# Novorossiysk Commercial Sea Port

**Consolidated Financial Statements**
For the Year Ended 31 December 2015
And Auditor's Report

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

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

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 31 December 2015, and the consolidated results of its operations, cash flows and changes in shareholder's equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved by management on 31 March 2016:

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

**G. I. Kachan**
Chief Accountant

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

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

## Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

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

Deloitte & Touche

31 March 2016
Moscow, Russian Federation

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

ZAO Deloitte & Touche CIS

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений
Россия, г. Москва

The Entity: PJSC "NCSP"

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

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

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

Independent Auditor: ZAO "Deloitte & Touche CIS"

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

Primary State Registration Number: 1027700425444

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

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
## FOR THE YEAR ENDED 31 DECEMBER 2015
***(in thousands of US Dollars, except for losses per share)***

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

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

**G. I. Kachan**
Chief Accountant

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2015**
***(in thousands of US Dollars)***

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 13 | 910,008 | 1,163,391 |
| Goodwill | 14 | 487,727 | 631,850 |
| Mooring rights | 15 | 2,532 | 3,602 |
| Other financial assets | 16 | 16,724 | 17,999 |
| Investment in joint venture | 17 | 3,249 | - |
| Spare parts | | 4,312 | 4,721 |
| Deferred tax assets | 11 | 182,446 | 128,899 |
| Other intangible assets | | 1,370 | 1,442 |
| Other non-current assets | | 4,105 | 3,195 |
| | | 1,612,473 | 1,955,099 |
| CURRENT ASSETS: | | | |
| Inventories | 19 | 7,478 | 9,069 |
| Advances to suppliers | | 5,993 | 7,992 |
| Trade and other receivables, net | 20 | 16,309 | 20,979 |
| VAT recoverable and other taxes receivable | | 11,654 | 15,518 |
| Income tax receivable | | 407 | 355 |
| Other financial assets | 16 | - | 679 |
| Cash and cash equivalents | 21 | 108,671 | 310,723 |
| | | 150,512 | 365,315 |
| **TOTAL ASSETS** | | **1,762,985** | **2,320,414** |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY: | | | |
| Share capital | 22 | 10,471 | 10,471 |
| Treasury shares | | (281) | (281) |
| Foreign currency translation reserve | | (531,609) | (505,673) |
| Retained earnings | | 599,056 | 763,735 |
| Equity attributable to shareholders of the parent company | | **77,637** | **268,252** |
| Non-controlling interests | | 15,134 | 25,521 |
| **TOTAL EQUITY** | | **92,771** | **293,773** |
| NON-CURRENT LIABILITIES: | | | |
| Long-term debt | 23 | 1,149,296 | - |
| Obligations under finance leases | 24 | 6,683 | 10,437 |
| Defined benefit obligation | 26 | 5,043 | 4,448 |
| Deferred tax liabilities | 11 | 111,547 | 152,437 |
| Other non-current liabilities | | 982 | 711 |
| | | 1,273,551 | 168,033 |
| CURRENT LIABILITIES: | | | |
| Current portion of long-term debt | 23 | 351,825 | 1,722,119 |
| Current portion of obligations under finance leases | 24 | 3,712 | 8,809 |
| Trade and other payables | 27 | 6,679 | 7,823 |
| Advances received from customers | | 11,671 | 14,100 |
| Taxes payable | | 2,421 | 3,247 |
| Income tax payable | | 7,258 | 11,951 |
| Cross-currency and interest rate swap | 25 | - | 72,820 |
| Accrued expenses | 28 | 13,097 | 17,739 |
| | | 396,663 | 1,858,608 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,762,985** | **2,320,414** |

