Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2012 and
Auditor’s Report

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 31 December 2012, 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").

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 2012 were approved by management on 16 April 2013.

Y.V. Matvienko
Acting Chief Executive Officer

G.I. Kachan
Chief Financial Officer

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

16 April 2013
Moscow, Russian Federation

Sedov A.V., Partner
(certificate no 01-000487 dated 13 December 2012)

ZAO Deloitte & Touche CIS

The Entity: OJSC «NCSP»

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

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

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

Independent Auditor: ZAO "Deloitte & Touche CIS"

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

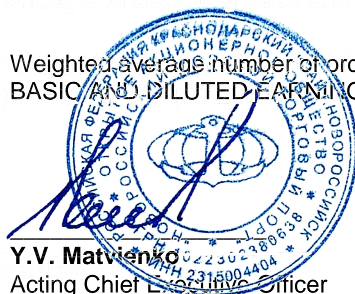
Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

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

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of US Dollars, except earnings per share)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
REVENUE	6	1,033,680	1,049,539
COST OF SERVICES	7	(435,676)	(495,440)
GROSS PROFIT		**598,004**	**554,099**
Selling, general and administrative expenses	8	(87,528)	(78,168)
Loss on disposal of property, plant and equipment	12	(2,288)	(692)
Impairment of goodwill	13	(89,456)	-
OPERATING PROFIT		**418,732**	**475,239**
Interest income		12,009	4,434
Finance costs	9	(144,263)	(144,619)
Share of loss in joint venture, net	16	(778)	(4,746)
Foreign exchange gain/(loss), net		130,200	(167,940)
Other (loss)/income, net		(20)	2,152
PROFIT BEFORE INCOME TAX EXPENSE		**415,880**	**164,520**
Income tax expense	10	(99,920)	(34,207)
PROFIT FOR THE YEAR		**315,960**	**130,313**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Effect of translation to presentation currency		64,023	(54,508)
Actuarial loss on defined benefit plans	24	(1,624)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**378,359**	**75,805**
Profit for the year attributable to:			
Equity shareholders of the parent company		310,771	127,100
Non-controlling interests		5,189	3,213
		315,960	**130,313**
Total comprehensive income attributable to:			
Equity shareholders of the parent company		371,407	74,144
Non-controlling interests		6,952	1,661
		378,359	**75,805**
Weighted average number of ordinary shares outstanding		18,743,128,904	19,087,586,568
BASIC AND DILUTED EARNINGS PER SHARE (US Dollars)		0.0166	0.0067



Y.V. Matvienko
Acting Chief Executive Officer

G.I. Kachan
Chief Financial Officer

The notes on pages 8 to 53 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 2012
(in thousands of US Dollars)

	Notes	31 December 2012	31 December 2011
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	2,068,857	1,967,938
Goodwill	13	1,489,007	1,491,070
Mooring rights	14	7,864	7,980
Investments in securities and other financial assets	15	11,159	34,842
Investment in joint venture	16	8,916	9,425
Spare parts		5,467	5,007
Deferred tax assets	10	1,075	7,318
Other intangible assets		2,691	1,593
Other non-current assets		9,958	13,971
		3,604,994	3,539,144
CURRENT ASSETS:			
Inventories	17	8,195	11,258
Advances to suppliers		8,093	2,991
Trade and other receivables, net	18	43,037	47,796
VAT recoverable and other taxes receivable		23,965	41,132
Income tax receivable		272	41,209
Investments in securities and other financial assets	15	50,131	21,833
Cash and cash equivalents	19	242,579	127,522
		376,272	293,741
TOTAL ASSETS		**3,981,266**	**3,832,885**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	20	10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(41,413)	(103,641)
Retained earnings		1,327,102	1,032,044
Equity attributable to shareholders of the parent company		**1,295,879**	**938,593**
Non-controlling interests		32,445	25,582
TOTAL EQUITY		**1,328,324**	**964,175**
NON-CURRENT LIABILITIES:			
Long-term debt	21	2,171,762	2,113,843
Obligations under finance leases	22	6,089	-
Cross currency and interest rate swap	23	4,602	-
Defined benefit obligation	24	9,551	7,286
Deferred tax liabilities	10	292,082	266,907
Other non-current liabilities		949	2,864
		2,485,035	2,390,900
CURRENT LIABILITIES:			
Current portion of long-term debt	21	90,200	392,413
Current portion of obligations under finance leases	22	2,711	-
Trade and other payables	26	12,380	18,251
Advances received from customers		26,392	47,442
Taxes payable		6,113	4,292
Income tax payable		11,183	4,034
Accrued expenses	27	18,928	11,378
		167,907	477,810
TOTAL EQUITY AND LIABILITIES		**3,981,266**	**3,832,885**

The notes on pages 8 to 53 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 2012
(in thousands of US Dollars)

		Attributable to shareholders of the parent company							
	Notes	Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total
At 1 January 2011		**10,471**	**-**	**9,255**	**(50,685)**	**996,330**	**965,371**	**23,927**	**989,298**
Profit for the year		-	-	-	-	127,100	127,100	3,213	**130,313**
Other comprehensive income		-	-	-	(52,956)	-	(52,956)	(1,552)	**(54,508)**
Total comprehensive income for the year		**-**	**-**	**-**	**(52,956)**	**127,100**	**74,144**	**1,661**	**75,805**
Buy-back of shares	20	-	(281)	(9,255)	-	(76,741)	**(86,277)**	-	**(86,277)**
Dividends	11	-	-	-	-	(14,645)	**(14,645)**	(6)	**(14,651)**
At 31 December 2011		**10,471**	**(281)**	**-**	**(103,641)**	**1,032,044**	**938,593**	**25,582**	**964,175**
At 1 January 2012		**10,471**	**(281)**	**-**	**(103,641)**	**1,032,044**	**938,593**	**25,582**	**964,175**
Profit for the year		-	-	-	-	310,771	310,771	5,189	**315,960**
Other comprehensive income		-	-	-	62,228	(1,592)	60,636	1,763	**62,399**
Total comprehensive income for the year		**-**	**-**	**-**	**62,228**	**309,179**	**371,407**	**6,952**	**378,359**
Dividends	11	-	-	-	-	(14,121)	**(14,121)**	(89)	**(14,210)**
At 31 December 2012		**10,471**	**(281)**	**-**	**(41,413)**	**1,327,102**	**1,295,879**	**32,445**	**1,328,324**

The notes on pages 8 to 53 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 2012
(in thousands of US Dollars)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities			
Cash from operations	29	599,556	554,586
Income tax paid		(33,898)	(90,329)
Interest paid		(138,710)	(143,895)
Net cash generated by operating activities		**426,948**	**320,362**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		5,360	1,064
Purchases of property, plant and equipment		(55,784)	(95,081)
Proceeds from investments in securities and other financial assets		111,710	198,106
Purchases of investments in securities and other financial assets		(119,726)	(182,153)
Acquisition of subsidiaries, net of cash acquired		-	(2,100,577)
Interest received		8,402	6,861
Purchases of other intangible assets		(1,987)	(1,026)
Net cash used in investing activities		**(52,025)**	**(2,172,806)**
Cash flows from financing activities			
Repayments of loans and borrowings		(388,726)	(115,449)
Proceeds from loans and borrowings	21	136,207	1,938,300
Dividends paid	11	(14,183)	(14,797)
Advances paid under lease contracts	22	(6,330)	-
Payment for buy-back of shares	20	-	(86,151)
Payment for shares buy-back costs	20	-	(126)
Net cash (used in)/generated by financing activities		**(273,032)**	**1,721,777**
Net increase/(decrease) in cash and cash equivalents		**101,891**	**(130,667)**
Cash and cash equivalents at the beginning of the year	19	127,522	265,017
Effect of translation into presentation currency on cash and cash equivalents		13,166	(6,828)
Cash and cash equivalents at the end of the year	19	**242,579**	**127,522**

The notes on pages 8 to 53 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 2012 were as follows:

Significant subsidiaries	Nature of business	Country of incorporation	Ownership % held* 31 December 2012	Ownership % held* 31 December 2011
LLC Primorsk Trade Port	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
OJSC Novoroslesexport	Stevedoring and additional port services	Russian Federation	91.38%	91.38%
OJSC IPP	Stevedoring and additional port services	Russian Federation	99.98%	99.98%
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services	Russian Federation	65.18%	65.18%
LLC Baltic Stevedore Company	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
PJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services and bunkering	Russian Federation	95.19%	95.19%
CJSC SoyuzFlot Port	Tug and towing services	Russian Federation	99.99%	99.99%

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

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

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

LLC Primorsk Trade Port ("PTP")

PTP is involved in the transshipment of oil and oil products in the port of Primorsk, Leningrad District. The Group acquired 100% of the shares in PTP on 21 January 2011, in order to materially increase the scale of its operations and become a market leader in port management in Russia's two key regions, the North-Western and Southern basins.

