally owned at the ports of Novorossiysk and Baltiysk, and is the owner of some docks at the Port of Primorsk. Lease payments for the use of docks are determined on the basis of their book value and do not depend on the Group's volume of transshipments, revenue or profitability.

NCSP Group's terminals can accommodate tankers with deadweight up to 242,000 tonnes and bulk carriers and container ships with deadweight up to 80,000 tonnes.

Group terminals

Group terminals receive and ship general, bulk and container cargo by train and truck, and receive liquid cargo by train and pipeline. Bulk and general cargo are stored in warehouses, including refrigerated ones, and outdoor yards. Refrigerated containers are hooked up to power. The Group has its own tank farm and modern elevator for storing liquid cargo and grain cargo. Cargo is handled with multipurpose and specialized handling equipment: mobile wheeled cranes, gantry cranes, STS container cranes, grain loading conveyors, bucket loaders, forklifts, roll trailers and reach stackers.

Auxiliary port fleet services

Auxiliary port fleet services include tug and mooring services, firefighting support, waste collection and other services.

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

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1.1. Chairman Statement

Dear shareholders!

NCSP Group maintained its leading positions on the Russian port services market in 2018, and made progress in improving its corporate governance system and strategic planning.

The key event for the Group last year was Transneft's acquisition of a controlling stake in PJSC NCSP. Having Transneft as its majority shareholder puts the Group in a better position to implement an effective corporate governance system, innovative projects, and best practices in human resources management and environmental responsibility.

This already became evident in 2018 as the Group increased handling of oil products by 9.7% or 2.944 million tonnes due to synergy between NCSP Group's development plans and Transneft's strategic projects, including projects to overhaul and convert the capacity of the Sever (North) and Yug (South) trunk oil product pipelines with terminuses at the ports of Primorsk and Novorossiysk.

The Board of Directors and the Management Board did a great deal of work on drafting NCSP Group's Development Strategy to 2024, which will set the stage for providing a higher level of service, with a focus on cargo specifics and customer needs. The Strategy will be analyzed by the Company's Board of Directors soon and the Group's management will begin to implement it.

PJSC NCSP and its subsidiaries continued to implement the long-term development programme in 2018. Within the framework of this Programme, the assets will be modernized in order to provide a wider range of cargo types which NCSP Group would be able to handle, with the growing share of high-yield cargo handling operations.

In the reporting year, the Company's Board of Directors continued to work on improving corporate governance.

The Group's efforts to improve information disclosure were recognized in 2018, as Novorossiysk Commercial Sea Port was ranked 20th among the top-200 Russian companies by revenue in a rating of information disclosure transparency. Efforts to introduce best corporate practices are continuing.

Thanks to these actions, rating agency Moody's upgraded PJSC NCSP's credit rating to "Ba2," outlook "stable."

In conclusion, I would like to thank the members of the Board of Directors for their contribution to NCSP Group's development. I would also like to express my gratitude to our shareholders, investors, partners and customers for the support they have provided NCSP Group.

Respectfully yours,

Rashid Sharipov

Chairman, PJSC NCSP

1.2. CEO Statement

Dear shareholders!

NCSP Group's cargo turnover equaled to 140.2 million tonnes in 2018. Crude oil handling decreased by 11.4% due to the redistribution of oil export volumes from the West to the East, but the Group increased handling of grain by 14.3% and oil products by 9.7%. Ferrous metals and pig iron turnover grew by 13% on the back of an increase in exports to Europe and Southeast Asia, and transshipment of other cargo surged by 109.6%.

The Group's market share amounted to 17% of cargo turnover at all Russian seaports in 2018. The Group's terminals handled 80 types of cargo for more than 300 customers. Our unique geographical presence made it possible to utilize all key northwestern and southern routes for Russian foreign trade.

The Group maintained its leading position in key segments of the Russian stevedoring services market, handling 26% of all crude oil from transshipment's volume in sea ports of the Russian Federation, 23% of oil products, 44% of ferrous metals and pig iron, 36% of ore and iron ore concentrate, 28% of nonferrous metals and 23% of grain.

The inputs of each one of our subsidiaries are important to the Group's success.

PJSC NCSP handled 78.0 million tonnes of cargo in 2018 and maintained its position as the leading stevedoring company in Russia. The company made a substantial contribution to cargo turnover at the Port of Novorossiysk, Russia's largest seaport with total transshipments of 154.9 million tonnes.

PJSC NCSP's cargo area served more than 1,500 vessels in 2018, including 165 container ships, handling more than 18.8 million tonnes of cargo. At the Berth 3, 12.5 million tons of grain were handled.

In order to replace the retired cranes and improve the technical characteristics PJSC NCSP put into operation seven gantry cranes with capacity of 40 tonnes and 63 tonnes, and added bucket loaders, forklifts and all-purpose full revolving loaders with capacity of 2.5 tonnes and 5 tonnes to its port equipment at amount of 24 units in 2018. It also carried out repairs and overhauls on 3 gantry cranes.

The Sheskharis Oil Terminal served 657 vessels and handled 46.8 million tonnes of PJSC NCSP's liquid cargo.

The Mooring 2 at Sheskharis Oil Terminal was reopened after an overhaul. 88 tankers were served there last year, including the first large shipment of gasoline in Novorossiysk port, made by PJSC NCSP which amounted to 58,000 tonnes.

Berths at Quay 5 began to load oil products from river-sea vessels.

IPP has also carried out a project to set up transshipment of vegetable oil and forecasts to handle 0.6 million-0.7 million tonnes in 2019. If market demand grows, the transshipments of this type of cargo may increase to 1 million-1.5 million tonnes as early as in 2020, with potential for further expansion. Technological re-equipment of Berth 4 started in 2018 that will increase the list of transshipped oil products through the terminal of LLC NMT.

Last year PTP transshipped its billionth tonne of liquid hydrocarbons for export and 100 millionth tonne of diesel fuel. For the first time in Russia, the new generation tanker Gagarin Prospect, which runs on liquefied natural gas, was loaded with oil at the Primorsk port. Mooring 4 loaded its first 100,000 tonnes of diesel fuel onto the tanker Viktor Bakaev.

The Mooring 1 in Primorsk, which was damaged in November 2016, loaded its first vessel following restoration work in December 2018.

One of the oldest enterprises in the city, Novorossiysk Ship Repair Yard (NSRZ) celebrated its 100th birthday in 2018 and resumed repairing ships by decision of the Board of Directors. The shipyard completed the first phase of the restoration of Floating Dock Bldg. 190 in 2018, recruited a team of technicians and repaired 12 vessels. NSRZ is currently the only shipyard in the Azov-Black Sea basin that can repair commercial vessels and Russian Navy ships that are up to 300 meters length.

NLE signed a three-year contract with the special division of a state company Rosatom in 2018 to handle a new type of cargo: 50-meter wind turbine blades for construction of wind farms in Adygeya and Krasnodar regions.

Baltic Stevedoring Company set an all-time record for the more than 15 years it has been in operation, handling 198,900 TEU of containers in the year. NCSP Fleet maintained its leading position in port services in the Azov-Black Sea basin, providing bunkering and mooring services, supplying vessels with fuel, oil and water, as well as providing firefighting and environmental management services.

SFP, which operates at Baltic basin carried out the first mooring operations at LNG terminals in the Port of Kaliningrad in 2018 with its tugboat Ryurik.

According to International Financial Reporting Standards (IFRS) NCSP Group increased consolidated revenue by 5.7% to $951.3 million in 2018 by improving the efficiency of its stevedoring business. The Group’s EBITDA rose by 2.4% to $669.4 million, while net debt decreased by 21.5% or $230.7 million.

The net debt/EBITDA ratio dropped to 1.26 at the end of 2018 from 1.64 a year earlier. The Group’s net profit dropped to $268.1 million in 2018 due to negative exchange rate differences mainly.

Looking back on the year, it is worth mentioning our work on the Group’s draft Development Strategy, which we plan to submit for consideration to the boards of directors of PJSC Transneft and PJSC NCSP at the nearest future. This document analyses scenarios for the Group’s development, sets out strategic priorities and approaches, and articulates measures to improve the corporate governance model.

I am confident that putting the Group’s Development Strategy into action with assistance from PJSC Transneft will enable us to achieve a new level of business performance.

Respectfully yours,

Sergey Kireev

CEO, PJSC NCSP

1.3. Market Review

1.3.1. Macroeconomic Context and Its Impact on Cargo Turnover

Export cargo makes up the bulk of cargo turnover at Russian seaports, accounting for 76% of the total in 2018, so the external economic environment, as well as the dynamics of production and exports of commodities, the mainstay of Russian exports, have a decisive impact on the industry.

Under the pressure of macroeconomic and political factors, Russia's GDP grew by only 2.6% in 2018, while industrial production rose by 2.9%. Production of mineral resources grew by 4.1%, and production in manufacturing sectors rose by 2.6%.[1]

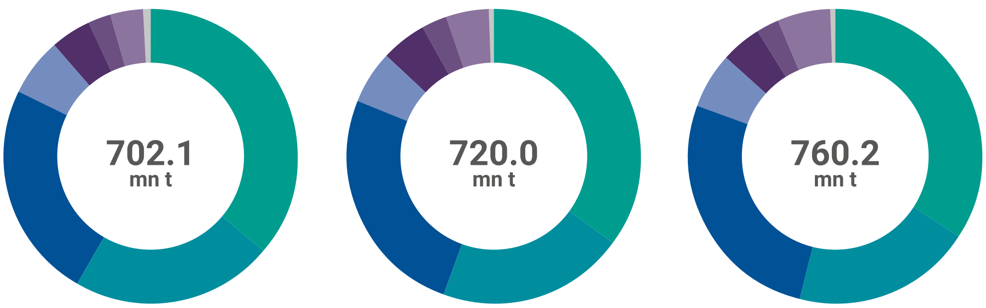
Positive trends in foreign trade continued. Russia's foreign trade turnover grew by 17.5% or $102.4 billion to $687.5 billion in 2018, as exports jumped by 25.6% and imports rose by 4.7%. The share of exports in the visible trade turnover grew to 65.4% in 2018 from 61.1% in 2017, while imports shrank to 34.6% from 38.9%.

Fossil fuels continued to dominate exports with their share growth by 4.5 percentage points to 63.8% in 2018.

The significant change in visible trade turnover with partners was due primarily to the dynamics of fossil fuel exports. The strongest growth in Russian exports in 2018 was to the following countries:

- China, due to growth in exports of crude oil, refined copper and oil products
- Germany, South Korea, Finland and Belarus, due to growth in hydrocarbon exports
- Netherlands, due to growth in exports of hydrocarbons and unprocessed aluminum
- Poland, due to exports of hydrocarbons and hot-rolled steel
- Turkey, due to exports of hydrocarbons, ferrous metal waste and scrap, wheat and corn
- The steepest decline in Russian exports was to Singapore and Gibraltar, as crude oil exports fell, and Azerbaijan, as exports of wheat and sugar declined.[2]

RUSSIAN EXPORTS OF KEY COMMODITIES, MN T[3]



	2016	2017	2018
Crude oil	254.8	252.6	260.2
Oil products	156.0	148.4	150.1
Coal	168.4	184.3	202.2
Ferrous metals	43.4	42.4	46.4
Fertilizer	31.5	34.3	34.1
Iron ore	18.5	21.1	19.4
Wheat and meslin	25.3	33.0	44.0
Nonferrous metals	4.2	3.9	3.8

1. Federal Statistics Service of Russia (Rosstat)
2. Source: Economic Development Ministry of Russia
3. Federal Customs Service

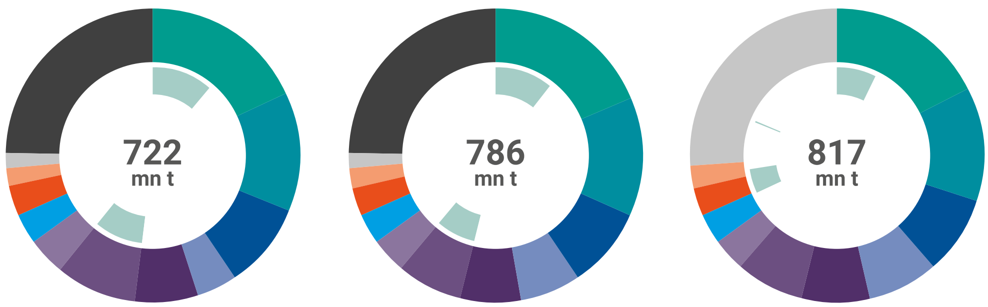
1.3.2. Cargo turnover at Russian seaports

The volume of export, import, transit and cabotage of Cargo handling at Russian seaports grew by 4% to 816.7 million tonnes in 2018, including:
- liquid cargo by 4% to 429.1 mn t;
- dry cargo by 4% to 387.6 mn t.

Liquid cargo turnover grew virtually across the board, including:
- crude oil by 1% to 255.3 mn t;
- oil products by 2% to 145.1 mn t;
- LNG by 60% to 23.2 mn t.

The strongest growth in dry cargo handling was 17%, by 7.9 mn t for grain and 11%, by 5.3 mn t for containers.

CARGO TURNOVER AT RUSSIAN SEAPORTS, MN T



	2016	2017	2018
Novorossiysk	131.4	147.5	154.9
Including NCSP Group	81.7	84.9	85.3
Ust-Luga	93.4	103.3	98.7
Vostochny	68.5	69.3	69.2
Murmansk	33.4	51.4	60.7
St. Petersburg	48.6	53.6	59.3
Primorsk	64.5	57.6	53.5
Including NCSP Group	64.5	57.6	53.5
Vanino	30.2	29.2	29.5
Tuapse	25.2	26.6	25.6
Nakhodka	23.3	24.3	24.3
Vladivostok	14.3	17.0	21.2
Kaliningrad	11.7	13.8	14.1
Including NCSP Group	0.7	1.0	1.3
Other	177.6	192.7	205.7

CARGO TURNOVER BY TYPE OF CARGO, MN T

Cargo	2016	2017	2018
Crude oil	228.0	252.3	255.3
Oil products	140.8	141.6	145.1
Coal	136.3	154.6	161.4
Ferrous metals	28.2	28.3	30.6
Fertilizer	16.2	17.7	17.8
Iron ore	8.7	7.6	6.9
Grain	35.6	47.9	55.8
Nonferrous metals	3.5	3.7	3.5
Containers	42.7	48.3	53.6
Other	82.1	84.4	86.6
Total	**722.0**	**786.4**	**816.7**

CARGO TURNOVER BY DESTINATION

Transshipments at Russian seaports grew in all directions in 2018 – export, import, transit and cabotage. There was only a decline in dry cargo handling by cabotage shipments.

Transshipment of containers increased by 10% year-on-year to 5.075 million TEU, with the amount of loaded containers growing by 10% to 3.883 million TEU, including refrigerated containers up by 7% to 481,800 TEU. Handling of empty containers increased by 8% to 1.192 million TEU. Transshipment of PJSC NCSP equaled to 620,2 TEU.

Transshipment of containers made up 41.4% of export cargo, 41.9% of import cargo, 14.7% of cabotage and only 1.9% of transit cargo.

Russia's key ports by volume of container handling in 2018 were St. Petersburg with a market share of 42% and cargo turnover of 2.131 million TEU; Vladivostok with, respectively, 19% and 944,000 TEU; Novorossiysk with 15% and 755,000 TEU; Vostochny with 8% and 419,200 TEU; and Kaliningrad with 5% and 276,000 TEU, including LLC «BSK» - 198,900 TEU.

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

MARKET SHARE OF LARGEST RUSSIAN SEAPORTS BY CARGO TURNOVER

TRANSSHIPMENT OF CARGO AT RUSSIAN SEAPORTS BY BASIN

Azov-Black Sea basin

Cargo turnover at seaports in the Azov-Black Sea basin grew by 1% to 272.3 million tonnes in 2018, as dry cargo handling increased by 0.5% to 119.2 million tonnes and liquid cargo rose by 1% to 153.1 million tonnes.

Namely:

The growth of dry cargo transshipments was driven primarily by increases in the following types of cargo, namely:
- the growth by 15% to 52.3 million tonnes for grain;
- the growth by 13% to 17.1 million tonnes for ferrous metals;
- the minor growth by 4% to 2.6 million tonnes for mineral fertilizer and 6% to 8.6 million tonnes for container cargo.

The turnover of the following types of cargo has declined, namely the growth by 7% to 2.8 million tonnes for ore, 2% to 11.5 million tonnes for coal.

Transshipments of cargo on ferries have plummeted by 40% to 8.1 million tonnes.

The decrease in nonferrous metals transhipments was at a rate of 2% and the turnover totaled 1,2 million tonnes. Forest products turnover dropped by 27% and equaled to 0.4 million tonnes.

The growth in liquid cargo handling was driven by the increase in crude oil turnover by 3.3% to 89.1 million tonnes.

Chemical cargo turnover skyrocketed by 32.8% to 1.3 million tonnes.

LNG turnover grew by 20.8% to 1.0 million tonnes.

Handling of oil products declined 1.9% to 59.2 million tonnes and handling of liquid food cargo fell by 9.3% to 2.5 million tonnes.

Exports accounted for 63.7% of cargo handling in the region, transit made up 21.0%, cabotage cargo amounted to 12.4% and imports equaled to 2.9%.

Baltic basin

Cargo turnover at seaports in the Baltic basin declined by 0.5% to 246.3 million tonnes in 2018, as dry cargo turnover rose by 5% to 109.8 million tonnes while liquid cargo turnover decreased by 4% to 136.5 million tonnes.

Dry cargo turnover increased as transshipments grew by
- 12.2% to 27.8 million tonnes of cargo in containers;
- 2.7% to 7.2 million tonnes of ferrous metals;
- 21.2% to 2.1 million tonnes of scrap metal;
- 37.2% to 1.7 million tonnes of grain and 47.5% to 1.6 million tonnes of packaged unitized cargo.

Turnover declined by 3% to 11.4 million tonnes of mineral fertilizer; 10% to 1.3 million tonnes of nonferrous metals; and 19% to 1.4 million tonnes of refrigerated cargo. Coal handling remained flat at 39.4 million tonnes.

Handling of liquid cargo declined primarily because crude oil volume fell by 13.6% to 66.9 million tonnes. Handling of oil products increased by 6.8% to 66.4 million tonnes and handling of LNG grew by 12.5% to 2.4 million tonnes.

Exports accounted for 88.7% of cargo handling in the region, imports made up 8.5%, and cabotage and transit cargo accounted for only 1.8% and 1.0%, respectively.

Caspian basin

Cargo turnover at seaports in the Caspian basin grew by 22.3% to 4.8 million tonnes in 2018, as liquid cargo surged 90% to 2.1 million tonnes, while dry cargo decreased by 5.8% to 2.7 million tonnes.

Handling of liquid cargo grew on the back of transit shipments of crude oil from Kazakhstan, which doubled to 2.0 million tonnes.

Dry cargo handling decreased as ferrous metals fell by 70% to 0.2 million tonnes; forest products dropped 5% to 0.4 million tonnes; and handling of packaged unitized cargo slumped 6.1% to 0.2 million tonnes. However, handling of grain rose by 31.1% to 1.6 million tonnes.

The share of transit in the Caspian basin is the highest compared to other basins, at 41.5%, while exports make up 48.1% of cargo turnover, and imports and cabotage account for 4.3% and 6.1%, respectively.

Far East basin

Cargo turnover at seaports in Russia's Far East rose by 4.5% to 200.6 million tonnes in 2018. Dry cargo handling increased by 6.8% to 125.5 million tonnes, while transshipments of liquid cargo rose by 1% to 75.0 million tonnes.

Dry cargo handling grew as transshipments increased by 5.7% to 91.1 million tonnes of coal; 12.4% to 15.0 million tonnes of container cargo; 3.6% to 3.3 million tonnes of forest products; 13.2% to 6.0 million tonnes of ferrous metals; and 15.9% to 1.4 million tonnes of ore. Transshipment of cargo on ferries decreased by 2.7% to 1.9 million tonnes.

Handling of liquid cargo grew as volume increased by 3.7% to 15.1 million tonnes of oil products and 0.6% to 48.5 million tonnes of crude oil. Handling of liquefied natural gas (LNG) fell by 1.0% to 11.4 million tonnes.

Exports accounted for 86.2% of cargo handling in the Far East basin, imports made up 3.6%, and cabotage and transit cargo accounted for 9.7% and 0.5%, respectively.

Arctic basin

Cargo turnover at seaports in the Arctic basin grew by 26% to 92.7 million tonnes in 2018, as dry cargo handling increased by 4% to 30.4 million tonnes and liquid cargo handling surged 41% to 62.3 million tonnes.

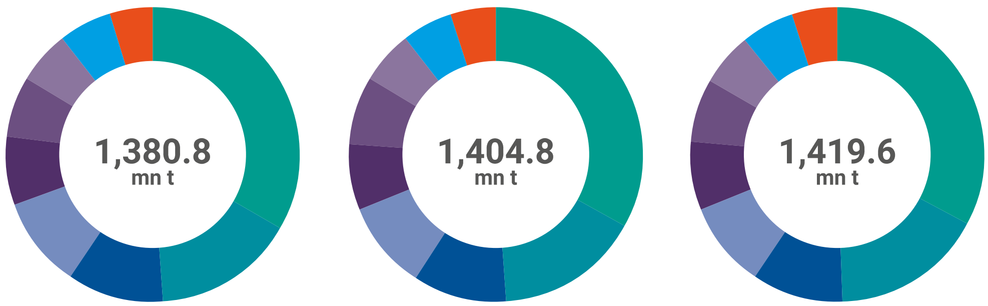
Dry cargo handling growth was driven by increases of 12% to 19.3 million tonnes of coal; 7% to 3.6 million tonnes of mineral fertilizer; 12% to 2.2 million tonnes of container cargo; and 18% to 0.6 million tonnes of forest products. Handling of ore fell by 30% to 1.9 million tonnes.

Liquid cargo turnover grew as crude oil handling increased by 24% to 48.8 million tonnes and shipments of LNG through the Sabetta port continued to grow. Handling of oil products fell by 3% to 4.4 million tonnes.

Exports accounted for 60.0% of cargo handling in the Arctic, imports made up 0.5%, and cabotage accounted for 39.5%.

1.3.3. Cargo turnover at European seaports

CARGO TURNOVER AT EUROPEAN SEAPORTS, MN T



	2016	2017	2018
Rotterdam	461.2	467.0	469.0
Antwerp	214.0	223.6	235.3
NCSP Group	**146.9**	**143.5**	**140.2**
Hamburg	138.2	136.5	135.1
Algeciras	102.8	101.5	107.2
Ust-Luga	93.4	103.3	98.7
Amsterdam	78.8	81.3	82.3
Marseille	81.0	80.6	81.0
Valencia	64.5	67.5	70.8

1.3.4. Shipment of Russian cargo through foreign ports

Russian ports' share of transshipments of Russian foreign trade cargo exceeded 94% for the first time in 2018, and for liquid cargo the figure was more than 99%.

Transshipment of Russian foreign trade cargo through Baltic ports increased by 9% to 39.8 million tonnes in 2018, growing by 8% for coal, 18% for mineral fertilizer, 60% for ore and 130% for grain, but falling 8% for metals and 46% for liquid cargo.

Transshipment of Russian foreign trade cargo through Ukrainian seaports tumbled 37% to 6.1 million tonnes, falling by 58% for coal, 34.1% for mineral fertilizer and 38% for liquid cargo, but increasing by 37% for ore and also growing for ferrous metals and grain.

Transshipment of Russian foreign trade cargo through Finnish seaports totaled 6.1 million tonnes in 2018, including 671,000 tonnes of coal; 3.915 million tonnes of ore; 1.297 million tonnes of mineral fertilizer; and 226,000 tonnes of other cargo.

1.3.5. Outlook for global economic growth, global trade and the Russian economy

The rise of protectionism is a significant source of risk for global economic growth, Russia's Economic Development Ministry said in its Forecast for the Social and Economic Development of the Russian Federation to 2036. While already imposed trade restrictions are not yet having a marked negative impact on growth, further escalation of trade wars will lead to the slowdown of global investment demand due to increased uncertainty, and disrupt established value chains and adversely affect productivity because of barriers to the spread of new technologies.

The slowdown of the Chinese economy in the medium term will have a negative impact on the base metals and coal markets, where China is the biggest consumer. On the oil market, changes in supply will play the key role in determining prices in the next few years.

Against this backdrop and taking into account macroeconomic policy, Russian GDP is forecasted to grow by 1.3% in 2019. The slowdown in economic growth is attributed in part to the fact that the active phase of implementation of Russia's national projects has shifted closer to the middle of the year while the tax burden already increased as of January 1, 2019; as well as to the Bank of Russia's moderately tight monetary policy, aimed at controlling inflation expectations.

However, the acceleration of inflation and slowdown of economic growth are expected to be temporary. The package of structural changes proposed by the Russian government should set the stage for putting economic growth on a higher trajectory. The Economic Development Ministry expects economic growth to gradually accelerate to 2.0% in 2020 and to more than 3.0% starting in 2021. And the structure of GDP is expected to shift significantly toward an increase in the contribution of investment demand.

Outlook for Russian exports and imports to 2021[1]

Russia's foreign trade turnover grew by 17% to $688 billion in 2018, driven by a 35% surge in exports of fuel and energy commodities to $286.7 billion.

The baseline scenario projects a gradual recovery in production of investment demand goods and growth of exports to $444.5 billion by 2021. Government contracts will continue to play an important role, which will have a positive impact on the development of the engineering sector. Export sectors such as the fuel and energy sector, metals and chemical production will maintain a strong position. The implementation of government infrastructure projects will support demand for construction sector services. The food industry will continue to grow rapidly given the ongoing implementation of the import substitution program and development of domestic production capacity.

Growth is also expected in light industry.

The structure of industrial production is not expected to change significantly in the medium term.

Imports are expected to grow by 25% to $298 billion by 2021, primarily driven by machinery, equipment and vehicles.

1.3.6. Outlook for production and exports of key Russian commodities to 2020

Oil production in Russia grew by 4.6% to 555.6 million tonnes in 2018, Rosstat reported. Going forward, oil production will be affected by an agreement among OPEC+ countries to increase supply.

Oil production in the forecast period is expected to grow to 562 million tonnes thanks to new fields that have been launched and are scheduled to come on stream, and the stabilization of production at mature fields as a result of the expansion of production drilling and its continued profitability. Oil exports totaled 260.2 million tonnes in 2018 and are expected to remain near this level in the period to 2021.

