

# **Novorossiysk Commercial Sea Port**

**Consolidated Financial Information**  
For the Three Months Ended 31 March 2018

# NOVOROSSIYSK COMMERCIAL SEA PORT

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2018 (in thousands of US Dollars, except for earnings per share)

	Notes	Three months ended 31 March 2018	Three months ended 31 March 2017*
Revenue	4	237,908	226,498
Finance income		2,435	4,949
Salaries		(22,479)	(19,504)
Depreciation and amortisation		(21,188)	(17,359)
Finance costs		(17,468)	(17,941)
Rent		(12,405)	(12,126)
Subcontractors		(11,275)	(2,284)
Fuel for resale and own consumption		(7,282)	(7,122)
Taxes directly attributable to salaries		(5,845)	(5,069)
Repair and maintenance		(3,444)	(2,699)
Materials		(2,276)	(1,772)
Energy and utilities		(2,124)	(2,010)
Taxes other than income tax		(2,073)	(1,221)
Charitable donation		(1,703)	(1,560)
Security services		(1,119)	(752)
Foreign exchange gain, net		6,992	96,431
Share of profit in joint venture, net		2,033	3,906
Other income / (losses)		17	(2,263)
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		<b>138,704</b>	<b>238,102</b>
Income tax		(27,534)	(46,777)
<b>PROFIT FOR THE PERIOD</b>		<b>111,170</b>	<b>191,325</b>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Effect of translation to presentation currency		4,122	52,075
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Remeasurement of net defined benefit liability		13	10
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>		<b>4,135</b>	<b>52,085</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>115,305</b>	<b>243,410</b>
Profit for the period attributable to:			
Equity shareholders of the parent company		110,062	190,484
Non-controlling interests		1,108	841
		<b>111,170</b>	<b>191,325</b>
Total comprehensive income attributable to:			
Equity shareholders of the parent company		114,142	241,747
Non-controlling interests		1,163	1,663
		<b>115,305</b>	<b>243,410</b>
Weighted average number of ordinary shares outstanding		18,481,516,593	18,481,516,593
Basic and diluted earnings per share, US Dollars		0.006	0.010

**S. G. Kireev**  
Chief Executive Officer

29 June 2018



**G. I. Kachan**  
Chief Accountant

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

# NOVOROSSIYSK COMMERCIAL SEA PORT

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018 (in thousands of US Dollars, except as otherwise stated)

	Notes	31 March 2018	31 December 2017 (restated)
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Property, plant and equipment		1,278,773	1,280,130
Goodwill		620,745	617,131
Mooring rights		2,515	2,577
Investment in joint venture		30,247	28,549
Spare parts		8,381	7,485
Deferred tax assets		83,098	88,777
Other intangible assets		2,304	1,970
Other non-current assets		25,675	25,520
		<u>2,051,738</u>	<u>2,052,139</u>
CURRENT ASSETS:			
Inventories		16,561	16,453
Advances to suppliers		27,010	13,837
Trade and other receivables, net		31,449	25,465
VAT recoverable and other taxes receivable		11,318	13,533
Income tax receivable		3,702	1,037
Cash and cash equivalents		225,838	121,528
		<u>315,878</u>	<u>191,853</u>
<b>TOTAL ASSETS</b>		<b><u>2,367,616</u></b>	<b><u>2,243,992</u></b>
<b>EQUITY AND LIABILITIES</b>			
EQUITY:			
Share capital		10,471	10,471
Treasury shares		(423)	(423)
Foreign currency translation reserve		(421,621)	(425,688)
Retained earnings		1,358,115	1,248,040
Equity attributable to shareholders of the parent company		<u>946,542</u>	<u>832,400</u>
Non-controlling interests		<u>11,567</u>	<u>10,404</u>
<b>TOTAL EQUITY</b>		<b>958,109</b>	<b>842,804</b>
NON-CURRENT LIABILITIES:			
Long-term debt	5	1,002,800	990,581
Obligations under finance leases		-	65
Defined benefit obligation		7,030	6,920
Deferred tax liabilities		142,134	141,233
Other non-current liabilities		4,130	4,623
		<u>1,156,094</u>	<u>1,143,422</u>
CURRENT LIABILITIES:			
Current portion of long-term debt and short-term borrowing	5	202,885	202,623
Current portion of obligations under finance leases		2,325	3,156
Trade and other payables		11,302	12,099
Advances received from customers		7,021	12,463
Taxes payable, excluding income tax		6,728	3,915
Income tax payable		5,618	7,085
Accrued expenses		17,534	16,425
		<u>253,413</u>	<u>257,766</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>2,367,616</u></b>	<b><u>2,243,992</u></b>

