

**Public Joint Stock
Company Novorossiysk
Commercial Sea Port
and Subsidiaries**

**Interim Condensed Consolidated
Financial Statements (Unaudited)**
For the Six Months Ended 30 June 2014

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014	1
INDEPENDENT AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM FINANCIAL STATEMENTS	2-3
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014:	
Interim condensed consolidated statement of comprehensive income/(loss) (unaudited)	4
Interim condensed consolidated statement of financial position (unaudited)	5
Interim condensed consolidated statement of changes in equity (unaudited)	6
Interim condensed consolidated statement of cash flows (unaudited)	7
Selected notes to the interim condensed consolidated financial statements (unaudited)	8-27

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 30 June 2014, and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed 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 IAS 34 are 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.

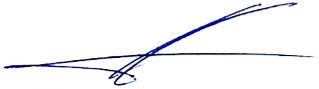
Management is also responsible for:

- 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 interim condensed consolidated financial statements of the Group comply with IAS 34;
- 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 interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 were approved by management on 29 August 2014:


S.K. Batov
Chief Executive Officer




G.I. Kachan
Chief Accountant

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of comprehensive income/(loss), changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 17 to the financial statements, the negative working capital position resulting from the Company's non-compliance with one of the covenants of its loan agreement with Sberbank raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 17 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

29 August 2014
Moscow, Russian Federation

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME/(LOSS) FOR
THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)
(in thousands of US Dollars, except earnings per share)**

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
REVENUE	5	511,100	467,815
COST OF SERVICES	6	(215,208)	(219,248)
GROSS PROFIT		295,892	248,567
Selling, general and administrative expenses	7	(33,554)	(39,760)
Gain on disposal of property, plant and equipment	11	488	185
OPERATING PROFIT		262,826	208,992
Interest income		15,546	11,973
Finance costs	8	(66,647)	(75,771)
Share of profit in joint venture, net	14	2,653	362
Foreign exchange loss, net		(43,361)	(129,234)
Other (loss)/income, net		(355)	1,453
PROFIT BEFORE INCOME TAX EXPENSE		170,662	17,775
Income tax expense	9	(32,795)	(3,901)
PROFIT FOR THE PERIOD		137,867	13,874
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX			
<i>Items to be subsequently reclassified to profit or loss:</i>			
Effect of translation to presentation currency		(24,059)	(93,674)
<i>Items not to be subsequently reclassified to profit or loss:</i>			
Remeasurement of net defined benefit liability		(22)	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX			
		(24,081)	(93,674)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		113,786	(79,800)
Profit for the period attributable to:			
Equity shareholders of the parent company		134,208	10,557
Non-controlling interests		3,659	3,317
		137,867	13,874
Total comprehensive income/(loss) attributable to:			
Equity shareholders of the parent company		110,884	(80,795)
Non-controlling interests		2,902	995
		113,786	(79,800)
Weighted average number of ordinary shares outstanding		18,743,128,904	18,743,128,904
BASIC AND DILUTED EARNINGS PER SHARE			
(US Dollars)		0.0072	0.0006


S.K. Batov
Chief Executive Officer




G.I. Kachan
Chief Accountant

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	30 June 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	1,901,004	1,959,812
Goodwill	12	1,098,636	1,128,893
Mooring rights		6,295	6,745
Other financial assets	13	18,641	18,615
Investment in joint venture		11,953	9,752
Spare parts		7,338	6,907
Deferred tax assets		660	4,623
Other intangible assets		1,970	2,244
Other non-current assets		2,300	1,643
		<u>3,048,797</u>	<u>3,139,234</u>
CURRENT ASSETS:			
Inventories		10,458	12,451
Advances to suppliers		5,158	4,197
Trade and other receivables, net	15	47,580	42,855
VAT recoverable and other taxes receivable		22,941	25,124
Income tax receivable		1,191	1,198
Other financial assets	13	4,377	5,032
Cash and cash equivalents	16	405,495	420,966
		<u>497,200</u>	<u>511,823</u>
Assets held for sale	11	6,292	6,466
TOTAL ASSETS		<u>3,552,289</u>	<u>3,657,523</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(153,670)	(130,371)
Retained earnings		1,324,547	1,203,686
Equity attributable to shareholders of the parent company		<u>1,181,067</u>	<u>1,083,505</u>
Non-controlling interests		38,426	35,177
TOTAL EQUITY		1,219,493	1,118,682
NON-CURRENT LIABILITIES:			
Long-term debt	17	-	1,767,379
Obligations under finance leases	18	15,175	20,260
Cross-currency and interest rate swap	19	19,974	14,411
Defined benefit obligation		9,076	9,184
Deferred tax liabilities		256,366	262,819
Other non-current liabilities		765	1,301
		<u>301,356</u>	<u>2,075,354</u>
CURRENT LIABILITIES:			
Current portion of long-term debt	17	1,959,441	388,666
Current portion of obligations under finance leases	18	10,010	9,709
Trade and other payables		15,741	22,099
Advances received from customers		10,371	17,817
Taxes payable		6,071	5,420
Income tax payable		2,221	2,842
Accrued expenses		27,585	16,934
		<u>2,031,440</u>	<u>463,487</u>
TOTAL EQUITY AND LIABILITIES		<u>3,552,289</u>	<u>3,657,523</u>