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

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

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER 2015
***(in thousands of US Dollars)***

| | | Attributable to shareholders of the parent company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Treasury shares** | **Foreign currency translation reserve** | **Retained earnings** | **Total** | **Non-controlling interests** | **Total** |
| **At 1 January 2014** | | **10,471** | **(281)** | **(130,371)** | **1,203,686** | **1,083,505** | **35,177** | **1,118,682** |
| Loss for the year | | - | - | - | (428,633) | (428,633) | 13,970 | **(414,663)** |
| Other comprehensive loss for the year, net of tax | | - | - | (375,302) | 1,570 | (373,732) | (17,259) | **(390,991)** |
| **Total comprehensive loss for the year** | | - | - | **(375,302)** | **(427,063)** | **(802,365)** | **(3,289)** | **(805,654)** |
| Dividends | 12 | - | - | - | (12,364) | **(12,364)** | (6,891) | **(19,255)** |
| Increase of ownership in subsidiaries | | - | - | - | (524) | **(524)** | 524 | **-** |
| **At 31 December 2014** | | **10,471** | **(281)** | **(505,673)** | **763,735** | **268,252** | **25,521** | **293,773** |
| **At 1 January 2015** | | **10,471** | **(281)** | **(505,673)** | **763,735** | **268,252** | **25,521** | **293,773** |
| Loss for the year | | - | - | - | (84,286) | (84,286) | 859 | **(83,427)** |
| Other comprehensive loss for the year, net of tax | | - | - | (25,936) | (1,537) | (27,473) | (4,633) | **(32,106)** |
| **Total comprehensive loss for the year** | | - | - | (25,936) | (85,823) | (111,759) | (3,774) | **(115,533)** |
| Dividends | 12 | - | - | - | (78,856) | **(78,856)** | (6,613) | **(85,469)** |
| **At 31 December 2015** | | **10,471** | **(281)** | **(531,609)** | **599,056** | **77,637** | **15,134** | **92,771** |

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

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

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

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

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

## 1. GENERAL INFORMATION

### Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP") was founded in 1845. NCSP was transformed from a state-owned enterprise to a joint-stock company in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation. The principal activities and significant entities of the Group as at 31 December 2015 were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

***OJSC Novorossiysk Shipyard ("Shipyard")***

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

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

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

***OJSC Fleet Novorossiysk Commercial Sea Port ("Fleet")***

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

***CJSC SoyuzFlot Port ("SFP")***

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

**Golden share**

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

**Going concern assumption**

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

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

**Price Monitoring**

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

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

## 2. BASIS OF PRESENTATION

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

### New and revised standards

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

- Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions;
- Annual Improvements to IFRSs: 2010-2012 Cycle;
- Annual Improvements to IFRSs: 2011-2013 Cycle.

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

### Standards and Interpretations issued but not yet effective

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

| New or amended standard or interpretation | Effective date[1] - for annual periods beginning on or after |
|---|---|
| IFRS 9 Financial Instruments | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |
| Amendments to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations | 1 January 2016 |
| Amendments to IAS 1 – Disclosure Initiative | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants | 1 January 2016 |
| Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Date to be determined by the IASB[2] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception | 1 January 2016 |
| IFRS 14 Regulatory Deferral Accounts | 1 January 2016 |
| Amendments to IAS 27 – Equity Method in Separate Financial Statements | 1 January 2016 |
| Annual Improvements to IFRSs 2012-2014 Cycle | 1 January 2016 |
| Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 Revenue from Contracts with Customers has also been applied.
[2] The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

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

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

**Functional and presentation currency**

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

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

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;
- Income and expense items are translated in the consolidated statement of comprehensive loss at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used. As RUR significantly depreciated against USD in the year ended 31 December 2014 with the most part of depreciation falling on the 4th quarter of 2014, income and expense items for 2014 have been translated using average exchange rates for the first nine months and 4th quarter of 2014 separately. As the RUR/USD exchange rate was relatively more stable in the year 2015, income and expense items for the period have been translated using the average exchange rate for the whole year;
- All resulting exchange differences are included in equity and presented separately as an effect of translation into presentation currency (foreign currency translation reserve);
- In the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used. As RUR significantly depreciated against USD in the year ended 31 December 2014 with the most part of depreciation falling on the 4th quarter of 2014, cash flows for 2014 have been translated using average exchange rates for the first nine months and 4th quarter of 2014 separately. As during 2015 the RUR/USD exchange rate was relatively more stable, the 2015 cash flows were translated using the average exchange rate for the whole year. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of translation into presentation currency on cash and cash equivalents"; and
- All items included in shareholder's equity, other than loss for the reporting period, have been translated at historical rate, except for balances converted to USD at the rate in effect on 1 January 2005, the date of transition to IFRS.