Exports of oil products totaled 150.1 million tonnes in 2018 and are expected to increase slightly to 152 million tonnes by 2021. The depth of crude refining in Russia continues to lag behind the global level (89-99%). The current trend of increasing refining depth and simultaneously reducing production and exports of fuel oil is the result of tax measures adopted by the Russian government that are aimed at stimulating production of light oil products. Oil refining is expected to grow to 293.4 million tonnes in 2021 with the launch of new primary refining facilities at domestic refineries.

Coal production grew by 13.3% to a record 432.7 million tonnes in 2018. The export orientation of the coal business is a key factor in the development of Russia's coal industry. Russian coal exports rose by 10% to 199.5 million tonnes in 2018, with shipments growing both to the Asia-Pacific region and to Atlantic markets. The industry's prospects for growth are linked foremost to the creation of new coal mining centers, involving development of coal fields in new, undeveloped regions that are promising in terms of mining coal reserves with favourable conditions of occurrence. Coal exports are expected to increase to 209.9 million tonnes by 2021.

Agricultural production is expected to grow 4.9% by 2021 compared to 2018.

Metallurgical production is forecast to grow 7.6% by 2021 compared to 2018.

1.3.7. Russian transport sector trends and outlook to 2021

Considering the situation in the transport sector and forecast growth of industrial production, real disposable household incomes and GDP, the transport sector is expected to see steady growth in the medium term.

Commercial freight shipments grew by 1.6% to 4.221 billion tonnes in 2018. The Forecast for the Social and Economic Development of the Russian Federation to 2036 projects that commercial freight turnover will grow by an annual average of 2.7% in 2019-2024. Train and truck haulage, which accounted for a combined 69% in 2018, are expected to continue to dominate.

Shipments by marine transport are to a large degree oriented toward the foreign market (exports/imports), so its performance is very sensitive to changes in the world freight market and the global economy in general.

Cargo shipments by marine transport are expected to gradually increase in the near future thanks to state support for shipbuilding and shipping provided under federal law No. 305-FZ, dated November 7, 2011, "On the Amendment of Selected Legislative Acts of the Russian Federation in Connection with the Implementation of Measures of State Support for Shipbuilding and Shipping," the construction of new ships and registration of vessels in the Russian Maritime Register of Shipping.

Further development of port capacity will also contribute to make foreign trade logistics more independent on the services of foreign seaports.

1. Baseline scenario of Forecast for the Social and Economic Development of the Russian Federation to 2036.

1.4. Strategy and Outlook

1.4.1. Strategy

NCSP Group's strategic goals:

- Long-term growth of NCSP Group's business in the interests of shareholders, employees and local communities by improving the efficiency of operations, increasing handling volume and applying new technologies
- Serving all stages of the logistics chain for foreign trade activities and continuously improving the quality of services and increasing customer loyalty
- Maintaining traditions and ensuring social stability and development in Novorossiysk and other cities and regions of operations
- Strengthening the Group's image as the most attractive employer in the region
- Compliance with the latest standards for environmental stewardship and prioritizing green technology

NCSP Group's vision

We drafted a strategy for the Group's development in 2018 that will be considered by the boards of directors of Transneft and PJSC NCSP.

The strategy considers two scenarios for the Group's development, sets out key strategic goals and approaches to development, measures to transform the Group's management model and a roadmap for implementing the strategy.

The Group plans to review and update the Long-term Development Program after the development strategy is approved.

Implementation of priority projects

Baltic basin

Reconstruction of Primorsk Trade Port

Following the completion of the reconstruction of facilities to support offloading of diesel fuel at Berths 3 and 4, the throughput capacity of the PTP terminal is 25.0 million tonnes per year for oil products and 60 million tonnes per year for crude oil.

Reconstruction of container terminal in Baltiysk

The reconstruction of BSC's container terminal is continuing. The first phase calls for expanding the terminal's throughput capacity to 290,000 TEU per year and should be completed by the end of 2019. The second phase will move forward if planned projects to build automobile assembly plants in Kaliningrad Region are carried out.

Azov-Black Sea basin

Reconstruction and modernization of Quay No. 4 for handling liquid cargo. Reconstruction of moorings 25 and 25A at Quay No. 4 (second start-up facility)

The reconstruction of Quay No. 4, with the laying of additional pipelines and installation of loading arms, will make it possible to handle additional volumes of bunkering fuel.

Reconstruction of Sheskharis Oil Terminal

The project will ensure stable and safe transshipment of both oil and oil products through the Sheskharis Oil Terminal in Novorossiysk. Also the project will pave the way for switching some facilities to handling light oil products transferring by pipeline of Transneft's Yug (South) pipeline project. The transfer of part of the volume of diesel fuel shipments from the railway to the pipeline will free up capacity for other types of cargo.

Reconstruction of NLE container terminal

The reconstruction of berths was completed in 2018, making it possible to accommodate vessels with capacity of up to 4,200 TEU and increase the throughput capacity of the terminal to 350,000 TEU. The Company will continue reconstruction of support storage facilities and purchase additional handling equipment in 2019.

Reconstruction of Area 6 at NLE

The Company is drawing up plans for the reconstruction of the terminal so it can serve vessels with deadweight of up to 50,000 tonnes in order to increase transshipment of general cargo such as nonferrous and ferrous metals, timber and perishable goods. The project will make it possible to maintain existing cargo traffic in the amount of 0.85 million tonnes per year and create the necessary infrastructure to handle an additional 0.5 million tonnes of cargo per year.

Construction of terminal to handle 2 million tonnes of vegetable oil per year: Phase I (wagon/vessel)

Design, survey, construction and installation work on the project was completed in 2018. The project will make it possible to diversify operations by expanding the cargo mix and increase cargo turnover by up to 2 million tonnes per year.

Reconstruction of specialized container terminal at PJSC NCSP with acquisition of Mega terminal

This project will make it possible to expand transshipment to 750,000 TEU and accommodate vessels with capacity of up to 10,000 TEU, the largest that can sail into the Azov-Black Sea basin. There are also plans to build a support container terminal with an area of up to 20 hectares for storage of empty containers and provision of additional services such as repacking, storage of refrigerated containers and processing of container trains. Tender procedures were carried out in 2018 to buy out the assets of Mega Terminal LLC and OJSC Mega.

Reconstruction of NMT – Light Oil Products

This project is aimed at diversifying the LLC NMT's main business by repositioning part of the terminal's capacity to handle light oil products. Design and survey work began in 2018.

Reconstruction of Novorossiysk Grain Terminal and Quay No. 3

The Company drew up plans in 2018 for the reconstruction of the NGT terminal and Quay No. 3, which will make it possible to accommodate vessels with capacity of up to 80,000 tonnes. The project is on hold due to the revision of the PJSC NCSP development plans.

Port of Taman

The project to build a dry cargo area at the Port of Taman calls for building a Russian deepwater port on the Black Sea under a concession. PJSC NCSP and state company Rosmorport signed the main conditions of an agreement between the participants of RMP-Taman LLC – an agreement of intent on the joint implementation of the project to build a dry cargo area at the Port of Taman on June 16, 2016. PJSC NCSP is now considering the possibility of participating in the project by moving a portion of bulk cargo traffic that creates dust pollution from the Port of Novorossiysk.

1.4.2. Evaluation and audit of the Long-term Development Program

In line with the recommendations of federal government authorities, NCSP Group has drawn up and is implementing a Long-term Development Program (LDP) for the period from 2015 to 2020, and the implementation of the LDP is audited annually by a professional expert organization.

An audit of the LDP's implementation in 2017 was carried out in 2018, and the auditor issued a report. PJSC NCSP's Board of Directors approved the auditor's conclusion on the program's implementation on October 31, 2018.

1.4.3. Key performance indicators of LDP[1]

PJSC NCSP has approved and introduced a system of KPI within the context of the LDP. The composition of KPI and their target values for the current and subsequent year are selected according to methodological guidelines[2].

KEY PERFORMANCE INDICATORS IN 2018

LDP KPI	Target 2018	Actual 2018	Achievement, %
Change of Group market share for general and bulk cargo in Russian segment of Azov-Black Sea basin compared to 2014, in %[3]	10.0	-2.5	0
Reduction of energy costs per tonne of cargo, %	5.5	3.28	30
Building of new management model with introduction of staff incentive principles (% of plan completed)	100	100	100
Labor productivity, (revenue ('000 RUB) / number of employees)	3,802	8,262	100
Level of customer satisfaction, %	92	100	100
ROE, %	12.7	52.7	100
TSR, %	12.6	31.9	100
EBITDA, USD million	631	669	100
Reduction of cost of sales per tonne of cargo in % compared to 2014[4]	2.5	34.8	100
Growth of gross vessel loading time efficiency compared to average for all types of cargo in 2014, %	20	25.2	100
Implementation of Innovative Development Program, %	100	100	100
Growth of EBITDA compared to three-year average (2012-2014), %	12.2	20.2	100

1. The presented information on the value of LDP KPI is preliminary. The final values of indicators will be presented after an audit of LDP implementation is carried out no later than June 1, 2019.
2. Guidelines for the Use of KPI by state corporations, state companies and state unitary enterprises, as well as companies in which the combined equity interest of the Russian Federation and a constituent member of the Russian Federation exceeds 50%.
3. For comparability of figures with 2014, calculations do not include ports in Crimea (lack of full statistics for 2014) and the Port of Kavkaz (expansion of port boundaries with inclusion of previously uncounted volumes of roadstead transshipment in cargo turnover).
4. Calculated at cost, expressed in USD..

The indicator for “Change of Group market share for general and bulk cargo in Russian segment of Azov-Black Sea basin compared to 2014” was not achieved because transshipment of dry cargo in the basin grew faster than at NCSP Group. The Group increased dry cargo handling in the Azov-Black Sea basin by 33.1% in 2014-2019, while average market growth, including NCSP figures, amounted to 36.4%.

In 2018, the main reasons that the indicator was not achieved were the opening of two grain terminals at the Azov port (Louis Dreyfus’s Ustye Dona LLC terminal and the Rif Trading House LLC terminal), and growth of grain handling at the CJSC Yug Rusi and JSC Aston terminals at the Rostov port and at Taman Grain Terminal Complex LLC.

The “reduction of energy costs” indicator was not achieved due to a significant change in the structure of transshipments at NCSP Group, with a decrease in the share of liquid cargo and increase in the share of more energy-intensive dry cargo.

The other KPI for 2018 were achieved. Taking into account the review of the project portfolio and satisfactory KPI values, NCSP Group’s LDP was fulfilled for 2018.

1.4.4. Coordination of NCSP Group development plans with federal strategic documents on transport

The Roadmap for the Development of Seaports in the Azov-Black Sea Basin in the period to 2020 (with possible extension to 2030), as well as the development of short- and long-distance railway and road approaches to these seaports (hereinafter, Roadmap)[1] was approved in 2016. The Roadmap was updated in 2017 and includes the following projects:

- Reconstruction of specialized grain handling terminal at the Port of Novorossiysk
- Reconstruction of container terminal at the Port of Novorossiysk
- Reconstruction of cargo area terminals at the Port of Novorossiysk

The Roadmap is an outline plan combining all projects by timeframe. The Roadmap will be elaborated as project business plans and design documentation are developed.

The Russian president’s decree “On National and Strategic Objectives for the Development of the Russian Federation for the Period to 2024[2] (hereinafter, the Decree) notes the need to develop transport corridors by expanding the capacity of Russian seaports, including ports in the Azov-Black Sea basin, and increasing the throughput capacity of railways to these ports.

Pursuant to the Decree, on September 30, 2018 the Russian government approved a “Comprehensive Plan to Modernize and Expand Mainline Infrastructure for the period to 2024” (hereinafter, the Plan). The Plan sets the objectives of carrying out measures to develop port infrastructure in the Azov-Black Sea basin and developing and modernizing railway infrastructure on approaches to ports in this region in the period to 2024.

The development strategy that NCSP Group plans to approve is aimed at achieving the national goals and objectives of developing the stevedoring and transport sector.

1. Approved by Russian Prime Minister Dmitry Medvedev on July 11, 2016 with order No. 5011p-P9.
2. No. 204 dated May 7, 2018

1.4.5. NCSP Group SWOT analysis

Internal environment

Strengths

- The group of stevedoring companies with sufficient capacity for transshipment of a wide range of goods
- Natural depth and year-round navigation and a high level of coverage with navigation safety systems
- Ability to work with all modes of transport (railway, trucks, internal waterways)
- Developed railway infrastructure
- Modern infrastructure
- Proximity of centers of consumption and production of mass cargos to some ports
- Growth of dry cargo turnover
- Development of container transportation by building modern container terminals
- Stable financial condition
- Skilled labor and management personnel
- Many years of experience
- Availability of public-private partnership mechanisms

Weaknesses

- Geographic remoteness from places of production of certain types of cargo (coal, mineral fertilizers)
- Bottlenecks in approaches to ports from railways and highways
- Unsatisfactory technical condition of port facilities and equipment
- Insufficient processing speed for certain cargo
- Low degree of containerization of cargo flows
- Inadequate legislation in the area of seaports
- Insufficient past investments in updating port infrastructure
- Underdevelopment of public-private partnership mechanisms
- Low level of innovation and new port technologies
- High costs for power supply to ports
- Difficult ecological situation

External environment

Opportunities

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

Threats

- Low percentage of transit capacity utilization
- High competition in the industry
- Creation of container terminals in the ports of Bulgaria, Romania, Ukraine and the Baltic countries

1.5. Operating Results[1]

Cargo turnover at Russian ports totaled 816.7 million tonnes in 2018. NCSP Group's cargo turnover amounted to 140.2 million tonnes in 2018. The Group's share of cargo turnover at Russian seaports shrank to about 17% in 2018 from 20% in 2016, primarily due to a decrease in the volume of oil transshipments through Group facilities amid overall growth of cargo turnover at Russian ports by 94.7 million tonnes.

The growth in cargo transshipment at Russian seaports was driven by the increase in crude oil, coal and grain volumes.

NCSP GROUP MARKET SHARE IN RUSSIA

	Cargo turnover, mn t	Share, %
Russian ports	816.7	100.0
NCSP Group	140.2	**17.2**
Russian ports in Azov-Black Sea basin	272.3	100.0
PJSC NCSP	78.0	28.6
NLE	3.8	1.4
NSRZ	3.5	1.3
NCSP Group (Novorossiysk)	85.3	**31.3**
Russian ports in Baltic basin	246.3	100.0
BSC	1.4	0.6
PTP	53.5	21.7
NCSP Group (Baltic)	54.9	**22.3**

CARGO TURNOVER BREAKDOWN AND NCSP GROUP MARKET SHARE BY CARGO, MN T

Cargo	NCSP Group			Russian ports in 2018	NCSP Group share in 2018, %
	2016	2017	2018		
Crude oil	81.1	74.7	66.2	255.3	25.9
Oil products	31.7	30.3	33.2	145.1	22.9
Coal	1.7	2.0	1.4	161.4	0.9
Ferrous metals and pig iron	12.8	11.9	13.5	30.6	44.0
Mineral fertilizer	0.8	0.7	0.6	17.8	3.3
Ore and iron ore concentrate	3.0	3.0	2.5	6.9	35.8
Grain	6.7	11.2	12.8	55.8	23.0
Nonferrous metals	1.1	1.2	1.0	3.5	28.5
Containers	5.3	6.0	6.1[2]	53.6	11.4
Other	2.7	2.4	2.8	86.7	3.3
Total	**146.9**	**143.5**	**140.2**	**816.7**	

1. Sources, unless stated otherwise: Association of Commercial Seaports of Russia (ASOP), company data
2. 620,2 TEU

1.5.1. Geography of shipments

	Asia[1]	Africa	Europe	North America	South America	Other
Crude oil	5,901.2	0.0	58,626.9	1,100.4	600.6	0.0
Oil products	7,089.7	3,045.0	21,264.0	462.1	852.6	0.0
Grain	2,070.4	10,232.7	178.1	82.3	212.1	0.0
UAN	0.0	3.3	191.9	335.9	59.7	206.0
Containers	1,803.9	716.6	366.2	8.0	4.8	0.0
Forest products	111.5	200.4				
Ore, iron ore	758.0	521.3	986.4	224.8	0.0	0.0
Chemical cargo	79.2	154.8	135.1	41.5	121.4	0.0
Nonferrous metals	538.6	33.4	388.5	15.0	0.0	0.0
Ferrous metals, pig iron	6,160.6	2,709.3	2,225.5	2,018.9	363.0	0.0
Coal	1,155.4	35.5	259.2	0.0	0.0	0.0
Other	368.3	219.0	117.9	0.0	0.0	0.0
Total	**26,037.0**	**17,871.2**	**84,739.7**	**4,288.9**	**2,214.3**	**206.0**

Crude oil

Crude oil handling at Russian seaports totaled 255.3 million tonnes in 2018, ASOP data show. Crude oil traffic through NCSP Group terminals amounted to 66.2 million tonnes in 2018. The Group's share of crude oil turnover at Russian seaports shrank to 26% in 2018 from 36% in 2016 amid growth of shipments through alternative routes:

- Oil transshipments in the Arctic basin (launch of Yamal LNG project, Lukoil's return to roadstead transshipment in Murmansk instead of roadstead offloading in Norway)
- Oil transshipments in the Azov-Black Sea basin (after expansion of Caspian Pipeline Consortium pipeline and corresponding growth of transshipment volumes)
- Oil exports to China by pipeline through Skovorodino

Oil products

Oil product transshipments at Russian seaports increased by 4.3 million tonnes or 3% to 140.8 million tonnes in 2018, ASOP data show. NCSP Group's oil product turnover totalled 33.2 million tonnes, and the Group's share of oil product handling at Russian seaports remained unchanged at 23% in the period from 2016 to 2018.

Grain

Grain transshipments at Russian seaports totaled 55.8 million tonnes in 2018, ASOP data show. NCSP Group's grain turnover was 12.8 million tonnes in 2018. The Group's share of grain handling at Russian seaports grew to 23% in 2018 from 19% in 2016.

Ferrous metals and pig iron

Transshipments of ferrous metals and pig iron at Russian seaports totaled 30.6 million tonnes in 2018, ASOP data show. NCSP Group handled 13.5 million tonnes of ferrous metals and pig iron in 2018. The Group's share of ferrous metals and pig iron handling at Russian seaports decreased to 44% in 2018 from 45% in 2016 due to faster growth of transshipments through ports in other basins.

Containers

Transshipments of containers at Russian seaports totaled 53.6 million tonnes in 2018, ASOP data show. NCSP Group handled 6.1 million tonnes of container cargo in 2018. The Group's share of container handling at Russian seaports slipped to 11% in 2018 from 12% in 2016. The growth of container turnover at Russian seaports was driven by the recovery of the Russian economy and stabilization of the national currency.

1. Including Turkey

Ore cargo

Ore cargo transshipments at Russian seaports totaled 6.9 million tonnes in 2018, ASOP data show. NCSP Group handled 2.8 million tonnes of ore cargo in 2018, and the Group's share of ore cargo handling at Russian seaports grew to 41% in 2018 from 35% in 2016 amid a significant decrease in ore cargo exports through Arctic ports.

Coal and coke

Coal and coke transshipments at Russian seaports totaled 161.4 million tonnes in 2018, ASOP data show. NCSP Group handled 1.4 million tonnes of coal and coke. The Group's share of coal and coke handling at Russian seaports remained unchanged at 1% in the period from 2016 to 2018.

Nonferrous metals

Transshipments of nonferrous metals at Russian seaports totaled 3.5 million tonnes in 2018, ASOP data show. NCSP Group handled 1.0 million tonnes of nonferrous metals in 2018. The Group's share of nonferrous metals handling at Russian seaports decreased to 28% in 2018 from 31% in 2016.

1.6. Revenue

'000 USD	2018	2017	Change	Change, %
Revenue	951,253	899,831	51,422	5.7
Operating expenses before depreciation and amortization	-292,917	-256,844	-36,073	14.0
Other operating (expenses)/revenue	-1,384	180	-1,564	-868.9
Operating profit before depreciation and amortization	**656,952**	**643,167**	**13,785**	**2.1**
Depreciation and amortization	-72,361	-73,515	1,154	-1.6
Impairment of construction in progress	-495	-1,639	1,144	-69.8
Operating profit	**584,096**	**568,013**	**16,083**	**2.8**
Financial income	13,597	15,059	-1,462	-9.7
Financial expenses	-73,095	-72,461	-634	0.9
Income/(expenses) due to exchange differences, net	-201,579	66,677	-268,256	-402.3
Share in joint venture profit	6,091	4,858	1,233	25.4
Other income	4,363	4,543	-180	-4.0
Profit before tax	333,473	586,689	-253,216	-43.2
Profit tax	-65,362	-114,660	49,298	-43.0
Profit for period	**268,111**	**472,029**	**-203,918**	**-43.2**
Other comprehensive (loss)/income for year after profit tax	-157,695	40,216	-197,911	-492.1
Comprehensive income for year	110,416	512,245	-401,829	-78.4
EBITDA*	669,433	653,743	15,690	2.4
Net debt / EBITDA*	1.26	1.64	–	–
EBITDA* margin, %	70.4	72.7	–	–

* Management reporting data

NCSP Group's revenue to International Financial Reporting Standards (IFRS) grew by $51.4 million or 5.7% in 2018, primarily on the back of growth in revenue from stevedoring services and additional port services.

The Group's EBITDA grew by $15.7 million or 2.4% in 2018.

Profit decreased by $203.9 million or 43% to $268.1 million, primarily due to expenses on exchange rate differences in the amount of $201.6 million.

1.6.1. Revenue

The following factors had an impact on NCSP Group's revenue by cargo in 2018 (compared to 2017):

- Decrease of crude oil handling by 8.5 million tonnes or 11.4% due to redirection of cargo to eastern route
- Growth of diesel fuel and gasoline handling by 4.3 million tonnes or 18.5%, as well as adjustment of rates for these categories of cargo
- Growth of UAN handling by 201,000 tonnes or 33.7% amid favorable market environment
- Growth of grain handling by 1.6 million tonnes or 14.3%, as well as rate adjustment
- Growth of container handling by 24,000 TEU or 4%
- Growth of ferrous metals and pig iron handling by 1.5 million tonnes or 14.3%
- Decline of revenue from iron ore products handling by $0.8 million as volume decreased by 202,000 tonnes or 6.7%
- Decline of revenue from coal handling by $2.3 million as volume decreased by 550,000 tonnes or 27.6%

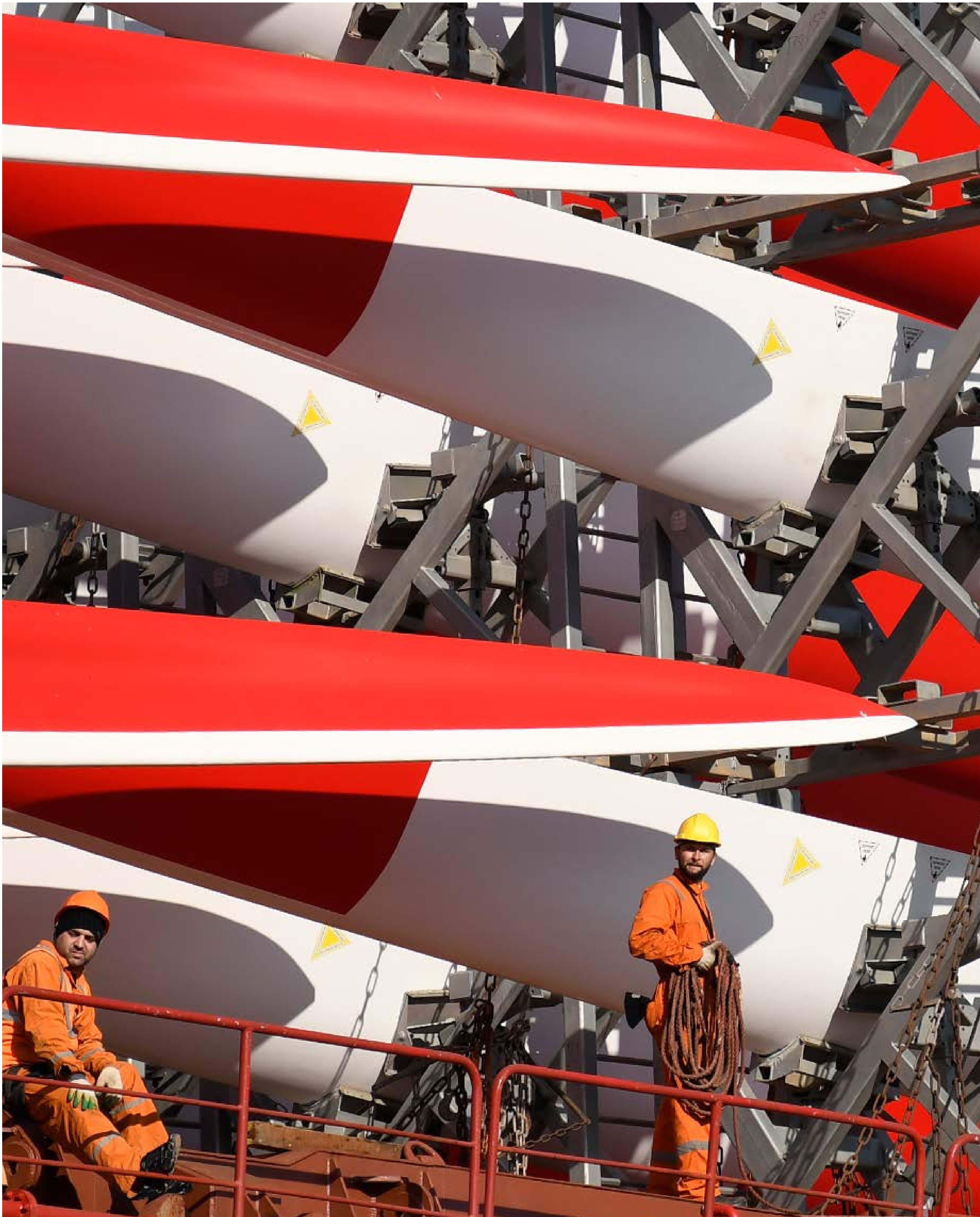
REVENUE BREAKDOWN BY TYPE OF ACTIVITY

('000 USD)	2018	2017	Change	Change, %
Revenue	951,253	899,831	51,422	5.7
Stevedoring services	732,604	709,592	23,012	3.2
Additional port services	197,030	110,152	86,878	78.9
Fleet services	13,292	69,081	-55,789	-80.8
Ship repair	272	0	272	–
Other	8,055	11,006	-2,951	-26.8

1.6.2. Operating expenses

BREAKDOWN OF OPERATING EXPENSES BEFORE DEPRECIATION AND AMORTIZATION IN 2018 AND 2017

Operating expenses by item, '000 USD	2018	Share of total expenses, %	2017	Share of total expenses, %	Change	Change, %
Remuneration of employees	83,656	28.6	86,753	33.8	-3,097	-3.6
Leasing	45,104	15.4	47,402	18.5	-2,298	-4.8
Services of third-party organizations related to transshipment support	40,776	13.9	12,572	4.9	28,204	224.3
Fuel for resale and in-house us	39,869	13.6	24,823	9.7	15,046	60.6
Insurance contributions on payroll	20,513	7.0	20,398	7.9	0,115	0.6
Repair and maintenance services	19,077	6.5	20,124	7.8	-1,047	-5.2
Materials	8,572	2.9	8,292	3.2	280	3.4
Tax on property and other taxes other than profit tax	7,776	2.7	5,350	2.1	2,426	45.3
Electricity and other utilities	6,658	2.3	6,776	2.6	-0,118	-1.7
Charitable donations	5,228	1.8	4,994	1.9	0,234	4.7
Security services	4,092	1.4	3,195	1.2	0,897	28.1
Professional services	1,840	0.6	2,828	1.1	-0,988	-34.9
Insurance	1,439	0.5	1,683	0.7	-0,244	-14.5
Other expenses	8,317	2.8	11,654	4.5	-3,337	-28.6
Operating expenses before depreciation and amortization	**292,917**	100.0	**256,844**	100.0	**36,073**	**14.0**



CORPORATE SOCIAL RESPONSIBILITY

2

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2.1. Our Approach

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

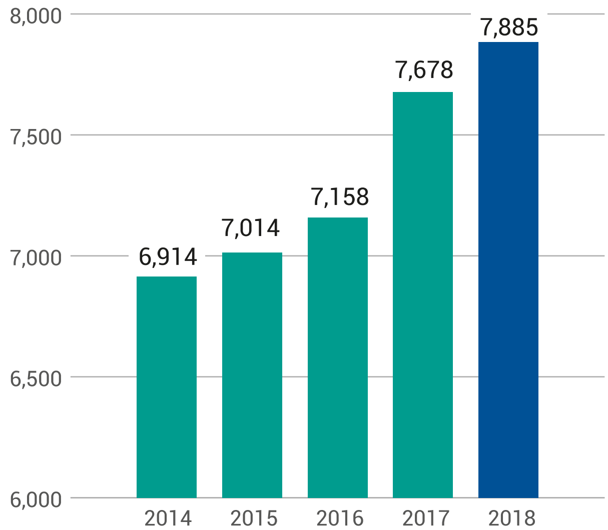
The Company complies with all requirements of Russian legislation in the area of relations with employees, occupational health and safety, and environmental safety, and is committed to conforming to progressive standards of corporate social responsibility.