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Attributable to shareholders of the parent company				Total	Non-controlling interests	Total
		Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings			
At 1 January 2013		10,471	(281)	(41,413)	1,327,102	1,295,879	32,445	1,328,324
Profit for the period		-	-	-	10,557	10,557	3,317	13,874
Other comprehensive loss for the period, net of tax		-	-	(91,352)	-	(91,352)	(2,322)	(93,674)
Total comprehensive (loss)/income for the period		-	-	(91,352)	10,557	(80,795)	995	(79,800)
Dividends	10	-	-	-	(14,273)	(14,273)	(2)	(14,275)
Increase of ownership in subsidiaries		-	-	-	(11)	(11)	(4)	(15)
At 30 June 2013		10,471	(281)	(132,765)	1,323,375	1,200,800	33,434	1,234,234
At 1 January 2014		10,471	(281)	(130,371)	1,203,686	1,083,505	35,177	1,118,682
Profit for the period		-	-	-	134,208	134,208	3,659	137,867
Other comprehensive loss for the period, net of tax		-	-	(23,299)	(25)	(23,324)	(757)	(24,081)
Total comprehensive income/(loss) for the period		-	-	(23,299)	134,183	110,884	2,902	113,786
Dividends	10	-	-	-	(12,975)	(12,975)	-	(12,975)
Increase of ownership in subsidiaries		-	-	-	(347)	(347)	347	-
At 30 June 2014		10,471	(281)	(153,670)	1,324,547	1,181,067	38,426	1,219,493

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Cash flows from operating activities			
Cash from operations	21	285,318	223,570
Income tax paid		(28,966)	(33,824)
Interest paid		(59,122)	(63,782)
Net cash generated by operating activities		197,230	125,964
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		553	346
Purchases of property, plant and equipment		(32,815)	(42,069)
Proceeds from other financial assets		1,954	46,872
Purchases of other financial assets		(2,017)	(2,236)
Interest received		14,745	9,978
Purchases of other intangible assets		(378)	(229)
Net cash (used in)/generated by investing activities		(17,958)	12,662
Cash flows from financing activities			
Repayments of loans and borrowings		(189,658)	(43,731)
Dividends paid	10	(12)	(76)
Increase of ownership in subsidiaries		-	(15)
Payments under lease contracts		(6,389)	(2,854)
Net cash used in financing activities		(196,059)	(46,676)
Net (decrease)/increase in cash and cash equivalents		(16,787)	91,950
Cash and cash equivalents at the beginning of the period	16	420,966	242,579
Effect of translation into presentation currency on cash and cash equivalents		1,316	(8,052)
Cash and cash equivalents at the end of the period	16	405,495	326,477

The notes on pages 8 to 27 are an integral part of these interim condensed consolidated financial statements.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

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 PJSC in December 1992. NCSP’s principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the “Group”) primarily operate in the Russian Federation. The principal activities and significant entities of the Group as at 30 June 2014 were as follows:

Significant subsidiaries	Nature of business	Country of incorporation	Ownership % held*	
			30 June 2014	31 December 2013
LLC Primorsk Trade Port	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
OJSC Novoroslesexport	Stevedoring and additional port services	Russian Federation	91.38%	91.38%
OJSC IPP	Stevedoring and additional port services	Russian Federation	99.99%	99.99%
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services	Russian Federation	65.18%	65.18%
LLC Baltic Stevedore Company	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
PJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services and bunkering	Russian Federation	95.19%	95.19%
CJSC SoyuzFlot Port	Tug and towing services	Russian Federation	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 District.

NCSP is the largest stevedore of the Group and the holding company. It holds the primary cargo-loading district, the Sheskharis oil terminal, the technical support base 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 District.

PJSC Novorossiysk Grain Terminal (“Grain Terminal”)

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

OJSC Novoroslesexport (“Novoroslesexport”)

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

OJSC IPP (“IPP”)

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

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

OJSC Novorossiysk Shipyard (“Shipyard”)

Shipyard is the largest ship-repair enterprise in the South of Russia that has a major universal port at its disposal. The cargo specialization of Shipyard is the transshipment of ferrous metals and cement. It also handles loose goods in soft containers and big bags, construction cargo, oversize cargo, food and perishable cargo, and roll-on roll-off cargo at its own ferry berth.

LLC Baltic Stevedore Company (“BSC”)

BSC is a stevedoring company operating the container, car-ferry, cargo and passenger terminal of the Baltiysk port in the Kaliningrad District.

PJSC 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 Novorossiysk 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 pursuant to its agreement on water use with Kubanskoye Basin Department of the Krasnodar District under the Russian Ministry of Natural Resources.

