

Novorossiysk Commercial Sea Port

Consolidated Financial Information
For the Nine Months Ended 30 September 2018

NOVOROSSIYSK COMMERCIAL SEA PORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 (in thousands of US Dollars, except for earnings per share)

	Notes	Nine months ended 30 September 2018	Nine months ended 30 September 2017*
Revenue	4	712,500	661,557
Finance income		9,612	12,776
Salaries		(61,727)	(60,888)
Finance costs		(54,875)	(54,421)
Depreciation and amortisation		(54,128)	(53,940)
Rent		(34,380)	(36,614)
Subcontractors		(31,156)	(8,747)
Fuel for resale and own consumption		(25,638)	(17,805)
Taxes directly attributable to salaries		(15,860)	(15,273)
Repair and maintenance		(12,808)	(13,423)
Materials		(6,385)	(6,017)
Taxes other than income tax		(5,707)	(3,861)
Energy and utilities		(4,784)	(4,858)
Security services		(3,130)	(2,350)
Charitable donation		(3,089)	(4,186)
Foreign exchange (loss) / gain, net		(144,755)	59,663
Share of profit in joint venture, net		5,868	4,452
Other expenses		(955)	(10,387)
PROFIT BEFORE INCOME TAX EXPENSE		268,603	445,678
Income tax		(52,905)	(86,324)
PROFIT FOR THE PERIOD		215,698	359,354
OTHER COMPREHENSIVE (LOSS) / 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		(104,734)	33,727
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Remeasurement of net defined benefit liability		10	14
OTHER COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD, NET OF TAX		(104,724)	33,741
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		110,974	393,095
Profit for the period attributable to:			
Equity shareholders of the parent company		212,477	356,642
Non-controlling interests		3,221	2,712
		215,698	359,354
Total comprehensive income attributable to:			
Equity shareholders of the parent company		109,032	389,880
Non-controlling interests		1,942	3,215
		110,974	393,095
Weighted average number of ordinary shares outstanding		18,481,516,593	18,481,516,593
Basic and diluted earnings per share, US Dollars		0.0115	0.0193


S. G. Kireev
Chief Executive Officer


G. I. Kachan
Chief Accountant

29 November 2018

* 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 30 SEPTEMBER 2018 (in thousands of US Dollars, except as otherwise stated)

	Notes	30 September 2018	31 December 2017 (restated)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment		1,130,100	1,280,130
Goodwill		541,951	617,131
Mooring rights		2,063	2,577
Investment in joint venture		30,104	28,549
Spare parts		8,998	7,485
Deferred tax assets		74,527	88,777
Other intangible assets		2,456	1,970
Other non-current assets		22,797	25,520
		<u>1,812,996</u>	<u>2,052,139</u>
CURRENT ASSETS:			
Inventories		16,841	16,453
Advances to suppliers		21,318	13,837
Trade and other receivables, net		30,185	25,465
VAT recoverable and other taxes receivable		13,084	13,533
Income tax receivable		2,222	1,037
Cash and cash equivalents		335,322	121,528
		<u>418,972</u>	<u>191,853</u>
TOTAL ASSETS		<u>2,231,968</u>	<u>2,243,992</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		10,471	10,471
Treasury shares		(423)	(423)
Foreign currency translation reserve		(529,143)	(425,688)
Retained earnings		1,304,321	1,248,040
Equity attributable to shareholders of the parent company		<u>785,226</u>	<u>832,400</u>
Non-controlling interests		<u>10,515</u>	<u>10,404</u>
TOTAL EQUITY		<u>795,741</u>	<u>842,804</u>
NON-CURRENT LIABILITIES:			
Long-term debt	6	903,372	990,581
Obligations under finance leases		3,636	65
Defined benefit obligation		6,260	6,920
Deferred tax liabilities		124,084	141,233
Other non-current liabilities		4,314	4,623
		<u>1,041,666</u>	<u>1,143,422</u>
CURRENT LIABILITIES:			
Current portion of long-term debt and short-term borrowing	6	202,549	202,623
Current portion of obligations under finance leases		1,754	3,156
Trade and other payables		9,246	12,099
Advances received from customers		13,989	12,463
Taxes payable, excluding income tax		4,746	3,915
Income tax payable		4,022	7,085
Accrued expenses		158,255	16,425
		<u>394,561</u>	<u>257,766</u>
TOTAL EQUITY AND LIABILITIES		<u>2,231,968</u>	<u>2,243,992</u>

NOVOROSSIYSK COMMERCIAL SEA PORT

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED AT 30 SEPTEMBER 2018 (in thousands of US Dollars, except as otherwise stated)

	Notes	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Cash flows from operating activities			
Cash from operations		492,516	470,290
Income tax paid		(52,722)	(60,838)
Interest paid		(54,302)	(52,244)
		<u>385,492</u>	<u>357,208</u>
Net cash generated by operating activities			
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		237	350
Purchases of property, plant and equipment		(49,032)	(120,353)
Proceeds from disposal of other financial assets		-	6,733
Interest received		8,484	13,163
Purchases of other intangible assets		(1,545)	(719)
Dividends received from joint venture, net of dividend tax		-	5,293
		<u>(41,856)</u>	<u>(95,533)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from loans and borrowings	6	10,955	2,572
Repayments of loans and borrowings	6	(100,000)	(100,000)
Increase of ownership in subsidiary		-	(2,483)
Dividends paid	5	(2,525)	(249,461)
Advances paid under lease contracts		(12,751)	(3,249)
		<u>(104,321)</u>	<u>(352,621)</u>
Net cash used in financing activities			
Net increase / (decrease) in cash and cash equivalents			
		239,315	(90,946)
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		(25,521)	6,985
		<u>335,322</u>	<u>150,177</u>
Cash and cash equivalents at the end of the period			

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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>30 September 2018</u>	<u>31 December 2017</u>
Period-end rates		
RUR / 1 USD	65.59	57.60
RUR / 1 EUR	76.23	68.87
	Nine months ended	
	<u>30 September 2018</u>	<u>30 September 2017</u>
Average for the period		
RUR / 1 USD	61.44	58.33
RUR / 1 EUR	73.29	64.93

2. CORRECTION OF A FUNDAMENTAL ERROR

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

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

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the error was corrected in the incoming balances. As such, the previously recognized impairment amount of 33,077 (RUR 1,930 million) was reversed.

