Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Consolidated Financial Statements

For the Year Ended 31 December 2010

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as of 31 December 2010, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2010 were approved by management on 15 April 2011:

I.E. Vilinov	**G.I. Kachan**
Chief Executive Officer	Chief Accountant

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the International Accounting Standards Board.

Deloitte & Touche

15 April 2011
Moscow, Russia

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of US Dollars, except earnings per share)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
REVENUE	6	635,315	675,060
COST OF SERVICES	7	(242,069)	(236,813)
GROSS PROFIT		**393,246**	**438,247**
Selling, general and administrative expenses	8	(46,643)	(68,232)
Loss on disposal of property, plant and equipment		(131)	(2,089)
OPERATING PROFIT		**346,472**	**367,926**
Interest income on deposits		18,632	11,336
Finance costs	9	(30,401)	(31,835)
Foreign exchange loss, net		(12,753)	(25,392)
Other income/(expense), net		928	(1,307)
PROFIT BEFORE INCOME TAX		**322,878**	**320,728**
Income tax expense	10	(64,438)	(68,563)
PROFIT FOR THE YEAR		**258,440**	**252,165**
OTHER COMPREHENSIVE LOSS			
Effect of translation to presentation currency		(6,873)	(7,366)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**251,567**	**244,799**
Profit for the year attributable to:			
Equity shareholders of the parent company		252,529	249,795
Non-controlling interests		5,911	2,370
		258,440	**252,165**
Total comprehensive income attributable to:			
Equity shareholders of the parent company		245,803	243,584
Non-controlling interests		5,764	1,215
		251,567	**244,799**
Weighted average number of ordinary shares outstanding		19,259,815,400	19,259,815,400
BASIC AND DILUTED EARNINGS PER SHARE (US Dollars)		0.0131	0.0130

I.E. Vilinov
Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010
(in thousands of US Dollars)

	Notes	31 December 2010	31 December 2009
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	563,839	549,867
Goodwill	13	391,618	394,632
Mooring rights	14	9,024	9,692
Investments in securities and other financial assets	15	22,219	1,521
Investment in joint venture	32	15,578	1,409
Non-current VAT recoverable		858	1,094
Spare parts		4,862	4,532
Deferred tax assets	10	1,156	1,839
Other intangible assets		1,286	1,519
		1,010,440	966,105
CURRENT ASSETS:			
Inventories	16	8,991	8,510
Advances to suppliers		2,608	2,138
Trade and other receivables	17	29,866	32,499
VAT recoverable and other taxes receivable		12,683	17,400
Income tax receivable		6,183	7,371
Investments in securities and other financial assets	15	46,919	168,736
Cash and cash equivalents	18	265,017	159,075
		372,267	395,729
TOTAL ASSETS		**1,382,707**	**1,361,834**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	19	10,471	10,471
Share premium		9,255	9,255
Foreign currency translation reserve		(50,685)	(43,959)
Retained earnings		996,330	823,035
Equity attributable to shareholders of the parent company		965,371	798,802
Non-controlling interests		23,927	18,170
TOTAL EQUITY		989,298	816,972
NON-CURRENT LIABILITIES:			
Long-term debt	20	305,412	324,694
Defined benefit obligation	21	6,906	9,732
Deferred tax liabilities	10	30,937	33,988
		343,255	368,414
CURRENT LIABILITIES:			
Current portion of long-term debt	20	15,900	130,057
Trade and other payables	22	10,898	5,318
Advances received from customers		6,432	18,006
Taxes payable		4,812	4,616
Income tax payable		579	40
Interest rate swap liability		-	3,064
Accrued expenses	23	11,533	15,347
		50,154	176,448
TOTAL EQUITY AND LIABILITIES		**1,382,707**	**1,361,834**

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of US Dollars)

	Notes	Attributable to shareholders of the parent company						
		Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
At 1 January 2009		**10,471**	**9,255**	**(37,748)**	**606,383**	**588,361**	**27,117**	**615,478**
Profit for the year		-	-	-	249,795	**249,795**	2,370	**252,165**
Effect of translation to presentation currency		-	-	(6,211)	-	**(6,211)**	(1,155)	**(7,366)**
Total comprehensive (loss)/income for the year		-	-	(6,211)	249,795	**243,584**	1,215	**244,799**
Dividends	11	-	-	-	(16,089)	**(16,089)**	(6)	**(16,095)**
Increase of ownership in subsidiaries	25	-	-	-	(17,054)	**(17,054)**	(10,156)	**(27,210)**
At 31 December 2009		**10,471**	**9,255**	**(43,959)**	**823,035**	**798,802**	**18,170**	**816,972**
Profit for the year		-	-	-	252,529	**252,529**	5,911	**258,440**
Effect of translation to presentation currency		-	-	(6,726)	-	**(6,726)**	(147)	**(6,873)**
Total comprehensive (loss)/income for the year		-	-	(6,726)	252,529	**245,803**	5,764	**251,567**
Dividends	11	-	-	-	(79,234)	**(79,234)**	(7)	**(79,241)**
At 31 December 2010		**10,471**	**9,255**	**(50,685)**	**996,330**	**965,371**	**23,927**	**989,298**

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of US Dollars)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Cash from operations	24	400,114	455,747
Income tax paid		(63,074)	(70,646)
Interest paid		(27,071)	(31,068)
Net cash generated by operating activities		**309,969**	**354,033**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		1,331	1,272
Purchases of property, plant and equipment		(82,986)	(65,175)
Proceeds from maturity of securities and other financial assets		889,680	320,061
Purchases of securities and other financial assets		(782,434)	(407,880)
Investment in joint venture and new subsidiary	25,32	(15,061)	(1,344)
Interest received		17,798	10,114
Purchases of other intangible assets		(763)	(922)
Net cash generated by/(used in) investing activities		**27,565**	**(143,874)**
Cash flows from financing activities			
Repayments of borrowings		(155,395)	(55,325)
Proceeds from short-term borrowings		20,350	-
Increase of ownership in subsidiaries*	25	-	(27,210)
Dividends paid	11	(79,410)	(15,920)
Payment for remediation of Loan Participation Notes covenants	9, 20	(4,322)	-
Net cash used in financing activities		**(218,777)**	**(98,455)**
Net increase in cash and cash equivalents		**118,757**	**111,704**
Cash and cash equivalents at the beginning of the year	18	159,075	42,868
Effect of translation into presentation currency on cash and cash equivalents		(12,815)	4,503
Cash and cash equivalents at the end of the year		**265,017**	**159,075**

* Cash consideration for non-controlling interests is classified as a financing activity rather than an investing activity in the consolidated cash flow statement. Prior periods have been restated accordingly as this change in disclosure is required to be applied retrospectively.

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

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 31 December 2010 were as follows:

Subsidiaries	Nature of business
Open Joint Stock Company ("OJSC") IPP	Stevedoring and additional port services
PJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services
OJSC Novoroslesexport	Stevedoring and additional port services
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services
LLC Baltic Stevedore company	Stevedoring and additional port services

The main subsidiaries of the Group are located in the Eastern sector of the Black Sea in Tsemesskaya Bay and in Kaliningrad.

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

OJSC IPP ("IPP")

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

PJSC Fleet NCSP ("Fleet")

Fleet is a maritime tug and towing company. It provides most of the tug and towing, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysky Port (the "Port"). In addition, it carries out emergency services such as transferring vessels to shelter zones during emergencies, cleaning and containment services for oil or other liquid spills in and around the Port and hazardous material response and waste management services pursuant to its agreement on water use with Kubanskoye Basin Department of the Krasnodar region under the Russian Ministry of Natural Resources.

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 transhipment of ferrous metals. 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.

OJSC Novoroslesexport ("Novoroslesexport")

Novoroslesexport provides stevedoring and storage services for the export of timber, containerised cargo, ferrous and nonferrous metals. It is engaged in all year-round cargo operations.

PJSC Novorossiysk Grain Terminal ("Grain Terminal")

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

LLC Baltic Stevedore Company ("Baltic Stevedore")

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

Golden Share

According to decree No.1343-p 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 it with special rights in comparison with other shareholders, and allows the state to block a decision made by shareholders for amendments to the charter, as well as decisions on 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 hold a significant ownership.

2. BASIS FOR PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes standards and interpretations approved by the International Accounting Standards Board (the "IASB"), including International Accounting Standards ("IASs") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") which replaced the Standing Interpretations Committee.