PJSC Novorossiysk Grain Terminal ("Grain Terminal")

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

OJSC Novoroslesexport ("Novoroslesexport")

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

OJSC IPP ("IPP")

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

OJSC Novorossiysk Shipyard ("Shipyard")

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

LLC Baltic Stevedore Company ("BSC")

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

PJSC Fleet Novorossiysk Commercial Sea Port ("Fleet")

Fleet is a maritime tug and towing company. It provides most of the tug and towing, mooring and bunkering services for ships and other maritime vessels at and around the 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 District under the Russian Ministry of Natural Resources.

CJSC SoyuzFlot Port ("SFP")

SFP is a subsidiary of PTP. According to a decision of the shareholders' meeting on 25 April 2012, the company's name was changed from CJSC Sovfracht-Primorsk to the Joint Stock Company "SoyuzFlot Port". SFP is the operator of towing, pilotage and tug and towing services in the Port of Primorsk in the Leningrad District.

Golden share

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

Going concern assumption

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

2. BASIS FOR PRESENTATION

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

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.

Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted are consistent with those of the previous year, except for the following new and amended IFRS effective as of 1 January 2012 and the early adoption of IAS 19 "*Employee Benefits*" (as revised in June 2011):

- IFRS 1 (Revised 2008) "*First-time Adoption of International Financial Reporting Standards*". Amendments to severe hyperinflation. Effective 1 July 2011;
- IFRS 1 (Revised 2008) "*First-time Adoption of International Financial Reporting Standards*". Amendments to removal of fixed dates of first-time adopters. Effective 1 July 2011;
- IFRS 7 "*Financial Instruments: Disclosure*s". Amendments to transfers of financial assets. Effective 1 July 2011;
- IAS 12 "*Income Taxes*". Amendments to IAS 12 "*Income Taxes*" – Deferred Tax: Recovery of Underlying Assets. Effective 1 January 2012.

The adoption of the amendments to IFRS 1 (Revised 2008) "First-time Adoption of International Financial Reporting Standards", IFRS 7 "Financial Instruments: Disclosures" and IAS 12 "Income Taxes" did not have any impact on the financial position or performance of the Group.

IAS 19 "Employee Benefits" (as revised in June 2011)

In the current year, the Group has applied IAS 19 (as revised in June 2011) "*Employee Benefits*" and the related consequential amendments in advance of their effective dates. The amendments to IAS 19 change the accounting for defined benefit schemes and termination benefits. For the Group, given that the plans are unfunded, the most significant change relates to the accounting for changes in defined benefit obligations. The amendments require the recognition of changes in defined benefit obligations when they occur in other comprehensive income; such gains and losses and excluded permanently from profit and loss. Historically, the Group's policy involved the recognition of actuarial gains and losses, immediately, in profit or loss. The transitional provisions in IAS 19 (as revised in June 2011) require application of the revised policy retrospectively. The Group has not retrospectively restated financial information as of and for the year ended 31 December 2011 for the adoption of IAS 19 (as revised in June 2011), given that the impact is both qualitatively and quantitatively immaterial.

Furthermore, the interest cost and expected return on scheme assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in June 2011), which is calculated by applying a discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) also introduces more extensive disclosures in the presentation of the defined benefit cost.

The Group maintains an unfunded defined benefit plan, as such, the primary impact of the application of IAS 19 (as revised in June 2011) impact of the immediate recognition of actuarial gains and losses in other comprehensive income (Note 24).

Standards and Interpretations issued but not yet effective

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

	Effective for periods annual periods beginning on or after
IFRS 7 "Financial Instruments: Disclosures" amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 9 "Financial Instruments" – New requirements for classifying and measuring financial assets revised requirements for the classification and measurement of financial liabilities	1 January 2015
IFRS 10 "Consolidated Financial Statements" – New standard published in May 2011	1 January 2013
IFRS 11 "Joint Arrangements" – New standard published in May 2011	1 January 2013
IFRS 12 "Disclosure of Interests in Other Entities" – New standard published in May 2011	1 January 2013
IFRS 13 "Fair Value Measurement" – New standard published in May 2011	1 January 2013
IAS 1 "Presentation of financial statements" – amendment to revise the presentation of other comprehensive income	1 January 2013
IAS 27 "Separate Financial Statements" – New standard published in May 2011	1 January 2013
IAS 28 "Investments in Associates" – New standard published in May 2011	1 January 2013
IAS 32 "Financial Instruments: Presentation" – amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

Management is currently evaluating the impact of adoption of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement" and amendment to IFRS 7 "Financial instruments: Disclosures". For other standards and interpretations management anticipates that their adoption in future periods will not have material effect on the financial statements of the Group in future periods.

Functional and presentation currency

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

	2012	2011
Year-end rates		
RUR / 1 USD	30.3727	32.1961
RUR / 1 EUR	40.2286	41.6714
Average for the year		
RUR / 1 USD	31.0930	29.3874
RUR / 1 EUR	39.9524	40.8848

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and its subsidiaries, 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 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.

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. 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, and measurement period adjustments are adjustments arising from additional information obtained during the measurement period, 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, 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.

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 Combinations".

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 "Non-current Assets and Held for Sale and Discontinued Operations". Under the equity method, investments in associates and joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, forms part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, 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 or fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Goodwill

Goodwill arising on an acquisition of a business, 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 and joint ventures” above.

Foreign currencies

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

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

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, ship repair services for all types of vessels and maintenance in docks, etc.);
(iii) Fleet services including tugging, towing and other related services; and
(iv) Other services mainly including the rental and resale of energy and utilities to external customers.

Revenue from cargo-transhipment, 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

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

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

Finance lease

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. 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 of 0% to 30%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 22%. When the annual gross remuneration of an employee exceeds 512 thousand RUR (USD 16.5), the 10% tax rate is applied.

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 assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions include the financial assumptions dealing with items such as taxes paid by the plan in respect of services-related contributions to the balance sheet date, or in respect of remuneration granted in connection with the services. Remeasurement comprising actuarial gains and losses are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in profit or loss in the period of scheme amendment.

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

Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive 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 liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred taxes are recognised as an expense or income in the consolidated statement of comprehensive 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 management with the assistance of independent appraisers as at 1 January 2005 and approved by the Group management. After that date, property, plant and equipment are stated at deemed cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to statement of comprehensive 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 constructions	3-75
Machinery and equipment	2-40
Marine vessels	4-25
Motor transport	3-15
Other	2-30

Properties in the course of construction for production, rental or administrative purposes 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 consist of cash and cash equivalents, loans and receivables.

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

Effective interest method

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

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive 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 at fair value through profit and loss ("FVTPL") and other financial liabilities.

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 32.

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

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

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

The fair value measurement of the Group's cross currency and interest rate swap is performed as described in Note 23.