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 (in thousands of US Dollars, except as otherwise stated)

The impact of the error correction is as outlined below:

	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
Consolidated statement of comprehensive income for the year ended 31 December 2017			
Impairment of goodwill	(33,077)	33,077	-
Profit for the year	438,952	33,077	472,029
Effect of translation to presentation currency	40,113	432	40,545
Total comprehensive income for the year	478,736	33,509	512,245
Basic and diluted earnings per share, US Dollars	0.024	0.001	0.025
Consolidated statement of financial position as at 31 December 2017			
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
Total equity	809,295	33,509	842,804
Consolidated statement of changes in equity for the year ended 31 December 2017			
Profit for the year	438,952	33,077	472,029
Other comprehensive income for the year	39,784	432	40,216
Total comprehensive income for the year	478,736	33,509	512,245
Consolidated statement of cash flows for the year ended 31 December 2017			
Profit for the year	438,952	33,077	472,029
Impairment of goodwill	(33,077)	33,077	-
Net cash generated by operating activities	463,669	-	463,669

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 the Federal Antimonopoly Services of Russia. Prices for services are at market rates.

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 (in thousands of US Dollars, except as otherwise stated)

The segment revenue and results for the three months ended 30 September 2018 and 2017 are as follows:

	Segment revenue		Inter-segment sales		Segment profit	
	Nine months ended		Nine months ended		Nine months ended	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017	30 September 2018	30 September 2017
Stevedoring and additional services	696,528	602,377	1,133	1,466	432,239	396,098
Novorossiysk	552,187	470,777	931	1,215	349,484	313,692
Primorsk	131,216	120,588	202	251	74,648	76,672
Baltiysk	13,125	11,012	-	-	8,107	5,734
Fleet services	9,933	52,035	48,289	1,560	20,614	24,619
Novorossiysk	1,090	25,616	26,836	1,492	14,733	8,867
Primorsk	8,843	26,419	21,453	68	5,881	15,752
Total reportable segments	706,461	654,412	49,422	3,026	452,853	420,717
Other	6,039	7,145	7,807	7,839	(1,946)	6,994
Total segments	712,500	661,557	57,229	10,865	450,907	427,711
Unallocated amounts					(182,302)	17,967
Profit before income tax					268,605	445,678

4. REVENUE

	Nine months ended	
	30 September 2018	30 September 2017
Stevedoring services	566,582	520,420
Additional port services	129,946	81,957
Fleet services	9,933	52,035
Other	6,039	7,145
Total	712,500	661,557

5. DIVIDENDS

Dividends declared by the Group during the nine months ended 30 September 2018 and 30 September 2017 were 158,037 and 256,837, respectively, including dividends to non-controlling interest. Dividends declared by the parent company per share for the nine months ended 30 September 2018 and 30 September 2017 were US cents 0.845 and 1.372, respectively. The total dividends paid during the nine months ended 30 September 2018 and 30 September 2017 were 2,525 and 249,461, respectively.

As at 30 September 2018 the dividend liability of the Group amounted to 147,588 (31 December 2017: 2,193). It is included in accrued expenses in statement of financial position as at 30 September 2018 and 31 December 2017.

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 (in thousands of US Dollars, except as otherwise stated)

6. DEBT

	Interest rate	Maturity date	30 September 2018	31 December 2017
Unsecured borrowings				
NFT (RUR)	7.0%	October 2018	2,484	2,693
Secured bank loans and borrowing				
Bank VTB (USD)	LIBOR 3M + 3.99%	June 2023	1,093,173	1,190,511
Federal State Independent Institution "Russian Industrial Development Fund" (RUR)	1.0%	December 2022	4,743	-
Industrial Development Fund (RUR)	1.0%	December 2022	5,521	-
Total debt			1,105,921	1,193,204
Short-term borrowing			(2,484)	(2,693)
Current portion of long-term debt			(200,065)	(199,930)
Total non-current debt			903,372	990,581

The Group loans and borrowings as of 30 September 2018 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	102,287	17,546	119,833
Due from three to six months	-	15,667	15,667
Due from six months to twelve months	100,000	30,344	130,344
	202,287	63,557	265,844
Between 1 and 2 years	200,000	50,798	250,798
Between 2 and 5 years	710,261	74,179	784,440
Total	1,112,548	188,534	1,301,082

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

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

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

NOVOROSSIYSK COMMERCIAL SEA PORT

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 (in thousands of US Dollars, except as otherwise stated)

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at 30 September 2018 of 6.34% (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 nine months ended 30 September 2018, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 152,045 (during nine months ended 30 September 2017, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 65,258).

7. CHANGE OF CONTROL

In September 2018, PJSC Transneft acquired 50% of the share capital of Omirico Limited, which indirectly controls 50.1% of shares of NCSP. As a result of the transaction, share of PJSC Transneft in Omirico Limited increased to 100%, effective share of PJSC Transneft in NCSP increased from 37.07% to 63.08%, PJCS Transneft gained control over NCSP and its subsidiaries as a result.