In preparing these consolidated financial statements, management complied with existing standards and interpretations that are effective or available for early adoption at the Group's IFRS annual reporting date.

New and revised Standards and Interpretations adopted in the current period

In the current period, the Group adopted all of the following new and revised Standards and Interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2010.

- IFRS 3 (Revised 2008) "Business Combinations";
- IAS 27 (Revised 2008) "Consolidated and Separate Financial Statements";
- IAS 39 "Financial Instruments: Recognition and Measurement" – Amendment;
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- Amendments resulting from April 2009 Annual Improvements to IFRSs; and
- Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009).

The most significant change to the Group's previous accounting policies arising out of the new standards relate to Amendments to IAS 7 Statement of Cash Flows arising and is as follows:

The amendments to IAS 7 specify that cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities. This change has been applied retrospectively. Prior periods have been restated accordingly and cash consideration for non-controlling interests in amount of 27,210 has been reclassified from investing to financing activities in the consolidated statement of cash flows for consistent presentation.

The first-time application of the other aforementioned amendments to Standards from 1 January 2010 had no material effects on the consolidated financial statements of the Group for the period ended 31 December 2010.

During 2009, the Group early adopted Revised IFRS 8 "Operating Segments" (effective for accounting periods on or after 1 January 2010) further ("IFRS 8").

(in thousands of US Dollars, except otherwise stated)

Standards and Interpretations in issue but not yet adopted

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

	Effective for annual periods beginning on or after
IAS 1 'Presentation of financial statements' – Amendment	1 January 2011
IAS 24 "Related Party Disclosure" – Revision	1 January 2011
IAS 32 "Financial Instruments: Presentation" – Amendment	1 February 2010
IFRS 7 " Financial Instruments: Disclosures" - Amendment	1 July 2011
IFRS 9 " Financial Instruments"	1 January 2013
IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	1 January 2011
IFRIC 19 "Extinguishing Financial Liabilities with Equity"	1 July 2010
Amendments resulting from May 2010 Annual Improvements to IFRSs	1 July 2010 or 1 January 2011

The impact of the adoption of these Standards and Interpretations in the preparation of the consolidated financial statements in future periods currently is being assessed by the Group's management; however, no material effect on the Group's financial position or the results of its operations is anticipated.

Functional and presentation currency

The functional currency of NCSP and each of its subsidiaries is the Russian Rouble ("RUR"), except for Longbranch and Henford Logistics Ltd. which use the Euro ("EUR") and US Dollar ("USD"), respectively, as their functional currencies. The consolidated financial statements are presented in US Dollars as Management considers the USD to be a more relevant presentational currency for international users of the consolidated financial statements of the Group.

Exchange rates

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

	2010	2009
Year-end rates		
RUR / 1 USD	30.4769	30.2442
RUR / 1 EUR	40.3331	43.3883
Average for the period		
RUR / 1 USD	30.3692	31.7231
RUR / 1 EUR	40.2980	44.1299

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and its subsidiaries (Note 31), from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as those of NCSP; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them in line with those of the Group.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated upon consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the Group includes any assets or liabilities resulting from a contingent consideration arrangement, they are measured at the acquisition-date fair value and included with the consideration transferred. Subsequent changes in the fair value of the contingent consideration are adjusted against the cost of the acquisition when they qualify as measurement period adjustments, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments arising from additional information obtained during the measurement period, which cannot exceed twelve months from the acquisition date, about facts and circumstances that existed at the acquisition date. Contingent consideration classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is measured at subsequent reporting dates in accordance with the relevant IFRSs.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from the interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

At the acquisition date, the acquiree's identifiable assets and liabilities, meeting the recognition criteria of IFRS 3(2008) "Business Combinations", are generally recognised at their fair value except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "*Income Taxes"* and IAS 19 "*Employee Benefits"*, respectively;
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "*Share-based Payment"*; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations* " ("IFRS 5") are recognised and measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amount of identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

Non-controlling interest, identified separately from the Group's equity, may be initially measured either: (i) at fair value; or (ii) at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Subsequent to acquisition, the non-controlling interest carrying amount is the amount at initial recognition, plus the non-controlling interests' share of changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations with third parties taking place prior to 1 January 2010 were accounted for in accordance with IFRS 3 (2004) "Business Combination".

Investments in associates and joint ventures

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

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

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

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

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

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

Goodwill

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

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

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

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

Foreign currencies

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

For the purpose of presenting consolidated financial statements for the Group, the assets and liabilities of entities in the Group with functional currencies other than the USD are translated in USD at exchange rates prevailing at the end of each reporting period presented. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates at the date of transactions are used. Exchange differences arising on these translations, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Revenue recognition

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

The Group's revenue is derived as follows:

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

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

Prices for cargo transhipment and storage services are subject to Government regulations. The Group can provide discounts to its customers only within the limits set by the statutory legislation. Prices for additional port services, fleet services, ship repair and other services are set by the Group.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Depreciation of these assets is recorded on the same basis as for other property assets, and commences when the assets are put into operation.

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

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

Employee benefits

Defined contribution plan

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

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes directly attributable to salaries calculated by the application of a regressive rate on each type of taxes from 26% to 2% of the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 20% to 0%, depending on the annual gross remuneration of each employee.

Contributions to the defined contribution retirement benefit plan are recognised as an expense as employees render service.

Defined benefit plans

For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations performed at the end of each reporting period presented. Actuarial gains and losses are recognised in total in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

Income tax

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

Current tax

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

Deferred tax

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

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

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

Property, plant and equipment

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

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

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

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

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

	Number of years
Buildings and completed constructions	15-50
Machinery and equipment	4-20
Marine vessels	4-20
Vehicles	5-7
Office and other equipment	3-10

Properties in the course of construction for production, rental or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation.

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

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

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

Mooring rights and other intangible assets

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

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Spare parts

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

Inventories

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

Financial assets

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

The Group’s financial assets are classified into loans and receivables.

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

Effective interest method

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

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Derivative financial instruments

The Group enters into interest rate swap derivative financial instruments to manage its exposure to interest rate risk.

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

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Provisions

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

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

Dividends declared

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

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

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

Reclassifications

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2009, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2010.

The reclassifications did not have impact of equity or profit for the year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Allowance for trade and other receivables and advances to suppliers

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

Useful lives of fixed assets

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

Impairment of goodwill

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

Details of the estimates used in the Group's annual impairment testing are presented in Note 13.

Impairment of assets (excluding goodwill)

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

Taxation

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

In addition, the Group records deferred tax assets at the end of each reporting period presented based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recorded on the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an increase in the valuation reserve will be required, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the valuation reserve could be reduced, with a corresponding credit to income.

Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

Allowance for obsolete and slow-moving inventory

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

(in thousands of US Dollars, except otherwise stated)

5. SEGMENT INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's CODM for the purpose of resource allocation and assessment of segment performance is focussed on the types of services provided by the Group. Therefore, the Group's reportable segments under IFRS 8 are as follows:

- Stevedoring services and additional port services;
- Fleet services;
- Ship repair services, and
- Other services mainly comprised of rent and resale of energy and utilities to external customers. Neither of these services constitutes a separate reportable segment.

The accounting policies of the operating segments are based on the Russian statutory accounting standards with the inclusion of certain adjustments to reconcile to IFRS. The segment profit measure reported to the CODM, ("Segment profit/(loss)") is operating profit before loss on disposal of property, plant and equipment, certain adjustments to reconcile to IFRS and other unallocated expenses (including central administration costs and directors' salaries).