CJSC SoyuzFlot Port (“SFP”)

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

Golden share

According to decree No.1343-r dated 12 August 2010, which was issued by the Government of the Russian Federation, the Government has the right to obtain a golden share in companies. This golden share provides the holder with special rights in comparison with other shareholders, and allows the state to block decisions made by shareholders to amend the charter, as well as decisions relating to liquidation, corporate restructuring and significant transactions. During 2010, the Government enacted this right to hold a golden share in the Group so that it may exercise significant influence over the Group without the actual need to acquire significant ownership.

Going concern assumption

The accompanying interim condensed 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.

Price regulation

On 7 May 2013 direct price regulation for loading, unloading (excluding oil and petroleum products) and storage services for companies NCSP, Novoroslesexport and Shipyard was changed to price monitoring by the order of the Federal Tariff Service of Russia (“FTS”) of 7 May 2013.

On 13 October 2013 direct price regulation for loading and unloading of oil and petroleum products for companies NCSP and IPP was changed to price monitoring by the order of FTS of 13 October 2013.

On 7 January 2014 direct price regulation for loading, unloading and storage of oil and oil products for PTP was changed to price monitoring by the order of FTS of 7 January 2014.

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED) (in thousands of US Dollars)

As a consequence of these changes, the aforementioned Group entities are now permitted to independently set tariffs for the aforementioned services. These companies have not, however, been excluded from the register of natural monopolies in transport. Consequently, they are still subject to government regulation and price control and are required to submit quarterly information relating to their applicable prices for services to the FTS.

Statement of compliance

These interim condensed consolidated financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements as at and for the year ended 31 December 2013 (with the exception of new standards implemented during the period, detailed below) and in compliance with the requirements of International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements are unaudited, do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements as at and for the year ended 31 December 2013. These financial statements reflect all adjustments which are, in the opinion of Group management, necessary to fairly state the results of interim periods. Interim results are not necessarily indicative of results to be expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

New and revised standards

On January 1, 2014 the following standards and interpretations were adopted by the Group:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*;
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

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

Standards and Interpretations issued but not yet effective

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

	Effective for annual periods beginning on or after
IFRS 9 (2014) “Financial Instruments”	1 January 2018
IFRS 15 “Revenue from Contracts with Customers”	1 January 2017
IFRS 14 “Regulatory Deferral Accounts”	1 January 2016
Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants	1 January 2016
Amendments to IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 19 “Employee Benefits” – Defined benefit plans: Employee contributions	1 July 2014
Annual Improvements to IFRSs: 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs: 2011-2013 Cycle	1 July 2014

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

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.

Functional and presentation currency

The functional currency of NCSP and principally all of its subsidiaries is the Russian Rouble ("RUR"). The interim condensed 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 interim condensed consolidated financial statements of the Group.

Exchange rates

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

	<u>30 June 2014</u>	<u>31 December 2013</u>
Period-end rates		
RUR / 1 USD	33.6306	32.7292
RUR / 1 EUR	45.8251	44.9699
	<u>Six months ended</u>	
	<u>30 June 2014</u>	<u>30 June 2013</u>
Average for the period		
RUR / 1 USD	34.9796	31.0169
RUR / 1 EUR	47.9875	40.7444

As at 30 June 2014 the USD exchange rate increased by 0.9014 rubles compared to 31 December 2013.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments, estimates and assumptions made by management of the Group and applied in the accompanying interim condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2013.

4. SEGMENT INFORMATION

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

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

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

Segment revenue and segment results

Sales transactions between segments are made at prices which are defined in the Company's price list. 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 six months ended 30 June 2014 and 2013 are as follows:

	<u>Segment revenue</u>		<u>Inter-segment sales</u>		<u>Segment profit</u>	
	<u>Six months ended</u>		<u>Six months ended</u>		<u>Six months ended</u>	
	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Stevedoring and additional services	458,389	408,681	4,157	6,978	232,916	179,894
Novorossiysk	365,848	301,599	3,968	6,975	184,684	124,111
Primorsk	84,409	100,318	189	3	44,412	53,449
Baltiysk	8,129	6,764	-	-	3,817	2,334
Other	3	-	-	-	3	-
Fleet services	44,058	50,923	1,320	2,549	20,917	21,886
Novorossiysk	28,127	25,847	1,252	1,262	12,685	5,718
Primorsk	15,931	25,076	68	1,287	8,232	16,168
Total reportable segments	502,447	459,604	5,477	9,527	253,833	201,780
Other services	8,653	8,211	7,633	8,633	9,266	10,286
Total segments	511,100	467,815	13,110	18,160	263,099	212,066
Adjustments and eliminations (see following table)					(92,437)	(194,291)
Profit before income tax expense					170,662	17,775

During the six months ended 30 June 2014 and 30 June 2013, revenue from LINK OIL TRADING LTD of 76,223 and BIG PORT SERVICE DMCC of 77,724, respectively, represents more than 10% of revenue from stevedoring and additional services. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