## NOVOROSSIYSK COMMERCIAL SEA PORT

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED AT 31 MARCH 2018 (in thousands of US Dollars, except as otherwise stated)

	Notes	Three months ended 31 March 2018	Three months ended 31 March 2017
<b>Cash flows from operating activities</b>			
Cash from operations		158,260	158,818
Income tax paid		(25,318)	(24,401)
Interest paid		(16,872)	(16,937)
		<u>116,070</u>	<u>117,480</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		5	47
Purchases of property, plant and equipment		(13,268)	(27,026)
Proceeds from sale of other financial assets		-	6,675
Interest received		2,183	4,915
Purchases of other intangible assets		(485)	(178)
		<u>(11,565)</u>	<u>(15,567)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term and long-term borrowings	5	11,832	-
Increase of ownership in subsidiary		-	(2,483)
Dividends paid		(875)	-
Advances paid under lease contracts		(11,387)	(1,107)
		<u>(430)</u>	<u>(3,590)</u>
<b>Net increase in cash and cash equivalents</b>			
		<b>104,075</b>	<b>98,323</b>
Cash and cash equivalents at the beginning of the period		121,528	234,138
Effect of exchange rate changes on the balance of cash held in foreign currencies and effect of translation into presentation currency on cash and cash equivalents		235	15,926
		<u>225,838</u>	<u>348,387</u>
<b>Cash and cash equivalents at the end of the period</b>			

# NOVOROSSIYSK COMMERCIAL SEA PORT

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2018 (in thousands of US Dollars, except as otherwise stated)

### 1. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies applied in consolidated financial information are consistent with those applied in the consolidated financial statements for the year ended 31 December 2017.

#### Functional and presentation currency

The functional currency of NCSP and principally all of its subsidiaries is the Russian Rouble ("RUR"). The consolidated financial information is presented in US Dollars ("USD").

#### Exchange rates

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

	<u>31 March 2018</u>	<u>31 December 2017</u>
<b>Period-end rates</b>		
RUR / 1 USD	57.26	57.60
RUR / 1 EUR	70.56	68.87
	<b>Three months ended</b>	
	<u>31 March 2018</u>	<u>31 March 2017</u>
<b>Average for the period</b>		
RUR / 1 USD	56.88	58.84
RUR / 1 EUR	69.87	62.65

### 2. CORRECTION OF A FUNDAMENTAL ERROR

Subsequent to the issuance of the financial statements for the year ended 31 December 2017 a fundamental error was identified in the annual goodwill impairment test that had been performed for SFP. The impairment test utilized a value in use model and the cash flow forecast prepared in order to compute the recoverable amount of the cash generating unit erroneously omitted the future cash flow impacts pertaining to an additional agreement №1 of 17 January 2018 to contract № 507/2017 of 28 December 2017. This addendum stipulates that certain expenses which form a significant portion of SFP's costs will be fixed in the forecasted period, rather than these costs being variable as initially forecast. This leads to a material increase in the expected cash inflows projected for utilizing in the impairment testing model. At 31 December 2017 the terms of this additional agreement had been agreed between the management of SFP and LLC "Transneft-Service", but the addendum had not been signed. However, as the agreement was signed during the period between year-end and the issuance of the financial statements and represented more accurate future cash flow information, such forecast cash flow data should have been taken into account in the impairment test and thus represents an error.

The recalculation of the recoverable amount, taking into account the terms and conditions of the additional agreement, showed that the CGU was not impaired and thus there was no impairment of goodwill to be recognized. As such, the previously recognized impairment amount of 33,077 (RUR 1,930 million) was reversed.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the error was corrected in the incoming balances. The impact of the error correction is as outlined below:

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2018 (in thousands of US Dollars, except as otherwise stated)

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

### 3. 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 revenue and segment results

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

The segment revenue and results for the three months ended 31 March 2018 and 2017 are as follows:

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2018 (in thousands of US Dollars, except as otherwise stated)