The segment information for the year ended and as at 31 December 2010 is as follows:

	Stevedoring and additional	Fleet	Ship repair	Other	Total reportable segments	Adjustments and eliminations	Conso-lidated
Segment revenue							
Third parties	576,017	45,028	2,254	12,016	635,315	-	635,315
Inter-segments	4,783	2,398	102	11,685	18,968	(18,968)	-
Total revenue	**580,800**	**47,426**	**2,356**	**23,701**	**654,283**	**(18,968)**	**635,315**
Segment profit/(loss)	305,414	26,838	(1,448)	9,011	339,815	(16,937)	322,878
Other segment information							
Depreciation and amortisation charge	54,794	499	1,060	6,959	63,312	5,263	68,575
Capital expenditures	80,329	2,742	7	421	83,499	2,486	85,985
Contribution to joint venture	15,060	-	-	-	15,060	-	15,060

The segment information for the year ended and as at 31 December 2009 is as follows:

	Stevedoring and additional	Fleet	Ship repair	Other	Total reportable segments	Adjustments and eliminations	Conso-lidated
Segment revenue							
Third parties	618,831	46,874	915	8,440	675,060	-	675,060
Inter-segments	3,833	2,335	2,158	12,294	20,620	(20,620)	-
Total revenue	**622,664**	**49,209**	**3,073**	**20,734**	**695,680**	**(20,620)**	**675,060**
Segment profit/(loss)	366,117	11,014	(212)	11,091	388,010	(67,282)	320,728
Other segment information							
Depreciation and amortisation charge	53,307	767	1,242	4,904	60,220	4,176	64,396
Capital expenditures	53,144	2,433	-	239	55,816	935	56,751
Contribution to joint venture	1,409	-	-	-	1,409	-	1,409

(in thousands of US Dollars, except otherwise stated)

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Certain comparative information, presented in the segment table for the year ended and as at 31 December 2009, has been reclassified in order to achieve comparability with the presentation of the segment information for the year ended and as at 31 December 2010.

Capital expenditure as seen in the segment tables above consists of additions of property, plant and equipment, which includes construction in progress and the related advances paid in the period, net of any impairment loss and reversals recognised for the advances paid for property, plant and equipment (Note 12).

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

	Year ended 31 December	
	2010	2009
Total segment profit/(loss)	**339,815**	**388,010**
Unallocated amounts:		
Interest income on deposits	18,632	11,336
Other income/(expenses), net	928	(1,307)
Loss on disposal of property, plant and equipment	(131)	(2,089)
Foreign exchange loss, net	(12,753)	(25,392)
Finance costs	(30,401)	(31,835)
Other unallocated items included in profit before income tax	6,788	(17,995)
Profit before income tax	**322,878**	**320,728**

During 2010, revenue from PORATH SERVICES LIMITED of 63,659 represents more than 10% of segment revenue. The management of the Group believes that it adequately deals with the corresponding credit risk related to the above customer. No other customer accounted for more than 10% of the total revenues during 2010, and no single customer accounted for more than 10% of the total segment revenues during 2009.

Geographical information

A majority of the Group's entities operate and their non-current assets are located in one principal geographical area – the Eastern sector of the Black Sea in Tsemesskaya bay. The operations of the Novorossiysk Port Capital S.A. and Black sea stevedore company ("BSSC"), registered in the territories of the Luxemburg and the Ukraine respectively, are insignificant to the Group. The Group's revenue from external customers (location of the external customers) by geographical location is detailed below:

	Year ended 31 December	
	2010	2009
Revenue		
Russian Federation customers	401,692	391,227
British Virgin Islands	104,947	72,907
Panama	52,511	63,686
USA	26,535	30,965
Cyprus	14,741	37,149
Other foreign customers	34,889	79,126
Total	**635,315**	**675,060**

(in thousands of US Dollars, except otherwise stated)

6. REVENUE

	Year ended 31 December 2010	Year ended 31 December 2009
Stevedoring services	494,804	534,168
Additional port services	81,213	84,663
Fleet services	45,028	46,874
Ship repair services	2,254	915
Other	12,016	8,440
Total	**635,315**	**675,060**

7. COST OF SERVICES

	Year ended 31 December 2010	Year ended 31 December 2009
Depreciation and amortisation	64,918	60,550
Fuel	64,767	68,198
Personnel expenses	50,825	44,778
Repairs and maintenance	16,713	13,350
Taxes directly attributable to salaries	13,183	10,849
Rent	10,723	9,856
Raw materials	8,031	8,584
Subcontractors	7,186	6,934
Energy and utilities	6,129	4,789
Defined benefit obligation (credit)/charge	(2,294)	2,617
Change in provision for payable to lessor	(2,857)	2,735
Insurance	430	380
Other	4,315	3,193
Total	**242,069**	**236,813**

The change in provision for payable to lessor recorded in Cost of services in 2009 relates to possible additional rental payments as at 31 December 2009. During 2009 the Group without lessor permission based on the current legislation made lower rental payments. Due to the above fact the Group recognized a provision for the possible additional rental payments in the amount of 2,735. In 2010 certain court practice favourable to the lessee in similar situations occurred thus resulting in the full reversal of the provision in fiscal 2010.

(in thousands of US Dollars, except otherwise stated)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Personnel expenses	21,463	22,361
Taxes other than income tax	8,660	8,396
Professional services (audit, consulting and legal fees)	5,830	1,158
Security services	4,038	4,011
Depreciation and amortisation	3,657	3,846
Taxes directly attributable to salaries	2,788	2,648
Charity	2,515	3,402
Bank charges	1,762	2,160
Travel and representation expenses	1,467	1,473
Rent	1,440	1,254
Repairs and maintenance	1,074	1,221
(Reversal of loss)/loss on advances for property, plant and equipment	(8,456)	8,456
Change in provision for payable to customer	(2,700)	2,585
Change in allowance for spare parts and slow-moving inventories	(2,053)	540
Advertising	981	1,024
Raw materials	591	776
Other	3,586	2,921
Total	**46,643**	**68,232**

During 2009, the Group advanced Henford Logistics Ltd for a number of assets, which were ordered to build at foreign shipyard. One of the assets was not undergoing construction at the end of 2009 and receipt was deemed unlikely. As such, the Group wrote off the entire advance relating to this asset. During 2010, the Group acquired Henford Logistics Ltd (Note 25), and was able to realise the benefit of the advances by utilising the advanced money in the construction of other assets. As such, the previously recognised impairment was reversed.

The change in provision for payable to customer recorded in Selling, general and administrative expenses in 2009 related to a potential reimbursement to a customer. In 2009, the Group was potentially liable to reimburse pass through expenses charged in relation to ongoing litigation of one of its customers with tax authority, and as such recorded a provision for the charges totalling 2,585. In 2010, the claim made by the customer was settled in the customer's favour, and the Group was no longer liable to the customer for reimbursement. Accordingly, the full provision was subsequently reversed in 2010.

9. FINANCE COSTS

	Year ended 31 December 2010	Year ended 31 December 2009
Interest on borrowings	26,079	33,305
Expense for remediation of Loan Participation Notes covenants	4,322	-
Net gain on interest rate swap	-	(1,470)
Total	**30,401**	**31,835**

During 2010, the Group paid a consent fee in amount of 3,544 to Loan Participation Note holders and 778 for transaction support and consulting services to waive the early repayment requirements under the loan agreement dated 14 May 2007 (Note 20).

(in thousands of US Dollars, except otherwise stated)

10. INCOME TAX

	Year ended 31 December 2010	Year ended 31 December 2009
Current income tax expense	66,568	74,108
Deferred tax benefit	(2,130)	(5,545)
Total	**64,438**	**68,563**

The corporate income tax rate in the Russian Federation is calculated at 20% of the estimated assessable profit for the year based on stand alone accounts. See below for a reconciliation of tax on profit before income tax at the statutory rate on income tax expense:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	322,878	320,728
Tax at the statutory rate of 20%	64,576	64,146
Effect of other expenses that are not deductible in determining taxable profit	1,542	2,699
Non-deductible (gain)/loss on advances for property, plant and equipment	(1,691)	1,691
Loss on disposal of property, plant and equipment	11	27
Total	**64,438**	**68,563**

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

	31 December 2010	31 December 2009
Net balance at the beginning of the year	**32,149**	**39,081**
Benefit recognised during the year	(2,130)	(5,545)
Effect of translation into presentation currency	(238)	(1,387)
Net balance at the end of the year	**29,781**	**32,149**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

(in thousands of US Dollars, except otherwise stated)

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

	31 December 2010	31 December 2009
Deferred tax assets		
Accrued expenses	1,081	1,480
Vacation accruals	722	855
Allowance for doubtful receivables	529	694
Allowance for obsolete and slow-moving inventories	340	938
Investment valuation	52	343
Total	**2,724**	**4,310**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	30,413	33,730
Mooring rights	1,805	2,239
Long-term debt	261	490
Other adjustments	26	-
Total	**32,505**	**36,459**
Net deferred tax liability	**29,781**	**32,149**

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

	31 December 2010	31 December 2009
Deferred tax assets	1,156	1,839
Deferred tax liabilities	30,937	33,988
Net deferred tax liability	**29,781**	**32,149**

11. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2010 and 2009 were 79,241 and 16,095, respectively. Dividends per share for 2010 and 2009 were US cents 0.411 and 0.084, respectively. The total dividends paid during 2010 and 2009 were 79,410 and 15,920, respectively.