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

	<u>Six months ended</u>	
	<u>30 June 2014</u>	<u>30 June 2013</u>
Total segment profit	263,099	212,066
<i>Unallocated operating income and expenses:</i>		
Gain on disposal of property, plant and equipment	488	185
Defined benefit obligation expense	(111)	(165)
<i>Differences between Russian statutory accounting standards and IFRS:</i>		
Depreciation and amortisation	(8,521)	(10,470)
Repairs and maintenance	290	2,622
Professional services	615	930
Finance lease	6,994	5,249
Other	(28)	(1,425)
Operating profit	262,826	208,992
Interest income	15,546	11,973
Finance costs	(66,647)	(75,771)
Share of profit in joint venture, net	2,653	362
Foreign exchange loss, net	(43,361)	(129,234)
Other (loss)/income, net	(355)	1,453
Profit before income tax expense	170,662	17,775

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Six months ended		Six months ended	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Stevedoring and additional services	30,610	31,317	28,205	51,186
Novorossiysk	24,500	24,102	25,776	47,492
Primorsk	4,870	6,017	462	721
Baltiysk	1,240	1,198	1,967	2,973
Fleet services	3,508	3,545	398	945
Novorossiysk	2,273	2,204	41	894
Primorsk	1,235	1,341	357	51
Total reportable segments	34,118	34,862	28,603	52,131
Other services	2,149	2,760	321	559
Total segments	36,267	37,622	28,924	52,690
Unallocated amounts	3,417	3,203	3,617	2,364
Consolidated	39,684	40,825	32,541	55,054

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 period (Note 11).

5. REVENUE

	Six months ended	
	30 June 2014	30 June 2013
Stevedoring services	402,337	362,879
Additional port services	56,052	45,802
Fleet services	44,058	50,923
Other	8,653	8,211
Total	511,100	467,815

6. COST OF SERVICES

	Six months ended	
	30 June 2014	30 June 2013
Fuel for resale and own consumption	74,532	75,740
Salaries	37,678	38,587
Depreciation and amortisation	37,498	38,749
Rent	30,107	32,895
Taxes directly attributable to salaries	10,679	10,560
Repairs and maintenance	7,119	5,989
Subcontractors	6,738	6,577
Energy and utilities	4,392	3,928
Materials	4,097	3,778
Insurance	613	527
Defined benefit obligation expense	463	534
Other	1,292	1,384
Total	215,208	219,248

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended	
	30 June 2014	30 June 2013
Salaries	14,980	18,855
Taxes other than income tax	4,562	5,059
Taxes directly attributable to salaries	3,042	3,637
Depreciation and amortisation	2,186	2,076
Security services	2,039	2,276
Charitable donations	1,412	1,984
Professional services	1,129	393
Change in allowance for doubtful receivables	563	1,082
Materials	546	590
Repairs and maintenance	529	565
Travel and representation expenses	411	628
Bank charges	230	281
Rent	162	432
Other	1,763	1,902
Total	33,554	39,760

8. FINANCE COSTS

	Six months ended	
	30 June 2014	30 June 2013
Interest on loans and borrowings	59,233	63,588
Loss on cross-currency and interest rate swap	5,720	11,639
Interest expense – finance lease	1,694	544
Total	66,647	75,771

9. INCOME TAX EXPENSE

	Six months ended	
	30 June 2014	30 June 2013
Current income tax expense	28,536	25,683
Deferred tax charge/(benefit)	4,259	(21,782)
Total	32,795	3,901

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP which applies a reduced income tax rate of 15.5% through 2015, 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.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

10. DIVIDENDS

During the six months ended 30 June 2014, NCSP declared dividends for the year ended 31 December 2013 in the amount of 12,975 (US cents 0.069 per 1 share). The total dividends paid during the six months ended 30 June 2014 were 12.

During the six months ended 30 June 2013, NCSP declared dividends for the year ended 31 December 2012 in the amount of 14,273 (US cents 0.076 per 1 share). The total dividends paid during the six months ended 30 June 2013 were 76.

As at 30 June 2014 the dividend liability of the Group amounted to 13,073 (31 December 2013: 66) and is included in accrued expenses as at 30 June 2014 and 31 December 2013.

11. PROPERTY, PLANT AND EQUIPMENT

On 30 June 2014 and 31 December 2013, the net book value of the Group's property, plant and equipment amounted to 1,901,004 and 1,959,812, respectively. During the six months ended 30 June 2014 and 30 June 2013, the Group acquired assets at a cost of 32,541 and 55,054, respectively. During the same period the Group disposed of assets with a net book value of 65 and 160, respectively, resulting in a net gain on disposal of 488 and 185, respectively.

For the six months ended 30 June 2014 and 30 June 2013, depreciation expense amounted to 38,843 and 39,999, respectively, and accumulated depreciation relating to assets that were disposed of amounted to 1,802 and 1,267, respectively.