NCSP Group's sustainable development priorities are:

- Safety, health and professional development of employees
- Minimizing the industry's negative impact on the environment, cost-effective use of resources and compliance with international environmental protection standards
- Responsibility for the social and economic wellbeing of residents of regions where we operate, support for local communities and philanthropy
- Contributing to maintaining conditions for the effective development of marine transport businesses and realizing the country's transport potential

2.2. Human Resources Policy

NUMBER OF NCSP GROUP EMPLOYEES AT THE YEAR END



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

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

The Group had 7,885 employees as of December 31, 2018. Operational staff and specialists made up 84.2% of NCSP Group's workforce in 2018, and administrative staff made up 15.8%. The average age of the Group's employees was 44.8 years in 2018. NCSP Group has a very loyal workforce, with many employees having worked at Group units for more than 15 years.

2.2.1. Employee training and development

NCSP Group's Training Center offers professional development, training and retraining opportunities for employees, as well as training to outside individuals who want to subsequently find employment at the NCSP subsidiaries in their chosen profession.

Two training programs for Group employees were developed in 2018 due to operational needs. In 2018, 43 contracts were signed to train Group employees at outside organizations and six contracts were signed with outside organizations having their employees trained at NCSP Group's Training Center.

In 2018, 4,196 people underwent training and professional development courses, 1,258 more than in the previous year. This increase was due primarily to training of Group employees on safe methods and practices for working at heights.

In 2018, 507 employees underwent professional and pre-certification training at outside educational institutions, and 236 employees of outside organizations underwent training at NCSP Group's Training Center.

2.2.2. Motivation programs

The Group is refining its system of financial and nonfinancial incentives. The criteria for financial incentives are employee performance and professionalism. The social package and bonus system, as well as our tradition of showing consideration for and taking care of employees, are effective methods for reducing staff turnover at PJSC NCSP.

In order to promote healthy lifestyles and strengthen the corporate spirit, NCSP Group organizes in-house sport events, competitions between employees and other organizations of the city of Novorossiysk, and participation in regional and national games.

In 2018, the Company organized:
- Participation in four city minifootball tournaments
- Participation in the city Spartakiade
- Participation in the national winter and summer Spartakiades of Russian ports in Murmansk
- Participation in city and national volleyball tournaments
- Participation in national armlifting competitions
- Participation in meeting the standards of the GTO national fitness program
- The 2nd Spartakiade among NCSP Group employees

Company employees won 11 first places, three second places and two third places in competitions held in the reporting period.

2.2.3. Social security

The Group's social policy is formulated and implemented in accordance with the Collective Agreement of PJSC NCSP 2016-2019, which was concluded on May 1, 2016 and approved local regulations. Social programs are aimed at attracting and retaining highly qualified employees.

In addition to providing benefits for current employees, the Company provides support to former port workers. As of December 31, 2018, 1,180 people were registered with the primary organization of nonworking war and labor veterans (retired, disabled), the PJSC NCSP Veterans Council. Particular support is provided for PJSC NCSP employees who have worked for the Company for at least 20 years. They are awarded the title of Labor Veteran of Novorossiysk Commercial Sea Port, along with a one-time cash bonus, and granted certain benefits.

In 2018, the Company paid:
- Basic quarterly financial aid in the amount of 9,380,606 RUB
- Families of Company retirees 820,000 RUB to cover veterans' funeral expenses.

In addition to basic financial aid, NCSP Group veterans are given additional and targeted assistance:
- 101 veterans – participants and veterans of the Second World War, homefront workers and former child prisoners – received financial aid for Victory Day totaling 505,000 RUB
- 129 veterans with institutional and government honors received additional financial aid totaling 77,175 RUB in connection with the professional holiday Marine and River Fleet Workers Day
- 194 pensioners received nonrecurring financial aid totaling 570,000 RUB to pay for medicine
- 112 employees received financial aid in honor of anniversaries totaling 128,800 RUB

2.3. Occupational Health and Safety

NCSP Group's principal goal in the area of occupational health and safety (OHS) is to prioritize preserving the life and health of employees over operating performance.

NCSP Group's priorities in OHS are to:
- Provide safe working conditions for employees
- Ensure compliance with OHS rules and regulations

In order to achieve these goals and objectives in the area of OHS, the Group ensures:
- Compliance with the requirements of federal, regional and industry legislation, and international OHS standards
- Creation of working conditions that protect the health of all employees by minimizing occupational risks
- Workers are provided with high quality personal protective equipment
- Mandatory preliminary and regular medical examinations of employees engaged in work with hazardous and/or harmful occupational factors
- Employees receive training and systematically upgrade their qualifications in OHS
- Allocation of material and financial resources to support the OHS management system and carry out measures to protect workers
- Workers are provided with sanitary facilities and medical support
- Engagement of all employees and industry unions in OHS management
- Continuous improvement of OHS management systems at Group enterprises

NCSP Group has all of the regulations, in-house policies and procedures for ensuring workplace safety that are needed to manage the OHS system.

Industrial safety measures carried out in 2018 included:
- Assessment of industrial safety of pipelines and tanks, including 16 pipelines and six tanks at PJSC NCSP; five pipelines and eight tanks at IPP; reissue of the license for operation of hazard Class 1, 2 and 3 explosion hazardous production facilities, conducting technical certification of five boilers
- Assessment of industrial safety of hoisting equipment, including 24 pieces of equipment at PJSC NCSP; 22 at NLE; and 20 at NSRZ; 10 at BSC
- Assessment of industrial safety of equipment, buildings, installations and crane runways, including 48 at PJSC NCSP; 14 at NSRZ; 17 at IPP; and 13 at NLE
- Training exercises and drills, including 22 at PJSC NCSP; 16 at IPP; 12 at NLE; and eight at NSRZ; BSC LLC and PTP LLC – all training exercises were conducted in accordance with the industrial safety action plan
- Capital repairs on installations which are part of hazardous industrial facilities, including:
  PJSC NCSP:
  - Wide Pier No. 1 – capital repairs on rail tracks No. 39 and 40, with replacement of surfacing along road; capital repairs on pier apron crane runways at berths No. 18, 19 and 20, and rail tracks No. 41 and 42 with restoration of surfacing
  - Eastern Pier – capital repairs on support crane runways at berths No. 2 and 3 and rail tracks No. 17 and 18 with restoration of surfacing and repair of service lane No. 2; capital repairs on support crane runways at berths No. 5 and 6 and rail tracks No. 19 and 20
  - Capital repairs and refurbishment of eight gantry cranes with subsequent industrial safety evaluations

  NLE:
  - Capital repairs on the building of the third district boiler house, and steel smokestacks of third district boiler house and sixth district boiler house at hazardous facility NLE Gas Network
  - Capital repairs and refurbishment of three gantry cranes with subsequent industrial safety evaluations

Civil defense and emergency management

The PJSC NCSP detachment of the Russian System for Prevention and Response to Emergency Situations (RSChS) took part in a regional command post exercise in April 2018 to run through the actions of management bodies, forces and resources of regional subsystems of the RSChS and its branches in the event of a natural disaster or man-made emergency situation in Krasnodar Territory.

In October 2018, PJSC NCSP took part in a training exercise on civil defense led by the governor of Krasnodar Territory on the subject of organizing measures to get the region's civil defenses ready in the event that the president of Russia puts into action the Plan for the Civil Defense and Protection of the Population of the Russian Federation on the Territory of Krasnodar Territory. The exercise involved working out issues concerning management arrangements for civil defense measures and responses to natural disasters and man-made emergency situations, as well as for improving coordination between governing bodies and civil defense forces in the city of Novorossiysk when conducting emergency rescue operations and other urgent work in disaster zones.

2.4. Environmental Protection

The fundamental principles of NCSP Group's environmental policy are:

- To take all possible efforts to reduce environmental impact in order to not violate the constitutional human right to a clean environment
- Sustainable use of natural resources, materials and energy
- Prioritizing preventative measures over measures to mitigate negative environmental impact
- Compliance with Russian and international environmental protection standards
- Continuous improvement of environmental management system
- Fostering a culture of environmental stewardship, educating and raising the environmental awareness of employees and the public
- Ensuring transparency and availability of information about the Company's environmental management activities for all stakeholders

In pursuit of these commitments, the Company:

- Creates organizational mechanisms to ensure that negative environmental impact is minimized
- Considers environmental protection issues to be a fundamental priority of its activities
- Identifies and assesses risks in the area of environmental protection, and determines and implements measures to eliminate and minimize these risks
- Implements projects aimed at reducing the negative impact of industrial activities on various ecosystems, including:
  - outfitting rain water drainage systems with treatment facilities
  - construction work to redirect rain water to treatment facilities, thus reducing the amount of pollutants which might come to the sea
  - construction of local treatment facilities for rain water
  - purchasing special equipment as part of the implementation of an action plan to reduce dust pollution when handling cargo that generates dust
- plans the scale of operations with a view to minimize environmental impact
- fosters a corporate culture based on engagement and participation of all PJSC NCSP employees in tackling the issues of environmental protection
- ensures that employees are knowledgeable and aware of environmental issues
- promotes best industry practices, introduces best available technologies and implements efficient innovation projects
- actively participates in public activities in its region of operations, and promotes the social and economic development of the municipality of Novorossiysk
- ensures that the public and other stakeholders are informed about the results of the Company's efforts to protect the environment

Public hearings

Public hearings were held on June 25, 2018 on a government environmental impact study on PJSC NCSP operations in internal marine waters.

Public hearings were held in July 2018 on the rationale for NLE operations in internal marine waters.

Public hearings were held from October 6 to November 6, 2018 on a government environmental impact study on Novorossiysk Grain Terminal operations in internal marine waters.

The Company spent 123.444 million RUB on environmental protection measures in 2018.

ENVIRONMENTAL PROTECTION MEASURES IN 2018

PJSC NCSP	The construction of local treatment facilities has started at Eastern Pier with installation of storm water drainage (series No. 1-4)
	Work done to equip seven water outlets (No. 13, 14, 15, 16, 17, 19 and 25) with specially designed FOPS cartridge filters to filter storm water runoff into the sea
	Design work completed on installation of local treatment facilities at Wide Pier No. 1, Wide Pier No. 2, Marine Terminal and Sheskharis Oil Terminal; project partially carried out
	Design work completed for construction of storm water drainage networks in area where port equipment is deployed, and for technical upgrades to Sadko local treatment facilities
	In order to reduce dust at coal yards, existing three-meter concrete blocks were partially replaced with six-meter high blocks along the perimeter of bulk cargo storage yards
NLE	Treatment facilities installed at Sixth operation area, making it possible to treat storm water runoff from the area; after treatment to standards, the storm water is discharged into the Black Sea

USE OF WATER RESOURCES

	2017	2018
Water intake, total (‘000 m^3)		
– from public water supply systems	556.62	493.88
Water treatment, total (‘000 m^3)	8.96	30.34
– treatment of rainwater	8.96	30.34
Waste and storm water disposal, total (‘000 m^3)	356.21	391.36
– contaminated, without treatment	259.59	264.75
– contaminated, insufficiently treated	48.2	48.23
– clean to standard (without treatment)	3.52	1.75
– treated to standard	44.9	76.63

WASTE GENERATION AND MANAGEMENT, TONNES

Hazard class	2017			2018		
	Waste generated	Waste recycled	Disposal outsourced	Waste generated	Waste recycled	Disposal outsourced
1	1.25	0	1.25	1.37	0	1.3
2	12.75	0	12.74	12.21	0	12.22
3	2,213.53	1.42	2,230.42	2,299.01	3.69	2,299.06
4	13,427.5	678.73	12,725.98	11,927.03	417.0	11,366.32
5	11,779.6	0	11,779.56	12,257.4	0	12,257.43
Total	27,434.62	680.15	26,749.95	26,497.01	420.69	25,936.32

2.5. Sponsorships and Philanthropy

The Company allocated funds for the development of infrastructure in Novorossiysk, including the construction of the Chernomorsky Olympic Sports Center. The Group provided support for the installation of a memorial to port workers in Novorossiysk.

As part of the Company's support for healthcare institutions, new medical equipment was acquired for the Novorossiysk Clinical Center of the Federal Medical and Biological Agency of Russia (former Sailors Hospital), Clinic No. 5, Novorossiysk Perinatal Center, Outpatient Clinic No. 3 and Primorsk District Hospital.

Looking to the education of the rising generation, the Company provided funds to renovate and provide equipment for Primorsk boarding schools and secondary schools, Special Needs School No. 9 (Novorossiysk), kindergartens, libraries and art centers. New uniforms were provided to young football players from Chernomorets football school and the Prima children's football team (Primorsk), and renovations were carried out at the wrestling gym of the Children's and Youth Arts Center in Novorossiysk.

NCSP Group provided sponsorship support in 2018 for the organization of the tenth football tournament dedicated to the memory of V.G. But, and provided support for the Port Primorsk Cup interregional sailing race. With the help of NCSP Group, children's and youth teams from Novorossiysk were able to compete in regional and national swimming, women's basketball and sambo tournaments.

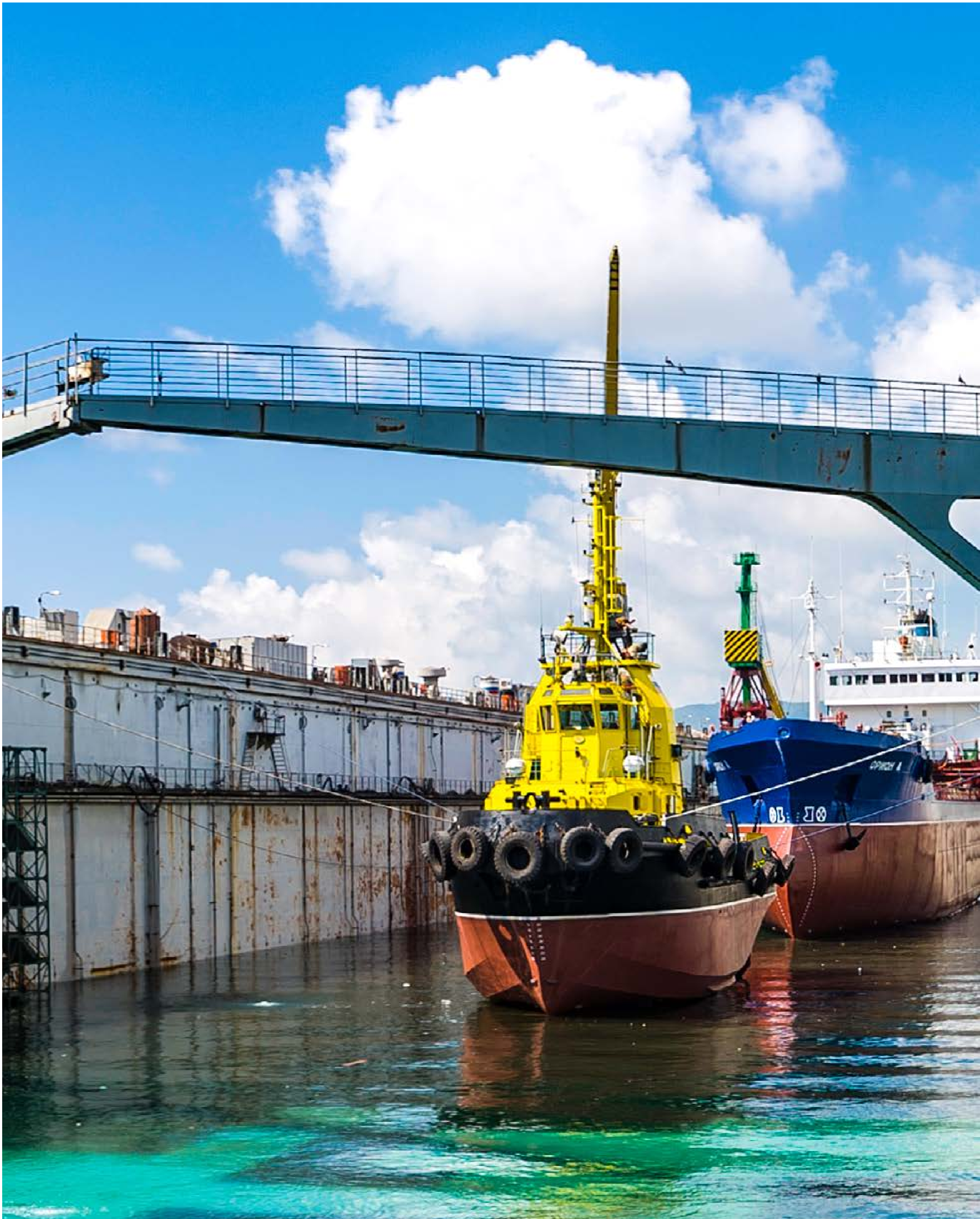
NCSP Group also did not stand by when help was needed by people facing misfortune. Donations were made to pay for drugs and treatment for severely ill children, and vital medical equipment was obtained for people with disabilities.

Particular attention was devoted to improving the quality of life of people with disabilities. PJSC NCSP supports the Novorossiysk non-profit organization for people with disabilities, called "Optimist", helping them to arrange excursions for organization members.

PJSC NCSP again participated in the Save and Protect charity drive that is conducted under the patronage of the Novorossiysk city administration.

The Group also traditionally provides assistance to the Russian Orthodox Church in the restoration and construction of churches. In 2018, aid was provided to the communities of the Church dedicated to the Faithful Saints Prince Peter and Princess Fevronia of Murom; Church of the Holy Myrrh Bearers; Church of St. Spyridon of Trimythous; Church of the Holy Trinity in Novorossiysk; and Church dedicated to St. George in Baltiysk.

NCSP Group enterprises are also regularly involved in providing support to veterans of the Second World War, homefront workers and former child prisoners of concentration camps.



CORPORATE GOVERNANCE

3

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Statement of Board of Directors

The most significant aspects of the Company's corporate governance model and practices have not changed compared to 2017. The Company continues to implement the Corporate Governance Code in its business.

In 2018, the Board of Directors and Management Board continued improving the corporate governance model and practices.

The Board of Directors confirmed new members of the Management Board.

The Corporate Governance Code, Regulation on Dividend Policy and Regulation on Information Policy have already been developed and are at the stage of approval and confirmation.

Two new sections have been created on the Company's website:
- Materials for the General Shareholder Meeting
- Information for shareholders

We are studying and implementing best practices in corporate governance, information disclosure, and document and information support for preparing and holding general shareholder meetings of the controlling organization, Public Joint-Stock Company Transneft.

PJSC NCSP's shareholder structure underwent substantial changes.

Shareholder structure as of September 27, 2018:
- Russian Federation is represented by the Federal State Property Management Agency (Rosimuschestvo) which owns 20.0001% of shares
- Entities controlled by Public Joint-Stock Company Transneft own 62.0% of shares

According to the list of persons entitled to participate in general shareholder meetings held in 2018, the number of PJSC NCSP shareholders averages 5,000. From 7.0% to 12% of minority shareholders took part in general meetings. As a rule, they voted early. From 1.2% to 2.15% of minority shareholders were present at meetings.

3.1. Corporate Governance Practices

Corporate governance at PJSC NCSP and NCSP Group is a complex, dynamically evolving system of collaboration between shareholders, the Board of Directors, the Company's executive bodies and other stakeholders. The corporate governance system is organized in compliance with the recommendations of the Central Bank of Russia (CBR) and Moscow Exchange, the requirements of Russian legislation and international best practices in corporate conduct, and the principles of openness and transparency. The Company complies with the requirements of the UK Financial Conduct Authority (FCA) for issuers of Global Depositary Receipts (GDR).

PJSC NCSP's corporate governance system is based on the following principles:

- Enforcement and protection of the Shareholders' rights
- Strategic management of the Company is exercised by an effective and professional Board of Directors. Also, the Board of Directors supervises the activities of the Company's executive bodies, and reports to shareholders
- Recognition and protection of the legal rights of stakeholders, active cooperation with stakeholders for the purpose of improving the Company's financial health, compliance with standards of social responsibility in the Company's activities and generation of high-perfoming jobs
- Ensuring timely and accurate disclosure of information on all material issues, including financial position, operating results, assets, management of the Company and material corporate actions
- Building an efficient system of risk management and internal controls which provides reasonable assurance that set goals will be achieved

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

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

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

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

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

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

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

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

Documents regulating management and control bodies are available on the NCSP Group website http://www.nmtp.info/holding/investors/info_disclosure/uch_ documents/.

Amendments to the Charter fall under the authority of the General Shareholder Meeting, with the exception of amendments pertaining to the creation of branches, opening of offices and their liquidation, which fall under the authority of the Board of Directors.

3.1.1. Compliance with provisions of Corporate Governance Code in 2018

Section of Code	Number of criteria recommended by Code	Observed	Partially observed	Not observed
Shareholder rights	23	18	5	–
Board of Directors	55	38	13	4
Corporate Secretary	3	3	–	–
Remuneration system	13	11	–	2
Risk management system	8	8	–	–
Information disclosure	14	9	5	–
Material corporate actions	8	8	–	–
Total	124	95	23	6

3.1.2. Evaluation of compliance with corporate governance principles

Information about compliance with the principles and recommendations of the Corporate Governance Code is prepared in accordance with the Bank of Russia recommendations set out in the letter dated February 17, 2016 (No. IN-06-52/8) and presented in an appendix of this report.

