Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2014
And Auditor's Report

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

TABLE OF CONTENTS

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 2014

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 2014, and the consolidated results of its operations, cash flows and changes in shareholder's 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, financial performance and cash flows; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the 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 2014 were approved by management on 30 March 2015:

S.K. Batov	**G.I. Kachan**
Chief Executive Officer	Chief Accountant

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Moscow, 125047
Russia

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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 2014, and the consolidated statements of comprehensive loss, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to 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 2014, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the negative working capital position resulting from the Group's non-compliance with certain covenants of its loan agreement with Sberbank raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

30 March 2015
Moscow, Russian Federation

Metelkin E.A., Partner
(certificate № 01-001012 dated 26 November 2012)

ZAO Deloitte & Touche CIS

The Entity: PJSC "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 LOSS FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of US Dollars, except losses per share)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
REVENUE	6	955,645	928,090
COST OF SERVICES	7	(372,709)	(424,456)
GROSS PROFIT		**582,936**	**503,634**
Selling, general and administrative expenses	8	(71,598)	(76,942)
Impairment of goodwill	13	(29,539)	(259,903)
Other operating income, net		67	342
OPERATING PROFIT		**481,866**	**167,131**
Interest income		33,437	25,465
Finance costs	9	(200,733)	(137,307)
Share of (loss)/profit in joint venture, net	16	(7,123)	1,757
Foreign exchange loss, net		(789,115)	(125,353)
Other (loss)/income, net		(10,345)	202
LOSS BEFORE INCOME TAX		**(492,013)**	**(68,105)**
Income tax	10	77,350	(36,601)
LOSS FOR THE YEAR		**(414,663)**	**(104,706)**
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX			
Items that may be subsequently reclassified to profit or loss:			
Effect of translation to presentation currency		(392,594)	(91,260)
Items that may not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit liability	25	1,603	178
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(390,991)	(91,082)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(805,654)**	**(195,788)**
(Loss)/income for the year attributable to:			
Equity shareholders of the parent company		(428,633)	(109,793)
Non-controlling interests		13,970	5,087
		(414,663)	**(104,706)**
Total comprehensive (loss)/income attributable to:			
Equity shareholders of the parent company		(802,365)	(198,535)
Non-controlling interests		(3,289)	2,747
		(805,654)	**(195,788)**
Weighted average number of ordinary shares outstanding		18,743,128,904	18,743,128,904
Basic and diluted loss per share, US Dollars		(0.023)	(0.006)

S.K. Batov
Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 8 to 58 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 2014
(in thousands of US Dollars)

	Notes	31 December 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	1,163,391	1,959,812
Goodwill	13	631,850	1,128,893
Mooring rights	14	3,602	6,745
Other financial assets	15	17,999	18,615
Investment in joint venture	16	-	9,752
Spare parts		4,721	6,907
Deferred tax assets	10	128,899	4,623
Other intangible assets		1,442	2,244
Other non-current assets		3,195	1,643
		1,955,099	3,139,234
CURRENT ASSETS:			
Inventories	18	9,069	12,451
Advances to suppliers		7,992	4,197
Trade and other receivables, net	19	20,979	42,855
VAT recoverable and other taxes receivable		15,518	25,124
Income tax receivable		355	1,198
Other financial assets	15	679	5,032
Cash and cash equivalents	20	310,723	420,966
		365,315	511,823
Assets held for sale	12	-	6,466
TOTAL ASSETS		**2,320,414**	**3,657,523**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(505,673)	(130,371)
Retained earnings		763,735	1,203,686
Equity attributable to shareholders of the parent company		**268,252**	**1,083,505**
Non-controlling interests		25,521	35,177
TOTAL EQUITY		**293,773**	**1,118,682**
NON-CURRENT LIABILITIES:			
Long-term debt	22	-	1,767,379
Obligations under finance leases	23	10,437	20,260
Cross-currency and interest rate swap LT	24	-	14,411
Defined benefit obligation	25	4,448	9,184
Deferred tax liabilities	10	152,437	262,819
Other non-current liabilities		711	1,301
		168,033	2,075,354
CURRENT LIABILITIES:			
Current portion of long-term debt	22	1,722,119	388,666
Current portion of obligations under finance leases	23	8,809	9,709
Trade and other payables	26	7,823	22,099
Advances received from customers		14,100	17,817
Taxes payable		3,247	5,420
Income tax payable		11,951	2,842
Cross-currency and interest rate swap ST	24	72,820	-
Accrued expenses	27	17,739	16,934
		1,858,608	463,487
TOTAL EQUITY AND LIABILITIES		**2,320,414**	**3,657,523**