As at 30 June 2014 construction in progress was 82,431 (31 December 2013: 87,772).

The carrying value of property, plant and equipment held under finance leases at 30 June 2014 was 33,006 (31 December 2013: 36,047). There were no additions of property, plant and equipment under finance leases during the six months ended 30 June 2014 (during the six months ended 30 June 2013 additions to machinery and equipment: 14,124). Leased assets are pledged as security for the related finance liabilities.

As at 31 December 2013 a part of land in the amount of 6,466 was reclassified as assets held for sale due to the planned sale of land area of approximately 166 969 sq.m. by JSC "NPC "Zarubezhneft" following the expansion of the railway station Novorossiysk. As at 30 June 2014 the carrying amount is 6,292, the change relates to effect of translation into the presentation currency. On 16 July 2014 the transaction took place, and the consideration received amounted to 6,488.

12. GOODWILL

	30 June 2014	31 December 2013
Cost	1,430,270	1,469,661
Accumulated impairment loss	<u>(331,634)</u>	<u>(340,768)</u>
Carrying amount	<u>1,098,636</u>	<u>1,128,893</u>

For the six months ended 30 June 2014 and 2013 changes in the carrying amount of goodwill relate to effect of translation into the presentation currency.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

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

	Cost		Accumulated impairment loss		Carrying amount	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Stevedoring and additional services segment:						
PTP	730,005	750,111	(148,573)	(152,665)	581,432	597,446
Grain Terminal	141,193	145,082	-	-	141,193	145,082
Novoroslesexport	113,944	117,082	-	-	113,944	117,082
IPP	24,560	25,236	-	-	24,560	25,236
Shipyard	11,119	11,425	(2,802)	(2,879)	8,317	8,546
BSC	2,541	2,611	-	-	2,541	2,611
Fleet services segment:						
SFP	342,569	352,004	(180,259)	(185,224)	162,310	166,780
Fleet	64,339	66,110	-	-	64,339	66,110
Total	1,430,270	1,469,661	(331,634)	(340,768)	1,098,636	1,128,893

Impairment test information

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units as detailed in the table above. Goodwill is tested for impairment annually, or more frequently when there is an indication that the carrying value of goodwill may not be recoverable.

Due to the continued reduction in sales volumes of PTP and SFP, the changes in the mix of sales, as well as the unstable economic and political situation in Russia, management has revised its projections for the business and therefore believed that a triggering event had occurred for these CGUs as of 30 June 2014. Thus, management performed an interim goodwill impairment test as of 30 June 2014 for PTP and SFP.

The recoverable amount of each of these CGUs 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 CGU.

The most significant estimates and assumptions used by management in the value in use calculations as at 30 June 2014 were as follows:

- Cash flow projections were based on the business plans of the Company for the second half of 2014 through 2019, approved by management. Such business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.;
- Cash flow projections were prepared in RUR and considered long-term price trends for sales prices and material costs, specific to each CGU and geographic region;
- Cash flow projections were prepared based on RUR/USD currency rate projections from the Economist Intelligence Unit for each respective year;
- Cash flow projections beyond 2019 were extrapolated using a steady 2.5% per annum growth rate. This rate does not exceed the average long term growth rate for the relevant markets; and
- Discount rates were applied for each CGU based on the Group's weighted average cost of capital.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

The inflation rates used in the preparation of the cash flow projections are as follows:

Year	<u>Inflation expectation, %</u>
2014	5.1
2015	5.5
2016	5.2
2017	5.0
2018	5.0
2019	4.7
Thereafter	3.7

Discount rates for each CGU were estimated in nominal terms using the weighted average cost of capital basis and amounted to 10.49% for PTP and 10.46% for SFP.

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

PTP

The goodwill impairment test was performed and no impairment was recognized.

Management prepared a sensitivity analysis and determined that neither a 10% reduction in the oil and oil products transshipment volumes nor a 1% increase in discount rate (up to 11.49%) 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.

SFP

The goodwill impairment test was performed and no impairment was recognized.

Management prepared a sensitivity analysis and determined that neither a 10% reduction in the revenue nor a 1% increase in discount rate (up to 11.46%) applied in the impairment testing of the SFP would lead to recognition of impairment loss. These are the most sensitive assumptions used in the impairment test for this particular CGU.

13. OTHER FINANCIAL ASSETS

	<u>30 June 2014</u>	<u>31 December 2013</u>
Current		
Deposits	766	970
Loans issued	3,611	4,062
Total current	<u>4,377</u>	<u>5,032</u>
Non-current		
Loans issued	18,641	18,615
Total non-current	<u>18,641</u>	<u>18,615</u>

As at 30 June 2014 short-term deposits placed in LLC "Vneshprombank" ("Vneshprombank") consist of short-term deposits denominated in RUR with an interest rate of 6% per annum (2013: from 6% to 11.75%) and short-term deposits denominated in USD with an interest rate of 2.75% per annum (2013: 2.75%).