**Exchange rates**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and entities controlled by NCSP and its subsidiaries. Control is achieved when NCSP:

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

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

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

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

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

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

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

### Fair value

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

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

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

**Investments in associates and joint ventures**

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

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

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets and Held for Sale and Discontinued Operations. Under the equity method, investments in associates and joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group’s share of the net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group’s interest in that associate or joint venture (which includes any long-term interests that, in substance, forms part of the Group’s net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

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

**Goodwill**

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

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

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

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

**Foreign currencies**

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

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

**Revenue recognition**

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

The Group's revenue is derived as follows:

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

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

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

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

**Leasing**

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

**Operating lease**

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

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

**Finance lease**

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

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

**Borrowing costs**

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

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

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

**Employee benefits**

***Defined contribution plan***

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

In the Russian Federation, all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes of 0% to 30%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 22%. When the annual gross remuneration of an employee exceeds 711 thousand RUR (USD 11.7), the 10% tax rate is applied to the exceeding amount.

***Defined benefit plans***

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

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

**Income tax**

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

***Current tax***

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

***Deferred tax***

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

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

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

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

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

Current and deferred taxes are recognised as an expense or income in the consolidated statement of comprehensive loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or they arise from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquirer’s identifiable assets, liabilities and contingent liabilities over the cost.

**Property, plant and equipment**

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

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

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

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

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

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

Properties in the course of construction for production, rental or administrative purposes or for purposes 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.

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

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

**Mooring rights and other intangible assets**

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

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

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

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

| | Number of years |
|---|---|
| Mooring rights | 20 |
| Marine vessels rights | 10 |
| Other intangible assets | 3-5 |

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

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

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

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

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

**Spare parts**

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

**Inventories**

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

**Financial assets**

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

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

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

**Effective interest method**

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

**Loans and receivables**

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

**Cash and cash equivalents**

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

**Impairment of financial assets**

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive 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 as equity in accordance with the substance of the contractual arrangement.

***Equity instruments***

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

***Financial liabilities***

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

***Financial liabilities as at FVTPL***

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 33.

***Other financial liabilities***

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period presented. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

***Derecognition of financial liabilities***

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

**Provisions**

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

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

**Dividends declared**

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

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

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

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

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

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

**Key sources of estimation uncertainty**

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

**Allowance for trade and other receivables and advances to suppliers**

The Group creates allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful receivables.

**Useful lives of fixed assets**

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

**Impairment of goodwill**

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

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

**Impairment of assets (excluding goodwill)**

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

**Taxation**

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

The Group management believe that all deferred tax assets recognised as of the reporting date will be fully realised. It is probable that taxable profits will be available against which deductible temporary differences can be utilised. Losses during recent years relate mainly to forex losses arised from revaluation of USD Sberbank loan. They are not connected with operating activities and we consider that the Group will gain profit in future and, therefore, DTA are recoverable. Under Russian legislation tax loss carry forward may be used to reduse tax base during 10 years.

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

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

**Impairment of cash and cash equivalents in Vneshprombank**

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

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

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

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

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

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

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

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

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

## 5. SEGMENT INFORMATION

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

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

### Segment revenue and segment results

Sales transactions between segments are made at prices which are defined in the Group companies' price lists. The price list contains both services for which tariffs are monitored by the state and other services for which prices are set by the Group. Prices for non-regulated services are at market rates.

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

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

Revenue from TRANSNEFT-SERVICE of 94,255 for the year ended 31 December 2015 (the ended 31 December 2014: 55,841) and revenue from LINK OIL TRADING LTD of 91,225 for the year ended 31 December 2014 (the ended 31 December 2015: 0) represent more than 10% of revenue from stevedoring and additional services for respective period. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

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

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

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

### Other segment information

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

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

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

## 6. REVENUE

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

## 7. COST OF SERVICES

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

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

## 9. FINANCE INCOME

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

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

## 10. FINANCE COSTS

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

## 11. INCOME TAX

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

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP which is permitted to apply a reduced income tax rate of 15.5% until 2015 inclusively, is calculated at 20% of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

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

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

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

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

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are as follows:

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

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

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

## 12. DIVIDENDS

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

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

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

## 13. PROPERTY, PLANT AND EQUIPMENT

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

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

| | Land | Buildings and constructions | Machinery and equipment | Marine vessels | Motor transport | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| **As at 1 January 2015** | **684,606** | **338,419** | **277,068** | **94,886** | **19,435** | **7,805** | **57,379** | **1,479,598** |
| Additions | 86 | 9,719 | 41,900 | 851 | 1,331 | 1,663 | 8,666 | 64,216 |
| Transfer | 177 | 21,998 | 12,479 | - | - | 43 | (34,697) | - |
| Disposals | - | (5,696) | (9,856) | (1,459) | (1,069) | (184) | (98) | (18,362) |
| Effect of translation into presentation currency | (156,200) | (81,451) | (70,482) | (18,096) | (4,476) | (2,028) | (8,813) | (341,546) |
| **As at 31 December 2015** | **528,669** | **282,989** | **251,109** | **76,182** | **15,221** | **7,299** | **22,437** | **1,183,906** |
| **Accumulated depreciation** | | | | | | | | |
| **As at 1 January 2015** | **-** | **(110,134)** | **(153,900)** | **(35,680)** | **(10,361)** | **(5,842)** | **(290)** | **(316,207)** |
| Depreciation expense | - | (18,934) | (24,511) | (5,787) | (2,172) | (1,354) | - | (52,758) |
| Disposals | - | 5,653 | 9,676 | 1,444 | 1,058 | 172 | - | 18,003 |
| Effect of translation into presentation currency | - | 27,294 | 37,531 | 8,101 | 2,546 | 1,525 | 67 | 77,064 |
| **As at 31 December 2015** | **-** | **(96,121)** | **(131,204)** | **(31,922)** | **(8,929)** | **(5,499)** | **(223)** | **(273,898)** |
| **Carrying value** | | | | | | | | |
| **As at 1 January 2015** | **684,606** | **228,285** | **123,168** | **59,206** | **9,074** | **1,963** | **57,089** | **1,163,391** |
| **As at 31 December 2015** | **528,669** | **186,868** | **119,905** | **44,260** | **6,292** | **1,800** | **22,214** | **910,008** |

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

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

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

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

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

## 14. GOODWILL

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

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

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

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

*Annual impairment test information*

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

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

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

- Cash flow projections were based on the business plans of the Company for the years 2016-2020, approved by management. Such business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.;
- Due to highly significant uncertainty in respect to foreign currency rates, cash flow projections for 2016 were prepared in USD using RUR/USD currency rates projections from the Economist Intelligence Unit;
- Cash flow projections for 2017-2020 were prepared assuming annual growth of USD equivalent of tariffs for 1.5% - 2.4%;
- Cash flow projections beyond 2020 were extrapolated using a steady 2.0% per annum growth rate assessed based on past performance of the Group and management expectations of market development; and
- Discount rates were determined for each CGU in nominal terms based on the Group's weighted average cost of capital adjusted for tax effect to arrive at pre-tax rate and was equal to 13.10%.

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

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

**Impairment test – Year ended 31 December 2015**

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

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

**Impairment loss – Year ended 31 December 2014**

**PTP**

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

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

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

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

## 15. MOORING RIGHTS

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

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

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

## 16. OTHER FINANCIAL ASSETS

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

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

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

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

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

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

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

## 17. INVESTMENT IN JOINT VENTURE

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

The Group owns 50% of NFT and its share in profit/(loss) of the joint venture for the years 2015 and 2014 recognised in comprehensive loss amounted to 4,147 and (7,123), respectively.

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

| | Ownership % held | |
|---|---|---|
| **Joint venture** | **31 December 2015** | **31 December 2014** |
| NFT | 50.00% | 50.00% |

Summarised financial information of NFT is represented below:

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

The above amounts of assets and liabilities include the following:

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

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

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

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

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

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

As at 31 December 2015 and 31 December 2014 the Group pledged its 50% share in NFT under a credit agreement between NFT and JSC Raiffeisenbank ("Raiffeisenbank"). The Group also issued a guarantee of 20,000 to secure NFT obligations under the credit agreement. NFT also concluded pledge agreements with Raiffeisenbank to secure obligations under the credit agreement.

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

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

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

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

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

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

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

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

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

No dividends were declared to non-controlling interests of Shipyard in 2015 and 2014.