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

Provisions

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

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

Dividends declared

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Allowance for trade and other receivables and advances to suppliers

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

Useful lives of fixed assets

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

Impairment of goodwill

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

Key estimates used in the Group's annual impairment testing are presented in Note 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 adjustment to derecognise the deferred tax asset will be required, with the 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 further recognition and utilisation of the deferred tax assets may be appropriate, with the corresponding credit recognised 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.

Reclassifications

At 31 December 2012, management reassessed the classification of property, plant and equipment in line with the asset classes disclosed in Note 12. Property, plant and equipment are classified based on the nature of the activities carried out and services produced as a result of this activity.

Corresponding figures for the year ended 31 December 2011 have been retrospectively adjusted for reclassifications identified as at 31 December 2012. Certain assets have been reclassified in order to accurately reflect the nature of the assets based on the activity carried and services produced.

The Group's entities operate in different geographical regions. Financial results, projections or plans for the segment are made for each region separately. In this regard, it was decided to change the reportable segments according to the geographical area of activities.

The reclassifications did not have any impact on equity or profit for the periods presented.

5. SEGMENT INFORMATION

The Group's operations are managed by type of services: stevedoring services and additional port services; fleet services; and other services mainly comprising rent, resale of energy and utilities to external customers (which individually do not constitute separate reportable segments). Substantially all Group operations are located within the Russian Federation. All segments have different segment managers responsible for each segment's operations. The chief operating decision maker (the Executive Board) is responsible for allocating resources to and assessing the performance of each segment of the business.

As decisions regarding allocating resources and further assessment of the performance are made separately for each region, therefore the reportable segments are further split between the three regions where the Group operates: Novorossiysk, Primorsk, Baltiysk.

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

Segment revenue and segment results

Sales transactions between segments are made at prices which are defined in price list. Price list contains both services, tariffs which are regulated by the state and other services for which prices are set by the Group. Prices for non-regulated services are close to market prices.

The segment revenue and results for the years ended 31 December 2012 and 2011 are as follows:

	Segment revenue		Inter-segments sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Stevedoring and additional services	917,829	941,009	6,813	8,786	455,446	426,753
Novorossiysk	693,431	724,791	6,766	8,786	333,159	312,856
Primorsk	209,225	203,354	47	-	116,649	110,185
Baltiysk	15,173	12,864	-	-	5,638	3,712
Fleet services	100,882	92,902	5,182	5,092	50,003	42,876
Novorossiysk	54,610	47,597	2,615	2,371	19,271	13,015
Primorsk	46,272	45,305	2,567	2,721	30,732	29,861
Other services	14,969	15,628	14,854	14,609	17,573	17,323
Total reportable segments	**1,033,680**	**1,049,539**	**26,849**	**28,487**	**523,022**	**486,952**
Adjustments and eliminations (see following table)					(107,142)	(322,432)
Profit before income tax expense					**415,880**	**164,520**

During the year ended 31 December 2012 revenue from BIG PORT SERVICE DMCC of 142,668 represents more than 10% of revenue included in the stevedoring and additional services segment (2011: revenue from PORATH SERVICES LIMITED of 169,484 represented more than 10% of revenue of that segment). Management of the Group believes that it adequately manages the corresponding possible credit risk.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment profit	**523,022**	**486,952**
Unallocated amounts:		
Loss on disposal of property, plant and equipment	(2,288)	(692)
Impairment of goodwill	(89,456)	-
Defined benefit obligation expense	(161)	(820)
Differences between Russian statutory accounts and IFRS:		
Bank commission	415	10,307
Depreciation and amortisation	(21,192)	(20,720)
Repairs and maintenance	5,966	1,822
Professional services	(270)	(139)
Change in allowance for doubtful receivables	-	(240)
Intercompany purchases of property, plant and equipment	-	(2,858)
Other	2,696	1,627
Operating profit	**418,732**	**475,239**
Interest income	12,009	4,434
Finance costs	(144,263)	(144,619)
Share of loss in joint venture, net	(778)	(4,746)
Foreign exchange gain/(loss), net	130,200	(167,940)
Other (loss)/income, net	(20)	2,152
Profit before income tax	**415,880**	**164,520**

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Stevedoring and additional services	63,370	57,939	67,904	94,400
Novorossiysk	49,129	48,330	56,710	75,282
Primorsk	11,895	7,627	9,914	9,249
Baltiysk	2,346	1,982	1,280	9,869
Fleet services	6,870	6,888	1,553	1,995
Novorossiysk	4,269	4,164	1,222	1,960
Primorsk	2,601	2,724	331	35
Other services	5,534	6,215	769	410
Total reportable segments	**75,774**	**71,042**	**70,226**	**96,805**
Adjustments and eliminations	6,096	6,587	3,870	2,545
Consolidated	**81,870**	**77,629**	**74,096**	**99,350**

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid as of the end of the year (Note 12).

6. REVENUE

	Year ended 31 December 2012	Year ended 31 December 2011
Stevedoring services	827,915	857,451
Fleet services	100,882	92,902
Additional port services	89,914	83,558
Other	14,969	15,628
Total	**1,033,680**	**1,049,539**

7. COST OF SERVICES

	Year ended 31 December 2012	Year ended 31 December 2011
Fuel for resale and own consumption	143,032	214,649
Depreciation and amortisation	77,883	73,503
Salaries	72,271	66,704
Rent	66,034	66,487
Repairs and maintenance	25,030	21,062
Taxes directly attributable to salaries	18,648	19,005
Subcontractors	11,722	13,695
Materials	10,196	7,787
Energy and utilities	7,374	8,653
Defined benefit obligation expense	793	1,443
Insurance	786	503
Other	1,907	1,949
Total	**435,676**	**495,440**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries	41,903	33,274
Taxes other than income tax	8,636	9,499
Taxes directly attributable to salaries	6,426	4,871
Professional services	6,293	4,859
Security services	4,401	4,737
Depreciation and amortisation	3,987	4,126
Charitable donations	3,567	3,196
Repairs and maintenance	1,694	1,356
Travel and representation expenses	1,673	1,982
Materials	1,356	1,053
Rent	1,316	1,232
Bank charges	1,155	2,066
Change in allowance for doubtful receivables	(68)	1,289
Other	5,189	4,628
Total	**87,528**	**78,168**

9. FINANCE COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Interest on loans and borrowings	139,768	144,619
Loss on cross-currency and interest rate swap (Note 23)	4,495	-
Total	**144,263**	**144,619**

10. INCOME TAX

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax expense	84,453	54,755
Deferred tax loss/(benefit)	15,467	(20,548)
Total	**99,920**	**34,207**

The corporate income tax rate in the Russian Federation is 20% of taxable profits calculated based on the stand alone accounts of each entity.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax expense	415,880	164,520
Tax at the Russian Federation statutory rate of 20%	83,176	32,904
Impairment of goodwill	17,891	-
Different tax rates of subsidiaries	(5,370)	(550)
Revaluation of cross-currency and interest rate swap	791	-
Other non-deductible expenses	3,432	1,853
Total	**99,920**	**34,207**

In November 2011, PTP signed an investment agreement with the authorities of the Leningrad region. As a result of this investment agreement, commencing 1 January 2012 PTP was permitted to apply a reduced income tax rate of 15.5% until 2015. This change did not impact on deferred tax liabilities as at 31 December 2011 because the deferred tax liabilities recognised by PTP were expected to be released after the period end of the tax rate reduction period.