As at 30 June 2014 current loans issued in RUR include short-term loans given to employees of the Group and to other related parties with interest rates varying from 7% to 8.50% per annum (2013: from 7% to 8.50%).

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)
(in thousands of US Dollars)**

As at 30 June 2014 non-current loans issued consist of long-term loans issued in USD given to other related parties and to third parties with interest rates varying from 5% to 7% per annum including LLC Novorossiysk Fuel Oil Terminal ("NFT"), a joint venture created in 2009 (Note 14), in the amount of 17,998 (2013: 17,998) maturing in March 2020 with an interest rate of 7% per annum. As at 31 December 2013 non-current loans issued consist of non-current loans given to employees of the Group denominated in RUR with an interest rate of 5% per annum and long-term loans issued in USD given to other related parties with interest rates varying from 5% to 7% per annum.

14. INVESTMENT IN JOINT VENTURE

NFT is a fuel oil terminal operating in Novorossiysk (Russian Federation) with maximum transshipment capacity of four million tons per year.

The Group owns 50% of NFT and its share in profit of the joint venture for the six months ended 30 June 2014 and 30 June 2013 amounted to 2,653 and 362, respectively.

	Ownership % held	
	30 June 2014	31 December 2013
Joint venture		
NFT	50.00%	50.00%

Loans issued by the Group to NFT are disclosed in Note 13.

15. TRADE AND OTHER RECEIVABLES, NET

	30 June 2014	31 December 2013
Trade receivables (RUR)	20,865	18,234
Trade receivables (USD)	20,725	18,429
Other receivables and prepayments	6,245	6,352
Interest receivable	3,194	2,806
Less: allowance for doubtful trade and other receivables	(3,449)	(2,966)
Total	47,580	42,855

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

	Six months ended	
	30 June 2014	30 June 2013
As at beginning of the period	2,966	3,292
Impairment loss recognised in the consolidated statement of comprehensive income/(loss)	563	1,082
Amounts written-off as uncollectable	(22)	(40)
Effect of translation into presentation currency	(58)	(289)
As at end of the period	3,449	4,045

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.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

16. CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Bank deposits in USD	273,161	335,607
Bank deposits in RUR	126,593	77,958
Bank deposits in EUR	687	672
Current accounts in USD	2,914	923
Current accounts in RUR	1,826	5,768
Current accounts in EUR	281	2
Cash in hand	33	36
Total	405,495	420,966

Bank deposits as at 30 June 2014 mainly represent deposits with Vneshprombank, OJSC Bank Financial Corporation Otkritie, OJSC Promsvyazbank and OJSC Sberbank of Russia (Sberbank) with an original maturity of three months or less. Bank deposits with original maturity of three months or less, placed in Vneshprombank, are represented by deposits denominated in USD with interest rates from 2.40% to 7.75% per annum, deposits denominated in RUR with interest rates varying from 6.00% to 11.00% per annum and deposits denominated in EUR with an interest rate 6.50% per annum. Deposits denominated in RUR, placed in OJSC Bank Financial Corporation Otkritie, are represented by deposits with interest rates from 8.50% to 10.70% per annum. Deposits denominated in USD, placed in OJSC Promsvyazbank are represented by deposits with an interest rate of 1.65% per annum. Deposits denominated in RUR, placed in Sberbank, are represented by deposits with interest rates from 4.85% to 8.43% per annum.

Bank deposits as at 31 December 2013 mainly represent deposits with Vneshprombank, OJSC NOMOS-BANK (NOMOS-BANK, former name of OJSC Bank Financial Corporation Otkritie) and Sberbank with an original maturity of three months or less. Bank deposits with original maturity of three months or less, placed in Vneshprombank, are represented by deposits denominated in USD with interest rates from 2.75% to 7% per annum, deposits denominated in RUR with interest rates varying from 6% to 9.30% per annum and deposits denominated in EUR with an interest rate 6% per annum. Deposits denominated in RUR, placed in NOMOS-BANK, are represented by deposits with interest rates from 6.25% to 6.50% per annum. Deposits denominated in RUR, placed in Sberbank, are represented by deposits with interest rates from 4.38% to 6.29% per annum.

17. DEBT

	Interest rate	Maturity date	30 June 2014	31 December 2013
Unsecured borrowings				
Bonds (RUR)	9.0%	April 2015	120,622	123,909
Unsecured bank loans (RUR)				
Sberbank	8.5%	November 2014	40,040	82,274
Sberbank	8.5%	November 2014	1,489	3,060
Total unsecured borrowings			162,151	209,243
Secured bank loans (USD)				
Sberbank	LIBOR 3M + 5%	January 2018	1,797,290	1,946,802
Total debt			1,959,441	2,156,045
Current portion of long-term borrowings			(1,959,441)	(388,666)
Total non-current debt			-	1,767,379

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)
(in thousands of US Dollars)**

The Group borrowings as of 30 June 2014 are repayable as follows:

	<u>Principal amount</u>	<u>Contractual interest liability</u>	<u>Total</u>
Due within three months	1,591,955	24,679	1,616,634
Due from three to six months	169,977	29,024	199,001
Due from six months to twelve months	193,077	48,364	241,441
	<u>1,955,009</u>	<u>102,067</u>	<u>2,057,076</u>
Between 1 and 2 years	-	80,625	80,625
Between 2 and 5 years	-	89,029	89,029
Total	<u>1,955,009</u>	<u>271,721</u>	<u>2,226,730</u>

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 June 2014 of 5.23% (31 December 2013: 5.10%).