(in thousands of US Dollars, except otherwise stated)

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and completed constructions	Machinery and equipment	Marine vessels	Vehicles	Office and other equipment	Construction in progress	Total
Cost								
As at 1 January 2009	**19,399**	**316,031**	**242,838**	**65,097**	**16,052**	**65,471**	**47,798**	**772,686**
Additions	56	7,591	10,883	3,374	1,996	4,498	36,809	65,207
Transfers	-	7,347	2,185	-	-	14,328	(23,860)	-
Disposals	-	(434)	(2,195)	(2,269)	(1,087)	(796)	(1,969)	(8,750)
Effect of translation into presentation currency	(551)	(8,317)	(6,404)	(1,805)	(414)	(988)	(828)	(19,307)
As at 31 December 2009	**18,904**	**322,218**	**247,307**	**64,397**	**16,547**	**82,513**	**57,950**	**809,836**
Accumulated depreciation								
As at 1 January 2009	**-**	**(41,968)**	**(98,522)**	**(21,882)**	**(7,306)**	**(26,641)**	-	**(196,319)**
Current year depreciation expense	-	(20,122)	(28,025)	(4,094)	(2,466)	(8,253)	-	(62,960)
Disposals	-	53	2,039	1,660	880	756	-	5,388
Impairment on advances for property, plant and equipment recognised in profit or loss	-	-	-	-	-	-	(8,456)	(8,456)
Effect of translation into presentation currency	-	217	1,543	506	131	395	(414)	2,378
As at 31 December 2009	**-**	**(61,820)**	**(122,965)**	**(23,810)**	**(8,761)**	**(33,743)**	(8,870)	**(259,969)**
Carrying value								
As at 1 January 2009	**19,399**	**274,063**	**144,316**	**43,215**	**8,746**	**38,830**	**47,798**	**576,367**
As at 31 December 2009	**18,904**	**260,398**	**124,342**	**40,587**	**7,786**	**48,770**	**49,080**	**549,867**

(in thousands of US Dollars, except otherwise stated)

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Vehicles	Office and other equipment	Construction in progress	Total
Cost								
As at 1 January 2010[1]	**18,904**	**312,452**	**270,672**	**64,397**	**16,567**	**68,894**	**57,950**	**809,836**
Additions	233	7,077	19,860	2,560	1,131	1,439	53,685	85,985
Acquired on acquisition of subsidiaries	-	-	-	22,745	-	-	-	22,745
Transfer	-	821	592	1,645	-	307	(3,365)	-
Disposals	-	(2,179)	(4,184)	(2,129)	(835)	(1,097)	(220)	(10,644)
Disposal of advances for property, plant and equipment	-	-	-	-	-	-	(30,375)	(30,375)
Effect of translation into presentation currency	(146)	(2,407)	(2,124)	(579)	(127)	(527)	(672)	(6,582)
As at 31 December 2010	**18,991**	**315,764**	**284,816**	**88,639**	**16,736**	**69,016**	**77,003**	**870,965**
Accumulated depreciation								
As at 1 January 2010[1]	**-**	**(59,386)**	**(130,644)**	**(23,810)**	**(8,759)**	**(28,500)**	**(8,870)**	**(259,969)**
Current year depreciation expense	-	(23,038)	(31,750)	(4,923)	(1,617)	(6,003)	-	(67,331)
Disposals	-	1,725	4,140	1,800	706	810	-	9,181
Reversal of impairment on advances for property, plant and equipment	-	-	-	-	-	-	8,456	8,456
Effect of translation into presentation currency	-	528	1,095	193	71	236	414	2,537
As at 31 December 2010	**-**	**(80,171)**	**(157,159)**	**(26,740)**	**(9,599)**	**(33,457)**	**-**	**(307,126)**
Carrying value								
As at 1 January 2010[1]	**18,904**	**253,066**	**140,028**	**40,587**	**7,808**	**40,394**	**49,080**	**549,867**
As at 31 December 2010	**18,991**	**235,593**	**127,657**	**61,899**	**7,137**	**35,559**	**77,003**	**563,839**

[1] The 1 January 2010 balances of the property, plant and equipment have been reclassified between groups versus balances presented as at 31 December 2009 due to identified misclassifications by management.

(in thousands of US Dollars, except otherwise stated)

As at 31 December 2010, construction in progress included 44,194 (2009: 40,398) of advances paid for property, plant and equipment.

During 2010, the Group acquired Henford (Note 25). This acquisition resulted in the elimination of advances for property, plant and equipment given to Henford in prior reporting periods in the amount of 30,375 and the recognition of certain Marine vessels and loans given, since the Group obtained full legal ownership of these assets upon conclusion of the acquisition. As detailed in Note 8, the previous impairment recognised in relation to these advances was also reversed as a result of the acquisition.

As at 31 December 2009 property, plant and equipment with carrying value of 8,386 was pledged to secure bank overdrafts and loans granted to the Group (Note 20). As at 31 December 2010, no property, plant and equipment was pledged to secure loans granted to the Group.

13. GOODWILL AND IMPAIRMENT OF GOODWILL

	31 December 2010	31 December 2009
Cost	394,710	397,747
Accumulated impairment loss	(3,092)	(3,115)
Carrying amount	**391,618**	**394,632**

	31 December 2010	31 December 2009
Cost		
Balance at the beginning of year	397,747	409,441
Effect of translation into presentation currency	(3,037)	(11,694)
Balance at the end of the year	**394,710**	**397,747**
Accumulated impairment loss		
Balance at the beginning of year	(3,115)	(3,207)
Effect of translation into presentation currency	23	92
Balance at the end of the year	**(3,092)**	**(3,115)**

For the purpose of impairment testing as at 31 December 2010, management of the Group estimated the recoverable amount of each of the Group's cash-generating units.

The recoverable amount of each cash-generating unit has been 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 corresponding discount rate which reflects the time value of money and the risks associated with each individual cash generating unit.

The most significant estimates and assumptions used by management in the value in use calculations for 2010 are as follows:

- Cash flows were projected based on the budgeted figures for the period from 2011 to 2015;
- Cash flow projections were prepared in RUR and based on both long-term price trends for sales prices and material costs, specific to each segment and geographic region;
- Revenue rates for transhipment expressed in USD were translated into RUR based on RUR/USD currency rates projections of the Ministry of Finance of the Russian Federation on respective year;
- Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate;
- Discount rates for each cash-generating unit were estimated in nominal terms using the weighted average cost of capital basis.

(in thousands of US Dollars, except otherwise stated)

The inflation and discount rates used for the cash flow projects are as follows:

Year	Inflation expectations, %	Discount rates, %
2011	7.0	11.74
2012	6.0	11.52
2013	6.0	11.34
2014	6.0	11.20
2015	6.0	11.08
Thereafter	6.0	11.08

Values assigned to key assumptions and estimates used to measure the each unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most probable assessment of future trends.

Based on the value in use calculation prepared to calculate the recoverable amount, no impairment was recognised in 2010 or 2009. Based on management's projections, a 5% decrease of the budgeted cash flows would not cause the cash generating units carrying value to exceed their recoverable amounts.