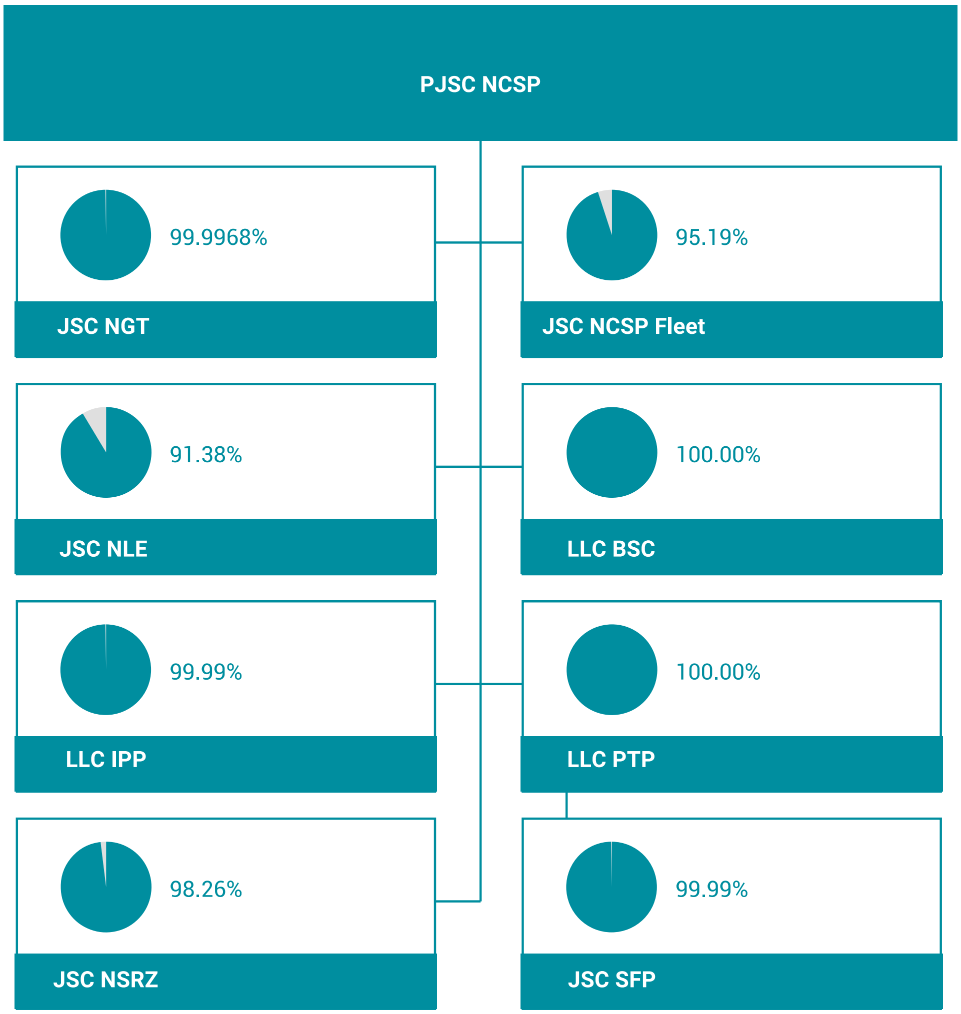
Improvement of corporate governance model and practices:

- Provide eligible shareholders with access to a list of persons who have the right to participate in a general meeting, not only when preparations are being made for the meeting, but also in the course of the general meeting
- Approve internal documents aimed at improving the level of corporate governance at the Company
- Work with the Registrar on providing services for the use of telecommunications equipment to give shareholders remote access for participation in general meetings
- Consider the issue of “corporate governance practices at the Company” at a meeting of the Board of Directors at the end of every calendar year
- Raise the issue of an “assessment of the performance of the Board of Directors” at the Board’s meeting at the end of every corporate year
- Specify issues that should be considered at the Board of Directions in-presence meetings for the corporate year
- Hear reports from committee chairmen at meetings of the Board of Directors
- Indicate whether the candidate meets independence criteria

3.1.3. Corporate calendar for 2018

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

3.2. NCSP Group Structure as at December 31, 2018

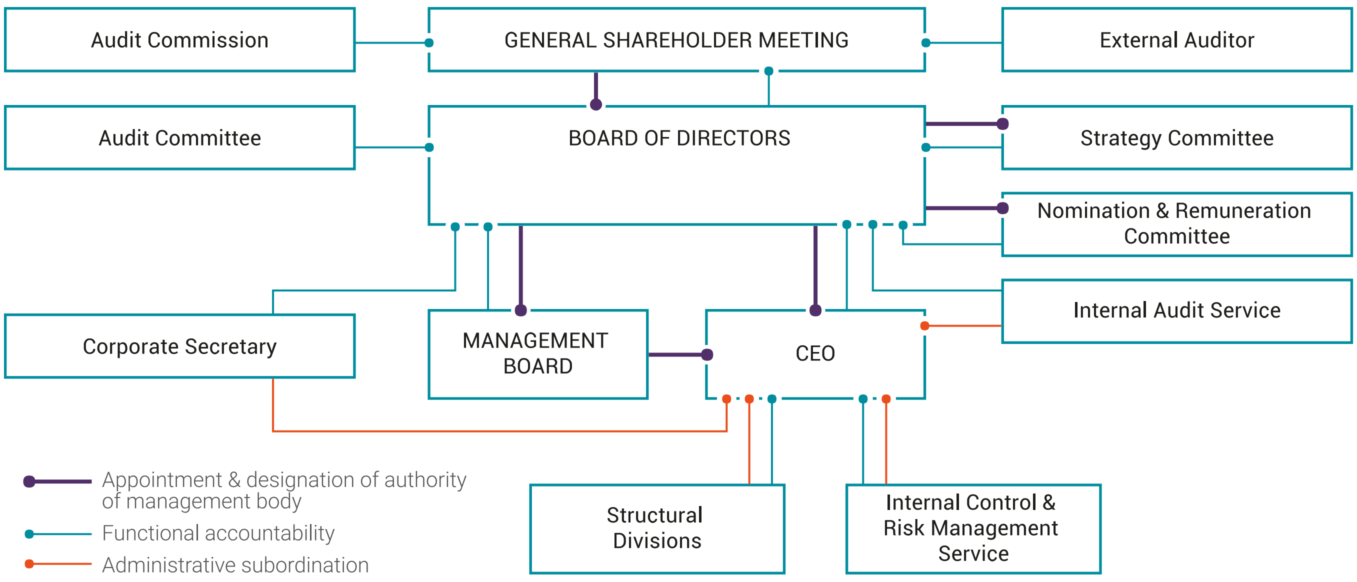


Under a purchase/sale agreement dated February 5, 2019, PJSC NCSP acquired 0.01456% (one thousand, four hundred and fifty-six hundred-thousandths) of equity in Limited Liability Company IPP and became its sole owner.

An entry was made into the Unified State Register of Legal Entities on April 1, 2019 on the cessation of activities by JSC SoyuzFlot Port through its reorganization into SoyuzFlot Port LLC.

PJSC NCSP's withdrawal from the equity of Novorossiysk Grain Terminal LLC was approved by decision of the Board of Directors on April 18, 2019. PJSC NCSP signed a contract on April 23, 2019 to sell a 99.9968% stake in NGT LLC with par value of 29,999,050 (twenty-nine million, nine hundred ninety-nine thousand and fifty) RUB to Demetra 1 LLC. An entry was made into the Unified State Register of Legal Entities on May 6, 2019 on the change of shareholders in NGT LLC.

3.3. Structure of PJSC NCSP Management and Control Bodies



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

3.4. General Shareholder Meeting

Five General Shareholder Meetings were held in 2018.

3.4.1. EGM

Date: March 5, 2018

Agenda:

- Early dismissal of members of PJSC NCSP's Board of Directors
- Election of PJSC NCSP's new Board of Directors

Quorum lacking, meeting declared invalid.

3.4.2. Repeat EGM

Date: April 13, 2018

Decisions made:

- Early dismissal of members of PJSC NCSP's Board of Directors
- Election of PJSC NCSP's new Board of Directors

3.4.3. AGM

Date: June 29, 2018

Decisions made:

- Not to declare dividends on the Company's common shares for 2017 due to restrictions on payment of dividends related to court injunctions against distribution of profit and payment of dividends in regard to NCSP Group
- To elect new Board of Directors
- To elect new Audit Commission

3.4.4. EGM

Date: September 28, 2018

Decisions made:

- To elect new Board of Directors
- To pay dividends for the first half of 2018 at cash form in the amount of 10,000,004,312 (ten billion four thousand three hundred and twelve) RUB and 73 kopecks, of which 100,000,000.00 (one hundred million) RUB from the Company's net profit for the first half of 2018 and 9,900,004,312 (nine billion nine hundred million four thousand three hundred and twelve) RUB and 73 kopecks from the Company's retained earnings for 2017

To set the amount of dividends per share at 0.519216 RUB. In accordance with Article 42 of the Federal Law on Joint-stock Companies.

To set the date of record for the right to receive dividends as the eleventh day after the EGM made the decision on payment of dividends.

To pay dividends:

- To nominal holder and professional securities market participant trust manager registered in the register of shareholders not later than 10 working days from the date when the date of record is set
- To other persons registered in the register of shareholders not later than 25 working days from the date when the date of record is set

3.4.5 EGM

Date: December 21, 2018

Agenda:

- Payment (declaration) of dividends on the Company's shares (amount, schedule and form of payment)

Decisions made:

- To pay dividends for the first nine months of 2018 at the amount of 5,099,999,117.92 (five billion ninety-nine million nine hundred ninety-nine thousand one hundred and seventeen) RUB and 92 kopecks from the Company's net profit for the first nine months of 2018
- To set the amount of dividends per share at 0.2648 RUB
- To set the date of record for the right to receive dividends as January 9, 2019

To pay dividends to the nominal holder and professional securities market participant trust manager registered in the register of shareholders no later than on January 23, 2019, and to other persons registered in the register of shareholders no later than on February 13, 2019.

3.5. Board of Directors

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

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

PJSC NCSP's system of corporate governance is consistent with the principles and recommendations of the national Corporate Governance Code. Provisions of the Code are based on international practices in the area of corporate governance, and principles of corporate governance developed by the Organization for Economic Cooperation and Development (OECD). The Code does not contain recommendations for ensuring gender, age or other types of diversity in the composition of a company's management bodies. In light of this, these practices at the Company are not formalized in the form of policies or other local regulations.

When nominating candidates to the Board of Directors, the Company considers their personal and professional qualities.

Structure of Board of Directors as of December 31, 2018

The Board of Directors consists of seven nonexecutive directors, three of whom represent the interests of the Russian government and four represent Transneft.

PERIOD OF SERVICE ON THE BOARD OF DIRECTORS:

Up to 1 year	4
1 to 5 years	2
More than 5 years	1

3.5.1. Members of the Board of Directors

Changes in the composition of the Board of Directors in 2018

There were four cohorts of the Board of Directors in the course of 2018.

Under a Russian government order (No. 1706) dated September 2, 2015, Igor Levitin, an aide to the president of Russia, was the representative of the Russian Federation on the Board of Directors of PJSC NCSP in 2018 in accordance with its right to participate in the management of the Company (golden share).

The government of Russia issued an order (No. 2882-r) on December 21, 2018 to appoint Yury Tsvetkov as the representative of the Russian Federation on the Board of Directors of PJSC NCSP in accordance with its right to participate in the management of the Company (golden share), and dismissed Igor Levitin from this position.

Leyla Mammadzada and Alexander Potapushin were recognized as independent directors as of the beginning of 2018.

MEMBERS OF THE BOARD OF DIRECTORS THAT SERVED FROM JANUARY 1, 2018 TO APRIL 13, 2018 (BOARD MEMBERS ELECTED AT THE AGM ON MAY 18, 2017)

No.	Name
1.	Sergey Andronov
2.	Maxim Grishanin
3.	Igor Levitin (from September 2, 2015 under ‘golden share’)
4.	Leyla Mammadzada
5.	Alexander Potapushin
6.	Dmitry Pristanskov
7.	Rashid Sharipov

Leyla Mammadzada and Alexander Potapushin were recognized as independent directors.

MEMBERS OF THE BOARD OF DIRECTORS THAT SERVED FROM APRIL 13, 2018 TO JUNE 29, 2018 (BOARD MEMBERS ELECTED AT THE EGM ON APRIL 13, 2018)

No.	Name
1.	Sergey Andronov
2.	Maxim Grishanin
3.	Sergey Kireev
4.	Igor Levitin (from September 2, 2015 under ‘golden share’)
5.	Dmitry Pristanskov
6.	Alexander Tikhonov
7.	Rashid Sharipov

MEMBERS OF THE BOARD OF DIRECTORS THAT SERVED FROM JUNE 29, 2018 TO SEPTEMBER 28, 2018 (BOARD MEMBERS ELECTED AT THE AGM ON JUNE 29, 2018)

No.	Name
1.	Sergey Andronov
2.	Maxim Grishanin
3.	Sergey Kireev
4.	Igor Levitin (from September 2, 2015 under ‘golden share’)
5.	Dmitry Pristanskov
6.	Alexander Tikhonov
7.	Rashid Sharipov

MEMBERS OF THE BOARD OF DIRECTORS THAT SERVED FROM SEPTEMBER 28, 2018 TO DECEMBER 31, 2018 (BOARD MEMBERS ELECTED AT THE EGM ON SEPTEMBER 28, 2018)

No.	Name	Year of birth	Education	Place of work	Position
1.	Sergey Andronov	1969	Post secondary. Completed: 1. Lesgraft State Physical Education Institute 2. Lobachevsky State University in Nizhny Novgorod	PJSC Transneft	Vice president
2.	Maxim Grishanin	1968	Post secondary. Completed: University of Kiel, Germany	PJSC Transneft	Senior vice president
3.	Sergey Kireev	1960	Post secondary. Completed: Krasnodar State Institute of Physical Education	PJSC NCSP	CEO
4.	Lev Kuznetsov	1965	Post secondary. Completed: Moscow Finance Institute	JSC Kristall Production Corporation	Chairman of board of directors
5.	Igor Levitin (from September 2, 2015 to December 20, 2018 under 'golden share')	1952	Post secondary. PhD in Political Science, Associate Professor at Moscow State Open Pedagogical University Completed: 1. Railway Forces Military Academy in Leningrad 2. Transport and Logistics Military Academy	Presidential Administration of the Russian Federation	Aide to the president of the Russian Federation
	Yury Tsvetkov (from December 21, 2018 under 'golden share')	1965	Post secondary. Completed: 1. Admiral Makarov State University of Maritime and Inland Shipping 2. Russian Presidential Academy of National Economy and Public Administration 3. Durham University Business School, UK 4. Maastricht School of Management, Netherlands 5. Columbia Business School, USA	Transport Ministry of Russian Federation	Deputy Minister, Head of Federal Maritime and River Transport Agency (Rosmorrechflot)
6.	Alexander Tikhonov	1957	Post secondary. Completed: Kiev Naval Political College	Transport Ministry of Russian Federation	Director of Property Relations & Spatial Planning Department (until September 19, 2018)
7.	Rashid Sharipov	1968	Post secondary. Completed: 1. Moscow State Institute of International Relations 2. California Western School of Law	PJSC Transneft	Vice president

Members of PJSC NCSP's Board of Directors did not own shares of the Company and did not make transactions with such shares in 2018.

3.5.2. Report on work performed by PJSC NCSP's Board of Directors in 2018

The Board of Directors held 16 meetings in 2018, where it considered 49 issues.

The Board of Directors continued to devote most of its attention to issues of strategy and priority areas of the Company's business. The Board:

- Made a decision to develop and approve a program (internal document) for managing rights to the results of intellectual activity
- Approved the organizational structure of PJSC NCSP management
- Confirmed the new composition of the Management Board
- Made a decision to increase PJSC NCSP's equity interest in LLC IPP to 100%
- Approved the business plan for the "LLC NMT Reconstruction – Light Oil Products" investment project
- Approved the Regulation on Procurement by PJSC NCSP and its subsidiaries and affiliates
- Approved the PJSC NCSP material risks map for 2019

The Board also considered other issues within its mandate in the reporting year, including issues concerning the organization and holding of the annual and extraordinary General Meetings of PJSC NCSP shareholders. The Board has plans to prepare a new version of the Company's Corporate Governance Code, Regulation on Dividend Policy and Regulation on Information Policy.

In accordance with the Regulation on Disclosure of Information by Issuers of Issuable Securities, approved by Central Bank of Russia order No. 454-P, dated December 30, 2014, decisions of the Board of Directors are disclosed on the websites of Interfax and PJSC NCSP at:

http://nmtp.info/ncsp/

http://www.e-disclosure.ru/portal/company.aspx?id=3900

PARTICIPATION OF DIRECTORS IN MEETINGS OF THE BOARD OF DIRECTORS FROM JANUARY 1, 2018 TO DECEMBER 31, 2018

Board directors	Number of meetings director attended / was supposed to attend
Sergey Andronov	15/16
Maxim Grishanin	15/16
Sergey Kireev	12/12
Lev Kuznetsov	4/4
Igor Levitin	13/16
Leyla Mammadzada	2/4
Alexander Potapushin	3/4
Dmitry Pristanskov	11/12
Alexander Tikhonov	10/12
Yury Tsvetkov	0/0
Rashid Sharipov	15/16

3.5.3. Board committees

In order to assure the efficiency and quality of the Board's work when solving issues that fall under the authority of the Board of Directors of PJSC NCSP, standing committees are formed for the term of the Board of Directors. The Board of Directors approves the regulations on committees and amends them as needed. The Board of Directors currently has three standing committees, the Audit Committee, the Nomination and Remuneration Committee and the Strategy Committee. The committees are consultative and advisory bodies that act within their mandates and report to the Board of Directors.

3.5.3.1. Audit Committee

Key functions:

- Analyzes financial statements and external and internal audits and submits recommendations to the Board of Directors
- Monitors:
- Quality and completeness of financial statements
- Qualifications and independence of external auditor
- Activities of Internal Control and Risk Management Service
- Activities of Internal Audit Service
- Works closely with external auditor, Audit Commission and Internal Control Service
- Handles other issues as per the Regulation on the Committee

The Committee was made up of two nonexecutive and two independent directors at the beginning of 2018. The Committee members in 2018 were:

- From January 1 to April 12, 2018: Leyla Mammadzada, Alexander Potapushin and Rashid Sharipov

- From April 13 to June 28, 2018: Sergey Andronov, Maxim Grishanin and Rashid Sharipov
- From July 23 to September 27, 2018: Sergey Andronov, Maxim Grishanin and Rashid Sharipov
- From December 21 to December 31, 2018: Sergey Andronov, Maxim Grishanin and Rashid Sharipov

Report on the work of the Committee in 2018

The Audit Committee held two meetings in 2018, at which it considered the following issues:
- Appointment of the Committee secretary
- The opinion on PJSC NCSP's auditor for 2017 and drawing up recommendations on the approval of an auditor for 2018
- The results of the work of PJSC NCSP's Internal Audit Service (IAS) in the period from August 2017 to August 2018
- The IAS work schedule for 2018
- The draft "Procedures for cooperation between the IAS and the management of PJSC NCSP, its subsidiaries and affiliates when conducting audits"
- Approval of PJSC NCSP's material risks map for 2018

3.5.3.2. Nomination and Remuneration Committee

Key functions:
- Considers, analyzes and provides recommendations on selection of candidates for the Board of Directors, Management Board, position of CEO and the management bodies of PJSC NCSP subsidiaries and affiliates
- Preliminarily approves candidates nominated by the CEO to fill vacant key management positions and works out recommendations on the financial terms of employment contracts with them
- Prepares recommendations on the amount of remuneration and compensation paid to members of the Board of Directors and Audit Commission
- Issues opinions on all matters related to policy for selecting candidates for the Company's management and control bodies
- Issues opinions on approval for concurrently serving in the management bodies of other organizations
- Participates in control and verification of compliance with decisions and instructions of the Board of Directors on issues within its mandate
- Handles other issues as per the Regulation on the Committee

The Committee was made up of two nonexecutive and two independent directors at the beginning of 2018. The Committee members were:
- From January 1 to April 12, 2018: Sergey Andronov, Maxim Grishanin, Leyla Mammadzada and Alexander Potapushin
- From April 13 to June 28, 2018: Sergey Andronov, Maxim Grishanin, Alexander Tikhonov and Rashid Sharipov
- From July 23 to September 27, 2018: Sergey Andronov, Maxim Grishanin, Alexander Tikhonov and Rashid Sharipov
- From December 21 to December 31, 2018: Sergey Andronov, Maxim Grishanin, Alexander Tikhonov and Lev Kuznetsov

Report on the work of the Committee in 2018

The Committee held three meetings in 2018, at which it considered the following issues:
- Appointment of the Committee secretary
- Approval of the candidates to fill the positions of the first level
- Approval of a conventional agreement with a member of the Company's Management Board
- Approval of PJSC NCSP's subsidiaries and affiliates general directors

3.5.3.3. Strategy Committee

Key functions:
Preliminary consideration and preparation of recommendations for the Board of Directors on the following issues:
- Determination of strategic goals and priorities of the Company's business and monitoring their implementation, including assessment of the system for managing the processes of strategic planning and investment, as well as opening of investment projects and approval of business plans for them
- Approval of the Company's annual and long-term budgets and reports on their execution
- Changes in the organizational structure of the Company and creation of separate divisions of the Company (branches, representative offices) in Russia and other countries
- Establishment of the principles and system of corporate governance
- Assessment of the efficiency of the Company's business in the medium and long term
- The Company's stake in other organizations, including direct and indirect acquisition and disposal of equity stakes in organizations, and encumbrance of shares and stakes
- Approval of Company policies (dividend, tariff, technology)
- Distribution of profit, including the amount of dividends on the Company's shares and procedure for paying them, as well as assessment of possible losses
- Other issues as per the Regulation on the Committee

The Committee was made up of three nonexecutive and two independent directors at the beginning of 2018. The Committee members were:
- From January 1 to April 12, 2018: Maxim Grishanin, Leyla Mammadzada, Alexander Potapushin, Dmitry Pristanskov and Rashid Sharipov
- From April 13 to June 28, 2018: Sergey Andronov, Maxim Grishanin, Sergey Kireev, Dmitry Pristanskov and Rashid Sharipov
- From July 23 to September 27, 2018: Sergey Andronov, Maxim Grishanin, Sergey Kireev, Alexander Tikhonov and Rashid Sharipov
- From December 21 to December 31, 2018: Sergey Andronov, Maxim Grishanin, Sergey Kireev, Lev Kuznetsov and Alexander Tikhonov

Report on the work of the Committee in 2018

The Committee held one meeting in 2018, at which it considered the following issues:
- Appointment of the Committee secretary
- Approval of the organizational structure of PJSC NCSP's first-level management
- Changes to the Charter of PJSC NCSP to put issues concerning the organization of protection for information constituting a state secret under the authority of the CEO
- Approval for an interested-party transaction: the signing of a loan contract between PJSC NCSP (Borrower) and LLC NMT (Lender)

3.5.4. Corporate Secretary

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

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

The main duties of the Corporate Secretary include:
- Organizing preparations and support for holding General Shareholder Meetings in accordance with current legislation, and the Charter and other documents of the Company
- Supporting the work of the Board of Directors
- Organizing cooperation between the Company and its shareholders
- The position of Corporate Secretary at PJSC NCSP has been held since February 2009 by Vladimir Matveev

Year of birth: 1948

Education: graduated from the Krasnodar Polytechnic Institute in 1972 with a degree in mechanical engineering; earned a second degree, in economic and social planning, from Kuban State University in 1993; also attended the Advanced Management Institute of the National Economy Academy of the Russian Government.

Work experience: in 2007-2009 he upgraded his qualifications at the Higher School of Economics with a course on Information Disclosure in the Corporate Governance System.

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

Mr. Matveev was PJSC NCSP's corporate secretary from 2009 to March 26, 2019. He did not own shares in PJSC NCSP or shares in its subsidiaries and affiliates in 2018, and he does not have family ties with other individuals who serve in the management bodies and/or financial and business control bodies of PJSC NCSP.

3.5.5. Remuneration of Board of Directors

The Company has a Regulation on Remuneration and Compensation paid to members of the Board of Directors of PJSC NCSP that was approved at a General Shareholder Meeting on December 25, 2017 (Minutes No. 52–OSA NCSP, dated December 28, 2017). The regulation was developed in accordance with Federal Law No. 208-FZ of December 26, 1995 on Joint-stock Companies, other regulations and PJSC NCSP's Corporate Governance Code. No changes were made to the regulation in the reporting year. The regulation is posted on PJSC NCSP's website.

Main provisions of PJSC NCSP policy for remuneration and compensation of Board of Directors:
- Remuneration for members of the Board of Directors is calculated and paid from the date the Board members are elected at the AGM to the date of the next AGM (hereinafter, "corporate year"). In the event of early dismissal and election of Board members at an EGM, the amount of remuneration is calculated proportionately for the actual period of time that these Board members served
- The following types of remuneration are established for serving as a member of the Company's Board of Directors:
  - Base remuneration
  - Additional remuneration
- Base and/or additional remuneration is not paid to a member of the Board if they did not participate in the work of more than half of the meetings of the Board and/or Board committees held in the quarter following the end of which such payment is made
- Board members have the right to receive additional remuneration, which is paid for:
  - Serving as Chairman of the Board of Directors or serving as Chairman of any one of the Board's committees or participating in the work of two or more Board committees, in an amount equal to 50% of the base remuneration for the corporate year
  - Participating in the work of a Board committee at amount equal to 25% of the base remuneration for the corporate year prescribed in Point 3.1, Article 3 of the Regulation

Remuneration paid to members of the PJSC NCSP Board of Directors who are not government officials totaled 1.217 million RUB in 2018. Companies that are part of the NCSP Group did not provide credit (loans) to members of PJSC NCSP's Board of Directors in the reporting year.

Board director	Paid during 2018	Base remuneration	Variable part, additional remuneration for work on Board committees
Sergei Andronov	224	149	75
Maxim Grishanin	224	149	75
Leyla Mammadzada	224	149	75
Alexander Tikhonov	321	235	86
Rashid Sharipov	224	149	75
Total	**1,217**	**831**	**386**

3.6. NCSP Group Management

PJSC NCSP’s Management Board held 33 meetings in 2018, at which it considered about 300 issues.

3.6.1. Management Board

There were two cohorts of the collegial executive body, namely the Management Board in the course of 2018.