The financial obligations of the Group consist primarily 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 six months ended 30 June 2014, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 53,389 (during six months ended 30 June 2013 the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 147,673).

There has been volatility in NCSP's share price during 2014 and at certain times the share price has fallen to below the minimum level determined by a covenant in Sberbank's secured US Dollar loan agreement. The share price was above this level as of 30 June 2014 but as of the date of approval of such financial statements has again fallen below it. The loan agreement is not explicit regarding what is considered to be a breach of this covenant, and does not specify the date(s) at which the share price covenant should be determined. The Group management is renegotiating the covenant with the bank but as of the date of approval of these financial statements no additional agreements have been signed in this respect. Thus the loan was classified as a current portion of the long-term borrowings, which resulted in a negative working capital as of 30 June 2014.

18. 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 5.19% to 17.14% per annum.

	<u>Minimum lease payments as at 30 June 2014</u>	<u>Minimum lease payments as at 31 December 2013</u>	<u>Present value of lease payments as at 30 June 2014</u>	<u>Present value of lease payments as at 31 December 2013</u>
Less than one year	12,638	12,843	10,010	9,709
In the second and fifth year	18,502	24,769	15,098	20,183
Thereafter	78	78	77	77
Less: future financing costs	<u>(6,033)</u>	<u>(7,721)</u>	<u>-</u>	<u>-</u>
Present value of minimum lease payments	<u>25,185</u>	<u>29,969</u>	<u>25,185</u>	<u>29,969</u>

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

	<u>30 June 2014</u>	<u>31 December 2013</u>
Non-current obligations under finance leases	15,175	20,260
Current portion of obligations under finance leases	<u>10,010</u>	<u>9,709</u>
	<u>25,185</u>	<u>29,969</u>

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in Note 11.

19. CROSS-CURRENCY AND INTEREST RATE SWAP

On 4 May 2012, the Group entered into a cross-currency interest rate swap agreement with CJSC "Bank Credit Suisse (Moscow)" related to the bond tranche BO-02 (Note 17).

The most significant estimates and assumptions used in the fair value measurement as at the reporting date are as follows:

Settlement dates	<u>Expected rate, RUR / 1 USD</u>	<u>Discount rate, %</u>
29 October 2014	34.92	0.24
29 April 2015	36.27	0.28

The table below details the Group's sensitivity to depreciation and appreciation of currency exchange rates used in the fair value measurement (US Dollar against the Russian RUR by 5 RUR at each settlement date). The movement applied is based on the forecasted range of reasonable fluctuations over the next three years.

	<u>30 June 2014</u>	
	<u>Depreciation of US Dollar exchange rate by 5 RUR</u>	<u>Appreciation of US Dollar exchange rate by 5 RUR</u>
Gain/(loss) from cross-currency and interest rate swap	19,240	(14,571)

The following table shows details of the contractual maturities of the cross-currency and interest rate swap. The data is based on the undiscounted cash flows of the Group's financial liabilities based on the earliest date at which settlement may be required. The table shows the contractual interest asset, representing cash flows of interest payments, and the principal obligations.

	<u>Principal amount</u>	<u>Contractual interest asset</u>	<u>Total</u>
Due from three to six months	-	2,607	2,607
Due from six to twelve months	<u>(26,806)</u>	<u>2,501</u>	<u>(24,305)</u>
Total	<u>(26,806)</u>	<u>5,108</u>	<u>(21,698)</u>

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

20. 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 OJSC Transneft and the family of Z. Magomedov.

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

The Federal Property Agency of the Russian Federation owns a direct 20% interest in NCSP and has significant influence over the Group, and significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the six months ended 30 June 2014 and 30 June 2013, the Group transacted with Sberbank, Russian Agricultural Bank, VTB Bank, Rosneft, Russian Railways and other state-controlled entities (apart from Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis.