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Current assets | 60,822 | 80,945 |
| Non-current assets | 21,280 | 28,321 |
| Current liabilities | (5,025) | (8,939) |
| Non-current liabilities | (188) | (230) |
| Equity attributable to shareholders of the parent company | 73,191 | 95,282 |
| Non-controlling interests | 3,698 | 4,815 |

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

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

In 2015 dividends to non-controlling interests of Fleet were declared in the amount of 1,807 (2014: 5,069) and were paid in the amount of 1,725 (2014: 4,934).

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Current assets | 8,484 | 61,530 |
| Non-current assets | 52,526 | 59,575 |
| Current liabilities | (19,458) | (7,389) |
| Non-current liabilities | (1,172) | (5,335) |
| Equity attributable to shareholders of the parent company | 36,899 | 99,039 |
| Non-controlling interests | 3,481 | 9,342 |

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

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

In 2015 dividends to non-controlling interests of Novoroslesexport were declared in the amount of 4,804 (2014: 1,818) and were paid in the amount of 3,761 (2014: 968).

## 19. INVENTORIES

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

## 20. TRADE AND OTHER RECEIVABLES, NET

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

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

The average credit period for the Group's customers is 7 days. During this period no interest is charged on the outstanding balances. Thereafter, interest is charged according to the contracts determined on a customer specific basis, determined based on size, volume and history of operations with the Group at between 0.3% and 15% per month on the outstanding balance.

The Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's 7 largest customers (2014: 8) in total represent 35% (2014: 49%) of the outstanding balance.

Included in the Group's receivable balance are debtors with carrying value of 759 (2014: 4,719) which are past due at the respective reporting date but not impaired and which the Group still considers recoverable.

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Not impaired** | **15,550** | **16,260** |
| **Past due but not impaired** | | |
| less than 45 days | 649 | 4,103 |
| 45-90 days | 64 | 63 |
| 90-180 days | 9 | 1 |
| 180-365 days | 35 | 356 |
| Over 1 year | 2 | 196 |
| | **759** | **4,719** |
| **Impaired other receivables and prepayments** | **7,883** | **5,951** |
| **Total** | **24,192** | **26,930** |

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

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

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

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

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

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of 7,883 (2014: 5,951) due from companies which have been considered as insolvent based on the Group's legal department analysis. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds.

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

## 21. CASH AND CASH EQUIVALENTS

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

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

Bank deposits as at 31 December 2015 are summarised below:

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

Bank deposits as at 31 December 2014 are summarised below:

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

## 22. SHARE CAPITAL

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

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

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

## 23. DEBT

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

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

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

### Sberbank

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

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

### Rouble bonds

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

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

As at 31 December 2015, the average effective borrowing rate relating to the Group's debt was 5,57% per annum (31 December 2014: 5.4% per annum).

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

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

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

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

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

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

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at 31 December 2015 of 5.57% (31 December 2014: 5.25%).

The financial obligations of the Group consist of borrowings denominated in USD.
The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2015, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 426,042 (during the year ended 31 December 2014, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 1,007,139).

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

## 24. FINANCE LEASE

The Group rents transshipment machinery and equipment under finance lease agreements with terms ranging from two to five years. The Group has the right to purchase the equipment after expiration of lease contracts at a purchase price close to zero. Interest rates for all obligations under the finance lease agreements are fixed at the dates of the agreements at rates ranging from 5.12% to 17.14% per annum.

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

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

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

## 25. CROSS-CURRENCY AND INTEREST RATE SWAP

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

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

## 26. EMPLOYEE BENEFITS

### Unfunded defined benefit plans

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries (Novoroslesexport, Shipyard and Fleet). Certain one-time benefits are stipulated by the plans, and upon attainment of a retirement age the employees are entitled to regular retirement benefits. Also post-retirement benefits are provided to these employees ranging from RUR 333 (USD 5) to RUR 733 (USD 10) per month per employee, depending on each employee’s years of service and qualifications.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2015. The present value of the defined benefit obligation, the related current service cost and the past service cost were all measured using the projected unit credit method.