The carrying amount of goodwill as at 31 December 2010 is allocated to the following cash-generating units (sorted by reporting segments):

	Carrying amount	
	31 December 2010	**31 December 2009**
Stevedoring and additional services segment:		
Grain Terminal	155,804	157,002
Novoroslesexport	125,735	126,702
IPP	27,101	27,310
Shipyard	9,178	9,249
Baltic Stevedore	2,804	2,826
Fleet services segment:		
Fleet	70,996	71,543
Total	**391,618**	**394,632**

14. MOORING RIGHTS

	31 December 2010	**31 December 2009**
Cost	11,696	11,786
Accumulated amortisation	(2,672)	(2,094)
Carrying value	**9,024**	**9,692**

	31 December 2010	**31 December 2009**
Cost		
Balance at the beginning of year	11,786	12,132
Effect of translation into presentation currency	(90)	(346)
Balance at the end of the year	**11,696**	**11,786**
Accumulated amortisation		
Balance at the beginning of year	(2,094)	(1,517)
Charge for the year	(596)	(591)
Effect of translation into presentation currency	18	14
Balance at the end of the year	**(2,672)**	**(2,094)**

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

(in thousands of US Dollars, except otherwise stated)

15. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December 2010	31 December 2009
Financial assets carried at amortised cost		
Current		
Deposits	46,323	159,682
Loans issued	596	1,003
Promissory notes	-	8,051
Total current	**46,919**	**168,736**
Non-current		
Loans issued and other financial assets	22,219	86
Deposits with maturity period over year	-	1,435
Total non-current	**22,219**	**1,521**

Short-term deposits denominated in USD are placed in Sberbank of Russia (“Sberbank”) with an interest rate 1.42% per annum. Short-term deposits denominated in RUR are placed in the Russian Agricultural Bank with interest rates varying from 4.60% to 10.10% per annum.

Current loans issued include short-term loans given to employees of the Group and short-term loans to related and third parties. The loans are denominated in RUR with interest rates varying from 4% to 8% per annum.

Non-current loans issued and other financial assets consist of long-term loans to third parties and other related parties, including two long-term loans in USD to LLC Novorossiysk Fuel Oil Terminal, a joint venture created in 2009 (Note 32), in the amount of 18,000 with maturity in 2012 and an interest rate of 7% per annum, and in the amount of 1,600 with maturity on 17 December 2019 and an interest rate of 7% per annum to be paid on the last day of the granted period. Long-term loans are denominated in USD with interest rates varying from 5% to 7% per annum and in RUR with interest rates varying from 3% to 5% per annum.

16. INVENTORIES

	31 December 2010	31 December 2009
Raw materials and low value items	6,884	6,892
Fuel	1,922	1,859
Goods for resale	1,324	2,606
Other	3	94
Less: Allowance for obsolete and slow-moving inventories	(1,142)	(2,941)
Total	**8,991**	**8,510**

(in thousands of US Dollars, except otherwise stated)

17. TRADE AND OTHER RECEIVABLES

	31 December 2010	31 December 2009
Trade accounts receivable (USD)	15,557	15,627
Trade accounts receivable (RUR)	10,152	11,611
Trade accounts receivable (EUR)	59	236
Other receivables and prepayments	4,514	4,930
Interest receivables	2,425	1,606
Less: Allowance for doubtful receivables	(2,841)	(1,511)
Total	**29,866**	**32,499**

The average credit period for the Group's customers is 11 days. During this period no interest is charged on the outstanding balances. Thereafter, average interest according to the contracts is charged at 6% per month on the outstanding balance.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's largest customers in total represent 65% (2009: 70%) of the outstanding balance.

The summary below shows the outstanding balances of the top main counterparties at the respective balance sheet dates (other counterparties are shown for comparative information):

	Customer location	31 December 2010	31 December 2009
PORATH SERVICES LIMITED	British Virgin Island	10,881	-
OJSC NLMK	Lipetsk, Russia	1,832	1,722
LLC Ruskon	Novorossiysk, Russia	1,168	2,439
MILESEATRANS LTD	Wilmington, USA	1,126	903
FELION LIMITED	Limassol, Cyprus	959	-
OJSC ROSNEFT OIL COMPANY	Moscow, Russia	602	1,124
INTER-LOGISTICS	Bremen, Germany	123	1,177
DIHANIS TRADING LIMITED	British Virgin Island	-	11,733
Total		**16,691**	**19,098**

Included in the Group's receivable balance are debtors with a carrying value of 1,913 (2009: 2,709) which are past due at the respective reporting date but not impaired and which the Group still considers recoverable.

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

	31 December 2010	31 December 2009
Not past due and not impaired	**27,953**	**29,790**
Past due but not impaired		
less than 45 days	1,147	1,247
45-90 days	585	468
90-180 days	115	268
180-365 days	66	726
Past due and impaired	**2,841**	**1,511**
Total	**32,707**	**34,010**

The Group does not hold any collateral over these outstanding balances. No credit limits are set for the customers.

(in thousands of US Dollars, except otherwise stated)

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

	31 December 2010	31 December 2009
As at beginning of the year	**1,511**	**1,141**
Recognised in the statement of comprehensive income	1,588	632
Amount recovered during the year	(131)	(49)
Effect of translation into presentation currency	(17)	(13)
Amounts written-off as uncollectable	(110)	(200)
As at end of the year	**2,841**	**1,511**

Trade receivables and other receivables between 45 and 365 days are provided for based on estimated irrecoverable amounts, which were determined by reference to past experience, and are regularly reassessed based on the facts and circumstances existing as at each reporting date. The Group has provided fully for all receivables with due dates over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

18. CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Bank deposits in USD	226,740	11,760
Bank deposits in RUR	23,029	58,529
Bank deposits in EUR	5,323	83,301
Current accounts in RUR	6,867	2,541
Current accounts in USD	2,250	2,795
Current accounts in EUR	787	48
Cash in hand	21	101
Total	**265,017**	**159,075**

Bank deposits as at 31 December 2010 mainly represent deposits with Sberbank with an original maturity of three months or less.

19. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 ordinary shares authorised, issued, fully paid and outstanding with a par value of 0.054 US cents per share. Authorised share capital at par is 10,471 (2009:10,471). Each ordinary share has equal voting rights.

In accordance with the Russian Federal Law “On Joint Stock Companies”, voting shareholding have the right to demand obligatory purchase for all or part of their shares if they vote against or do not participate in a vote to approve a major transaction at a general meeting. A major transaction is any transaction with a value in excess of 50% of the net book value of the entities net assets. The share obligatory purchase must be exercised by the voting shareholder within 45 days of the voting date. The entity’s Board of Directors is required to establish the total price for share obligatory purchase and is limited to a minimum price equivalent to the fair market value of the shares on the voting date and a maximum of 10% of the entity’s net asset value per the entity’s Russian Accounting Standards (“RAS”) statutory financial statements on the date of the vote.

On 16 December 2010, at an extraordinary shareholders meeting, the Company’s shareholders approved the acquisition of 100% of the shares in LLC Primorsk Trade Port (“LLC PTP”). As these transactions met the requirements of major transactions as defined in the Russian Federal Law for Joint Stock Companies, all abstaining or dissenting shareholders may redeem all or part of their shares to the Company.

(in thousands of US Dollars, except otherwise stated)

The maximum number of shares that may be repurchased by all abstaining or dissenting shareholders is 516,686,497. The board of directors were limited to a maximum value for the share redemption of RUR 2,531,763 thousand, which represents 10% of the Company's net asset value as stated in its RAS financial statements. This resulted in a maximum purchase price per share of RUR 4.9 per share as approved by NCSP's Board of Directors on 29 October 2010.

The results of the obligatory share purchase were announced after the balance sheet date and are accordingly disclosed in Note 33 "Events after the balance sheet date".

20. DEBT

	Interest rate	Maturity date	31 December 2010	31 December 2009
Unsecured bank loans				
Loan Participation Notes (USD)	7%	May 2012	301,312	300,361
Bayerische Hypo- und Vereinsbank AG (USD)	LIBOR + 1.6%	July 2010	-	117,912
Sberbank (USD)	10.0%	August 2011	-	28,241
Sberbank (USD)	10.0%	September 2011	-	3,546
Raiffeisen (USD)	4.5%	June 2012	20,000	-
Secured bank loans				
Sberbank (USD)	11.0%	December 2011	-	2,332
UniCredit Bank (USD)	8.95%	September 2011	-	1,532
Sberbank (USD)	11.0%	December 2011	-	827
Total debt			**321,312**	**454,751**
Current portion of long-term loans			(15,900)	(130,057)
Total non-current debt			**305,412**	**324,694**

Sberbank

During the year ended 31 December 2010, Sberbank unsecured loans with maturity in August 2011 and September 2011 and secured loans with maturity in December 2011 were repaid in advance.

Loan Participation Notes

On 17 May 2007, the Group, through a newly formed special purpose entity, Novorossiysk Port Capital S.A., issued 7% loan participation notes due 2012 (the "Loan Participation Notes") in an aggregate principal amount of 300,000. The Group applied the proceeds of the Loan Participation Notes to repay a portion of the outstanding principal amount of the Sberbank loans.