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

	31 December 2012	31 December 2011
Net balance at the beginning of the year	**259,589**	**29,781**
Loss/(benefit) recognised during the year	15,467	(20,548)
Deferred tax liability assumed on acquisition of subsidiaries	-	269,450
Effect of translation into presentation currency	15,951	(19,094)
Net balance at the end of the year	**291,007**	**259,589**

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

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

	31 December 2012	31 December 2011
Deferred tax assets		
Accrued expenses	5,492	1,572
Investment valuation	2,376	2,037
Allowance for obsolete and slow-moving inventories	385	213
Vacation accruals	134	10
Tax loss carry forward	-	16,750
Allowance for doubtful receivables	-	4
Total	**8,387**	**20,586**
Deferred tax liabilities		
Property, plant and equipment	295,227	276,630
Long-term debt	2,594	1,949
Mooring rights	1,573	1,596
Total	**299,394**	**280,175**
Net deferred tax liability	**291,007**	**259,589**

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 2012	31 December 2011
Deferred tax assets	1,075	7,318
Deferred tax liabilities	292,082	266,907
Net deferred tax liability	**291,007**	**259,589**

11. DIVIDENDS

Dividends declared in 2012 and 2011 were 14,121 and 14,645, respectively. Dividends per share for 2012 and 2011 were US cents 0.075 and 0.078, respectively. The total dividends paid during 2012 and 2011 were 14,183 and 14,797, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at 1 January 2011[(1)]	**18,991**	**356,136**	**297,511**	**88,712**	**24,387**	**8,225**	**77,003**	**870,965**
Additions	150	27,530	29,345	2,340	2,117	1,269	36,599	99,350
Acquisitions through business combinations (Note 25)	1,274,775	120,658	21,481	55,116	1,400	209	48,277	1,521,916
Transfer	-	42,400	40,663	-	87	95	(83,245)	-
Disposals	-	(1,993)	(3,196)	(92)	(1,013)	(206)	(1,358)	(7,858)
Effect of translation into presentation currency	(91,357)	(33,493)	(23,237)	(8,384)	(1,505)	(556)	(3,345)	(161,877)
As at 31 December 2011	**1,202,559**	**511,238**	**362,567**	**137,692**	**25,473**	**9,036**	**73,931**	**2,322,496**
Accumulated depreciation								
As at 1 January 2011[(1)]	**-**	**(94,312)**	**(167,575)**	**(26,783)**	**(12,126)**	**(6,330)**	-	**(307,126)**
Depreciation expense	-	(26,890)	(35,334)	(9,186)	(3,628)	(1,269)	-	(76,307)
Disposals	-	1,871	3,063	8	963	197	-	6,102
Effect of translation into presentation currency	-	7,219	11,763	2,479	880	432	-	22,773
As at 31 December 2011	**-**	**(112,112)**	**(188,083)**	**(33,482)**	**(13,911)**	**(6,970)**	**-**	**(354,558)**
Carrying value								
As at 1 January 2011[(1)]	**18,991**	**261,824**	**129,936**	**61,929**	**12,261**	**1,895**	**77,003**	**563,839**
As at 31 December 2011	**1,202,559**	**399,126**	**174,484**	**104,210**	**11,562**	**2,066**	**73,931**	**1,967,938**

[(1)] Comparative information as at 1 January 2011 and as at 31 December 2011 and for the year then ended has been adjusted for certain reclassifications between categories.

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at 1 January 2012	**1,202,559**	**511,238**	**362,567**	**137,692**	**25,473**	**9,036**	**73,931**	**2,322,496**
Additions	-	7,849	27,835	10,542	2,179	1,546	21,933	71,884
Transfer	-	14,734	3,525	-	-	17	(18,276)	-
Disposals	-	(3,976)	(14,013)	(10)	(2,225)	(391)	(6,274)	(26,889)
Effect of translation into presentation currency	72,195	31,133	22,178	7,637	1,528	570	4,376	139,617
As at 31 December 2012	**1,274,754**	**560,978**	**402,092**	**155,861**	**26,955**	**10,778**	**75,690**	**2,507,108**
Accumulated depreciation								
As at 1 January 2012	**-**	**(112,112)**	**(188,083)**	**(33,482)**	**(13,911)**	**(6,970)**	-	**(354,558)**
Depreciation expense	-	(28,624)	(38,286)	(8,833)	(3,131)	(1,406)	-	(80,280)
Disposals	-	3,837	13,261	5	1,757	381	-	19,241
Effect of translation into presentation currency	-	(7,318)	(11,885)	(2,140)	(868)	(443)	-	(22,654)
As at 31 December 2012	**-**	**(144,217)**	**(224,993)**	**(44,450)**	**(16,153)**	**(8,438)**	**-**	**(438,251)**
Carrying value								
As at 1 January 2012	**1,202,559**	**399,126**	**174,484**	**104,210**	**11,562**	**2,066**	**73,931**	**1,967,938**
As at 31 December 2012	**1,274,754**	**416,761**	**177,099**	**111,411**	**10,802**	**2,340**	**75,690**	**2,068,857**

As at 31 December 2012 the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 25,273 (31 December 2011: 14,883).

During the year ended 31 December 2012 no interest expense was capitalised. The total amount of capitalised interest expense for the year ended 31 December 2011 amounted to 1,003.

The carrying value of property, plant and equipment held under finance leases at 31 December 2012 was 10,812. Additions to the group machinery and equipment during the year include 10,687 of property, plant and equipment under finance leases. Leased assets are pledged as security for the related finance liabilities.

During the period, the Group acquired property, plant and equipment with an aggregate cost of 71,884 of which 10,687 was acquired by means of finance leases. Cash payments of 57,897 were made to purchase property, plant and equipment, including cash payments of 2,113 paid under finance lease contracts.

13. GOODWILL

	31 December 2012	31 December 2011
Cost	1,583,687	1,493,996
Accumulated impairment loss	(94,680)	(2,926)
Carrying amount	**1,489,007**	**1,491,070**

	31 December 2012	31 December 2011
Cost		
Balance at the beginning of the year	1,493,996	394,710
Acquired through business combinations	-	1,205,806
Effect of translation into presentation currency	89,691	(106,520)
Balance at the end of the year	**1,583,687**	**1,493,996**
Accumulated impairment loss		
Balance at the beginning of the year	(2,926)	(3,092)
Impairment losses recognised during the year	(89,456)	-
Effect of translation into presentation currency	(2,298)	166
Balance at the end of the year	**(94,680)**	**(2,926)**

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	Carrying amount	
	31 December 2012	31 December 2011
Stevedoring and additional services segment:		
PTP	808,309	762,531
Grain Terminal	156,338	147,484
Novoroslesexport	126,166	119,021
IPP	27,194	25,654
Shipyard	12,312	11,614
BSC	2,814	2,655
Fleet services segment:		
SFP	379,314	357,832
Fleet	71,240	67,205
Total	**1,583,687**	**1,493,996**

During the six months ended 30 June 2012, the Group learned of the postponement of the railway construction to port Primorsk. The delay, as a result of the factors outside of the Group's control, led to a shift in the anticipated start date of the transshipment of oil and oil-products from 2013 to 2015. As a result of this delay, management reduced the expected oil and oil-product transshipment forecasts applied in the Group's business plan. The reduction in the forecasts indicated that an impairment loss may have occurred and as such, management performed an impairment analysis with respect to goodwill as of 30 June 2012. No impairment was recognised as of 30 June 2012.

Management performed an additional impairment analysis as at 31 December 2012, in accordance with the Group accounting policy. The analysis was performed based on updated projections of oil and oil products transshipment volumes. As a result of the Group's annual impairment test, goodwill associated with PTP was determined to be impaired. For the purpose of testing the PTP cash-generating unit for impairment, management of the Group used a certified independent appraiser to assist in estimating the recoverable amount of the Group's cash-generating unit. Based on the value in use calculations, the Group recorded an impairment loss attributable to the PTP cash-generating unit in amount of 89,456 as at 31 December 2012, attributable to the stevedoring and additional services (Primorsk) segment.

With the exception of the PTP cash generating unit, the estimated recoverable amount of each of the Group's cash generating units exceeded its carrying value. For all such cash generating units, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of a cash generating unit to exceed its recoverable amount.