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

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

| | Valuation at | |
|---|---|---|
| | **31 December 2015** | **31 December 2014** |
| Discount rate | 9.7% | 13.0% |
| Employees turnover per annum | 5.0% | 5.0% |
| Expected annual rate of salary increase | 10.0% | 10.0% |
| Expected annual rate of post retirement benefits increase | 0.0% | 0.0% |
| Average residual period of work | 7 years | 7 years |

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

| | Year ended | |
|---|---|---|
| | **31 December 2015** | **31 December 2014** |
| Interest on obligation | 534 | 636 |
| Current service cost | 157 | 219 |
| Past service cost | - | 367 |
| **Total** | **691** | **1,222** |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Defined contribution plans**

Contributions to the Russian Federation State Pension Fund charged to profit or loss amounted to 13,541 and 19,708 for the years ended 31 December 2015 and 2014, respectively, which related to employee services rendered during each year.

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

## 27. TRADE AND OTHER PAYABLES

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

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

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

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

## 28. ACCRUED EXPENSES

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

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

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

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

## 29. RELATED PARTY TRANSACTIONS

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

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

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

Due to the fact that the Federal Property Agency of the Russian Federation owns a direct 20% interest in NCSP and has significant influence over the Group, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended 31 December 2015 and 31 December 2014, the Group transacted with Sberbank, VTB Bank, Rosneft, Russian Railways and other state-controlled entities (apart from JSC Transneft).

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

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

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

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

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

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

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

**Transactions with NFT:**

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

**Balances with NFT:**

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

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

**Transactions with other related parties:**

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

**Balances with other related parties:**

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

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

### Compensation of key management personnel

For the years ended 31 December 2015 and 31 December 2014, the remuneration of the directors and members of key management was 8,511 (including termination benefits in the amount of 6) and 13,854 (including termination benefits in the amount of 1,454), respectively, which represented short-term employee benefits and social security contributions.

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

## 30. CASH FLOWS FROM OPERATING ACTIVITIES

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

## 31. COMMITMENTS AND CONTINGENCIES

### Legal proceedings

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

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

**Taxation contingencies in the Russian Federation**

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management’s interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management’s best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In accordance with the transfer pricing legislation the tax authorities may have additional requirements in relation to certain transactions, including the transactions with related parties (“controlled transactions”), if, in their opinion, the transaction is priced not at arm's length. During 2014 certain entites of the Group had such controlled transactions. The required notifications of these transactions were submitted to the tax authorities in 2015. As of the date when these financial statements were authorized for issuance the Group was in process of preparing the transfer pricing documentation for the transactions with related parties and foreign counterparties, which took place in 2015. The deadline for submission of formal notifications on these transactions to the tax authorities is 20 May 2016. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

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

**Operating environment**

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

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

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

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

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

**Environmental matters**

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

**Insurance**

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

**Operating lease arrangements**

The Group rents land plots, mooring installations, vessels and equipment under operating lease agreements with the Russian Federation and related parties. These arrangements have lease terms of between 3 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

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

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

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

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

## 32. CAPITAL COMMITMENTS

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

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

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

## 33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 3, Basis of preparation.

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organizations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of the Russian Central Bank. As at 31 December 2015 the discount rate used for obligations under agreement with Sberbank comprised 8.21%
(31 December 2014: 6.57%).

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

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

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

## 34. RISK MANAGEMENT

### Capital risk management

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

### Major categories of financial instruments

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

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

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

### Foreign currency risk

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

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

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

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

The table below details the sensitivity of the Group's financial instruments (excluding the cross-currency and interest rate swap disclosed in Note 25) to a 20% (2014: 20%) depreciation of the RUR against the US Dollar if all other variables are held constant. The analysis was applied to monetary items denominated in USD at the year end dates. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A 20% appreciation of the RUR against the US Dollar would have an equal opposite impact:

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

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

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

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

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

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

**Interest rate risk**

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

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

**Credit risk**

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

The summary below shows revenue for 2015 and 2014 and outstanding balances as at 31 December 2015 and 2014 of the top five counterparties:

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

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

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

### Liquidity risk

In order to manage and control the liquidity needs of the Group, management performs budgeting and forecasting of cash flows, which ensure the availability of the necessary funds for the discharging of payment obligations. Generally, net cash flows from operating activities provide an adequate amount of working capital for conducting the Group's underlying business activities. Negative working capital as of 31 December 2015 was caused by impairment of cash and deposits placed in Vneshprombank (Note 21).

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

## 35. EVENTS AFTER THE BALANCE SHEET DATE

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

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