MEMBERS OF MANAGEMENT BOARD FORMED BY DECISION OF THE BOARD OF DIRECTORS ON MAY 18, 2017

Name	Year of birth	Education	Position	Date position assumed	Term of office under employment contract
Sergey Kireev	1960	Post secondary. Completed: Krasnodar State Institute of Physical Education	Interim CEO	November 16, 2017	Authority of CEO is in effect from the moment of their election by the General Shareholder Meeting until the election of next CEO in 5 years by the General Shareholder Meeting
			CEO	December 26, 2017	
Igor Belukhin	1962	Post secondary. Completed: Novorossiysk Marine Engineering School PhD in Engineering Sciences	Chief Technical Officer	May 18, 2016	Dismissed on February 22, 2018
Eduard Borovok	1963	Post secondary. Completed: 1. Kuban State University 2. Moscow State Institute for International Relations	Director of Legal – Head of NCSP Group Legal Service	November 1, 2008	Indefinite
Andrey Garnukhin	1973	Post secondary. Completed: Bauman State Technical University, Moscow	Deputy CEO – Head of the Unified Commercial Directorate	January 9, 2014	Dismissed on February 22, 2018
German Kachan	1962	Post secondary. Completed: 1. Minsk Radio Engineering Institute 2. Kabardino-Balkaria State University	Chief Accountant	January 9, 2014	Indefinite

Name	Year of birth	Education	Position	Date position assumed	Term of office under employment contract
Pavel Sokolov	1973	Post secondary. Completed: 1. St. Petersburg State Transport University 2. St. Petersburg State University 3. RZD Corporate University	First Deputy CEO	June 15, 2016	Dismissed on February 22, 2018
Igor Terentyev	1971	Post secondary. Completed: Novorossiysk State Maritime Academy	Executive Director	March 20, 2013	Indefinite
Evgeniy Konkov	1974	Post secondary. PhD in Economics Completed: 1. Maurice Torez Moscow State Linguistic University 2. Financial University under the Government of RF	Deputy CEO for finance and economics	September 19, 2016	Dismissed on June 5, 2018

MEMBERS OF MANAGEMENT BOARD FORMED BY DECISION OF THE BOARD OF DIRECTORS ON JUNE 28, 2018

Name	Year of birth	Education	Position	Date position assumed	Term of office under employment contract
Sergey Kireev	1960	Post secondary. Completed: Krasnodar State Institute of Physical Education	Interim CEO CEO	November 16, 2017 December 26, 2017	Authority of CEO is in effect from the moment of their election by the General Shareholder Meeting until the election of next CEO in 5 years by the General Shareholder Meeting
Eduard Borovok	1963	Post secondary. Completed: 1. Kuban State University 2. Moscow State Institute for International Relations	Director of Legal – Head of NCSP Group Legal Service	November 1, 2008	Indefinite

Name	Year of birth	Education	Position	Date position assumed	Term of office under employment contract
German Kachan	1962	Post secondary. Completed: 1. Minsk Radio Engineering Institute 2. Kabardino-Balkaria State University	Chief Accountant	January 9, 2014	Indefinite
Mikhail Savchenkov	1959	Post secondary. Completed: Higher Law School of Internal Affairs Ministry of RF	First deputy director for business support Deputy CEO for security of NCSP Group	January 22, 2018 July 2, 2018	Indefinite
Yury Sidelnikov	1982	Post secondary. Completed: 1. Novorossiysk State Maritime Academy 2. Middlesex University London	Deputy director of Unified Commercial Directorate Deputy CEO, Director of Unified Commercial Directorate of NCSP Group	February 27, 2018 July 2, 2018	Indefinite
Igor Terentyev	1971	Post secondary. Completed: Novorossiysk State Maritime Academy	Executive Director First Deputy CEO	March 20, 2013 July 2, 2018	Indefinite

Members of PJSC NCSP’s Management Board do not own shares in the Company and did not conduct transactions with such shares in 2018.

3.6.2. Management of NCSP Group companies

Management of NCSP Group subsidiaries and affiliates as of December 31, 2018:

- Dmitry Korchnev, General Director, JSC Novoroslesexport (NLE)
- Igor Zelenin, General Director, JSC Novorossiysk Ship Repair Yard (NSRZ)
- Yury Petrischev, General Director, JSC NCSP Fleet
- Gennady Shevelev, General Director, LLC Novorossiysk Grain Terminal (NGT)
- Alexander Lesnyak, General Director, LLC IPP
- Sergey Volynets, General Director, LLC Primorsk Trade Port (PTP)
- Vladimir Kazakov, General Director, JSC SoyuzFlot Port (SFP)
- Alexey Pavlov, General Director, LLC Baltic Stevedoring Company (BSC)

KPI System

The Company has a Regulation on the Establishment and Control of the System of Key Performance Indicators for NCSP Group executives, which was approved by the Company's CEO on October 31, 2017 (Approved by the Nomination and Remuneration Committee of the PJSC NCSP Board of Directors, Minutes of BoD NRC No. 17-10-KV NCSP, dated October 11, 2017).

The Company's KPI system is built on the following principles:
- Principle of consistency with the goals and objectives of the strategy, and portfolio of programs and projects
- Principle of cascading when setting and assessing achievement of goals
- Principle of horizontal cross-functional consistency of goals
- Principle of individuality and controllability
- Principle of objectivity and transparency
- Principle of regularity and cyclicality

Company's managers are divided into two categories. The first includes the CEO of PJSC NCSP, members of the Management Board and other executives responsible for functional management by area at NCSP Group; and the second one includes the general directors of subsidiaries and affiliates and PJSC NCSP managers who are included in the process of forming the KPI system at the discretion of the CEO.

The Board of Directors approves targets for executives in the first category and a summary scorecard that includes the results of target achievement by executives. The target amount of remuneration for the Company's CEO is set according to the terms of the employment contract approved by the Board of Directors.

Planning and setting of goals is done once a year with a quarterly breakdown into interim results (if appropriate).

An assessment of fulfillment of goals and feedback on its results is done quarterly and based on performance for the year. Goals are adjusted, if necessary, according to the results of assessment, as well as the results of adjustments in the strategy and approval (revision) of the portfolio of programs and projects.

3.6.3. Remuneration and incentives

Remuneration paid to members of the Management Board totaled 87.043 million RUB. Companies that are part of the NCSP Group did not provide credit (loans) to members of PJSC NCSP's Management Board in the reporting year. The total amount of remuneration paid to members of the Management Board, including the amount paid to the CEO, is disclosed in the quarterly securities issuer report for the fourth quarter of 2018, the text of which is posted on the websites of PJSC NCSP and Interfax at: http://nmtp.info/ncsp/ and http://e-disclosure.ru/portal/company.aspx?id=3900.

3.7. Control and Audit

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

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

PARTICIPANTS IN THE RISK MANAGEMENT AND INTERNAL CONTROL (RM&IC) SYSTEM, AND THEIR ROLES

Participants in RM&IC system	Functions	Objectives
Board of Directors	Determines the Company's policy for identifying risks and eliminating/minimizing them	Approves changes in development and improvement of RM&IC system Provides external support for RM&IC system (set tone from above)
CEO	Establishes a 'healthy' business environment at the Company Facilitates the implementation of the latest standards of internal control and risk management	Establishes a flexible system for sharing information between key RM&IC system participants Creates conditions for motivating employees who propose effective measures to improve RM&IC
Internal Control and Risk Management Service	Prepares proposals for updating the Regulation on the RM&IC System Generally coordinates the process of RM&IC Monitors the process of RM&IC Develops methodological support in the area of RM&IC	Analyzes existing local regulations in the area of RM&IC, makes recommendations for their improvement Exercises control over the Company's financial and business activities by conducting audits (control actions) Analyzes information about existence of risks pertaining to the Company's business Prepares reports on internal control and risk management Evaluates individual business processes of the Company for compliance with legislation, the goals of the Company and expectations of shareholders
Directors of Company divisions and employees	Supports the development of the internal control and risk management system in the Company	Informs subordinate staff about the current RM&IC system Identifies risks, measures to manage risks specified by divisions Analyzes control procedures and business processes for possible improvements in their area of responsibility
Internal Audit Service	Assesses the effectiveness of the internal control and risk management system	Analyzes the goals of the RM&IC system for consistency with the goals of the Company Submits recommendations for improving RM&IC

3.7.1. Internal Audit

The Company created a separate structural division, the Internal Audit Service (IAS), in order to improve internal audit in PJSC NCSP.

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

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

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

The IAS works with all divisions of the Group to accomplish its objectives.

In accordance with the approved plan, the IAS conducted three audits in 2018:

- Audit of sales processes at NCSP Group
- Audit of the efficiency of cargo handling processes (general, container and bulk cargo) at PJSC NCSP
- Audit of the level of development of information systems at NCSP Group

The IAS also conducted an audit of the information technology department of PJSC NCSP.

The IAS prepared reports on all audits conducted, with recommendations to address identified violations, and brought them to the attention of management and/or the Audit Committee in due course.

Based on the audit reports, PJSC NCSP management drew up and approved a corrective action plan to address the identified concerns.

3.7.2. External Audit

Information about auditor

Shareholders voted at the AGM on June 29, 2018 to confirm AO PricewaterhouseCoopers Audit as the external auditor to audit the Company's financial and business activities for 2018.

Full company name:

Joint-stock Company PricewaterhouseCoopers Audit

Abbreviated company name:

AO PwC Audit

Address:

Butyrsky Val 10, Moscow, Russia, 125047

Taxpayer Identification Number (INN):

7705051102

Primary State Registration Number (OGRN):

1027700148431

Telephone: +7 (495) 967-60-00

Fax: +7 (495) 967-60-01

Email:

business.development@ru.pwc.com

Information on auditor's membership in self-regulating organizations of auditors

Full name:

Russian Union of Auditors (Association)

Address:

Petrovsky Per. 8/2, Moscow, Russia, 107031

Additional information:

Information on membership in Russian Union of Auditors (Association) from October 20, 2016 under number (ORNZ) 11603050547.

Type of PJSC NCSP financial statements that were (will be) subject to independent review by the auditor:

The Company's auditor, AO PricewaterhouseCoopers Audit, under a contract (No. 1775/18) dated July 13, 2018, conducted a review engagement of the interim statement of financial position as of June 30, 2018 and corresponding interim statements of comprehensive income, changes in capital and cash flow, as well as disclosures of the of the main principles of accounting policies and other clarifications for the six months ended on this date, prepared in accordance with IFRS 34.

Under a contract (No. 1817/18) dated July 17, 2018 for provision of audit services, AO PricewaterhouseCoopers Audit conducted an audit of:

- The consolidated statement of financial position as of December 31, 2018 and the corresponding consolidated statements of comprehensive income, cash flow and changes in capital, as well as a summary of the main principles of accounting policies and other clarifications for the year ended on December 31, 2018, prepared in accordance with IFRS (audit concluded on March 28, 2019)
- The consolidated statement of financial position as of December 31, 2018 and the corresponding consolidated statements of comprehensive income, cash flow and changes in capital, as well as a summary of the main principles of accounting policies and other clarifications for the year ended on December 31, 2018, prepared taking into account the requirements of Federal Law No. 208-FZ, dated July 27, 2010, on Consolidated Financial Reporting (audit concluded on March 28, 2019)
- The balance sheet as of December 31, 2018, statement of financial results for the year ended December 31, 2018, and appendixes to the balance sheet and statement of financial results, prepared according to Russian accounting and reporting standards (audit concluded on March 28, 2019)

3.7.3. Risk management

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

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

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

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

The main functions of the ICRMS are to:

- Analyze and assess contracts for financial and business risks
- Evaluate management accounting
- Conduct scheduled and unscheduled audits in order to identify risks inherent to the Company's financial and business activities
- Develop, update and improve local regulations in the area of internal control and risk management
- Generally coordinate risk management processes
- Analyze the risk portfolio and develop proposals for the response strategy in regard to managing these risks
- Prepare reports on risk management

The Group uses the following methods for managing risks:

- Mitigate risk:

The main and priority option for risk management, it includes a set of preventive measures aimed at keeping the risk at the existing level while actively mitigating it on the part of the Company to reduce the chances of a risk event occurring and/or reducing potential losses to the level of the risk appetite.

- Eliminate source of risk:

Method of risk management that implies partially refraining from a business process or modifying a decision in a given area that holds the greatest risk. However, such modification must be economically sound.

- Share risk:

Whole or partial transfer of the risk to other parties through the instruments of insurance, hedging, financial guarantees and so on. This option is used when, among other things, it is economically ineffective to mitigate the risk and accepting it is not possible due to the intolerably high level of risk.

- Change the consequences:

Set of measures aimed at offsetting the negative consequences arising from a risk event. The costs of changing the consequences should be reasonable and commensurate to the benefits of using this option.

- Accept risk:

Refraining from any mitigation of the risk because it is negligible, in other words within the bounds of the risk appetite, or when the expense of managing the risk is economically unjustified. Acceptance of risk can only occur when other methods of management, other than risk avoidance, are ineffective. As a result of accepting a risk, the Company might make various financial provisions. Acceptance of risk simultaneously means applying a management option such as changing the consequences to the modified part of the risk.

- Avoid risk:

Implies refraining from carrying out certain actions (not beginning, not continuing or not resuming activities) that carry a high risk. The use of this method should be of an exclusive nature and it should be applied only when the overall cost of mitigating the risk is economically unviable or such mitigation and sharing the risk are not possible.

MOST SIGNIFICANT RISKS FOR NCSP GROUP'S BUSINESS

Risk description	Risk management measures
Risk of increase in interest rate on credit agreement (growth of LIBOR)	Control cash flow to ensure sufficient liquidity reserve Centralized placement of NCSP Group deposits to achieve best interest rate performance Continuous monitoring of LIBOR
Risk of changes in currency exchange rates	Consider entering into a loan agreement in RUB Place deposits in foreign currency
Risk of loss of cargo volumes in case of sanctions being imposed against customers	Analyze workload and use of handling facilities to assess capacity made available in the event of sanctions and suspension of cargo traffic Find an alternative cargo base in case cargo traffic is suspended Hold negotiations with customers to quickly replace lost volumes
Risk of decrease in NCSP Group cargo traffic as a result of construction of new port facilities in the Azov-Black Sea basin	Work with customers: sign strategic agreements and memorandums to maintain volumes; offer advantageous terms for cooperation, flexible pricing; provide best service Timely implementation of investment projects
Operating risks related to breakdown of or damage to handling equipment and hydraulic works	Highly skilled workers are hired to operate equipment, and handling equipment is regularly serviced and updated. Scheduled repairs and latest certifications of hydraulic works are carried out
Publication of negative, distorted information that can hurt the business reputation of Group companies	Regularly monitor mentions of Group companies in the media and on the Internet; proactively work with journalists; comply with regulations for approval and disclosure of information at all levels

Key measures to manage risks and develop risk management system in 2018

- Extension of the PJSC NCSP Risk Management Methods that were approved on June 10, 2015 to subsidiaries and affiliates in order to standardize the risk management system within NCSP Group
- Preparation of corporate risk maps
- Insurance of company assets and third party liability
- Analysis of existing local regulations for effectiveness and consistency with the Company's goals and business environment

3.7.3.1. Country and regional risks

- Redirection of substantial amounts of Russian oil exports from western and southern routes to eastern destinations
- Decrease in demand for certain traditional export cargo traffic due to overproduction and surplus supply of certain goods / cargo (oil, iron ore, coal) on world markets with the discovery of new deposits and reduction of production costs with the application of new technologies

3.7.3.2. Political risks

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

3.7.4. Anti-corruption policy

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

PJSC NCSP approved an Anti-corruption Policy to Counter Involvement in Corrupt Practices in January 2015. The main goals of this policy are to:

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

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

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

3.7.5 Insider information

The Company takes steps to prevent the unlawful use of insider information. PJSC NCSP maintains a list of insiders; monitors internal documents and events in order to control the implementation of measures prescribed by Russian and foreign legislation, including disclosure of insider information; and carries out other associated measure to prevent the unlawful use of insider information, in accordance with Federal Law No. 224-FZ of July 27, 2010 “On prevention of unlawful use of insider information and market manipulation and on amendments to certain legislative acts of the Russian Federation."

3.8. Disclosure of Information

The Company is committed to promptly and regularly disclosing information to all stakeholders that they need for making balanced decisions on relations with the Company.

Information disclosed by NCSP is objective and balanced.

Corporate documents, information about management and control bodies, as well as information subject to disclosure under current legislation and the Company’s internal documents are posted on the Company’s website at http://nmtp.info/ncsp/ . NCSP also discloses information on the website of the authorized agency, Interfax-CIDC LLC, at: http://www.e-disclosure.ru/portal/company.aspx?id=3900 .

3.9. Shareholder Equity and Securities

3.9.1. Shares and GDR

PJSC NCSP's charter capital is 192,598,154 RUB, divided into 19,259,815,400 shares with par value of 0.01 RUB. PJSC NCSP carried out an IPO on the London Stock Exchange and Russia's RTS (Moscow Exchange as of December 2015) in November 2007, placing 19.38% of its equity in the form of common shares and Global Depositary Receipts (GDR).

PJSC NCSP's largest shareholders as of December 31, 2018 were Novoport Holding Ltd. with 50.10714%, the Federal State Property Management Agency (Rosimuschestvo) with 20.0%, and Transneft Service LLC with 10.52736%. PJSC NCSP has treasury shares equivalent to 2.6686% of equity. The remaining shares are held by minority shareholders or are in free float, which includes shares traded in the form of GDR.

As of December 31, 2018, 1,079,236,446 PJSC NCSP shares, amounting to 5.6036% of outstanding shares, were traded in the form of GDR, including treasury shares[1] in the form of GDR at amount of 2.6686% of equity.

Number of persons	Legal entities	Individuals
Residents	68	6,492
Nonresidents	59	22

PJSC NCSP COMMON SHARES

Type	Common registered shares
State registration number	1-01-30251-E
ISIN code	RU0009084446
Exchange / Listing	Moscow Exchange / 2
Ticker	NMTP

GLOBAL DEPOSITARY RECEIPTS (GDR) ON PJSC NCSP SHARES

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

1. Do not participate in voting at General Shareholder Meetings

PJSC NCSP SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2018

Name of shareholder	Location	Share of stocks owned, %
Novoport Holding Ltd.	Cyprus	50.10714
Russian Federation in person of Federal State Property Management Agency	Russian Federation	20.0001
J.P.Morgan AG, Issuer of securities that confer rights to PJSC NCSP shares traded outside of Russia (depo account of depositary programs)	Germany	5.6036, including 2.6686 on balance sheet of PJSC NCSP
Transfingroup Asset Management JSC, Trust Manager for pension assets of Blagosostoyanie Nongovernmental Pension Fund 14/DU	Russian Federation	1.304
Expert CJSC	Russian Federation	1.9695
Transneft Service LLC	Russian Federation	10.52736
NCSP Capital LLC	Russian Federation	1.36508
Lanuria Limited	Cyprus	1.00001
RWM Capital	Russian Federation	1.0489

Note: on January 29, 2019, the Company was notified that on January 21, 2019 PJSC Transneft became the owner of 9,650,542,620 shares (50.1071%) that belonged to Novoport Holding Ltd.

3.9.2. Credit ratings

Rating agency	Type of rating	Value of rating on December 31, 2018
Standard & Poor's	Long-term, international scale	BB-
Moody's	Long-term, international scale	Ba2

Standard & Poor's upgraded PJSC NCSP's rating to "BB," outlook "positive" on April 4, 2019.

3.9.3. Dividends

3.9.3.1. Dividend policy

The procedure for determining the amount of dividends paid to PJSC NCSP shareholders and their payment is governed by the Regulation on Dividend Policy approved by the Board of Directors in 2007. The dividend policy is aimed at respecting the interests of all PJSC NCSP shareholders, and takes into account the need to increase the Company's liquidity, capitalization and investment appeal.

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

- The actual amount of net profit earned by PJSC NCSP
- The need to support PJSC NCSP's strategic development priorities, including the implementation of the investment program
- The need to fund PJSC NCSP's contingency fund
- PJSC NCSP's profitability, including return on assets and return on equity
- PJSC NCSP's solvency and financial strength indicators, including current liquidity ratios
- Availability of working capital and debt ratio

No changes were made to the dividend policy in the reporting year.

3.9.3.2. Dividend history

Year for which dividends declared	Date of General Meeting at which dividends declared	Date of record	Amount of declared dividends/share, RUB	Amount of declared dividends, RUB	Amount of declared dividends, USD [1]
2018, 9 months	December 21, 2018	January 9, 2019	0.2648	5,099,999,117.92	75,700,214.01
2017; 2018, 6 months	September 28, 2018	October 9, 2018	0.519216	10,000,004,312.73	151,893,800.65
2017	June 29, 2018	Decisions on payment of dividends by the issuer were not made in this period			
2016	May 18, 2017	May 29, 2017	0.7788237	15,000,000,691.15	
2016, 6 months	September 2, 2016	September 14, 2016	0.467	8,994,333,791.80	137,830,254.59
2016, 3 months	June 24, 2016	July 5, 2016	0.0519216	1,000,000,431.28	15,546,980.33
2015	June 30, 2015	Decisions on payment of dividends by the issuer were not made in this period			
2014	June 27, 2014	July 13, 2015	0.2336	4,499,092,877.44	81,029,696.66
2013	June 17, 2013	July 9, 2014	0.023364	449,986,327.00	13,332,612.18
2012	June 15, 2012	April 28, 2013	0.02362	454,916,838.88	14,304,256.49
2011	June 30, 2011	April 25, 2012	0.0235	452,605,661.90	13,893,581.95

Dividends paid into Russian federal budget in reporting period

Dividends in the amount of 2,000,010,322.66 RUB, accrued based on the results of activities in the first half of 2018 and from retained earnings for 2017, were transferred to the Russian Federation in the person of the Federal State Property Management Agency in 2018 by payment order No. 32620 dated November 14, 2018.

Dividends accrued for the first nine months of 2018 by decision of PJSC NCSP shareholders at an EGM on December 21, 2018 were transferred in 2019 with payment order No. 2191, dated February 13, 2019, in the amount of 1,020,004,648.24 RUB.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CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED FINANCIAL STATEMENTS

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 December 31, 2018, 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 activity 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 December 31, 2018 were approved by management on March 28, 2019.

____
S. Kireev
Chief Executive Officer

____
G. Kachan
Chief Accountant

Independent Auditor's Report

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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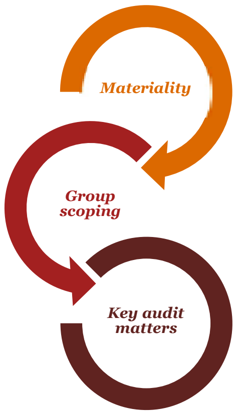
Our audit approach

Overview



Overall Group materiality: United States Dollars ("USD") 27,000 thousand, which represents 5% of average consolidated profit before tax for years 2016-2018.

- We conducted audit work on all significant entities of the Group, which are located in Russia. Additionally we performed an audit in respect of the significant joint venture of the Group;
- Our audit scope addressed 99% of the Group's revenues and 97% of the Group's absolute value of underlying profit before tax.

- Compliance with debt covenants;
- Assessment of goodwill impairment.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	USD 27,000 thousand.
How we determined it	5% of average consolidated profit before tax for years 2016-2018.
Rationale for the materiality benchmark applied	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We used average consolidated profit before tax for three years – 2018, 2017 and 2016 in order to reduce influence of foreign currency exchange rates volatility on the consolidated profit before tax. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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.

Key audit matter	**How our audit addressed the key audit matter**
Compliance with debt covenants	
Refer to Note 22 to the consolidated financial statements. As at 31 December 2018, the Group's long-term debt amounts to USD 803,624 thousand. The relevant loan agreements contain financial and non-financial covenants that the Group must comply with. Breach of certain debt covenants would entitle the Group's lenders to demand early repayment of the borrowings. If one lender exercises its right to demand early repayment, it could trigger cross default clauses with certain other lenders. We focused on the matter because any non-compliance with the debt covenants may have a material impact on the Group's financial statements as a result of reclassification of long-term debt to short-term borrowings. Also any demand of early repayment of long-term borrowings may lead to other negative consequences including the risk of the Group not being able to continue as a going concern.	Our procedures for assessing the Group's compliance with the debts covenants included the following: - We analysed the borrowing agreements in terms of any covenants included therein, the breach of which may result in early repayment of the borrowings; - We verified the compliance with financial covenants by recalculation and comparison of the results with the threshold levels set in the debt agreements; - We verified compliance with non-financial covenants by referencing to the facts of the Group's operations and the results of other audit procedures performed. As a result of our procedures, we have noted no instances of non-compliance with the debt covenants, which may give rights to the creditors to request early repayment of the Group debts at the reporting date. We also assessed the information disclosed in the Note 22 to the consolidated financial statements of the Group for completeness and accuracy and compliance with the requirements of IAS 1 "Presentation of financial statements".

Key audit matter	How our audit addressed the key audit matter
Assessment of goodwill impairment	
Refer to Note 14 and 4 of the consolidated financial statements. As at 31 December 2018, the carrying value of goodwill recognised in prior periods amounted to USD 511,682 thousand. Goodwill is subject to annual impairment assessment under the requirements of IFRS. Management identified a material error in the goodwill impairment for 2017 that was corrected retrospectively. Although no goodwill impairment was identified as at 31 December 2018, we focused on this matter due to the materiality of the carrying value of the goodwill and due to the fact that impairment assessment performed by the management involves applying significant judgments and estimates. Management's assessment is based on a number of key assumptions, including, revenue, capital expenditure (cost of maintenance of the fixed assets) and operating expenses forecasts, steady growth rate after the five-year forecast period and discount rate.	Management performed the goodwill impairment assessment and provided us with the results of this assessment. Together with our valuation specialists, we tested management's impairment testing model that is based on forecasts of future cash flows related to each cash generating unit (CGU). As part of our audit, the following procedures were performed: • We assessed whether the determination of CGU adopted by the Group's management is compliant with the requirements of IAS 36 "Impairment of Assets"; • We checked the mathematical accuracy of the goodwill allocation to the CGUs; • In respect of all CGUs we performed the following procedures over assumptions applied by management in its assessment: - We compared discount rate to the weighted average cost of capital of the Group recalculated by us; - We verified the appropriateness of financial budgets of CGUs for projected periods through inquiries with Group's management, corroborating management's explanations, examining supporting documentation; - We evaluated management's analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in respect of the assumptions with the greatest potential effect on the test result, e.g. those relating to revenue, capital expenditure (cost of maintenance of the fixed assets) and operating expenses forecasts exchange rates forecast, steady growth rate after the five-year forecast period and discount rate; - We verified that the methodology underlying future cash flow forecasts complies with IAS 36 "Impairment of Assets", including the fact that the recoverable amount was determined based on the value in use concept and some other aspects; - We compared forecast for sales prices growth rates with data from an independent analytical agency;

Key audit matter	How our audit addressed the key audit matter
	- We performed independent calculation of steady growth rate after the five-year forecast period based on data from an independent analytical agency; • We investigated the cause of the prior period error in the goodwill calculation and considered the appropriateness of the accounting for its correction. We also assessed the information disclosed in Note 4 and 14 to the consolidated financial statements of the Group for completeness and accuracy and compliance with the requirements of IAS 36 “Impairment of Assets” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. As result of our work performed, we concluded that as at reporting date goodwill carrying amount does not require any material adjustments in the consolidated financial statements of the Group.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We defined PJSC Novorossiysk Commercial Sea Port, LLC Primorsk Trade Port, LLC Novorossiysk Grain Terminal, JSC Novoroslesexport, LLC IPP, JSC Novorossiysk Shipyard, LLC Baltic Stevedore Company, JSC Fleet Novorossiysk Commercial Sea Port and JSC SoyuzFlot Port being financially significant components based on their contribution to Group’s consolidated financial statements and their inherent risk of material misstatement of the consolidated financial statements. Audit work was performed on each of the financially significant components. We also performed additional procedures in respect of other entities of the Group, which scope of activity would not have caused significant quantitative or qualitative effect on the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises *the Annual report* and *the Issuer’s Report for the 1 Quarter 2019* but does not include the consolidated financial statements and our auditor’s report thereon, which is expected to be made available to us after the date of the 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.