Interest on the Loan Participation Notes is payable semi-annually on 17 November and 17 May of each year, commencing on 17 May 2007. The Loan Participation Notes are subject to provisions, including representations and warranties, covenants, undertakings and events of default, including change of control, negative pledge and cross-default provisions. Violation of the change of control provisions can result in the Group being required to repay the Loan Participation Notes at 101% of par value.

Holders of the Loan Participation Notes have, by the way of an Extraordinary Resolution duly passed at the meeting of the Noteholders held on 6 December 2010, approved the waiver of the loan advanced repayment in connection with the change of the control and the breach of the Consolidated Leverage Ratio contained in the limitation on indebtedness covenant. A consent fee of 0.0125 (twelve and one half US dollar) for each 1 (one thousand US dollar) in principal amount of the Loan Participation Notes held was paid to those holders of the Loan Participation Notes who had voted in favour of the extraordinary resolution. A total payment of 3,544 was paid to the note holders and 778 was paid for transaction support and consulting services. Such amounts were expensed as incurred (Note 9).

(in thousands of US Dollars, except otherwise stated)

Raiffeisen

In December 2010, the Group entered a loan agreement with Raiffeisen bank for 20,000 with an interest rate of 4,5% per annum. The loan was granted to repay the loan from Sberbank. The loan principal is to be repaid in equal instalments of 3,333 on a quarterly basis beginning 31 March 2011. The maturity date is 14 June 2012. Loan interest is calculated and payable on monthly basis.

Bayerische Hypo- und Vereinsbank AG

In July 2007, the Group entered into an agreement for a 118,000 syndicated term loan facility (the "Facility") provided by UniCredit Bank Austria AG, and subsequently transferred to Bayerische Hypo- und Vereinsbank AG. The Group drew down the Facility in full on 19 July 2007, and used the proceeds to repay a portion of the outstanding principal amount of the loan under the Sberbank loan.

The Bayerische Hypo- und Vereinsbank AG facility bore interest at a rate of one month US dollar LIBOR plus 1.60% (declining to 1.40%, if the Group obtained a rating of Ba3 (or the equivalent) by Moody's or an equivalent rating agency), and was payable monthly. To mitigate the interest rate risk on the loan provided by Bayerische Hypo- und Vereinsbank AG, the Group entered into an interest rate swap agreement to fix the LIBOR rate. The outstanding principal amount of the facility was repaid in full at final maturity on 15 July 2010.

As at 31 December 2009 property, plant and equipment with a carrying value of 8,386 was pledged to secure bank overdrafts and loans granted to the Group. As at 31 December 2010, no property, plant and equipment was pledged to secure loans granted to the Group (Note 12).

As at 31 December 2010, the average effective borrowing rate relating to the Group's debt was 6.84% per annum (2009: 6.67% per annum). All the Group's debt has interest rates that are fixed at the contract date.

The Group borrowings as of 31 December 2010 are repayable as follows:

	Capital element	Contractual interest liability
Due within three months	3,333	222
Due from three to six months	5,900	10,638
Due from six months to twelve months	6,667	11,040
	15,900	**21,900**
Between 1 and 2 years	305,412	10,881
Total	**321,312**	**32,781**

21. EMPLOYEE BENEFITS

Unfunded defined benefit plan

As discussed in Note 3, the Group has defined benefit plans for employees of NCSP and some of its subsidiaries. Under the plans, the employees are entitled to one-time retirement benefits of 10% of the employee's final salary for every year worked for the eligible companies of the Group on attainment of a retirement age of 55 for women and 65 for men. Also, post-retirement benefits are provided to these employees ranging from RUR 200 (USD 0.007) to RUR 500 (USD 0.02) per month depending on each employee's years of service and qualifications.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2010. The adoption of a new collective agreement, a change in employee turnover and a change in the assumption for the expected annual rate of post retirement benefits gave rise to a decrease in the defined benefit obligation. The present value of the defined benefit obligation, the related current service cost and the past service cost were all measured using the projected unit credit method.

(in thousands of US Dollars, except otherwise stated)

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

	Valuation at 31 December 2010	Valuation at 31 December 2009
Discount rate	8%	9%
Employees turnover per annum	5%	7%
Expected annual rate of salary increase	10%	10%
Expected annual rate of post retirement benefits increase	0%	4%
Average residual period of work	7 years	7 years

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

	Year ended 31 December 2010	Year ended 31 December 2009
Interest on obligation	923	726
Current service cost	271	282
Past service cost	239	229
Actuarial (gains)/losses recognised during the year	(3,727)	1,380
Total	**(2,294)**	**2,617**

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

In 2010, the number of retired employees who receive benefits was 2,662 (2009: 2,768).

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

	31 December 2010	31 December 2009
Present value of unfunded benefit obligation	7,382	10,451
Past service cost not yet recognised	(476)	(719)
Net liability arising from defined benefit obligation	**6,906**	**9,732**

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

	Year ended 31 December 2010	Year ended 31 December 2009
Opening defined benefit obligation	**10,451**	**8,630**
Actuarial (gains)/losses recognised during the year	(3,727)	1,380
Interest cost	923	726
Current service cost	271	282
Benefits paid	(467)	(417)
Effect of translation to presentation currency	(69)	(150)
Closing defined benefit obligation	**7,382**	**10,451**

(in thousands of US Dollars, except otherwise stated)

Defined contribution plans

Contributions to the Russian Federation State Pension Fund amounted to 11,839 and 6,984 for the year ended 31 December 2010 and 2009, respectively, which related to employee services rendered during each year.

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

	31 December 2010	31 December 2009	31 December 2008	31 December 2007	31 December 2006
Present value of defined benefit obligation	6,906	9,732	7,643	8,181	6,451
Experience adjustments on plan liabilities	(3,727)	1,380	339	580	(145)

22. TRADE AND OTHER PAYABLES

	31 December 2010	31 December 2009
Trade payables (RUR)	4,878	3,055
Trade payables (USD)	903	101
Payables for property, plant and equipment	5,117	2,162
Total	**10,898**	**5,318**

The average credit period for trade payables relating to the purchase of inventories (e.g. fuel) and services (e.g. utilities) in the territory of the Russian Federation is 20 days. No interest is charged on the outstanding balance for trade and other payables during credit period. Thereafter, interest may be charged from 0.3% to 9% per month on the outstanding balance.

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

	31 December 2010	31 December 2009
Past due	1,094	547
Due within three months	8,172	2,557
Due from three to six months	213	84
Due from six months to twelve months	349	945
Due in next financial year	1,070	1,185
Total	**10,898**	**5,318**

23. ACCRUED EXPENSES

	31 December 2010	31 December 2009
Accrued salaries and wages	6,936	6,264
Accrued professional service expenses	3,617	245
Accrued rent expenses	-	2,869
Accrued charity expenses	-	1,488
Other accrued expenses	980	4,481
Total	**11,533**	**15,347**

(in thousands of US Dollars, except otherwise stated)

24. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2010	**Year ended 31 December 2009**
Profit for the year	**258,440**	**252,165**
Adjustments for:		
Depreciation and amortisation	68,575	64,396
Finance costs	30,401	31,835
Loss on disposal of property, plant and equipment	131	2,089
Foreign exchange losses, net	12,753	25,392
Income tax expense	64,438	68,563
Change in retirement benefit obligation	(2,761)	2,200
Interest income on deposits	(18,632)	(11,336)
Change in allowance for doubtful receivables	1,411	585
Change in allowance for spare parts and slow-moving inventories	(2,053)	540
(Reversal of loss)/loss on advances for property, plant and equipment	(8,456)	8,456
Change in provision for probable economic outflows	(5,557)	5,320
Other adjustments	4,090	(127)
	402,780	450,078
Working capital changes:		
Decrease / (increase) in inventories	1,138	(2,755)
Decrease/ (increase) in trade and other receivables	7,234	2,036
Decrease in long-term VAT receivables	228	3,681
Decrease in trade and other payables and accruals	(11,266)	2,707
Cash flows from operating activities	**400,114**	**455,747**

The Change in provision for probable economic outflows relates to the provisions and subsequent reversals for the potential lease payments and customer payments recorded within Cost of services and Selling, general and administrative expenses, respectively. Refer to Note 7 and Note 8 for further details.