Management prepared a sensitivity analysis and determined that a change of 5% in the oil and oil products transshipment volumes applied in the impairment testing of the PTP cash-generating unit would, in isolation, lead to an (increase)/decrease to the aggregate impairment loss recognised in the year ended 31 December 2012 of 156,199.

The recoverable amount of each cash-generating unit was determined based on a value in use calculation, which uses cash flow projections based on actual operating results, business plans approved by management and a discount rate which reflects the time value of money and the risks associated with the cash generating unit.

The most significant estimates and assumptions used by management in the value in use calculations as at 31 December 2012 were as follows:

- Cash flow projections were based on the business plans of Company for the years 2013-2018, approved by management. Such business plans consider significant industrial and macroeconomic trends;
- Cash flow projections were prepared in RUR and considered long-term price trends for sales prices and material costs, specific to each cash generating unit and geographic region;
- Cash flow projections were prepared based on RUR/USD currency rates projections from the Economist Intelligence Unit for each respective year;
- Cash flow projections beyond 2018 were extrapolated using a steady 2.3% per annum growth rate. This rate does not exceed the average long term growth rate for the relevant markets; and
- Discount rates were applied for each cash-generating unit based on the Group's weighted average cost of capital.

The Group's cash-generating units operate within a consistent industry within the same geographic regions. As such, within the development of the Group's business plan, management applies consistent assumptions across each cash-generating unit.

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

Year	**Inflation expectation, %**
2013	6.5
2014	6.6
2015	5.7
2016	5.1
2017	5.0
2018	5.0
Thereafter	3.0

Discount rates for each cash-generating unit were estimated in nominal terms using the weighted average cost of capital basis. These rates are as follows:

Year	**Discount rates, %**
2013	9.66
2014	9.66
2015	9.66
2016	9.35
2017	9.35
2018	9.35
Thereafter	9.35

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

14. MOORING RIGHTS

	31 December 2012	31 December 2011
Cost	11,736	11,072
Accumulated amortisation	(3,872)	(3,092)
Carrying value	**7,864**	**7,980**

	31 December 2012	31 December 2011
Cost		
Balance at the beginning of year	11,072	11,696
Effect of translation into presentation currency	664	(624)
Balance at the end of the year	**11,736**	**11,072**
Accumulated amortisation		
Balance at the beginning of year	(3,092)	(2,672)
Charge for the year	(582)	(616)
Effect of translation into presentation currency	(198)	196
Balance at the end of the year	**(3,872)**	**(3,092)**

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

15. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December 2012	31 December 2011
Current		
Deposits	512	18,976
Loans issued	49,619	2,857
Total current	**50,131**	**21,833**
Non-current		
Loans issued and other financial assets	11,159	34,842
Total non-current	**11,159**	**34,842**

Short-term deposits placed in LLC “Vneshprombank” (“Vneshprombank”) consist of short-term deposits denominated in RUR with an interest rate of 6% per annum and short-term deposits denominated in USD with an interest rate of 2.75% per annum. Short-term deposits placed in CJSC “Raiffeisenbank” (“Raiffeisenbank”) consist of short-term deposits denominated in RUR with an interest rate of 7.20% per annum.

Current loans issued in RUR include short-term loans given to employees of the Group and to other related parties with interest rates varying from 7% to 8% per annum. Current loans issued in USD include short-term loans given to other related parties with interest rates varying from 5% to 7% per annum, including loans to LLC Novorossiysk Fuel Oil Terminal (“NFT”), a joint venture created in 2009 (Note 16).

Prior to 31 December 2012, the Group and NFT agreed that NFT would repay during first quarter of 2013, loans issued in the amount of USD 45 million with interest rate of 7% and original maturity of 2015-2019 years. Such loans are, consequently, presented as current in the consolidated statement of financial position.

Non-current loans issued and other financial assets consist of non-current loans given to employees of the Group denominated in RUR with an interest rate of 5% per annum and long-term loan issued in USD to NFT in the amount of 11,150 maturing in March 2020 with an interest rate of 7% per annum.

16. INVESTMENT IN JOINT VENTURE

NFT is a fuel oil terminal with expected transshipment capacity of four million tons per year. In August 2012 NFT began generating revenue as a result of commencement of fuel oil transshipments. During the period from commencement of operations to 31 December 2012 the joint venture operations generated revenue of 19,399, however, for the year ended 31 December 2012 the operations incurred a loss of 1,556.

The Group owns 50% of NFT and its share in losses of the joint venture for the years ended 31 December 2012 and 2011 amounted to (778) and (4,746), respectively. Loss recognised in 2011 is the result of fluctuations in the USD exchange rate resulting in significant foreign exchange loss related to the financial debt of NFT.

	Ownership % held	
Joint venture	**31 December 2012**	**31 December 2011**
NFT	50.00%	50.00%

Summarised financial information of NFT is represented below:

	31 December 2012	31 December 2011
Current assets	27,578	14,993
Non-current assets	164,428	145,291
Total assets	**192,006**	**160,284**
Current liabilities	(15,425)	(38,754)
Non-current liabilities	(156,094)	(100,700)
Total liabilities	**(171,519)**	**(139,454)**
Net assets	**20,487**	**20,830**
Group's share of joint venture net assets	**10,243**	**10,415**
Elimination of unrealised profit	(1,327)	(990)
Carrying value of investment	**8,916**	**9,425**

Loans issued by the Group to NFT in the total amount of 56,150 are disclosed in Note 15.

17. INVENTORIES

	31 December 2012	31 December 2011
Materials and low value items	6,372	8,045
Fuel	1,939	1,850
Goods for resale	1,789	2,195
Less: allowance for obsolete and slow-moving inventories	(1,905)	(832)
Total	**8,195**	**11,258**

18. TRADE AND OTHER RECEIVABLES, NET

	31 December 2012	31 December 2011
Trade receivables (RUR)	20,741	25,598
Trade receivables (USD)	19,309	19,222
Trade receivables (EUR)	622	58
Other receivables and prepayments	4,640	5,628
Interest receivable	1,017	1,069
Less: allowance for doubtful trade and other receivables	(3,292)	(3,779)
Total	**43,037**	**47,796**

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

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 8 largest customers (2011:9) in total represent 61% (2011: 67%) of the outstanding balance.

Included in the Group's receivable balance are debtors with carrying value of 3,717 (2011: 3,675) 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 2012	31 December 2011
Not past due and not impaired	**39,320**	**44,121**
Past due but not impaired		
less than 45 days	2,106	2,214
45-90 days	699	473
90-180 days	19	683
180-365 days	580	305
Over 1 year	313	-
	3,717	**3,675**
Past due and impaired	**3,292**	**3,779**
Total	**46,329**	**51,575**

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

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

	31 December 2012	31 December 2011
As at beginning of the year	**3,779**	**2,841**
Impairment (reversal)/losses recognised in the statement of comprehensive income	(68)	1,289
Amounts written-off as uncollectable	(626)	-
Amounts recovered during the year	(3)	(96)
Effect of translation into presentation currency	210	(255)
As at end of the year	**3,292**	**3,779**

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

19. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Bank deposits in RUR	124,181	24,132
Bank deposits in USD	110,981	74,320
Bank deposits in EUR	-	2
Current accounts in RUR	4,278	25,013
Current accounts in USD	3,093	4,018
Current accounts in EUR	12	13
Cash in hand	34	24
Total	**242,579**	**127,522**

Bank deposits as at 31 December 2012 mainly represent deposits with Vneshprombank, OJSC “Alfa-Bank” (Alfa-Bank), OJSC “Promsvyazbank” (Promsvyazbank) and Sberbank of Russia (Sberbank) with an original maturity of three months or less.

Bank deposits with an original maturity of three months or less, placed in Vneshprombank, are represented by deposits denominated in RUR with interest rates varying from 6% to 10% per annum and deposits denominated in USD with interest rates from 2.75% to 5.60% per annum. Deposits denominated in RUR are placed in Alfa-Bank with an interest rate 7.50%. Promsvyazbank charges interest on deposits denominated in RUR with an original maturity of three months an interest rate 8% per annum. Deposits denominated in RUR, placed in Sberbank, are represented by deposits with interest rates from 4.64% to 7.75% per annum.