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When we read *the Annual Report* and *the Issuer's Report for the 1 Quarter 2019*, 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 scepticism 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.

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- 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.
- 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 with 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 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is V.V. Solovyev.

AO PricewaterhouseCoopers Audit

28 March 2019
Moscow, Russian Federation

V.V. Solovyev, certified auditor (licence No. 01-000269), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint Stock Company Novorossiysk Commercial Sea Port

Record made in the Unified State Register of Legal Entities on 23.08.2002 under State Registration Number 1022302380638

Building 14, Portovaya street, Novorossiysk, Krasnodar Kray, Russian federation, 353901

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

(in thousands of USD, except for earnings per share)

	Notes	Year ended December 31, 2018	Year ended 31 December 2017* (restated)
Revenue	7	951,253	899,831
Other operating (loss) / income		(1,384)	180
Operating expenses net of amortisation and depreciation	8	(292,917)	(256,844)
Operating profit before amortisation and depreciation		**656,952**	**643,167**
Amortisation and depreciation		(72,361)	(73,515)
Impairment of construction in progress	13	(495)	(1,639)
OPERATING PROFIT		**584,096**	**568,013**
Finance income	20	13,597	15,059
Finance costs	9	(73,095)	(72,461)
Foreign exchange (loss) / gain, net	10	(201,579)	66,677
Share of profit in joint venture	15	6,091	4,858
Other income		4,363	4,543
PROFIT BEFORE INCOME TAX EXPENSE		**333,473**	**586,689**
Income tax	11	(65,362)	(114,660)
PROFIT FOR THE YEAR		**268,111**	**472,029**
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR, NET OF TAX			
Items that may be subsequently reclassified to profit or loss:			
Effect of translation to presentation currency		(157,892)	40,545
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit liability		197	(329)
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR, NET OF TAX		**(157,695)**	**40,216**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**110,416**	**512,245**

	Notes	Year ended December 31, 2018	Year ended December 31, 2017* (restated)
Profit for the year attributable to:			
Equity shareholders of the parent company		264,271	468,233
Non-controlling interests		3,840	3,796
		268,111	**472,029**
Total comprehensive income attributable to:			
Equity shareholders of the parent company		108,369	507,877
Non-controlling interests		2,047	4,368
		110,416	**512,245**
Weighted average number of ordinary shares outstanding		18,481,869,991	18,481,516,593
Basic and diluted earnings per share, USD		0.014	0.025

S. Kireev
Chief Executive Officer

G. Kachan
Chief Accountant

* Presentation of comparative information was revised to conform with the current year presentation.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

(in thousands of USD, except as otherwise stated)

	Notes	December 31, 2018	December 31, 2017 (restated)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	1,097,213	1,280,130
Goodwill	4,14	511,682	617,131
Mooring rights		1,885	2,577
Investment in joint venture	15	26,555	28,549
Spare parts		8,160	7,485
Deferred tax assets	11	71,884	88,777
Other intangible assets		2,688	1,970
Other non-current assets	19	26,276	25,520
		1,746,343	2,052,139
CURRENT ASSETS:			
Inventories	17	11,096	16,453
Advances to suppliers		10,378	13,837
Trade and other receivables, net	18	29,993	25,465
VAT recoverable and other taxes receivable		18,346	13,533
Income tax receivable		3,579	1,037
Cash and cash equivalents	20	172,865	121,528
		246,257	191,853
TOTAL ASSETS		**1,992,600**	**2,243,992**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	10,471	10,471
Treasury shares	21	(422)	(423)
Foreign currency translation reserve		(581,781)	(425,688)
Retained earnings		1,294,292	1,248,040
Equity attributable to shareholders of the parent company		722,560	832,400
Non-controlling interests	16	9,444	10,404
TOTAL EQUITY		**732,004**	**842,804**

	Notes	December 31, 2018	December 31, 2017 (restated)
NON-CURRENT LIABILITIES:			
Long-term debt	22	803,624	990,581
Obligations under finance leases	23	9,751	65
Defined benefit obligation		5,841	6,920
Deferred tax liabilities	11	116,710	141,233
Other non-current liabilities		3,323	4,623
		939,249	1,143,422
CURRENT LIABILITIES:			
Current portion of long-term debt and short-term borrowing	22	200,299	202,623
Current portion of obligations under finance leases	23	3,368	3,156
Trade and other payables	24	9,131	12,099
Advances received from customers		15,027	12,463
Taxes payable, excluding income tax		4,223	3,915
Income tax payable		4,640	7,085
Accrued expenses	25	84,659	16,425
		321,347	257,766
TOTAL EQUITY AND LIABILITIES		**1,992,600**	**2,243,992**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

(in thousands of USD, except as otherwise stated)

		Attributable to shareholders of the parent company						
	Notes	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
At January 1, 2017		10,471	(423)	(465,655)	1,035,134	579,527	11,774	591,301
Profit for the year (restated)		–	–	–	468,233	468,233	3,796	472,029
Other comprehensive income for the year, net of tax (restated)		–	–	39,967	(323)	39,644	572	40,216
Total comprehensive income for the year (restated)		–	–	39,967	467,910	507,877	4,368	512,245
Dividends declared	12	–	–	–	(253,680)	(253,680)	(4,579)	(258,259)
Acquisition of non-controlling interests through increase of ownership in subsidiaries		–	–	–	(1,324)	(1,324)	(1,159)	(2,483)
At December 31, 2017 (restated)		10,471	(423)	(425,688)	1,248,040	832,400	10,404	842,804
Profit for the year		–	–	–	264,271	264,271	3,840	268,111
Other comprehensive loss for the year, net of tax		–	–	(156,093)	191	(155,902)	(1,793)	(157,695)
Total comprehensive income for the year		–	–	(156,093)	264,462	108,369	2,047	110,416
Dividends declared	12	–	–	–	(218,357)	(218,357)	(3,007)	(221,364)
Sale of treasure shares	21	–	1	–	147	148	–	148
At December 31, 2018		10,471	(422)	(581,781)	1,294,292	722,560	9,444	732,004

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

(in thousands of USD, except as otherwise stated)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017 (restated)
Cash flows from operating activities			
Profit for the year		268,111	472,029
Adjustments for:			
Finance income	20	(13,597)	(15,059)
Finance costs	9	73,095	72,461
Share of profit in joint venture, net	15	(6,091)	(4,858)
Foreign exchange loss / (gain), net	10	201,579	(66,677)
Income tax	11	65,362	114,660
Depreciation and amortisation		72,361	73,515
Change in defined benefit obligation		721	715
Change in credit loss allowance	18	1,151	4,386
Loss on disposal of property, plant and equipment		2,027	1,176
Impairment of construction in progress	13	495	1,639
Other adjustments		2,836	574
		668,050	**654,561**
Working capital changes:			
Decrease / (increase) in inventories		1,621	(8,776)
Increase in trade and other receivables		(19,311)	(25,062)
Increase / (decrease) in liabilities		6,445	(6,512)
Cash flows generated from operating activities		**656,805**	**614,211**
Income tax paid		(68,066)	(80,992)
Interest paid		(72,015)	(69,550)
Net cash generated by operating activities		**516,724**	**463,669**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		248	475
Purchases of property, plant and equipment		(85,069)	(148,917)
Proceeds from disposal of other financial assets		–	6,730
Interest received		13,240	15,795
Dividends received from joint venture, net of dividend tax	15	2,264	5,293
Other investment fees	19	(5,670)	–
Other purchases		(4,477)	(1,018)
Net cash used in investing activities		**(79,464)**	**(121,642)**

(in thousands of USD, except as otherwise stated)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017 (restated)
Cash flows from financing activities			
Proceeds from short-term and long-term borrowings	22	10,732	2,571
Repayments of long-term borrowings	22	(202,285)	(200,000)
Increase of ownership in subsidiary		–	(2,483)
Dividends paid to the owners of the Company	12	(145,784)	(246,399)
Dividends paid to non-controlling interests	12	(3,171)	(3,613)
Advances paid under lease contracts		(13,825)	(11,602)
Sale of treasury shares	21	148	–
Net cash used in financing activities		**(354,185)**	**(461,526)**
Net increase / (decrease) in cash and cash equivalents		**83,075**	**(119,499)**
Cash and cash equivalents at the beginning of the year	20	121,528	234,138
Effect of exchange rate changes on the balance of cash held in foreign currencies		(31,738)	6,889
Cash and cash equivalents at the end of the year	20	**172,865**	**121,528**

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. The Company's registered office is located in Novorossiysk, Krasnodar region, Russian Federation. 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 December 31, 2018 were as follows:

	Effective ownership % held*	
Significant subsidiaries	**December 31, 2018**	**December 31, 2017**
Stevedoring and additional port services**		
LLC Primorsk Trade Port	100.00%	100.00%
LLC Novorossiysk Grain Terminal	99.9968%	100.00%
JSC Novoroslesexport	91.38%	91.38%
LLC IPP	99.99%	99.99%
JSC Novorossiysk Shipyard	98.26%	98.26%
LLC Baltic Stevedore Company	100.00%	100.00%
Fleet services, including mooring, and bunkering		
JSC Fleet Novorossiysk Commercial Sea Port	95.19%	95.19%
Fleet services, including mooring		
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.

** Additional port services include ship repair services provided by JSC Novorossiysk Shipyard.

NCSP is the largest stevedore of the Group and the holding company. It operates the primary cargo-loading district, the Sheskharis oil terminal and the passenger terminal in Novorossiysk. 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.

The legal address of NCSP: 353901, Portovaya st., 14, Novorossiysk, Krasnodar region, Russia.

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, 188910, Portovy proezd, 10, Vyborgsky District, Leningrad Region, Russia.

LLC Novorossiysk Grain Terminal ("Grain Terminal")

Grain Terminal manages grain storage and a shipment terminal in the western part of the Tsemesskaya Bay in the port of Novorossiysk, 353901, Portovaya st., 14a, Krasnodar region, Russia.

JSC Novoroslesexport ("Novoroslesexport")

Novoroslesexport provides stevedoring and storage services for the export of timber, containerised cargo, nonferrous metals and perishable goods in the port of Novorossiysk, 353900, Mira st., 2, Krasnodar region, Russia.

LLC IPP ("IPP")

IPP specialises in transshipment and storage of liquid bulk cargo in the port of Novorossiysk, 353900, Magistralnaya st., 4, Krasnodar region, Russia.

1. GENERAL INFORMATION (continued)

JSC Novorossiysk Shipyard ("Shipyard")

Shipyard specialises in transhipment of ferrous metals, cement and perishable goods in the port of Novorossiysk and in providing ship repair services, 353902, Sukhumskoye shosse, w/o numb., Krasnodar region, Russia.

LLC Baltic Stevedore Company ("BSC")

BSC is a stevedoring company operating the container terminal in the port of Baltiysk, 238520, Nizhneye shosse, 17, Kaliningrad Region, Russia.

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 Novorossiysk, 353900, Mira st., 2i, Krasnodar region, Russia. 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 ports of Primorsk and Ust-Luga, 188910, Portovy proezd, 10, Vyborgsky District, Leningrad District, Russia.

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 a return to state price regulation of the stevedoring services tariffs (i.e. FAS will approve the fixed maximum rates for such services in Russian Roubles). At the same time, according to the methodology drafted by FAS, maximum profitability of stevedoring operations will be set and FAS will repeal the Federal Tariff Service of Russia ("FTS") orders on cancellation of price regulation in ports. As at the moment, the probability of implementation of this initiative cannot be estimated. In 2016, FAS initiated litigation against NCSP and PTP upon the breach of antimonopoly law No. FZ-135 "On Protection of Competition". At the date of issue of these Consolidated Financial Statements, the proceedings have not been completed. The Group does not expect significant cash outflow as a results of these legal cases (Note 27).

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Group reviewed the type of presentation of expenses recognised in profit or loss by grouping operating income and expenses excluding depreciation and decided to disclose the information in the same way as the disclosures in the financial statements of the controlling shareholder. The Group believes that this approach is more relevant and reliable for users of the consolidated financial statements. The comparative information for the year ended December 31, 2017 included in the consolidated financial statements was restated accordingly. The new approach did not affect the Group's profit before tax or other economic metrics.

New and revised standards

The Group has adopted IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with Customers effective for annual periods beginning on or after January 1, 2018, which resulted in changes in accounting policies and adjustments to the amounts, recognized in the financial statements:
- IFRS 9 was generally adopted without restating comparative information; no significant adjustments were recognized in financial statements. The changes in classification categories did not result in changes of presentation in Consolidated Statement of Financial Position
- IFRS 15 also was adopted without restating comparative information

Other new standards and pronouncements

The following other new standards and pronouncements which became effective for annual periods beginning on or after January 1, 2018 did not have any material impact on the Consolidated Financial Statements of the Group:

- Amendments to IFRS 2 – Share-based Payment (issued on June 20, 2016 and effective for annual periods beginning on or after January 1, 2018)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on September 12, 2016 and effective, depending on the approach, for annual periods beginning on or after January 1, 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach)
- Transfers of Investment Property – Amendments to IAS 40 (issued on December 8, 2016 and effective for annual periods beginning on or after January 1, 2018)
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on December 8, 2016 and effective for annual periods beginning on or after 1 January 2018)
- IFRIC 22 – Foreign currency transactions and advance consideration (issued on 8 December 2016 and effective for annual periods beginning on or after January 1, 2018)

Accounting policies applied

IFRS 9 – Financial Instruments (amended in July 2014 and effective for annual periods beginning on or after January 1, 2018).

From January 1, 2018, the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at fair value through profit or loss ("FVTPL"), those to be measured subsequently at fair value through other comprehensive income ("FVOCI"), and those to be measured subsequently at amortized cost.

The classification of debt instruments depends on the organization's business model for managing financial assets and whether contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI").

Financial assets and liabilities previously classified in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" within categories receivables, investments held to maturity and other financial liabilities measured at amortised cost using the effective interest method, in accordance with IFRS 9 "Financial instruments" are classified as financial assets and financial liabilities carried at amortised cost. Measurement of cash and cash equivalents, trade and other receivables and payables, long-term and short-term loans and investments, held-to-maturity investments has not changed and these financial instruments are measured at amortised cost.

2. BASIS OF PRESENTATION (continued)

The adoption of IFRS 9 did not significantly impact balance sheet classification of financial assets and liabilities in the Consolidated Financial Statements of the Group. The amount of expected credit losses as at January 1, 2018 does not materially differ from the amount of recognized provisions and allowances in the Consolidated Financial Statements as at December 31, 2017 and, therefore, there is no quantitative effect of transition as of January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers (amended in April 2016 and effective for annual periods beginning on or after January 1, 2018).

The Group applied simplified method of transition to IFRS 15, and elected to apply the practical expedient available for simplified transition method.

Group recognizes revenue from the following main services:

- Stevedoring services
- Additional port services
- Fleet services

The Group recognizes revenue from stevedoring services, fleet services and additional port services when it satisfies a performance obligation during the period in which the services are rendered (which, in accordance with the conditions for the implementation of cargo transhipment services takes place after carrying out the loading and unloading operations). Time of the above services does not exceed, as rule, one month.

The adoption of IFRS 15 did not have a significant impact on the amounts recognized in this Consolidated Financial Statements of the Group.

New accounting standards

IFRS 16 - Leases (issued on January 13, 2016 and effective for annual periods beginning on or after January 1, 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group decided that it will apply the standard from its mandatory adoption date of January 1, 2019 using the modified retrospective method, without restatement of comparatives. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

The Group preliminarily estimated impact of the initial application of IFRS 16 Leases on its consolidated financial position: recognition of approximately 312,839 of lease liabilities and 312,006 respective right-of-use assets with no effect on retained earnings as at January 1, 2019.

With respect to the subsequent impact on the consolidated income statement (as opposed to the current presentation of operating lease expenses), the Group will present depreciation charges for right-of-use assets, as well as interest expense on lease liabilities (unwinding of discount).

The Group also rents land under operating lease agreements with the State. The adoption of IFRS 16 "Leases" will not require the recognition of assets and liabilities in respect of such lease agreements, since the lease payments will not be included in determination of lease liability because they are nor fixed nor variable payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Rental payments will be accounted for as operating expenses when they are incurred and will also presented as operating cash flows in the cash flow statement (Note 27).

The following other new standards and pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 17 – Insurance Contracts (issued on May 18, 2017 and effective for annual periods beginning on or after January 1, 2021)
- IFRIC 23 – Uncertainty over Income Tax Treatments (issued on June 7, 2017 and effective for annual periods beginning on or after January 1, 2019)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on September 11, 2014 and effective for annual periods beginning on or after a date to be determined by the IASB)
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on October 12, 2017 and effective for annual periods beginning on or after January 1, 2019)
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on October 12, 2017 and effective for annual periods beginning on or after January 1, 2019)

2. BASIS OF PRESENTATION (continued)

Functional and presentation currency

The functional currency of NCSP and principally all of its subsidiaries is the Russian Rouble ("RUB"). The consolidated financial statements are presented in USD ("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 Group also issues a separate set of consolidated financial statements prepared in accordance with IFRS that meets the requirements of Federal Law No. 208-FZ "Consolidated Financial Statements" ("208-FZ") dated July 27, 2010, using the Russian Rouble as the presentation currency.

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 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 for the year and other comprehensive income for the year, have been translated at historical rate, except for balances converted to USD at the rate effective from January 1, 2005, date of transition to IFRS

Exchange rates

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

	2018	2017
Year-end rates		
RUB / 1 USD	69.47	57.60
RUB / 1 EUR	79.46	68.87
Average rates		
RUB / 1 USD	62.71	58.35
RUB / 1 EUR	73.95	65.90

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for assets and liabilities at the date of acquisition of control.

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.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest in entitles that provide holder with the right to a proportionate share of net assets in the event of liquidation, on a transaction by transaction basis, either at: the non-controlling interest's proportionate share of net assets of the investee or at the fair value. Non-controlling interests that are not present ownership interests are measured at fair value.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

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

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

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

Investments in joint ventures

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Goodwill

Goodwill is measured as the excess of the aggregate of the consideration transferred for the investee, the amount of non-controlling interest in the investee and fair value of an interest in the investee held immediately before the acquisition date over the fair value of net assets of the investee. Any negative amount ("bargain gain") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's policy for goodwill arising on the acquisition of joint venture 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 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 the Group's mutual settlements with units operating abroad that are not expected to be repaid and are unlikely to occur (such items represent part of the Group's net investment in foreign operations) that are initially recognised in other comprehensive income or loss are reclassified from equity to profit or losses at the time of settlement on such items

Revenue recognition (effective for annual periods beginning on or after January 1, 2018)

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts and value added taxes.

The Group's revenue is presented by the following types or performance obligations:

- 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
- 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.)
- Fleet services including tugging, towing and other related services
- Other services mainly including the rental and resale of energy and utilities to external customers

All types of performance obligations include similar payment terms, according to which agreements with customers contain up to 100% advance. The repayment period of the remaining part generally does not exceed 10 days from the date of service provision.

The Group provides services under fixed-price contracts. All types of performance obligations are recognised in the accounting period in which the services are rendered. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

Where the contracts include multiple performance obligations, the transaction price is allocated to each separate performance obligation based on the stand-alone selling prices. Contracts with customers do not have significant financing component. A receivable is recognised when the services are rendered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Contract liabilities include advances received from customers.

Revenue recognition (effective for annual periods before December 31, 2017)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's revenue is derived as follows:

- 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
- 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.)
- Fleet services including tugging, towing and other related services
- Other services mainly including the rental and resale of energy and utilities to external customers

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

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

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

Dividend income

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

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.

Financial instruments – key measurement terms (effective for annual periods beginning on or after January 1, 2018)

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. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Financial assets – classification and subsequent measurement – measurement categories

The Group classifies financial assets in the following measurement categories:

- Those to be measured at fair value through profit or loss ("FVTPL")
- Those to be measured at fair value through or other comprehensive income ("FVOCI")
- Those to be measured at amortised cost

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Assets that meet the following conditions are subsequently measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Assets that meet the following conditions are subsequently measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

By default, all other financial assets are subsequently measured at fair value through profit or loss.

The Group does not have financial assets at FVPL and FVOCI as at December 31, 2017 and December, 31 2018.

Financial instruments – initial recognition. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is impaired, the asset is transferred to Stage 3 and the expected credit losses on it are estimated as expected credit losses over the entire term. For acquired or created credit and impaired financial assets, expected credit losses are always estimated as expected credit losses over the entire term.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. If the modified terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at its fair value. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

Financial liabilities are respectively classified as:

- Those to be measured at fair value through profit or loss ("FVTPL")
- Other financial liabilities measured at amortised cost, which include debts and borrowings, trade and other payables

Financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss, except for the change of the fair value attributable to the change of own credit risk, which is recognized in other comprehensive income. The group does not have financial liabilities at fair value through profit or loss.

Other financial liabilities. After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortization accrued using the effective interest method.

Financial liabilities – Initial recognition. All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognised as gains and losses for the period.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Trade and other receivables. The Group initially recognises receivables on the date that they are originated at the price of the transaction. The Group uses the practical expedient provided for in paragraph 63 of the IFRS 15 and does not adjust the amount of the receivable if the period between the transfer of the promised goods or services by the Group to the buyer and the buyer's payment for such goods or services is not more than one year. The Group holds trade and other receivables with the objective to collect the contractual cash flows and therefore measures

them subsequently at amortised cost using the effective interest method, less any impairment losses. The Group recognises lifetime expected credit losses (ECL) for trade receivables. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial instruments (effective for annual periods before January 1, 2018)

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 and receivables.

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

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 and other 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 29.

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.

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Finance lease

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

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

Borrowing costs

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

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

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

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

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 1,021 thousand RUB (USD 16 thousand) (in 2017: 876 thousand RUB (USD 15 thousand)), the 10% tax rate is applied to the exceeding amount.

Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Property, plant and equipment

Property, plant and equipment are stated at 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 profit or loss for the year as incurred.

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

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

Properties in the course of construction for production, rental or administrative purposes or for purposes nor currently defined are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 category “Construction-in-progress” in consolidated statement of financial position.

Mooring rights and other intangible assets

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

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

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

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

	Number of years
Mooring rights	20
Other intangible assets	3-5

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Spare parts

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. Reportable segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from the equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Dividends declared

Dividends paid to shareholders are declared and approved at the annual shareholders' meeting based on recommendation of the board of directors.

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 December 31). These amounts may differ significantly from the amounts calculated on the basis of IFRS.

4. CORRECTION OF PRIOR PERIOD ERROR

Subsequent to issuance of the financial statements for the year ended December 31, 2017, a material error was identified in the goodwill impairment test that had been performed for SFP. The impairment test utilized a value in use model. The cash flow forecast prepared to estimate the recoverable amount of the SFP cash generating unit erroneously included future cash flow impacts such as indexation of certain fixed expenses and inclusion of non-related to CGU costs which both significantly impacted SFP's costs.

The recalculation of the recoverable amount, taking into account correction of the cash outflows related to the above mentioned items, indicate that the CGU was not impaired and thus no impairment of the goodwill should be recognized.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the error was corrected retrospectively. As such, the previously recognized impairment amount of 33,077 (RUB 1,930 million) in the Consolidated Financial Statements of the Group was reversed.

The impact of the error correction is as outlined below:

	Value as of December 31, 2017 and for 2017 when correcting error in the reporting year, (in thousands of USD)		
	Initial value	**Correction**	**Corrected value**
Consolidated statement of comprehensive income for the year ended December 31, 2017			
Impairment of goodwill	(33,077)	33,077	–
Profit for the year	438,952	33,077	472,029
Effect of translation to presentation currency	40,113	432	40,545
Total comprehensive income for the year	478,736	33,509	512,245
Basic and diluted earnings per share, USD	0.024	0.001	0.025
Consolidated statement of financial position as at December 31, 2017			
Goodwill	583,622	33,509	617,131
Total assets	583,622	33,509	617,131
Foreign currency translation reserve	(426,120)	432	(425,688)
Retained earnings	1,214,963	33,077	1,248,040
Total equity	809,295	33,509	842,804
Consolidated statement of changes in equity for the year ended December 31, 2017			
Profit for the year	438,952	33,077	472,029
Other comprehensive income for the year	39,784	432	40,216
Total comprehensive income for the year	478,736	33,509	512,245
Consolidated statement of cash flows for the year ended December 31, 2017			
Profit for the year	438,952	33,077	472,029
Impairment of goodwill	(33,077)	33,077	–
Net cash generated by operating activities	463,669	–	463,669

5. 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.

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.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended December 31, 2018 would be to increase it by 5,860 or decrease by 5,209 (2017: increase by 6,021 or decrease by 5,000).

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.

The impairment indicators were not identified as of December 31, 2018 and December 31, 2017.

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 (Note 27).

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. Tax losses carry forward relate mainly to forex losses arised from the revaluation of the loan denominated in USD (Note 22). 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.

6. SEGMENT INFORMATION

Operating segments are business units that are engaged in business activities that may earn revenues or incur expenses, the operating results of which are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons responsible for allocating resources and assessing the performance of the entity. The CODM’s functions are performed by the members of the parent company’s Board of Directors.

The Group’s operations are managed by type of services: stevedoring services and additional port services, including ship repair 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 (the Board of directors) is responsible for allocating resources to and assessing the performance of each segment of the business.

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

The difference in depreciation and amortisation relates to a difference arising on transition to IFRS when the remeasurement of property, plant and equipment was performed by an independent appraiser and gave rise to a difference with the underlying Russian accounting standards measurement basis.

Financial leases under IFRS are recognised at the time of receipt of the leased asset by reflecting the asset and the related liability with the calculation of depreciation and interest expenses. No assets and liabilities are recognised the Russian accounting standards, and all expenses are recorded immediately through profit and loss.

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.