25. ACQUISITION AND FOUNDATION OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

2010:

On 29 June 2010, Fleet acquired an 80% share in Henford Logistics Ltd. (Hong-Kong), an entity with share capital of 0.012 (twelve USD), for cash consideration of 1 (one thousand USD) in order to expand the tug and tow business of the Group. The fair value of the net assets at the date of acquisition was close to zero. The assets of the entity included property plant and equipment in the amount of 22,745 and loan given. The liability was presented by advances received from the Group (Note 12).

The Group determined disclosure of the revenue and profit or loss for 2010 as if the Group had acquired Henford Logistics Ltd. on 1 January 2010 to be impractical due to significant changes in the organizational structure and composition of assets and liabilities of Henford Logistics Ltd. during 2010. The financial results of the acquired subsidiary cannot be quantified without significant estimates and assumptions from management, who have determined that they cannot be reasonably supported by evidence and for which the cost to produce outweighs the economic benefits.

2009:

Acquisitions

During 2009, the Group acquired an additional 2.41% of interest in IPP and 9.51% interest in Fleet for a cash consideration of 27,210 increasing its ownership interest to 99.97% and 95.19%, respectively. The carrying value of IPP and Fleet’s net assets in the consolidated financial statements on the dates of acquisition of non-controlling interests was 144,625 in total. As a result of this transaction, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of 10,156. The excess of the consideration paid over the Group’s share in net assets acquired in the amount of 17,054 was recognised in the statement of changes in equity as a decrease of retained earnings.

(in thousands of US Dollars, except otherwise stated)

On 19 May 2009, the Group founded a joint venture LLC Novorossiysk Fuel Oil Terminal (“LLC NFT”) in equal shares with Centrosun Holdings Limited with share capital of 3 (RUR 100,000) for the purposes of building stevedoring facilities for oil product transhipment. On 31 December 2009, the total share capital was increased to 2,688 with the Group contributing 1,344 during the year.

On 29 June 2009, PJSC Fleet of NCSP founded a Longbranch Shipping Enterprises Ltd. Co (Cyprus) with the share capital of EUR 1,000 to expand its tow business. Ownership in the subsidiary of PJSC Fleet of NCSP is 80%, with a second founder (unrelated party), owning the remaining 20%. Contribution to the share capital in amount of EUR 800 was made in July 2009.

26. RELATED PARTY TRANSACTIONS

Transactions between NCSP and its subsidiaries have been eliminated upon consolidation and are not disclosed in this note. The 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.

Given that the Federal Agency of the Russian Federation owns a 20% interest in NCSP, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. In 2010 and 2009, the Group had balances and transactions with Sberbank, Russian Agricultural Bank, Transneft and its subsidiaries, Rosneft, various military divisions, Russian Railways, etc.

Transactions with state-controlled entities:

	Year ended 31 December 2010	Year ended 31 December 2009
Sales and income received from related parties		
Sales and income received from related parties	87,688	87,517
Interest income	16,441	10,441
Purchases from related parties		
Non-capital expenditures	5,713	4,923
Interest expenses	2,596	5,002

Balances with state-controlled entities:

	31 December 2010	31 December 2009
Cash in related parties banks		
Cash and cash equivalents in related party bank	258,069	138,890
Deposit with related party bank	46,323	158,747
Receivables from related parties		
Trade and other receivables	2,417	2,870
Advances to suppliers	375	480
Short-term promissory notes	-	8,051
Payables to related parties		
Trade and other payables	112	57
Advances received from customers	3,074	2,653
Long-term debt	-	26,191
Current portion of long-term debt	-	8,755

Other related parties are considered to include the ultimate controlling parties, affiliates and entities under common ownership and control with the Group.

(in thousands of US Dollars, except otherwise stated)

At year-end, the immediate parent of the Group is Novoport Holding LTD ("Novoport"), which is a newly-created company inserted into the group structure prior to year-end by KADINA Limited Company ("Kadina"). Both Novoport and Kadina are registered companies in the British Virgin Islands. As at year-end Kadina owns 100% of Novoport, which in turn owns 50.1% of the Group. As at year-end, the ultimate controlling parties of the Group were members of the families of Mr. Ponomarenko and Mr. Scorobogatko. Subsequent to year-end, an acquisition occurred which changed the ultimate controlling parties of the Group. Please refer to Note 33 for additional details surrounding this transaction and the change in ownership.

NCSP and its subsidiaries in the ordinary course of business enter into various sales, purchases and service transactions with related parties, including LLC NFT (Note 32), and Ekomarin, an associate, etc.

Details of transactions between the Group and other related parties are disclosed below:

Transactions with other related parties:

	Year ended 31 December 2010	Year ended 31 December 2009
Sales and income received from related parties		
Sales and income received from related parties	1,908	613
Interest income	737	93
Purchases from related parties		
Services rendered	1,543	2,499

Balances with other related parties:

	31 December 2010	31 December 2009
Receivables from related parties		
Trade and other receivables	358	968
Advances to suppliers	-	65
Short-term loans given to related parties	1,522	1,142
Long-term loans given to related parties	22,207	-
Payables to related parties		
Other accounts payables	120	-

Compensation of key management personnel

For the year ended 31 December 2010 and 2009, the remuneration of the directors and other members of key management was 8,359 and 8,523, respectively, which represented short-term employee benefits.

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

27. COMMITMENTS AND CONTINGENCIES

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 they will not have a material adverse effect on its consolidated financial statements based on information currently available.

However, litigation is inherently unpredictable, and, although the Group believes that it has valid defences in these matters, unfavourable resolutions could occur, which could have a material adverse effect on the Group's consolidated financial statements in future reporting periods.

(in thousands of US Dollars, except otherwise stated)

Taxation contingencies in the Russian Federation

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with the practical implications of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, 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. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations. The Group's management believes that the Group 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.

Russian Federation risk

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Insurance

As at 31 December 2010, the Group has insurance coverage in respect of potential damage of its major facilities. NCSP has business interruption insurance and third party liability insurance in respect of environmental damage. 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 lease of land, mooring installation and vessels from the Russian State. These arrangements have lease terms between 5 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.

As at 31 December 2010, future minimum lease payments under non-cancellable operating leases with initial terms in excess of one year are as follows:

2011	12,434
2012	11,387
2013	11,356
2014	11,134
2015	10,502
Thereafter	192,521
Total	**249,334**

(in thousands of US Dollars, except otherwise stated)

28. CAPITAL COMMITMENTS

The Group had the following commitments for the acquisition of property, plant and equipment and construction works at:

	31 December 2010	31 December 2009
NCSP	49,241	19,464
Baltic Stevedore	12,074	-
Novoroslesexport	2,028	30
IPP	809	15
Grain Terminal	7	129
Shipyard	4	13
Fleet	-	632
Total	**64,163**	**20,283**

The above commitments were entered into to enhance of the Groups' transhipment capacities during the following 3-10 years.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2010 and 2009, management believes that the carrying values of significant financial assets (Notes 15, 17 and 18) and financial liabilities (Notes 20 and 22) recorded at amortised cost in the consolidated financial statements approximated their fair value due to their short-term nature, except for the borrowings and long-term investments.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy includes the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(in thousands of US Dollars, except otherwise stated)

The fair value of long-term financial liabilities as at 31 December 2010 and 2009 is as follows:

	31 December 2010		31 December 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loan Participation Notes (Level 1)	301,312	310,125	300,361	301,410
Fixed rate financial liabilities (Level 2)	20,000	18,989	36,478	35,631
LIBOR+ rate agreement (fixed by swap) (Level 2)	-	-	117,912	112,338

The interest rate swap as at 31 December 2009 was measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of long-term financial assets as at 31 December 2010 and 2009 is as follows:

	31 December 2010		31 December 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Promissory notes and other financial assets (Level 2)	-	-	1,521	1,263

30. RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Major categories of financial instruments

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

	31 December 2010	31 December 2009
Financial assets		
Cash and cash equivalents	265,017	159,075
Investments and receivables carried at amortised cost		
Deposits	46,323	161,117
Trade and other receivables	29,866	32,499
Loans issued	22,812	1,087
Promissory notes	-	8,051
Total financial assets	**364,018**	**361,829**
Financial liabilities carried at amortised cost		
Loans and borrowings	(321,312)	(454,751)
Trade payables	(5,781)	(3,156)
Payables for property, plant and equipment	(5,117)	(2,162)
Total financial liabilities	**(332,210)**	**(460,069)**