20. SHARE CAPITAL

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

During the period from 24 February to 1 March 2011, NCSP repurchased 516,686,496 of its own shares for RUR 4.9 per share for a total of RUR 2,531,763 thousand (USD 86,151 thousand). The direct costs associated with the buy-back of shares were 126. The obligatory purchase was performed in accordance with the Federal Law on Joint Stock Companies, under approval by the Board of Directors on 4 February 2011. The Group’s repurchased shares are held as treasury shares in equity as at 31 December 2011 and 2012.

The number of shares outstanding is 18,743,128,904 as of 31 December 2012 and 31 December 2011.

21. DEBT

	Interest rate	Maturity date	31 December 2012	31 December 2011
Unsecured borrowings				
Loan Participation Notes (USD)	7%	May 2012	-	302,241
Bonds (RUR)	9.0%	April 2015	133,347	-
Unsecured bank loans (RUR)				
Sberbank	8.5%	November 2014	177,314	250,908
Sberbank	8.5%	November 2014	6,594	9,331
Total unsecured borrowings			**317,255**	**562,480**
Secured bank loans (USD)				
Sberbank	LIBOR 3M + 4.85%	January 2018	1,944,707	1,943,776
Total debt			**2,261,962**	**2,506,256**
Current portion of long-term borrowings			(90,200)	(392,413)
Total non-current debt			**2,171,762**	**2,113,843**

Sberbank

In November 2010, PTP entered into two loan agreements with Sberbank under a new credit line to be used for the acquisition of SFP in the amount of 348,752, and for financing and refinancing costs associated with the construction of a bunkering complex in the amount of 12,970, each with an interest rate of 8.5% per annum. The principal amounts of the loans are payable in equal instalments at the end of each quarter beginning 31 March 2011 through the maturity date in November 2014. The interest for each loan is calculated and payable on a monthly basis.

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 terms:

- The term of the facility is seven years;
- Floating interest of LIBOR 3M + 4.85% per annum is applied during the first three years of the loan;
- Fixed interest of 7.48% is applied during the last four years of the loan;
- A lump sum commission of 11,700 (or 0.6%) was paid for the receipt 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 instalments;
- The loan is secured by a pledge of 50.1% of the Company’s shares and a guarantee of PTP; and
- Certain financial covenants are imposed on the Group (e.g. restrictions as to the Group’s debt to equity ratio and net debt to earnings before interest, income taxes, depreciation and amortization ratio, and reduction of NCSP’s share price, etc).

The Group does not pledge any financial assets as collateral for the existing liabilities.

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 in May 2012 (the “Loan Participation Notes”) in an aggregate principal amount of 300,000.

The principal amount and interest accrued of the Loan Participation Notes were repaid in full on 15 May 2012.

Rouble bonds

On 2 May 2012 the Group issued a Russian rouble bond tranche BO-02 with a par value of 4 billion RUR (USD 136 million) with a maturity up to 29 April 2015. The coupon on the bond tranche is 9% per annum, payable every 182 days with the first coupon payment due on 31 October 2012. The Group used the proceeds of the bond tranche to repay the Loan Participation Notes.

As at 31 December 2012, the average effective borrowing rate relating to the Group’s debt was 5.79% per annum (31 December 2011: 5.73% per annum).

The Group borrowings as of 31 December 2012 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	16,893	28,915	45,808
Due from three to six months	22,956	34,806	57,762
Due from six months to twelve months	45,090	37,434	82,524
	84,939	**101,155**	**186,094**
Between 1 and 2 years	582,911	173,951	756,862
Between 2 and 5 years	1,467,394	183,889	1,651,283
Over 5 years	121,457	725	122,182
Total	**2,256,701**	**459,720**	**2,716,421**

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at 31 December 2012 of 5.16%.

The financial obligations of the Group consist primarily of borrowings denominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2012, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 133,585 and during the year ended 31 December 2011 decreased the Group's profit before income tax by 171,356.

On 4 May 2012 in conjunction with the placement of the rouble bonds, the Group entered into cross-currency and interest rate swap agreement to mitigate foreign currency risk (Note 23).

22. FINANCE LEASE

The Group rents transshipment machinery and equipment under finance lease agreements, each with a three year term. The Group has the right to purchase the equipment after expiration of lease contracts at a purchase price close to zero. Interest rates for all obligations under the finance lease agreements were fixed at the dates of the agreements at 8% per annum.

	Minimum lease payments 31 December 2012	Present value of lease payments 31 December 2012
Less than one year	3,296	2,711
In the second and third year	6,591	6,089
Less: future financing costs	(1,087)	-
Present value of minimum lease payments	**8,800**	**8,800**

	31 December 2012
Obligations under finance leases	6,089
Current portion of obligations under finance leases	2,711
	8,800

The fair value of the Group's lease obligations is approximately equal to their carrying amount due to the short lease term of three years.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in Note 12.

23. CROSS-CURRENCY AND INTEREST RATE SWAP

On 4 May 2012, the Group entered into a cross currency interest rate swap agreement with CJSC "Bank Credit Suisse (Moscow)" related to the bond tranche BO-02 (Note 21). This swap economically hedges the risk of currency fluctuations. The Group agreed to pay interest in USD at a rate of 3.85% per annum based on a notional amount of USD 135 million, in exchange for interest paid in RUR at a rate of 9% per annum based on notional of RUR 4 billion (USD 136 million) over three years and to exchange USD 135 million for RUR 4 billion at maturity of the bond tranche. Settlements of interest and principals are made in net amounts.

This swap agreement was recorded as a derivative financial instrument recognised at fair value through profit and loss with the changes in fair value recorded within finance costs.

The fair value measurement is based on the applicable forward curves as determined based on the foreign currency rate, interest rates and settlement dates of the swap contract. The discount rates were based on a zero coupon yield curve. The Group determined that the impact of the credit risk on measurement of the fair value of swap was not significant. Changes in the fair value of the swap arise primarily due to the appreciation of USD forward rates against the RUR. As the fair value measurement is based on the inputs derived from observable market data, the instrument is classified as Level 2 in the fair value hierarchy.

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

Settlement dates (DD.MM.YYYY)	Expected rate, RUR / 1 USD	Discount rate, %
01 May 2013	31.13	0.30
30 October 2013	31.95	0.30
30 April 2014	32.77	0.32
29 October 2014	33.59	0.35
29 April 2015	34.44	0.39

The table below details the Group's sensitivity to depreciation and appreciation of currency exchange rates used in the fair value measurement (the Russian RUR against the US Dollar by 3 RUR at each settlement date). The movement applied is based on the forecasted range of reasonable fluctuations over the next three years.

	31 December 2012	
	Depreciation by 3 RUR	Appreciation by 3 RUR
(Loss)/gain from cross-currency and interest rate swap	(11,517)	13,741

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

	Principal amount	Contractual interest asset	Total
Due within three months	-	-	-
Due from three to six months	-	3,215	3,215
Due from six to twelve months	-	3,144	3,144
Between 1 and 2 years	-	6,074	6,074
Between 2 and 5 years	(21,523)	2,928	(18,595)
Total	**(21,523)**	**15,361**	**(6,162)**

24. EMPLOYEE BENEFITS

Unfunded defined benefit plan

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries (subsidiaries (Novoroslesexport, Shipyard and Fleet). Under the plans, upon attainment of a retirement age of 55 for women and 65 for men, the employees are entitled to one-time retirement benefits of 10% of the employee's final salary for every year of completed service. Also post-retirement benefits are provided to these employees ranging from RUR 267 (USD 0.009 thousand) to RUR 633 (USD 0.02 thousand) per month per employee, depending on each employee's years of service and qualifications.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2012. 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.