Transactions with state-controlled entities:

	Six months ended	
	30 June 2014	30 June 2013
Sales		
Sales of goods and services	55,229	48,067
Interest income	190	262
Purchases		
Services and materials received	4,381	5,952
Finance costs	53,978	57,751

Balances with state-controlled entities:

	30 June 2014	31 December 2013
Cash and cash equivalents		
Cash and cash equivalents	8,499	7,626
Receivables		
Trade and other receivables	2,668	2,807
Advances to suppliers	695	865
Payables		
Trade and other payables	34	66
Advances received from customers	5	3,045
Debt		
Long-term debt	-	1,645,339
Current portion of long-term debt	1,838,819	386,797

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

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

Transactions with NFT:

	Six months ended	
	30 June 2014	30 June 2013
Sales and income		
Sales of goods and services	6,953	7,004
Interest income	628	590
Purchases		
Services and materials received	77	91

Balances with NFT:

	30 June 2014	31 December 2013
Receivables		
Trade and other receivables	3	-
Long-term loans and interest receivable	20,224	19,600
Payables to related parties		
Advances received from customers	1,065	907

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

Transactions with other related parties:

	Six months ended	
	30 June 2014	30 June 2013
Sales		
Sales of goods and services	34,826	32,563
Interest income	123	135
Purchases		
Services and materials received	25,806	28,615

Balances with other related parties:

	30 June 2014	31 December 2013
Receivables		
Trade and other receivables	669	2,301
Advances to suppliers	3,586	2,281
Short-term loans and interest receivable	4,237	4,171
Long-term loans and interest receivable	-	610
Payables		
Trade and other payables	2,927	11,022
Advances received from customers	437	2,102

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

21. CASH FLOWS FROM OPERATING ACTIVITIES

	Six months ended	
	30 June 2014	30 June 2013
Profit for the period	137,867	13,874
Adjustments for:		
Depreciation and amortisation	39,684	40,825
Finance costs	66,647	75,771
Gain on disposal of property, plant and equipment	(488)	(185)
Foreign exchange loss, net	43,361	129,234
Income tax expense	32,795	3,901
Defined benefit obligation expense	111	165
Interest income	(15,546)	(11,973)
Change in allowance for doubtful receivables	563	1,082
Change in allowance for spare parts and slow-moving inventories	28	128
Share of profit in joint venture, net	(2,653)	(362)
Other adjustments	787	282
	<u>303,156</u>	<u>252,742</u>
Working capital changes:		
Decrease/(increase) in inventories	974	(2,147)
Increase in receivables	(5,256)	(15,479)
Decrease in liabilities	(13,556)	(11,546)
Cash flows generated from operating activities	<u>285,318</u>	<u>223,570</u>

22. COMMITMENTS AND CONTINGENCIES

Legal proceedings

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. These claims relate to, but are not limited to, its business practices and tax matters. The Group believes that resolution of such matters will not have a material adverse effect on its financial performance and liquidity based on information currently available.

Taxation contingencies in the Russian Federation

Russian tax authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and prior legislation, the risk remains that the tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. In connection with this fact, the Group has a potentially significant risk of additional taxation, fines and penalties.

Transfer pricing risk

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length.

The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As at 30 June 2014, no provision was recorded in the interim condensed consolidated financial statements in respect of such possible future claims.

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED) (in thousands of US Dollars)

Operating environment

Emerging markets such as Russian Federation 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 Russian Federation continue to change rapidly, and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation 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.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and E.U. on certain Russian officials, businessmen and companies. In addition, in April 2014 credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These events, including official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on the operations and financial position of the Company is at this stage difficult to predict.

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

Operating lease arrangements relate to the leasing of land, mooring installation, vessels and equipment from the Russian State and related parties. These arrangements have lease terms of between three 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:

	30 June 2014	31 December 2013
Within 1 year	70,927	70,472
Between 1 and 2 years	70,956	69,243
Between 2 and 3 years	69,706	68,478
Between 3 and 4 years	67,977	67,739
Between 4 and 5 years	62,448	63,547
Thereafter	947,232	1,008,715
Total	1,289,246	1,348,194

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

23. CAPITAL COMMITMENTS

As at 30 June 2014 and 31 December 2013, the Group had the following commitments for acquisition of property, plant and equipment and construction works at:

	<u>30 June 2014</u>	<u>31 December 2013</u>
NCSP	57,271	15,267
Novoroslesexport	6,340	3,450
IPP	3,749	5,182
BSC	2,807	3,692
Shipyard	2,476	40
Grain Terminal	207	-
PTP	26	103
SFP	24	-
Total	<u>72,900</u>	<u>27,734</u>

As at 30 June 2014 and 31 December 2013 there were no capital commitments relating to obligations under finance lease contracts.

As at 30 June 2014 the Group's share of the capital commitments relating to its joint venture, NFT, is 2,452 (31 December 2013: 2,710).

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVES)

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 30 June 2014 and 31 December 2013, management believes that the carrying values of financial assets (Notes 13, 15 and 16) and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values except for obligations under finance lease. 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. 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 30 June 2014 the discount rate used for LIBOR+ rate agreement with Sberbank and obligations under finance lease comprised 6.36% (31 December 2013: 6.74%).

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)**
(in thousands of US Dollars)

The fair value compared to the carrying value of long-term financial liabilities as at 30 June 2014 and 31 December 2013 is as follows:

	30 June 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Obligations under finance lease (Level 2)	25,185	28,215	29,969	33,395

25. EVENTS AFTER THE BALANCE SHEET DATE

On 13 August 2014 Batov S.K. was appointed Chief Executive Officer,.