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

(in thousands of US Dollars, except otherwise stated)

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

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

	31 December 2010	31 December 2009
Assets		
Cash and cash equivalents	228,990	14,555
Investments and receivables carried at amortised cost	38,293	173,729
Total assets	**267,283**	**188,284**
Liabilities		
Loans and borrowings	(321,312)	(454,751)
Trade payables	(805)	(101)
Total liabilities	**(322,117)**	**(454,852)**
Total net position	**(54,834)**	**(266,568)**

The table below details the Group's sensitivity to a 10% depreciation or appreciation of the Russian Rouble against the US Dollar if all other variables are held constant. The analysis was applied to monetary items at the balance sheet dates denominated in USD. A 10% appreciation of the Russian Rouble against the US dollar would have the exact opposite impact as seen below:

	31 December 2010	31 December 2009
Depreciation loss	(5,483)	(26,657)

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

	31 December 2010	31 December 2009
Assets		
Cash and cash equivalents	6,110	83,349
Investments and receivables carried at amortised cost	59	10,739
Total assets	**6,169**	**94,088**
Liabilities		
Trade payables	(98)	-
Total liabilities	**(98)**	**-**
Total net position	**6,071**	**94,088**

The table below details the Group's sensitivity to a 10% depreciation of the Russian Rouble against the EURO if all other variables are held constant. The analysis was applied to monetary items at the balance sheet dates denominated in the EURO. A 10% appreciation of the Russian Rouble against the EURO would have the exact opposite impact as seen below:

	31 December 2010	31 December 2009
Depreciation gain	607	9,409

(in thousands of US Dollars, except otherwise stated)

Interest rate risk

To mitigate the interest rate risk during 2008, the Group entered into interest rate swap agreement with Morgan Stanley and fixed LIBOR rate at 3.2% per annum for the loan provided by Bayerische Hypo- und Vereinsbank AG. The maturity date of the contract was 18 November 2010. The amount of the loan was repaid in full at maturity on 15 July 2010.

Credit risk

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

Before accepting of any new customer, the Group uses an internal credit system to assess the potential customer's credit quality. No credit limits are set to the customers.

The summary below shows the turnover and outstanding balances of top five counterparties as at the respective balance sheet dates and for the period then ended:

	Customer location	Turnover for 2010	31 December 2010
PORATH SERVICES LIMITED	British Virgin Island	63,659	10,881
TRANSNEFT-SERVICE	Russia	60,777	2
Palmpoint International Inc.	Panama	52,141	1
OJSC NLMK	Russia	29,568	1,832
MILESEATRANS LTD	USA	26,311	1,126
Total		**232,456**	**13,842**

	Customer location	Turnover for 2009	31 December 2009
Palmpoint International Inc.	Panama	63,602	18
TRANSNEFT-SERVICE	Russia	59,962	1
DIHANIS TRADING LIMITED	British Virgin Island	52,624	11,733
MZK	Russia	34,247	2
OJSC NLMK	Russia	32,969	1,722
Total		**243,404**	**13,476**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.
The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Maturity analyses of financial liabilities are presented in Notes 20 and 22.

(in thousands of US Dollars, except otherwise stated)

31. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Ownership % held*	
Subsidiary	**Country of incorporation**	**31 December 2010**	**31 December 2009**
IPP	Russian Federation	99.97%	99.97%
Fleet	Russian Federation	95.19%	95.19%
Shipyard	Russian Federation	65.18%	65.18%
Novoroslesexport	Russian Federation	91.38%	91.38%
Grain Terminal	Russian Federation	100.00%	100.00%
Baltic Stevedore	Russian Federation	100.00%	100.00%
Henford Logistics Ltd.	China	80.00%	-

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

32. INVESTMENT IN JOINT VENTURE

LLC NFT, created in May 2009 (Note 25), is a fuel oil terminal with expected capacity of 4 million tons per year. The LLC NFT is in the start up stage consisting of construction of storage facilities and reconstruction and modernization of liquid cargo berths performed during 2009 and 2010 years in order to facilitate loading of oil products from the terminal to tanker ships. The financial results of the joint venture for years ended 31 December 2010 and 2009 were insignificant.

	Ownership % held	
Joint venture	**31 December 2010**	**31 December 2009**
LLC NFT	50.00%	50.00%

Summarised financial information LLC NFT is represented below:

	31 December 2010	**31 December 2009**
Total assets	89,657	11,330
Total liabilities	(58,501)	(8,512)
Net assets	**31,156**	**2,818**
Group's share of net assets of joint venture	**15,578**	**1,409**
Carrying value of investment	**15,578**	**1,409**

During the year ended 31 December 2010, the Group contributed capital of 15,060 to LLC NFT.

(in thousands of US Dollars, except otherwise stated)

33. EVENTS AFTER THE BALANCE SHEET DATE

On 21 January 2011, NCSP received a loan in the amount of 1,950,000 from Sberbank pursuant to a contract dated 19 January 2011 relating to a new credit line to be used for the acquisition of PTP. The loan was provided with the following conditions:

- The term of the facility is 7 years;
- Floating interest rate of LIBOR 3M + 4.85% per annum is applied during the first 3 years of the loan;
- Fixed interest rate of 7.48% is applied during the remaining 4 years of the loan;
- A lump sum commission in amount of 11,700 (or 0.6%) was payable for the provision of the loan;
- No principal is due for the first 36 calendar months from the date of the loan agreement ("the grace period"), after which the principal amount of the loan is to be paid by equal quarterly installments after the grace period expires; and
- The loan is secured by a pledge over 50.1% of NCSP shares held by the immediate parent of the Group, Novoport, and the shares of LLC PTP.

On 21 January 2011, NCSP acquired 100% of the shares in LLC PTP, an operator for oil exports at the Port of Primorsk, Leningrad region, for cash consideration of 2,153,000 from OMIRICO Limited Company ("OMIRICO LIMITED"), the seller. The Group also incurred acquisition costs of 4,077 which have been recognised as an expense in profit or loss in January 2011. By acquiring PTP, management believes the Group will be able to materially increase the scale of its operations and to become a market leader in port management in Russia's two key regions, the North-Western and Southern basins.

Due to the recent completion of the acquisition, the Group has not finalized its accounting for the acquisition. As at the date these financial statements are authorized for issuance, the Group has determined the following provisional fair values of the assets and liabilities acquired as at the date of the acquisition:

Provisional fair values of assets acquired and liabilities recognised at the date of acquisition

	21 January 2011 (unaudited)
Current assets	
Cash and cash equivalents	30,889
Trade and other receivables	29,406
Other current assets	6,771
Non-current assets	
Property, plant and equipment	1,446,266
Other non-current assets	1,812
Current liabilities	
Trade and other payables	18,774
Current portion of long-term debt	93,232
Non-current liabilities	
Deferred tax liabilities	251,443
Long-term debt	279,695
Net assets	**872,000**

(in thousands of US Dollars, except otherwise stated)

Goodwill arising on acquisition	**21 January 2011 (unaudited)**
Consideration transferred	2,153,000
Less: fair value of identifiable net assets acquired	872,000
Goodwill	**1,281,000**

Goodwill arose in the acquisition of LLC PTP because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of LLC PTP. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In conjunction with the Group's acquisition of LLC PTP, OMIRICO LIMITED sold LLC PTP and acquired 100% of Novoport shares from Kadina, and therefore obtained control over the Group. OMIRICO LIMITED is registered under the legislation of the Republic of Cyprus. OMIRICO LIMITED is jointly controlled by OJSC Transneft and Z. Magomedov. The owner of 100% of OJSC Transneft ordinary shares is the Russian Federation represented by the Federal Agency for the Management of Federal Property, preferential shares are owned by legal entities and private individuals and are traded at the secondary stock market.

During the period from 24 February to 1 March 2011, NCSP repurchased 516,686,496 own shares for RUR 4.9 per share from shareholders of the NSCP for a total of RUR 2,531,763 thousand. The obligatory purchase was performed in accordance with the Federal Law on Joint Stock Companies and the resulting decisions of the NCSP's Board of Directors dated 4 February 2011, which approved the NCSP shares obligatory purchase from shareholders who voted against or did not participate in a vote to approve a major transaction to acquire 100% of the LLC PTP share capital through a loan for 1,950,000 from Sberbank.