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

	Valuation at	
	31 December 2012	**31 December 2011**
Discount rate	7%	8%
Employees turnover per annum	5%	5%
Expected annual rate of salary increase	10%	10%
Expected annual rate of post retirement benefits increase	0%	0%
Average residual period of work	7 years	7 years

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

	Year ended 31 December 2012	**Year ended 31 December 2011**
Interest on obligation	594	628
Current service cost	199	275
Past service cost	-	494
Actuarial losses recognised during the year	-	46
Total	**793**	**1,443**

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

Effect of early adoption of IAS 19 "Employee Benefits" is reflected through the immediate recognition of actuarial gains and losses within other comprehensive income as actuarial losses on defined benefit plans in amount of 1,624. The amount of actuarial losses recognized during the year ended 31 December 2012 relates to changes in discount rate used as principal assumptions for actuarial valuation.

In 2012, the number of retired employees who received benefits was 2,646 (2011: 2,668).

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 2012	**31 December 2011**
Present value of unfunded benefit obligation	9,551	7,286
Net liability arising from defined benefit obligation	**9,551**	**7,286**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Opening defined benefit obligation	**7,286**	**7,382**
Included in cost of service	**793**	**949**
Current service cost	199	275
Interest cost	594	628
Actuarial losses recognised during the year	-	46
Benefits paid	(632)	(623)
Actuarial losses in other comprehensive income	1,624	-
Effect of translation to presentation currency	480	(422)
Closing defined benefit obligation	**9,551**	**7,286**

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

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Present value of defined benefit obligation	9,551	7,286	6,906	9,732	7,643
Experience adjustments on plan liabilities	1,624	46	(3,727)	1,380	339

Defined contribution plans

Contributions to the Russian Federation State Pension Fund charged to profit or loss amounted to 20,205 and 19,613 for the years ended 31 December 2012 and 2011, respectively, which related to employee services rendered during each year.

25. BUSINESS COMBINATION

On 21 January 2011, NCSP acquired 100% of the shares in PTP, an operator of oil and oil product transhipment at the port of Primorsk, Leningrad District, for a cash consideration of 2,153,000 from OMIRICO LIMITED. The Group also incurred acquisition costs of 4,077 which were recognised as an expense in profit or loss in December 2010. By acquiring PTP, management believed the Group would 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.

The following table summarises the estimated acquisition date fair values of the assets acquired and liabilities assumed as part of the purchase price allocation:

	21 January 2011
Current assets	
Cash and cash equivalents	52,423
Trade and other receivables	33,419
Other current assets	1,715
Non-current assets	
Property, plant and equipment	1,521,916
Other non-current assets	1,980

	21 January 2011
Current liabilities	
Trade and other payables	20,207
Current portion of long-term debt	93,232
Non-current liabilities	
Deferred tax liabilities	269,450
Long-term debt	281,370
Net assets	**947,194**

Measurement period adjustments arising from additional information obtained during the measurement period, about facts and circumstances that existed at the acquisition date did not have a material impact on the purchase price allocation as presented above.

Goodwill arising on acquisition	**21 January 2011**
Consideration transferred	2,153,000
Less fair value of identifiable net assets acquired	947,194
Goodwill	**1,205,806**

Goodwill arose in the acquisition of PTP because the cost of the combination included amounts in relation to the future market development, benefit of expected synergies and revenue growth. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of 33,419 had gross contractual amounts of 33,419. The best estimate at acquisition date of the contractual cash flows not expected to be collected equals to nil.

26. TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Trade payables (RUR)	8,559	13,176
Trade payables (USD)	201	303
Trade payables (EUR)	375	125
Trade payables (GBP)	2	1
Trade payables (JPY)	44	-
Payables for property, plant and equipment	2,908	4,429
Other accounts payable	291	217
Total	**12,380**	**18,251**

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

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

	31 December 2012	31 December 2011
Past due	376	4,695
Due within three months	10,091	13,196
Due from three to six months	16	47
Due from six months to twelve months	1,897	313
Total	**12,380**	**18,251**

27. ACCRUED EXPENSES

	31 December 2012	31 December 2011
Accrued salaries and wages	16,657	9,908
Accrued professional service expenses	1,244	713
Other accrued expenses	1,027	757
Total	**18,928**	**11,378**

28. RELATED PARTY TRANSACTIONS

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

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. During 2012 and 2011, the Group transacted with Sberbank, Russian Agricultural Bank, VTB, Rosneft, Russian Railways and other state-controlled entities (apart from Transneft).

Transactions with state-controlled entities:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales		
Sales of goods and services	107,404	113,671
Interest income	4,000	2,357
Purchases		
Services and materials received	22,018	76,098
Finance costs	123,581	121,832

Balances with state-controlled entities:

	31 December 2012	31 December 2011
Cash and cash equivalents		
Cash and cash equivalents	18,896	50,034
Deposits	-	4,840
Receivables		
Long-term receivables	2,264	-
Trade and other receivables	3,319	7,929
Advances to suppliers	1,025	437
Payables		
Trade and other payables	310	1,045
Advances received from customers	3,606	2,080
Debt		
Long-term debt	2,040,395	2,113,843
Current portion of long-term debt	88,219	90,172

During 2011, ultimate control and ownership of the Group changed. In conjunction with the Group's acquisition of PTP, Kadina Limited Company, the prior ultimate parent of the Group, sold 100% of the shares in Novoport Holding Ltd. (which owned 50.1% of the Group) to OMIRICO LIMITED, the prior owner of PTP, and now ultimate parent of the Group. OMIRICO LIMITED is registered under the legislation of the Republic of Cyprus, and is jointly controlled by OJSC Transneft and Z. Magomedov.

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

Other related parties include parties jointly controlling the ultimate parent and their subsidiaries and affiliates as well as NFT.

Transactions with NFT:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales and income		
Sales of goods and services	3,600	109
Interest income	2,499	1,085
Purchases		
Capital expenditures	-	11

Balances with NFT:

	31 December 2012	31 December 2011
Receivables		
Trade and other receivables	-	6
Long-term loans and interest receivable	18,179	35,655
Short-term loans and interest receivable	45,000	-
Payables to related parties		
Advances received from customers	972	3

Transactions with other related parties:

	Year ended 31 December 2012	Year ended 31 December 2011
Sales		
Sales of goods and services	91,683	84,816
Interest income	264	206
Purchases		
Services and materials received	39,583	56,747
Capital expenditures	-	8

Balances with other related parties:

	31 December 2012	31 December 2011
Receivables		
Trade and other receivables	1,455	2,917
Advances to suppliers	671	62
Short-term loans and interest receivable	4,571	3,353
Long-term loans and interest receivable	-	2,530
Payables		
Trade and other payables	3,563	2,154
Advances received from customers	10,699	14,700

Compensation of key management personnel

For the year ended 31 December 2012 and 31 December 2011, the remuneration of the directors and other members of key management was 20,767 (including termination benefits in the amount of 1,079) and 11,622 (including termination benefits in the amount of 512), respectively, which represented short-term employee benefits and social security contributions.

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

29. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the year	**315,960**	**130,313**
Adjustments for:		
Depreciation and amortisation	81,870	77,629
Finance costs	144,263	144,619
Loss on disposal of property, plant and equipment	2,288	692
Foreign exchange (gain)/loss, net	(130,200)	167,940
Income tax expense	99,920	34,207
Change in retirement benefit obligation	161	820
Interest income	(12,009)	(4,434)
Impairment of goodwill	89,456	-
Change in allowance for doubtful receivables	(68)	1,289
Change in allowance for spare parts and slow-moving inventories	794	193
Share of loss in joint venture, net	778	4,746
Other adjustments	(188)	269
	593,025	558,283
Working capital changes:		
Decrease/(increase) in inventories	2,696	(3,507)
Decrease/(increase) in receivables	23,967	(41,341)
(Decrease)/increase in liabilities	(20,132)	41,151
Cash flows generated from operating activities	**599,556**	**554,586**

30. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

In December 2012 CJSC "Transneft-Service" has cancelled oil product transshipment agreement with PTP. As of 31 December 2012 the amount of advances received in accordance with the agreement was 9,048. Management expects that cash outflow due to any resulting claim of CJSC "Transneft-Service" will not exceed 9,048. As of 31 December 2012 no additonal provision was recorded in the consolidated financial statements in respect of this claim.