6. SEGMENT INFORMATION (continued)

The segment revenue and results for the years ended December 31, 2018 and 2017 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017 (restated)
Stevedoring and additional port services	929,906	819,744	2,420	2,298	567,305	536,951
Novorossiysk	738,215	650,430	2,176	1,978	462,623	433,861
Primorsk	173,985	155,330	244	320	93,835	95,738
Baltiysk	17,706	13,984	–	–	10,847	7,352
Fleet services	13,292	69,081	63,182	2,043	25,770	31,895
Novorossiysk	1,289	34,069	35,157	1,972	17,545	11,267
Primorsk	12,003	35,012	28,025	71	8,225	20,628
Total reportable segments	**943,198**	**888,825**	**65,602**	**4,341**	**593,075**	**568,846**
Other	8,055	11,006	10,239	10,449	2,336	9,183
Total segments	**951,253**	**899,831**	**75,841**	**14,790**	**595,411**	**578,029**
Unallocated amounts (see following table)					(261,938)	8,660
Profit before income tax					**333,473**	**586,689**

During the year ended December 31, 2018, there were no counterparties whose revenue amounted to 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.

6. SEGMENT INFORMATION (continued)

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

		Year ended
	December 31, 2018	December 31, 2017 (restated)
Total segment profit	595,411	578,029
Differences between management accounts and IFRS:		
Impairment of construction in progress	(495)	(1,639)
Depreciation and amortisation	(5,494)	(7,509)
Finance lease	4,615	4,387
Credit loss allowance	(1,151)	(4,386)
Other	(7,094)	(770)
Unallocated operating income and expenses:		
Defined benefit obligation expense	(312)	(279)
Finance income	13,597	15,059
Finance costs	(73,095)	(72,461)
Share of profit in joint venture, net	6,091	4,858
Foreign exchange (loss)/gain, net	(201,579)	66,677
Other income, net	2,979	4,723
Profit before income tax	333,473	586,689

Impairment of construction in progress is attributable to stevedoring and additional port services (Novorossiysk) segment.

Other segment information

		Depreciation and amortisation charge		Capital expenditures
		Year ended		Year ended
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Stevedoring and additional port services	57,731	59,409	100,647	113,450
Novorossiysk	49,404	48,799	98,786	109,780
Primorsk	6,457	8,385	1,384	2,068
Baltiysk	1,870	2,225	477	1,602
Fleet services	4,224	4,258	2,496	3,214
Novorossiysk	2,326	2,555	1,394	1,738
Primorsk	1,898	1,703	1,102	1,476
Total reportable segments	**61,955**	**63,667**	**103,143**	**116,664**
Other	1,896	1,945	738	401
Total segments	**63,851**	**65,612**	**103,881**	**117,065**
Unallocated amounts	8,510	7,903	7,973	33,172
Consolidated	**72,361**	**73,515**	**111,854**	**150,237**

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).

7. REVENUE

	Year ended	
	December 31, 2018	December 31, 2017
Stevedoring services	732,604	709,592
Additional port services	197,302	110,152
Fleet services	13,292	69,081
Other	8,055	11,006
Total	**951,253**	**899,831**

Revenue of 12,463, recognized in the current reporting period, relates to the contract liabilities as at January 1, 2018, of which 12,463 relates to advances received.

8. OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Year ended	
	December 31, 2018	December 31, 2017
Employee benefit expense	83,656	86,753
Rent	45,104	47,402
Third-party services related to the transhipment process	40,776	12,572
Fuel for resale and own consumption	39,869	24,823
Social funds contribution	20,513	20,398
Repair and maintenance services	19,077	20,124
Materials	8,572	8,292
Property tax and other taxes, except for income tax	7,776	5,350
Energy and utilities	6,658	6,776
Charitable donation	5,228	4,994
Security services	4,092	3,195
Professional services	1,840	2,828
Insurance	1,439	1,683
Other expenses	8,317	11,654
Total	**292,917**	**256,844**

9. FINANCE COSTS

	Year ended	
	December 31, 2018	December 31, 2017
Interest on loans and borrowings	72,633	71,638
Interest expense – finance lease	462	823
Total	**73,095**	**72,461**

10. FOREIGN EXCHANGE (LOSS) / GAIN, NET

	Year ended	
	December 31, 2018	December 31, 2017
Foreign exchange (loss) /gain on debt financing	(212,432)	72,505
Foreign exchange gain / (loss) on cash and cash equivalents	9,266	(5,386)
Foreign exchange gain / (loss) on financial investments	–	(85)
Foreign exchange gain / (loss) on other assets and liabilities	1,587	(357)
Total	**(201,579)**	**66,677**

11. INCOME TAX

	Year ended	
	December 31, 2018	December 31, 2017
Current income tax expense	63,885	84,789
Deferred income tax expense	1,477	29,871
Total	**65,362**	**114,660**

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP, which is permitted to apply a reduced income tax rate of 16.5% until December 31, 2021 inclusively, is calculated at 20% of the taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	Year ended	
	December 31, 2018	December 31, 2017 (restated)
Profit before income tax	333,473	586,689
Tax at the Russian Federation statutory rate of 20%	66,695	117,338
Other non-deductible expenses	2,989	1,339
Impairment of construction in progress	99	328
Effect of different tax rates of subsidiaries	(4,421)	(4,345)
Total	65,362	114,660

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

	December 31, 2018	December 31, 2017
Net balance at the beginning of the year	52,456	21,075
Expense recognised during the year	1,477	29,871
Effect of translation into presentation currency	(9,107)	1,510
Net balance at the end of the year	44,826	52,456

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.

11. INCOME TAX (continued)

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

	December 31, 2018	December 31, 2017
Deferred tax assets		
Impairment of restricted cash in Vneshprombank	57,313	69,121
Tax loss carry forward	35,961	43,602
Accrued expenses	10,909	6,561
Allowance for doubtful receivables	829	922
Allowance for obsolete and slow-moving inventories	303	240
Total	105,315	120,446
Deferred tax liabilities		
Property, plant and equipment	144,667	166,553
Investment valuation	3,535	3,529
Debt	1,562	2,305
Mooring rights	377	515
Total	150,141	172,902
Net deferred tax liability	**44,826**	**52,456**

In the context of the Group's current structure, tax losses and current tax assets of different companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity, when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The following is the analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position:

	December 31, 2018	December 31, 2017
Deferred tax assets	71,884	88,777
Deferred tax liabilities	116,710	141,233
Net deferred tax liability	44,826	52,456

At December 31, 2018 and 2017, The Group has not recorded any deferred tax liability in respect of temporary differences associated with investments in subsidiaries, as the legislation allows zero tax on dividends from subsidiaries under certain conditions. The Group meets such conditions.

12. DIVIDENDS

Dividends declared by the Group during the years ended December 31, 2018 and 2017 were 221,364 and 258,259, respectively, including dividends to non-controlling interest. The total dividends paid during the years ended December 31, 2018 and 2017 were 148,955 and 250,012, respectively.

As at December 31, 2018, the dividend liability of the Group amounted to 72,092 (December 31, 2017: 2,193). It is included in accrued expenses as at December 31, 2018 and 2017 (Note 25).

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at January 1, 2017	635,424	361,229	343,011	88,315	20,811	10,610	56,600	1,516,000
Additions	12,868	27,127	56,731	3,228	3,815	2,134	44,334	150,237
Transfer	–	21,759	1,899	65	–	13	(23,736)	–
Disposals	(185)	(6,149)	(9,211)	(959)	(1,352)	(200)	(609)	(18,665)
Effect of translation into presentation currency	33,886	19,728	18,847	3,805	1,134	586	3,265	81,251
As at December 31, 2017	681,993	423,694	411,277	94,454	24,408	13,143	79,854	1,728,823
Accumulated depreciation and impairment								
As at January 1, 2017	–	(131,766)	(176,681)	(42,191)	(12,366)	(8,188)	(269)	(371,461)
Depreciation expense	–	(25,416)	(35,394)	(6,224)	(2,654)	(2,305)	–	(71,993)
Disposals	–	5,383	8,743	959	1,237	187	–	16,509
Impairment of construction in progress	–	–	–	–	–	–	(1,639)	(1,639)
Effect of translation into presentation currency	–	(7,254)	(9,723)	(1,965)	(673)	(461)	(33)	(20,109)
As at December 31, 2017	–	(159,053)	(213,055)	(49,421)	(14,456)	(10,767)	(1,941)	(448,693)
Cost								
As at January 1, 2018	681,993	423,694	411,277	94,454	24,408	13,143	79,854	1,728,823
Additions	150	16,529	47,774	2,610	1,722	3,855	39,214	111,854
Transfer	–	8,341	5,086	2,103	–	83	(15,613)	–
Disposals	–	(3,104)	(5,771)	(3,151)	(1,234)	(250)	(2)	(13,512)
Effect of translation into presentation currency	(116,547)	(74,511)	(74,863)	(13,351)	(4,218)	(2,605)	(15,942)	(302,039)
As at December 31, 2018	565,596	370,949	383,503	82,665	20,678	14,226	87,511	1,525,128
Accumulated depreciation and impairment								
As at January 1, 2018	–	(159,053)	(213,055)	(49,421)	(14,456)	(10,767)	(1,941)	(448,693)
Depreciation expense	–	(25,777)	(35,230)	(6,045)	(2,405)	(1,382)	–	(70,839)
Disposals	–	2,401	4,885	2,101	1,169	247	–	10,803
Impairment of construction in progress	–	–	–	–	–	–	(495)	(495)
Effect of translation into presentation currency	–	29,449	39,363	7,578	2,591	1,950	378	81,309
As at December 31, 2018	–	(152,980)	(204,037)	(45,787)	(13,101)	(9,952)	(2,058)	(427,915)
Carrying value								
As at January 1, 2017	635,424	229,463	166,330	46,124	8,445	2,422	56,331	1,144,539
As at December 31, 2017	681,993	264,641	198,222	45,033	9,952	2,376	77,913	1,280,130
As at December 31, 2018	565,596	217,969	179,466	36,878	7,577	4,274	85,453	1,097,213

13. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2018, the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 20,040 (December 31, 2017: 19,914).

During the years ended December 31, 2018 and 2017, no interest expense was capitalised.

The carrying value of property, plant and equipment held under finance leases as at December 31, 2018 was 26,414 (December 31, 2017: 7,468). During the year ended December 31, 2018, the Group purchased 4 leased assets in the end of lease agreement. Additions to the group "Machinery and equipment" in 2018 include 28,416 of property, plant and equipment under finance leases, there were no additions of property, plant and equipment under finance leases during the the year ended December 31, 2017. Leased assets are pledged as security for the related finance liabilities. No other property, plant and equipment items are pledged.

In 2018, the Group acquired property, plant and equipment with an aggregate cost of 111,854 (2017: 150,237). Cash payments of 98,894 were made to purchase property, plant and equipment (2017: 160,519) including payments under finance lease contracts.

During the years ended December 31, 2018 and 2017, the Group disposed of assets resulting in net losses of 2,027 and 1,176, respectively.

14. GOODWILL

	December 31, 2018	December 31, 2017 (restated)
Cost	692,391	835,081
Accumulated impairment loss:	(180,709)	(217,950)
Carrying amount	511,682	617,131
Cost		
Balance at the beginning of the year	835,081	792,999
Effect of translation into presentation currency	(142,690)	42,082
Balance at the end of the year	692,391	835,081

Accumulated impairment loss:

Balance at the beginning of the year	(217,950)	(206,967)
Effect of translation into presentation currency	37,241	(10,983)
Balance at the end of the year	(180,709)	(217,950)

14. GOODWILL (continued)

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

	Cost		Accumulated impairment loss		Carrying amount	
	December 31, 2018	December 31, 2017 (restated)	December 31, 2018	December 31, 2017 (restated)	December 31, 2018	December 31, 2017 (restated)
Stevedoring and additional services segment:						
PTP	353,395	426,223	(92,089)	(111,067)	261,306	315,156
Grain Terminal	68,351	82,437	–	–	68,351	82,437
Novoroslesexport	55,160	66,528	–	–	55,160	66,528
IPP	11,889	14,339	–	–	11,889	14,339
Shipyard	5,383	6,492	(1,356)	(1,636)	4,027	4,856
BSC	1,230	1,484	–	–	1,230	1,484
Fleet services segment:						
SFP	165,837	200,013	(87,264)	(105,247)	78,573	94,766
Fleet	31,146	37,565	–	–	31,146	37,565
Total	**692,391**	**835,081**	**(180,709)**	**(217,950)**	**511,682**	**617,131**

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 December 31, 2018 were as follows:

- Cash flow projections were based on the business plans of the Group for the years 2019-2023, 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.
- Cash flows were presented in the Russian Roubles and were projected using the inflation set by Global Insight
- Cash flow projections beyond 2023 were extrapolated using a steady 4.4% per annum growth rate and
- Discount rate was determined for each CGU in nominal terms based on the Group's weighted average cost of capital adjusted for tax effect to arrive at rate of 12.63% (prior year estimate – 14.68%)

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 cash flow forcasts.

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

Sensitivity analysis

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

Management prepared a sensitivity analysis and determined that neither a 10% reduction in revenue, nor a 10% increase in capital expenditure (costs associated with the maintenance of fixed assets), nor 10% increase in operating expenses (the fixed and variable 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. INVESTMENT IN JOINT VENTURE

LLC Novorossiysk Fuel Oil Terminal (“NFT”) is a fuel oil terminal in Novorossiysk, 353900, Magistralnaya st., 6, Krasnodar region, with maximum transhipment 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 2018 and 2017 recognised in the consolidated statement of comprehensive income amounted to 6,091 and 4,858, respectively.

Summarised financial information of NFT is represented below:

	December 31, 2018	December 31, 2017
Current assets	25,188	18,695
Non-current assets	35,195	46,399
Total assets	**60,383**	**65,094**
Current liabilities	(1,197)	(1,627)
Non-current liabilities	(1,567)	(2,027)
Total liabilities	**(2,764)**	**(3,654)**
Net assets	**57,619**	**61,440**
Group’s share of joint venture net assets	**28,810**	**30,720**
Elimination of unrealised profit	(2,255)	(2,171)
Carrying value of investment	**26,555**	**28,549**

The above amounts of assets and liabilities include the following:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	21,650	10,862

		Year ended
	December 31, 2018	December 31, 2017
Revenue	43,185	39,625
Operating profit	10,774	10,835
Profit for the year	12,182	9,716
Group’s share in profit for the year at 50%	6,091	4,858
Other comprehensive (loss) / income	(11,429)	3,490

15. INVESTMENT IN JOINT VENTURE (continued)

The above profit for the year includes the following:

	Year ended	
	December 31, 2018	December 31, 2017
Depreciation and amortization	(6,200)	(8,159)
Interest income	1,157	542
Interest expense	–	(26)
Income tax	429	(329)

In December 2018, NFT distributed profit to NCSP in the amount of 2,264, with a 0% tax rate.

Loan issued by NFT to the Group is disclosed in Note 22.

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

	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
Name of subsidiary	December 31, 2018	December 31, 2017	2018	2017	December 31, 2018	December 31, 2017
JSC Novorossiysk Shipyard	1.74%	1.74%	315	286	529	568
JSC Fleet Novorossiysk Commercial Sea Port	4.81%	4.81%	649	683	1,068	1,734
JSC Novoroslesexport	8.62%	8.62%	2,849	2,804	7,360	7,812
Other subsidiaries with non-controlling interests					487	290
Total					**9,444**	**10,404**

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehen-sive income	Cash flows
Year ended December 31, 2018								
JSC Novorossiysk Shipyard	9,425	24,248	(2,478)	(807)	47,206	18,129	18,129	4,098
JSC Fleet Novorossiysk Commercial Sea Port	12,093	14,192	(3,854)	(233)	63,808	13,499	13,499	(1,180)
JSC Novoroslesexport	21,006	69,275	(3,733)	(1,169)	70,451	33,055	33,055	5,406
Other subsidiaries with non-controlling interests	39,646	48,940	(6,384)	(3,930)	89,013	34,930	34,930	21,800
Year ended December 31, 2017								
JSC Novorossiysk Shipyard	7,092	28,695	(2,253)	(915)	41,875	16,461	16,461	(12,853)
JSC Fleet Novorossiysk Commercial Sea Port	19,355	20,962	(3,995)	(283)	56,729	14,196	14,196	(38,046)
JSC Novoroslesexport	16,494	80,329	(4,388)	(1,806)	70,305	32,528	32,528	3,702
Other subsidiaries with non-controlling interests	19,349	51,248	(4,499)	(4,914)	79,687	43,905	43,905	(5,159)

17. INVENTORIES

	December 31, 2018	December 31, 2017
Materials	8,468	8,250
Goods for resale	3,064	7,692
Fuel	1,443	1,438
Less: inventory write-down to net realisable value	(1,879)	(927)
Total	**11,096**	**16,453**

18. TRADE AND OTHER RECEIVABLES, NET

	December 31, 2018	December 31, 2017
Trade receivables (RUB)	21,215	18,282
Trade receivables (USD)	8,345	7,602
Trade receivables (EUR)	–	17
Other receivables	9,203	10,807
Less: credit loss allowance	(8,770)	(11,243)
Total	**29,993**	**25,465**

Average credit period provided to the Group's customers is 10 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, based on size, volume and history of operations with the Group at rates from 0.3% to 15% per month on the outstanding balance.

The Group uses an internal credit system to assess potential customer's credit quality. The Group's 6 largest customers (2017: 6) in total represent 41% (2017: 35%) of the outstanding trade receivables balance at the end of the year.

Included in the Group's receivable balance are debts with carrying value of 7,474 (2017: 4,252) which are past due at the respective reporting date but not impaired and which the Group still considers as recoverable.

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

In % of gross value	Loss rate	Grosscarrying amount	Lifetime ECL
Trade receivables – current	–	21,244	–
– less than 45 days overdue	–	4,759	–
– 45 to 90 days overdue	10%	313	31
– 91 to 180 days overdue	33%	441	145
– 181 to 360 days overdue	65%	1,003	652
– over 360 days overdue	85%	1,800	1,530
Total trade receivables (gross carrying amount)		29,560	
Credit loss allowance		(2,363)	
Total trade receivables from contracts with customers (carrying amount)		27,197	
Other receivables – current	11%	1,273	140
– less than 45 days overdue	25%	330	83
– 45 to 90 days overdue	35%	3	1
– 91 to 180 days overdue	51%	53	27
– 181 to 360 days overdue	65%	560	364
– over 360 days overdue	83%	6,984	5,797
Total other receivables		9,203	
Credit loss allowance		(6,407)	
Total other receivables (carrying amount)		2,796	

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

18. TRADE AND OTHER RECEIVABLES, NET (continued)

The following table explains the changes in the credit loss allowance for trade and other financial receivables under ECL model between the beginning and the end of the annual period:

	Year ended	
	December 31, 2018	December 31, 2017
As at beginning of the year	11,243	6,946
New originated during the year	1,151	4,386
Receivables written-off during the year as uncollectable	(1,761)	(410)
Financial assets derecognized during the period	–	(98)
Effect of translation into presentation currency	(1,863)	419
As at end of the year	8,770	11,243

Trade and other receivables with a balance of 8,770 (2017: 11,243) were individually impaired and fully provided for. The individually impaired receivables mainly relate to companies, which have been considered as insolvent based on the Group's legal department analysis.

	2017	
	Trade receivables	Other financial receivables
Not past due and not impaired	19,792	1,422
Past due but not impaired		
- less than 45 days overdue	1,878	753
- 45 to 90 days overdue	148	7
- 91 to 180 days overdue	105	10
- 181 to 365 days overdue	75	15
- over 365 days overdue	–	1,795
Total past due but not impaired	**2,205**	**2,579**
Individually determined to be impaired (gross)		
- less than 45 days overdue	–	36
- 45 to 90 days overdue	45	10
- 91 to 180 days overdue	42	9
- 181 to 365 days overdue	581	3,713
- over 365 days overdue	2,239	4,037
Total individually impaired	**2,907**	**7,804**
Less impairment provision	**(6,449)**	**(4,794)**
Total trade and other receivables at December 31	**18,455**	**7,010**

19. OTHER NON-CURRENT ASSETS

	December 31, 2018	December 31, 2017
Advances issued for acquisition of fixed assets and capital services	1,568	1,041
Debt on assignment of rights of claims	24,708	24,479
Total	**26,276**	**25,520**

The debt on assignment of rights of claims represents debts of Terminal Mega LLC and OJSC Mega, which were obtained by the Group under the commercial assignment agreement with SBC-Retail LLC in 2017.

These debts are secured by property of the debtors. The debts have been classified as Other Non-Current Assets, since the probability of cash receipt under the agreement is remote and the sole purpose of the acquisition of the debts was to obtain the eventual ownership of the property. Management has not impaired the asset as the market value of the property exceeds the purchase consideration of the debts.

20. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Bank deposits in RUB	128,313	98,151
Bank deposits in USD	38,454	17,930
Bank deposits in EUR	858	–
Current accounts in RUB	3,325	3,332
Current accounts in USD	1,752	1,918
Current accounts in EUR	146	161
Cash in hand	17	36
Total	**172,865**	**121,528**

Finance income from deposits in 2018 - 13,597, in 2017 - 15,059.

Bank deposits as at December 31, 2018 are summarised below:

Bank	Currency	Rate, %	December 31, 2018
PJSC Bank VTB (“Bank VTB”)	RUB	5.25-8.00	74,003
Bank VTB	USD	0.20-3.25	19,287
PJSC Sberbank Russia (“Sberbank”)	RUB	4.16-7.60	23,607
Sberbank	USD	0.55-2.07	1,471
JSC Rosselkhozbank	RUB	6.25-7.60	20,066
JSC Rosselkhozbank	USD	2.90-4.20	17,696
JSC Rosselkhozbank	EUR	1.30	858
Other	RUB	6.50-7.50	10,637
Total			**167,625**

20. CASH AND CASH EQUIVALENTS (continued)

Bank deposits as at December 31, 2017 are summarised below:

Bank	Currency	Rate, %	December 31, 2017
Sberbank	RUB	4.54–6.70	57,812
Sberbank	USD	0.69–1.40	8,220
Bank VTB	RUB	6.15–7.45	20,469
JSC Rosselkhozbank	RUB	7.20-7.80	10,243
JSC Rosselkhozbank	USD	1.45-1.80	6,927
Other	RUB	5.10-8.45	9,627
Other	USD	1.35-1.40	2,783
Total			**116,081**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at December 31, 2018.

Master scale credit risk grade	Corresponding ratings of external international rating agencies	Bank balances payable on demand	Term deposits	Total
Excellent	-Baa3	3,068	25,078	28,146
Good	-Ba1	2,106	132,615	134,721
Good	-Ba3	–	720	720
Satisfactory	-B1	44	9,212	9,256
Satisfactory	Unrated	5	–	5
Total cash and cash equivalents, excluding cash on hand				172,848

The credit quality of cash and cash equivalents balances may be summarised based on Moody`s as follows at December 31, 2017:

Master scale credit risk grade	Corresponding ratings of external international rating agencies	Bank balances payable on demand	Term deposits	Total
Excellent	- Baa3	2,739	68,932	71,671
Good	- Ba1	2,606	40,422	43,024
Good	- Ba3	–	6,545	6,545
Satisfactory	- B1	62	182	244
Satisfactory	Unrated	8	–	8
Total cash and cash equivalents, excluding cash on hand				121,492

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- Excellent – strong credit quality with low expected credit risk
- Good – adequate credit quality with a moderate credit risk
- Satisfactory – moderate credit quality with a satisfactory credit risk

The Group uses lifetime expected credit loss approach to measure expected credit losses for most of its financial assets. As of December 31, 2018 and 2017, no significant credit loss allowance for impairment in respect of these assets was recognized.

21. SHARE CAPITAL

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

On the account treasury shares, in the section of equity, the Group reflects its own shares repurchased in 2011.

On October 1, 2018, 1,417,475 previously repurchased ordinary shares, which were classified as treasury shares as at December 31, 2017, were sold to the LLC Transneft Service for a cash consideration of 148.

The number of shares outstanding is 18,482,934,068 and 18,481,516,593 as at December 31, 2018 and 2017, respectively.

Shares are admitted to circulation on the Moscow Exchange, as well as on the London Stock Exchange in the form of global depositary receipts.

22. DEBT

	Interest rate	Maturity date	December 31, 2018	December 31, 2017
Unsecured borrowings				
NFT (RUB)	7.0%	October 2018	–	2,693
Industrial Development Fund (RUB)	1.0%	December 2022	4,478	–
Industrial Development Fund (RUB)	1.0%	December 2022	5,212	–
Secured bank loans				
Bank VTB (USD)	LIBOR 3M + 3.99%	June 2023	994,233	1,190,511
Total debt			1,003,923	1,193,204
Short-term borrowing			–	(2,693)
Current portion of long-term debt			(200,299)	(199,930)
Total non-current debt			803,624	990,581

Bank VTB

On June 20, 2016, NCSP received a loan in the amount of 1,500,000 from Bank VTB to repay 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 loan receipt
- The loan is secured by independent guarantees of PTP and SFP as well as by indemnity guarantee of Novoport Holding Ltd.
- Certain financial covenants are imposed on the Group (such as: total net debt of the Group to earnings before interest, taxes, depreciation and amortisation ("Adjusted EBITDA" ratio), 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

The sensitivity analysis is performed in Note 30.

22. DEBT (continued)

Other debt

On February 14, 2018, NCSP has obtained two special-purpose loans totaling 11,650 (RUB 673 million) from the Industrial Development Fund to finance an advance payment of the acquired all-wheel drive bridge cranes "Aist" and "Vityaz" comprising 9 pieces. Both loans are granted at 1% interest rate per annum. Principal amounts are repayable in equal instalments at the end of each quarter starting from March, 31 2021; maturity date is December 2022. Interest is charged monthly and paid quarterly.

As at December 31, 2018, the long-term borrowings are disclosed net of unamortised expense for raising a loan in amount of 7,810 (December 31, 2017: 11,526).

The Group's borrowings as at December 31, 2018 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	–	16,741	16,741
Due from three to six months	100,000	17,020	117,020
Due from six months to twelve months	100,000	30,548	130,548
	200,000	**64,309**	**264,309**
Between 1 and 2 years	200,000	50,898	250,898
Between 2 and 5 years	609,688	67,499	677,187
Total	**1,009,688**	**182,706**	**1,192,394**

The Group's borrowings as at December 31, 2017 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	–	16,665	16,665
Due from three to six months	100,000	16,958	116,958
Due from six months to twelve months	102,603	31,166	133,769
	202,603	64,789	267,392
Between 1 and 2 years	200,000	53,342	253,342
Between 2 and 5 years	600,000	92,566	692,566
Over 5 years	200,000	5,617	205,617
Total	1,202,603	216,314	1,418,917

For the variable rate borrowings, contractual interest liability for future periods was calculated based on effective borrowing rate relating to the Group's variable rate borrowings as at December 31, 2018 of 6.78% (December 31, 2017: 5.63%).