The notes on pages 8 to 58 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 2014
(in thousands of US Dollars)

		Attributable to shareholders of the parent company						
	Notes	**Share capital**	**Treasury shares**	**Foreign currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
At 1 January 2013		**10,471**	**(281)**	**(41,413)**	**1,327,102**	**1,295,879**	**32,445**	**1,328,324**
Loss for the year		-	-	-	(109,793)	(109,793)	5,087	**(104,706)**
Other comprehensive loss for the year, net of tax		-	-	(88,958)	216	(88,742)	(2,340)	**(91,082)**
Total comprehensive loss for the year		**-**	**-**	**(88,958)**	**(109,577)**	**(198,535)**	**2,747**	**(195,788)**
Dividends	11	-	-	-	(13,818)	**(13,818)**	(8)	**(13,826)**
Increase of ownership in subsidiaries		-	-	-	(21)	**(21)**	(7)	**(28)**
At 31 December 2013		**10,471**	**(281)**	**(130,371)**	**1,203,686**	**1,083,505**	**35,177**	**1,118,682**
At 1 January 2014		**10,471**	**(281)**	**(130,371)**	**1,203,686**	**1,083,505**	**35,177**	**1,118,682**
Loss for the year		-	-	-	(428,633)	(428,633)	13,970	**(414,663)**
Other comprehensive loss for the year, net of tax		-	-	(375,302)	1,570	(373,732)	(17,259)	**(390,991)**
Total comprehensive loss for the year		-	-	**(375,302)**	**(427,063)**	**(802,365)**	**(3,289)**	**(805,654)**
Dividends	11	-	-	-	(12,364)	**(12,364)**	(6,891)	**(19,255)**
Increase of ownership in subsidiaries		-	-	-	(524)	**(524)**	524	**-**
At 31 December 2014		**10,471**	**(281)**	**(505,673)**	**763,735**	**268,252**	**25,521**	**293,773**

The notes on pages 8 to 58 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 2014
(in thousands of US Dollars)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Cash from operations	29	580,560	504,514
Income tax paid		(69,918)	(57,012)
Interest paid		(119,106)	(123,431)
Net cash generated by operating activities		**391,536**	**324,071**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		7,919	1,461
Purchases of property, plant and equipment		(94,235)	(96,639)
Proceeds from other financial assets		507	48,087
Purchases of other financial assets		(402)	(3,971)
Interest received		29,620	22,333
Purchases of other intangible assets		(1,256)	(945)
Net cash used in investing activities		**(57,847)**	**(29,674)**
Cash flows from financing activities			
Repayments of loans and borrowings		(372,781)	(86,340)
Dividends paid	11	(18,266)	(13,958)
Increase of ownership in subsidiaries		-	(28)
Payments under lease contracts		(12,850)	(8,734)
Net cash used in financing activities		**(403,897)**	**(109,060)**
Net (decrease)/increase in cash and cash equivalents		**(70,208)**	**185,337**
Cash and cash equivalents at the beginning of the year	20	420,966	242,579
Effect of translation into presentation currency on cash and cash equivalents		(40,035)	(6,950)
Cash and cash equivalents at the end of the year	20	**310,723**	**420,966**

The notes on pages 8 to 58 are an integral part of these consolidated financial statements.

(in thousands of US Dollars, except as otherwise stated)

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 joint-stock company in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") are primarily incorporated and operate in the Russian Federation. The principal activities and significant entities of the Group as at 31 December 2014 were as follows:

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

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

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

NCSP is the largest stevedore of the Group and the holding company. It operates 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 Region.

PJSC Novorossiysk Grain Terminal ("Grain Terminal")

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

OJSC Novoroslesexport ("Novoroslesexport")

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

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. It operates a major universal port specializing in transshipment of ferrous metals, cement and perishable goods. It also handles loose goods in soft containers and big bags, construction cargo, oversize 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 and passenger terminal of the Baltiysk port in the Kaliningrad Region.

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.