Taxation contingencies in the Russian Federation

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

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

Pricing of transactions between each of the Group’s subsidiaries in the course of its activities might be subject to transfer pricing rules. Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. The Group’s management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As of 31 December 2012, no provision was recorded in the consolidated financial statements in respect of such possible future claims.

Operating environment

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and the Russian Federation’s economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are 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 heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser growth than in prior years or no growth. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Russian Federation’s economy, and adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business operations.

The Russian Federation produces and exports large volumes of oil and gas, therefore the economy is particularly sensitive to the price of oil and gas on the world market.

Environmental matters

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

Insurance

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

Operating lease arrangements

Operating lease arrangements relate to the lease of land, mooring installation, vessels and equipment from the Russian State and related parties. These arrangements have lease terms of between three and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

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

	31 December 2012
Within 1 year	73,466
Between 1 and 2 years	70,833
Between 2 and 3 years	70,019
Between 3 and 4 years	69,781
Between 4 and 5 years	63,805
Thereafter	1,085,235
Total	**1,433,139**

31. CAPITAL COMMITMENTS

At 31 December 2012, the Group had the following commitments for acquisition of property, plant and equipment and construction works at:

	31 December 2012	31 December 2011
NCSP	38,369	8,062
Novoroslesexport	12,877	1,992
IPP	11,479	8,366
Grain Terminal	720	-
PTP	604	49
BSC	264	-
Shipyard	52	211
Fleet	7	-
Total	**64,372**	**18,680**

Capital commitments of NCSP and Novoroslesexport at 31 December 2012 include obligations under finance lease contracts for transshipment machinery and equipment in the amount of 23,476 and 9,080, respectively.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVES)

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 models based on discounted cash flow analyses using prices from observable current market transactions.

As at 31 December 2012 and 2011, management believes that the carrying values of significant financial assets (Notes 15, 18 and 19) and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair value due to their short-term nature, except for the long-term loans and 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.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value compared to the carrying value of long-term financial liabilities as at 31 December 2012 and 2011 is as follows:

	31 December 2012		31 December 2011	
	Carrying value	Fair value	Carrying value	Fair value
Loan Participation Notes (Level 1)	-	-	302,241	301,875
RUR bonds (Level 1)	133,348	133,146	-	-
Fixed rate financial liabilities (Level 2)	183,908	175,489	260,239	248,168
LIBOR+ rate agreement with Sberbank (Level 2)	1,944,707	1,827,628	1,943,776	1,878,506

33. RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance and meet debt to equity ratio covenant of the loan agreement with Sberbank (Note 21). Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends as well as the issuance of new debt or the redemption of existing debt.

Major categories of financial instruments

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

	31 December 2012	31 December 2011
Financial assets		
Cash and cash equivalents	242,579	127,522
Investments and receivables carried at amortised cost		
Deposits	512	18,976
Trade and other receivables including long-term	52,416	61,768
Loans issued	60,778	37,699
Total financial assets	**356,285**	**245,965**
Financial liabilities carried at amortised cost		
Borrowings	(2,261,962)	(2,506,256)
Trade and other payables	(9,683)	(14,093)
Payables for property, plant and equipment	(3,646)	(7,022)
Finance lease	(8,800)	-
	(2,284,091)	**(2,527,371)**
Financial liabilities at FVTPL		
Cross currency and interest rate swap	(4,602)	-
	(4,602)	**-**
Total financial liabilities	**(2,288,693)**	**(2,527,371)**

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

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. During 2012 the Group entered into a cross-currency and interest rate swap agreement to mitigate foreign currency risk (Note 23). In addition, management mitigates such risk by obtaining loans and borrowings in the same currency as the Group's major operating inflows.

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

	31 December 2012	31 December 2011
Assets		
Cash and cash equivalents	114,074	78,338
Investments and receivables carried at amortised cost	76,389	72,769
Total assets	**190,463**	**151,107**
Liabilities		
Borrowings	(1,944,707)	(2,246,017)
Trade payables	(201)	(303)
Total liabilities	**(1,944,908)**	**(2,246,320)**
Total net liability position	**(1,754,445)**	**(2,095,213)**

The table below details the sensitivity of the Group's financial instruments to a 10% depreciation of the RUR against the US Dollar if all other variables are held constant. The analysis was applied to monetary items at the year end dates denominated in USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A 10% appreciation of the RUR against the US Dollar would have an opposite impact as seen below:

	31 December 2012	31 December 2011
Loss	(175,445)	(209,521)

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

	31 December 2012	31 December 2011
Assets		
Cash and cash equivalents	12	15
Investments and receivables carried at amortised cost	622	58
Total assets	**634**	**73**
Liabilities		
Finance lease	(8,800)	-
Trade payables	(375)	(125)
Total liabilities	**(9,175)**	**(125)**
Total net liability position	**(8,541)**	**(52)**

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

	31 December 2012	31 December 2011
Loss	(854)	(5)

Interest rate risk

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

The Group maintains only one loan subject to a variable interest rate. On 21 January 2011, NCSP received a loan in the amount of 1,950,000 from Sberbank pursuant to a contract dated 19 January 2011 relating to a new credit line to be used for the acquisition of PTP. Floating interest rate of LIBOR 3M + 4.85% per annum is applied during the first 3 years of the loan, fixed interest rate of 7.48% is applied from 19 January 2014. The change in LIBOR rate by 1% would lead to an increase in interest expense on 19,500.

Credit risk

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

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

	Customer location	Revenue for 2012	31 December 2012
BIG PORT SERVICE DMCC	United Arab Emirates	142,668	15,460
ROSNEFT	Russia	82,211	2,213
TRANSNEFT-SERVICE	Russia	67,423	329
NLMK	Russia	40,494	458
ROSMORAGENT	Russia	36,678	522
Total		**369,474**	**18,982**

	Customer location	Revenue for 2011	31 December 2011
PORATH SERVICES LIMITED	Marshall Islands	169,484	-
ROSNEFT	Russia	90,422	5,895
TRANSNEFT-SERVICE	Russia	72,346	21
Palmpoint International Inc.	Panama	51,630	268
LUKOIL	Russia	40,506	1,943
Total		**424,388**	**8,127**

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they become 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 21 and 26.

34. EVENTS AFTER THE BALANCE SHEET DATE

In January 2013 the Group pledged 30% of its stake in NFT and provided a guarantee in the amount of 55,000 as collateral for a credit line obtained by NFT from Raiffeisenbank

In January 2013 NFT repaid to the Group the principal balance on loans that existed prior to year end 2012 (Note 15) in the amount of 45,000. Accrued interest on these loans was refinanced to mature on 31 March 2020.

On 19 March 2013 the NCSP Board of Directors made the following decisions:

- To appoint Grishanin M.S. (First Vice-President of OJSC Transneft) the Chairman of the Board of Directors NCSP;
- To suspend authority of the Chief Executive Officer Rado Antolovich;
- To appoint Matvienko Y.V. acting Chief Executive Officer, former Executive Director of NCSP; and
- To establish the Executive Board in the quantity of five members.

In April 2013, the Group and the government agency Rosmorport signed an investment agreement for engineering works to upgrade certain facilities in Novorossiysk port. The Group committed to finance the engineering works in the amount of 62,556.

On 15 April 2013 the NCSP Board of Directors recommended to the annual shareholders' meeting to approve dividends in the amount of 14,978 (RUR 454,916 thousand).