The main part of financial obligations of the Group is 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 December 31, 2018, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 212,432 (during the year ended December 31, 2017 the foreign exchange gain on financial obligations increased the Group's profit before income tax by 63,115).

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

22. DEBT (continued)

	January 1, 2018	Financing cash flows (i)	Other changes (ii)	December 31, 2018
Bank loans	1,190,511	(200,000)	3,722	994,233
Loans from related and other parties	2,693	8,447	(1,450)	9,690
Finance lease (Note 23)	3,221	(13,825)	23,723	13,119
	1,196,425	**(205,378)**	**25,995**	**1,017,042**

2017

	January 1, 2017	Financing cash flows (i)	Other changes (ii)	December 31, 2017
Bank loans	1,389,152	(200,000)	1,359	1,190,511
Loans from related and other parties	–	2,571	122	2,693
Finance lease (Note 23)	6,683	(11,602)	8,140	3,221
	1,395,835	**(209,031)**	**9,621**	**1,196,425**

1. The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.
2. Other changes include interest accruals and payments 1,941 (2017: 2,929), translation difference (gain) / loss, net (4,362) (2017: 6,692) and additions of property, plant and equipment under finance leases 28,416 (2017: 0).

23. FINANCE LEASE

The Group rents transhipment machinery and equipment under finance lease agreements with five years terms. The Group has the right to purchase equipment after expiration of the 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 10.76% to 17.14% per annum.

	Minimum lease payments as at December 31, 2018	Minimum lease payments as at December 31, 2017	Present value of minimum lease payments as at December 31, 2018	Present value of minimum lease payments as at December 31, 2017
Less than one year	3,557	3,409	3,368	3,156
In the second and fifth year	13,379	78	9,751	65
Less: future financing costs	(3,817)	(266)	–	–
Present value of minimum lease payments	**13,119**	**3,221**	**13,119**	**3,221**

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

24. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
Trade payables	4,059	6,117
Payables for property, plant and equipment	3,560	5,473
Other accounts payable	1,512	509
Total	**9,131**	**12,099**

The average credit period for trade payables relating to the purchase of inventories (e.g. fuel) and services (e.g. utilities) is 9 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:

	December 31, 2018	December 31, 2017
Past due	361	857
Due within three months	5,342	8,473
Due from three to six months	199	478
Due from six months to twelve months	3,229	2,291
Total	**9,131**	**12,099**

25. ACCRUED EXPENSES

	December 31, 2018	December 31, 2017
Accrued salaries and wages	10,991	12,268
Dividend liability (Note 12)	72,092	2,193
Accrued rent expenses	386	–
Accrued expenses due to increase in tariffs	–	887
Accrued professional service expenses	210	400
Tax contingencies	133	–
Other accrued expenses	847	677
Total	**84,659**	**16,425**

26. RELATED PARTY TRANSACTIONS

As of December 31, 2017 and December 31, 2018, the controlling shareholder (the immediate parent entity) of NCSP was Novoport Holding Ltd. (registered under the legislation of the Republic of Cyprus), which controlled 50.1% of NCSP. Novoport Holding Ltd. was owned by OMIRICO LIMITED (registered under the legislation of the Republic of Cyprus).

As of December 31, 2017, OMIRICO LIMITED was jointly controlled by PJSC Transneft and the Summa Group. 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 ultimate beneficiary of the Summa Group are members of the Magomedov family.

In September 2018, PJSC Transneft acquired 50% of the share capital of OMIRICO LIMITED and as a result of the transaction, the share of PJSC Transneft in OMIRICO LIMITED increased to 100%. The effective share of PJSC Transneft in NCSP increased from 37.07% to 63.08%. As a result, PJSC Transneft obtained control over NCSP and its subsidiaries.

As of December 31, 2017 and December 31, 2018, the Federal Property Agency of the Russian Federation owned a direct 20% interest in NCSP and was a controlling shareholder of PJSC Transneft. Due to the fact that the Federal Property Agency of the Russian Federation had a joint control and control over NCSP as of December 31, 2017 and December 31, 2018, respectively, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended December 31, 2018 and 2017, the Group transacted with Sberbank, VTB Bank, PJSC Rosneft Oil Company, OJSC Russian Railways and other state-controlled entities (apart from PJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees in regards to related parties have been given or received during the reporting period. Provisions have been made in respect of the amounts owed by related parties in respect of trade and other receivables in the amount 112 (December 31, 2017: 4,661).

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

		Year ended
	December 31, 2018	December 31, 2017
Sales		
Sales of goods and services	92,459	101,967
Interest income	13,022	10,286
Purchases		
Services and materials received	17,808	17,939
Finance costs and commission for early repayment of debt	72,490	71,546

26. RELATED PARTY TRANSACTIONS (continued)

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents		
Cash and cash equivalents	162,686	111,701
Receivables		
Long-term receivables	1,512	–
Trade and other receivables, net of allowance for doubtful trade and other receivables	1,589	2,079
Advances to suppliers	468	360
Payables		
Trade and other payables	216	159
Advances received from customers	574	357
Debt		
Long-term debt	803,624	990,581
Current portion of long-term debt	200,299	199,930

Transactions with PJSC Transneft and its subsidiaries:

		Year ended
	December 31, 2018	December 31, 2017
Sales		
Sales of goods and services	90,412	98,098
Purchases		
Services and materials received	64,657	41,852
Other selling expenses	2,558	3,033

Balances with PJSC Transneft and its subsidiaries:

	December 31, 2018	December 31, 2017
Receivables		
Trade and other receivables, net of allowance for doubtful trade and other receivables	1,348	944
Advances to suppliers	3,020	368
Payables		
Trade and other payables	1,707	3,141
Advances received from customers	1,541	1,567

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

26. RELATED PARTY TRANSACTIONS (continued)

Transactions with NFT:

	Year ended	
	December 31, 2018	December 31, 2017
Sales and income		
Sales of goods and services	8,956	7,242
Purchases		
Services and materials received	1,441	2,268
Interest expense	139	87

Balances with NFT:

	December 31, 2018	December 31, 2017
Receivables		
Trade and other receivable	168	354
Payables to related parties		
Trade and other payables	8	–
Advances received from customers	31	36
Financial debt to related parties		
Short-term debt	–	2,693

Compensation of key management personnel

For the years ended December 31, 2018 and 2017, remuneration to key management personnel (salaries, taxes directly attributable to salaries and bonus provision) amounted to 10,466 (including termination benefits in the amount of 248) and 10,567 (including termination benefits in the amount of 429), respectively.

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

27. 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 2017, FAS found NCSP and PTP guilty for breaking the Federal Law No. 135 FZ "On Protection of Competition", upon the fact of imposing monopolistically high prices for transshipment in 2015 in the port of Novorossiysk and Primorsk, respectively. FAS issued an order for NCSP and PTP to transfer certain proceeds from their activities in the amount of 140,247 and 2,666, respectively (using the exchange rate as at December 31, 2018) to the federal budget. In addition, FAS ordered to set economically justified tariffs. The Law Courts (which includes the Presidium of the Supreme Court of the Russian Federation) had confirmed the legal position of NCSP and PTP and annulled the FAS order. Similar cases are also being conducted with respect to the transshipment tariffs of PTP during 2016-2017. These cases for both companies were suspended until the completion of the legal actions under the transshipment tariffs for 2015. Currently there is no information on the resumption of the cases in respect of 2016-2017.

No provision was recorded in the consolidated financial statements for these claims as according to management's assessment the risk of outflow of economic benefits is between remote and possible.

Taxation contingencies in the Russian Federation

Russian tax legislation, which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review was made. Under certain circumstances, reviews may cover longer periods.

Russian transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the Group's operations.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). The CFC income is subject to a 20% tax rate. As a result, management reassessed the Group's tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arose from the expected taxable manner of recovery of the relevant Group's operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

27. COMMITMENTS AND CONTINGENCIES (continued)

Operating environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected.

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:

	December 31, 2018	December 31, 2017
Within 1 year	44,592	54,348
Between 1 and 2 years	44,693	51,066
Between 2 and 3 years	44,496	51,181
Between 3 and 4 years	42,284	50,893
Between 4 and 5 years	42,287	50,893
Thereafter	657,901	845,069
Total	**876,253**	**1,103,450**

As at December 31, 2018, minimum lease payments were calculated according to the existing contract terms.

28. CAPITAL COMMITMENTS

As at December 31, 2018 and 2017, the Group had the following commitments for acquisition of property, plant and equipment and construction works:

	December 31, 2018	December 31, 2017
NCSP	30,701	47,340
IPP	4,446	1,528
Novoroslesexport	3,722	4,070
PTP	1,571	120
Shipyard	1,129	47
NZT	359	944
SFP	40	2
BSC	20	261
Total	41,988	54,312

As at December 31, 2018 and 2017, there were no capital commitments relating to obligations under finance lease contracts.

29. 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 December 31, 2018 and 2017, management believes that the carrying values of financial assets (Notes 18 and 20) and financial liabilities recorded at amortised cost (Note 22 and 24) and also finance lease liability (Note 23) in the consolidated financial statements approximate their fair values, due to the fact that they are short-term, except for liabilities under credit agreement with Bank VTB (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 Central Bank of Russian Federation. As at 31 December 2018 the discount rate used for obligations under agreement with Bank VTB comprised 5.63% (December 31, 2017: 5.75%).

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value compared to the carrying value of long-term financial liabilities as at December 31, 2018 and 2017 is as follows:

	December 31, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
LIBOR + rate agreement with Bank VTB (Level 2)	994,233	1,022,144	1,190,511	1,195,391
Fixed rate financial liabilities (Level 2)	9,690	7,686	–	–

30. 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 22). 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.

	December 31, 2018	December 31, 2017
Financial assets		
Cash and cash equivalents	172,865	121,528
Cash and cash equivalents	172,865	121,528
Receivables	56,269	50,956
Trade and other receivables including long-term	56,269	50,956
Loans issued	–	–
Total financial assets	229,134	172,484
Financial liabilities carried at amortised cost		
Borrowings	(1,003,923)	(1,193,204)
Trade and other payables	(5,725)	(6,707)
Payables for property, plant and equipment	(6,729)	(10,014)
Finance lease	(13,119)	(3,221)
Total financial liabilities	(1,029,496)	(1,213,146)

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

30. RISK MANAGEMENT (continued)

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 USD denominated monetary assets and liabilities as at the reporting date are as follows:

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	40,206	19,848
Investments and receivables carried at amortised cost	8,369	4,032
Total assets	48,575	23,880
Liabilities		
Borrowings	(994,233)	(1,190,511)
Finance lease	(77)	(3,221)
Trade payables	(30)	(46)
Total liabilities	(994,340)	(1,193,778)
Total net liability position	(945,765)	(1,169,898)

The table below details sensitivity of the Group's financial instruments to a 20% (2017: 20%) depreciation of the RUB against the USD 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 RUB against the USD would have an equal and opposite impact:

	December 31, 2018	December 31, 2017
Loss	(151,322)	(187,184)

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

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	1,004	161
Trade and other receivables	–	17
Total assets	1,004	178
Liabilities		
Trade payables	(726)	(622)
Total liabilities	(726)	(622)
Total net assets / (liability) position	278	(444)

30. RISK MANAGEMENT (continued)

The table below details the Group's sensitivity to a 20% (2017: 20%) depreciation of the RUB 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 RUB against the EUR would have an equal and opposite impact:

	December 31, 2018	December 31, 2017
Gain / (loss)	45	(71)

Interest rate risk

The Group is exposed to interest rate risk because entities of 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 with the floating interest rate terms. On June 20, 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 10,000 and 8,000 respectively.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group has an approved policy in accordance with which it regularly assesses creditworthiness of banks it deals with and reviews limit for allocation of free cash.

The Group's policy is generally to transact with its customers on a prepayment basis. Its trade accounts receivable are unsecured.

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group's suppliers of assets and services are selected mainly through tenders. The criteria for the bidders include both technical and financial indicators (availability of production facilities, skilled personnel, relevant experience, cost of assets and services etc.) and reliability (financial position, professional and ethical image of the bidders, whether quality control of the assets and services is established) resulting in admission of participants. The tender approach ensures the selection of suppliers with a low risk of failure to discharge their contractual obligations.

30. RISK MANAGEMENT (continued)

The summary below shows revenue for 2018 and 2017 and outstanding balances as at December 31, 2018 and 2017 of the top five counterparties:

	Customer location	Revenue for 2018	Outstanding balance at December 31, 2018
JSC "TRANSNEFT-SERVICE"	Russia	83,752	2,075
PJSC ROSNEFT	Russia	62,951	862
METALLOINVEST TRADING AG	Switzerland	53,276	1,694
PJSC "SURGUTNEFTEGAS"	Russia	47,776	2,647
JSC LYKOYL-CHERNOMORE	Russia	34,440	268
Total		**282,195**	**7,546**
	Customer location	**Revenue for 2017**	**Outstanding balance at December 31, 2017**
JSC "TRANSNEFT-SERVICE"	Russia	85,422	743
PJSC ROSNEFT	Russia	68,093	1,119
METALLOINVEST TRADING AG	Switzerland	56,106	1,283
JSC LYKOYL-CHERNOMORE	Russia	38,612	170
PJSC NLMK	Russia	38,601	354
Total		**286,834**	**3,669**

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 22 and 24.

31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2019, Transneft PJSC obtained direct control over PJSC NCSP in connection with the acquisition of a 50.11% stake in PJSC NCSP from the Cyprus-based Novoport Holding Limited.

In accordance with sale / purchase agreement dated February 5, 2019 PJSC NCSP acquired 0.01456% (zero point one thousand four hundred fifty six hundred percent) of the share in the authorized capital of LLC IPP and became its 100% participant.


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NCSP Group Assets

NCSP Group Assets in 2018

PJSC NCSP ASSETS

Storage facilities	Train receiving	Cranes	Forklifts	Container handlers	Clamshell loaders	Bucket loaders	Tractors	Roll trailers
141,900 m² open	697 freight cars	18, cap. 75-100 t or more	35, cap. 25-50 t	16, cap. 25-50 t	8, cap. 15-20 t	23	53, cap. 25-50 t	93, cap. 25-75 t
51,600 m² covered		17, cap. 50-75 t	55, cap. 10-25 t					
6,700 m² refrigerated		17, cap. 25-50 t	125, cap. up to 10 t					
4,812 TEU containers		18, cap. 10-25 t						

NLE ASSETS

Storage facilities	Train receiving	Cranes	Forklifts	Container handlers	Semi-trailers	Roll trailers
229,700 m² open	223 freight cars	2, cap. 75-100 t or more	19, cap. 10-25 t	7, cap. 25-50 t	32, cap. up to 36 t	2, cap. 50-75 t
14,528 m² covered		6, cap. 25-50 t	53, cap. up to 10 t			
11,090 TEU containers		5, cap. 10-25 t				
		5, cap. up to 10 t				

NSRZ ASSETS

Storage facilities	Train receiving	Cranes	Forklifts	Tractors	Roll trailers
4,500 m² open	64 freight cars	2, cap. 75-100 t	19, cap. 16-37 t	12, cap. 32 t	43, cap. 50-75 t
4,500 m² covered		2, cap. 45-50 t	18, cap. 1.5-3 t		
		12, cap. 25-40 t	4, cap. 7-10 t		
		2, cap. 10-20 t			
		7, cap. up to 10 t			

BSC ASSETS

Storage facilities	Cranes	Container handlers	Tractors	Roll trailers
11.7 ha	5, cap. 75-100 t or more	2, cap. 25-50 t	12, cap. 25-50 t	16, cap. 25-50 t
1,700 m² covered	6, cap. 25-50 t	3, cap. 10-25 t		
10,000 TEU containers				

NGT ASSETS

Storage capacity	Train receiving	Truck receiving	Ship loaders
162,700 m³	3 × 800 t/hr	2 × 200 t/hr	2 × 800 t/hr
		1 × 400 t/hr	

IPP ASSETS

Storage capacity	Train receiving
143,000 m³	4 receiving racks for 74 tank cars

NCSP FLEET ASSETS

Fleet
16 tugboats, 208-5,712 hp
1 Mars fire boat
4 fueling vessels, cap. 250-2,800 t
12 auxiliary fleet vessels

PTP ASSETS

Fleet
20,000 m³

SFP ASSETS

Storage capacity
7 Azimuth tugboats, 3,500-5,500 hp Arc4/Arc5 ice-class

History

The Company inherited the rights and obligations of the restructured state enterprise Novorossiysk Commercial Sea Port, which was originally founded in 1845, as of the date of its government registration.

The Company is a commercial organization that operates in accordance with the Civil Code of the Russian Federation, Russian Federal Law No. 208-FZ of December 26, 1995 on Joint-stock Companies (with subsequent amendments and additions), other regulations of the Russian Federation and the Charter. The goal of the Company is to earn a profit.

In 2016, OJSC NCSP acquired the assets of stevedoring and service companies operating at the Novorossiysk seaport, resulting in the formation of the Group, which included OJSC Novorossiysk Commercial Sea Port, OJSC NCSP Fleet, OJSC Novoroslesexport (NLE), OJSC Novorossiysk Ship Repair Yard (NSRZ), OJSC IPP and OJSC Novorossiysk Grain Terminal (NGT).

In 2007, OJSC NCSP became the sole owner of Novorossiysk Port Complex Zarubezhneft (NPK Zarubezhneft), which was renamed NCSP Resource on January 22, 2019.

In 2007, the Company's shares were included in the list of securities admitted for trading on the securities market by OJSC Russian Trading System Stock Exchange and CJSC MICEX Stock Exchange, and the Federal Financial Markets Service of Russia allowed Global Depositary Receipts (GDR) on OJSC NCSP shares in the amount of 3,909,742,526 (20.3%) to be traded outside of the Russian Federation.

In 2008, OJSC NCSP became the sole owner of Baltic Stevedoring Company LLC (BSC), and in 2009 it became one of the founders of Novorossiysk Fuel Terminal LLC (NMT), in which it owns 50% of equity.

In 2011, OJSC NCSP became the sole owner of Primorsk Trade Port LLC (PTP).

In 2016, PJSC NCSP acquired 1,885,175 common shares in NSRZ.

In 2017, PJSC NCSP acquired 62,629 common shares and 112,216 preferred shares in NSRZ in a mandatory offer, increasing its ownership interest to 99.21% of common shares and 95.41% of preferred shares.

The consolidation of assets strengthened NCSP Group's position on the market, increased its market capitalization and, most importantly, made it possible to build a centralized system of management, minimize operating costs and specialize the operations of stevedoring businesses.

In 2017, PJSC NCSP became the sole owner of CJSC Importpischeprom-Transservis.

In 2017, the Board of Directors made a decision on the Company's participation in another organization through the creation of subsidiary NCSP Capital LLC, with an equity interest of 100%.

In 2018, PJSC Transneft (Moscow, Russian Federation; Taxpayer Identification Number (INN): 7706061801; Primary State Registration Number (OGRN): 1027700049486) acquired control of 62% of votes attributable to the voting shares of PJSC NCSP.

Key Events of 2018

Key events of 2018
January
Novorossiysk Commercial Sea Port ranked 20th among the top-200 Russian companies by revenue in a rating of information disclosure transparency. PJSC NCSP scored 5.3 points out of a possible 10. Only 32 companies among the 200 scored 5 points or higher.
February
On February 8, the first shipment of gasoline, in the amount of 58,000 tonnes, was loaded in Novorossiysk through Berth No. 2 at the Sheskharis Oil Terminal, onto the tanker Flagship Violet. On February 15, PJSC NCSP management and the Novorossiysk municipal administration signed a letter of intent at the Sochi-2018 Russian Investment Forum to cooperate on investment.
March
On March 5, IPP won the award for “Best occupational health and safety management in the industry” in a competition among Novorossiysk transport companies.
April
On April 4, ship repair work resumed at NSRZ after being suspended almost 2.5 years earlier.
From April 17 to 19, NCSP Group took part in the 23rd TransRussia international exhibition for transport and logistics services and technologies.
May
NCSP Group port workers took part in the annual Immortal Regiment march.
June
On June 12, the Company set a single-day record for handling hot briquetted iron, loading 26,800 tonnes of briquettes onto the vessel Yasar Kemal in one 12-hour shift. The first tanker was unloaded in June as part of a project to receive oil products at the River-Sea Dock No. 5 terminal, which makes it possible to accumulate shiploads at the IPP tank farm not only from cargo delivered by trains but also using cabotage fleet vessels. SFP acted as the general sponsor for the Port Primorsk Cup sailing race for the 12th time. On June 29, PJSC NCSP held its Annual General Meeting, at which shareholders elected the Company’s Board of Directors and Audit Commission. PJSC NCSP’s Board of Directors elected the Company’s Management Board. Novorossiysk Grain Terminal handled a record 6.3 million tonnes in the 2017/2018 season (July 2017 to June 2018).
July
On July 20, Novorossiysk Ship Repair Yard carried out dock operations to launch the Orion-A tanker and Burny tugboat (Project R-01003).
August
On August 21, Moody’s Investors Service announced that it had upgraded PJSC NCSP’s rating to “Ba2,” outlook “stable.” On August 24, PJSC NCSP employees set a record in transshipment of steel blanks, handling 7,040 tonnes per process line in a 12-hour shift.

September

On September 7, Novorossiysk Ship Repair Yard celebrated its 100th anniversary.
On September 12, construction was completed on a warehouse to store referee samples of oil products at IPP.

On September 12, NCSP Group took part in a time capsule event in honor of the 180th birthday of Novorossiysk. A time capsule with letters to future generations in 2067 was placed at the bottom of the Black Sea.

On September 15, Russia's first memorial to port workers was unveiled in Novorossiysk. It was given to the city by NCSP Group and Delo Group.

On September 26, the Board of Directors of the Association of Commercial Seaports of Russia (ASOP) held a meeting in Novorossiysk.

On September 27, PJSC Transneft consolidated a controlling interest in PJSC NCSP.

October

The first tanker fueled by liquefied natural gas, the Gagarin Prospect, entered the Port of Primorsk to be loaded with oil.
On October 31, PJSC NCSP's Board of Directors approved increasing the Company's equity interest in IPP to 100%.

November

From November 20 to 22, NCSP Group took part in the Russian Transport International Forum and Exhibition.
On November 23, PTP offloaded the billionth tonne of liquid hydrocarbons (oil and diesel fuel) since loading its first tanker in 2001.

On November 27, the first transshipment of sunflower oil took place at PJSC NCSP's Dock No. 5; 6,000 tonnes were delivered to the port by train and loaded onto a tanker.

December

On December 7-8, the second Spartakiade and professional skills competition among NCSP Group employees were held in Novorossiysk.
On December 19, the tugboat Ryurik carried out the first docking work at LNG terminals in the Port of Kaliningrad.

On December 23, PTP loaded its 100 millionth tonne of diesel fuel.

On December 29, PTP reopened oil loading Berth No. 1, which was repaired after being damaged in 2016.

On December 26, NSRZ's Floating Dock No. 190 carried out dock work to launch three vessels. Dock No. 190 repaired a total of 13 vessels in 2018.

Baltic Stevedoring Company set an all-time record for the more than 15 years it has been in operation, handling 198,900 TEU of containers in the year.

Statement of Responsibility

We hereby confirm that, to the best of our knowledge, this Report contains a fair review of the development and performance of the business and the position of PJSC NCSP and the subsidiaries included in the consolidation taken as a whole (NCSP Group), together with a description of the principal risks and uncertainties that NCSP Group faces.

The 2018 consolidated financial statements of PJSC NCSP, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and results of NCSP Group.

Nizhnik Y. R.
First Deputy of the Chief Accountant

Glossary

ASOP – Association of Commercial Seaports of Russia

ABSB — Azov-Black Sea basin

BB — Baltic basin

VHI — Voluntary health insurance

LDP — Long-term Development Program for 2015 to 2020

IORM — Iron ore raw materials

CPC — Caspian Pipeline Consortium

KPI – Key performance indicators

OECD — Organization for Economic Cooperation and Development

RS ChS — Russia System for Prevention and Response to Emergency Situations

IAS — Internal Audit Service

RM&IC — Risk management and internal control system

Forward-Looking Statements

This annual financial report was written using the information available to NCSP Group (PJSC NCSP and its subsidiaries, hereinafter also the "Group") at the time of its preparation. Some of the statements in this annual financial report regarding the Group's business activities, economic indicators, financial position, business and operating performance, plans, projects and expected results, as well as tariff trends, costs, anticipated expenses, development prospects, industry and market forecasts, individual projects and other factors are forward-looking statements, and are not established facts. The forward-looking statements which the Group may make from time to time (but which are not included in this document) may also contain planned or expected data on revenue, profits (losses), dividends and other financial indicators and ratios. The words "intends," "aims," "projects," "expects," "estimates," "plans," "believes," "assumes," "may," "should," "will," "will continue" and similar expressions usually indicate forward-looking statements. However, this is not the only way to denote the forward-looking nature of information. Due to their specific nature, forward-looking statements are associated with inherent risk and uncertainty, both general and specific, and there is the danger that assumptions, forecasts and other forward-looking statements will not actually come to pass. In light of these risks, uncertainties and assumptions, the Group cautions that, owing to the influence of a wide range of material factors, actual results may differ from those indicated, directly or indirectly, in the forward-looking statements, which are only valid as at the time of preparation of this annual financial report. NCSP Group neither affirms nor guarantees that the performance results set forth in the forward-looking statements will be achieved. The Group accepts no liability for losses which may be incurred by individuals or legal entities who act on the basis of the forward-looking statements. In each particular case, the forward-looking statements represent only one of many possible development scenarios, and should not be seen as the most probable. Except in those cases directly stipulated by applicable legislation and the Listing Rules of the UK Listing Authority, the Group assumes no obligation to publish updates and amendments to the forward-looking statements to reflect new information or subsequent events.

Source of operating data and financial information

Operating data and certain financial information, such as cargo turnover analysis, storage volumes, capacities, EBITDA and number of personnel, used in this annual consolidated report are based on Group management accounting data, which are subject to the assessment, interpretation and presentation of management. The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not equal exactly to the total figure given for that column.

In addition, certain percentages presented in the tables and charts in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

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