	Segment revenue		Inter-segment sales		Segment profit	
	Three months ended		Three months ended		Three months ended	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017	31 March 2018	31 March 2017
Stevedoring and additional services	231,217	205,596	240	588	135,266	138,646
Novorossiysk	181,686	158,422	164	532	108,959	107,135
Primorsk	46,365	44,371	76	56	24,825	30,210
Baltiysk	3,166	2,803	-	-	1,482	1,301
Fleet services	3,922	18,859	17,215	518	6,481	10,148
Novorossiysk	461	8,739	9,489	457	4,530	3,576
Primorsk	3,461	10,120	7,726	61	1,951	6,572
<b>Total reportable segments</b>	<b>235,139</b>	<b>224,455</b>	<b>17,455</b>	<b>1,106</b>	<b>141,747</b>	<b>148,794</b>
Other	2,769	2,043	2,785	2,572	1,188	2,323
<b>Total segments</b>	<b>237,908</b>	<b>226,498</b>	<b>20,240</b>	<b>3,678</b>	<b>142,935</b>	<b>151,117</b>
Unallocated amounts					(4,231)	86,985
<b>Profit before income tax</b>					<b>138,704</b>	<b>238,102</b>

#### 4. REVENUE

	Three months ended	
	31 March 2018	31 March 2017
Stevedoring services	185,044	177,642
Additional port services	46,173	27,954
Fleet services	3,922	18,859
Other	2,769	2,043
<b>Total</b>	<b>237,908</b>	<b>226,498</b>

#### 5. DEBT

	Interest rate	Maturity date	31 March 2018	31 December 2017
<b>Unsecured borrowings</b>				
NFT (RUR)	7.0%	July 2018	2,754	2,693
<b>Secured bank loans</b>				
Bank VTB (USD)	LIBOR 3M + 3.99%	June 2023	1,191,175	1,190,511
IDF (RUR)	1.0%	December 2022	6,323	-
IDF (RUR)	1.0%	December 2022	5,433	-
<b>Total debt</b>			<b>1,205,685</b>	<b>1,193,204</b>
Short-term borrowing			(2,754)	(2,693)
Current portion of long-term debt			(200,131)	(199,930)
<b>Total non-current debt</b>			<b>1,002,800</b>	<b>990,581</b>

The Group borrowings as of 31 March 2018 are repayable as follows:

## NOVOROSSIYSK COMMERCIAL SEA PORT

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2018 (in thousands of US Dollars, except as otherwise stated)

	<u>Principal amount</u>	<u>Contractual interest liability</u>	<u>Total</u>
Due within three months	100,000	18,735	118,735
Due from three to six months	2,619	17,438	20,057
Due from six months to twelve months	100,000	32,329	132,329
	<b>202,619</b>	<b>68,502</b>	<b>271,121</b>
Between 1 and 2 years	200,000	56,030	256,030
Between 2 and 5 years	611,752	93,003	704,755
Over 5 years	200,000	3,132	203,132
<b>Total</b>	<b>1,214,371</b>	<b>220,667</b>	<b>1,435,038</b>

The Group borrowings as of 31 December 2017 are repayable as follows:

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

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

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 March 2018 of 6.21% (31 December 2017: 5.63%).

The financial obligations of the Group denominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During three months ended 31 March 2018, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 6,606 (during three months ended 31 March 2017: by 102,139).

## 6. EVENTS AFTER THE BALANCE SHEET DATE

On 6 April 2018, NCSP filed objections to the findings contained in the tax audit report, which were reviewed by the tax authority on 12 April 2018. Based on the results of the examination of the tax audit with taking into account the objections of NCSP the tax authority decided to conduct additional tax control measures on time until 23 May 2018, according to results NCSP submitted additional objections to the tax authority on 6 June 2018. On 18 June 2018, the tax authority acquainted NCSP with additional materials received by the tax authority after the end of the term for conducting additional measures of tax control. Consideration of the materials of the tax audit with taking into account additional measures of tax control and objections of NCSP was held by the tax authority on 19 June 2018, in result the tax authority decided to extend the period for consideration of the tax audit materials until 29 June 2018.



## **NOVOROSSIYSK COMMERCIAL SEA PORT**

### **NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2018 *(in thousands of US Dollars, except as otherwise stated)***

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On 13 April 2018, the general meeting of shareholders of NCSP terminated the powers of the Board of Directors and elected a new Board of Directors, which included representatives of PJSC Transneft and the state.

Excited by the FAS cases regarding to NCSP and PTP on the grounds of violation of Section 1, Part 1 Clause 10 of the Federal Law "On Protection of Competition" upon the fact of imposing a monopolistically high price for transshipment of a number of goods for the period 2016-2017 and January-February 2018 are scheduled for consideration on 29 June 2018.

Through the criminal case instituted against M.G. and Z.G. Magomedov the accounts and property of the NCSP and its subsidiaries were arrested. On the date of reporting the arrest was removed.