CJSC SoyuzFlot Port ("SFP")

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

Golden share

The Government of the Russian Federation holds a 'golden share' in NCSP. This 'golden share' allows the state to veto decisions made by the shareholders to amend the charter, as well as decisions relating to liquidation, corporate restructuring and significant transactions.

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.

As at 31 December 2014, the share price was below the minimum level set by the Group's secured US Dollar loan agreement with Sberbank (Note 22). In addition, during 3rd and 4th quarters of the year 2014 NCSP's activities were loss-making, which resulted in breach of another covenant stated in the agreement.

As of 31 December 2014 the loan amount was reclassified to current liabilities and the Group's current liabilities exceeded the current assets.

A supplementary agreement changing the covenants was signed with Sberbank in 2015. Under this agreement the price per share is determined based on an independent appraiser report and net profit (loss) is calculated excluding foreign exchange gains and losses.

As of the date of approval of these financial statements no early repayment claims from Sberbank were received. On the basis of the supplementary agreement and discussions with Sberbank, the Group's management considers the risk of early repayment claims as remote.

Price regulation

In 2013 and January 2014 the Federal Tariff Service of Russia ("FTS") changed the price regulation regime for cargo handling and storage for NCSP, PTP, Novoroslesexport, Shipyard and IPP from direct regulation to price monitoring. These Group entities are now permitted to independently set tariffs for the aforementioned services though are required to send quarterly information on prices for their services to the FTS for monitoring and oversight.

(in thousands of US Dollars, except as otherwise stated)

2. BASIS FOR PRESENTATION

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

New and revised standards

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

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

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

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 annual periods beginning on or after
IFRS 9 (2014) "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	1 January 2017
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 (2011) "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception	1 January 2016
Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative	1 January 2016
Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Agriculture: Bearer Plants	1 January 2016
Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions	1 July 2014
Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to IFRSs: 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs: 2011-2013 Cycle	1 July 2014
Annual Improvements to IFRSs: 2012-2014 Cycle	1 January 2016
Amendments to IFRS 10 «Consolidated Financial Statements» and IAS 28 «Investments in Associates and Joint Ventures» - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016

Management anticipates that standards and interpretations which are relevant to the Group's business will be adopted by the Group in the periods they become effective. The impact of adoption of these standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

(in thousands of US Dollars, except as otherwise stated)

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 presentation currency for international users of the consolidated financial statements of the Group.

The translation from RUR into USD is performed in accordance with the requirements of IAS 21 *The Effect of Changes in Foreign Exchange Rates*, as described below:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;
- Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used. As RUR significantly depreciated against USD in the year ended 31 December 2014 with the most part of depreciation falling on the 4th quarter of 2014, income and expense items for 2014 have been translated using average exchange rates for first nine months and 4th quarter of 2014 separately;
- All resulting exchange differences are included in equity and presented separately as an effect of translation into presentation currency (foreign currency translation reserve);
- In the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used. As RUR significantly depreciated against USD in the year ended 31 December 2014 with the most part of depreciation falling on the 4th quarter of 2014, cash flows for 2014 have been translated using average exchange rates for first nine months and 4th quarter of 2014 separately. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of translation into presentation currency on cash and cash equivalents"; and
- All items included in shareholder's equity, other than loss for the reporting period, have been translated at historical rate, except for balances converted to USD at the rate in effect on 1 January 2005, the date of transition to IFRS.

Exchange rates

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

	2014	2013
Year-end rates		
RUR / 1 USD	56.26	32.73
RUR / 1 EUR	68.34	44.97
Average rates		
RUR / 1 USD		
1 January – 30 September (9 months)	35.39	-
1 October – 31 December (4th quarter)	47.42	-
1 January – 31 December (the year)	38.42	31.85
Average rates		
RUR / 1 EUR		
1 January – 30 September (9 months)	47.99	-
1 October – 31 December (4th quarter)	59.20	-
1 January – 31 December (the year)	50.82	42.31

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements has been prepared on the historical cost basis except for assets and liabilities at the date of acquisition of control and financial instruments that are measured at fair values at the end of each reporting period.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and entities controlled by NCSP and its subsidiaries. Control is achieved when NCSP:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

NCSP reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When NCSP has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. NCSP considers all relevant facts and circumstances in assessing whether or not NCSP's voting rights in an investee are sufficient to give it power, including:

- The size of NCSP's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by NCSP, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that NCSP has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when NCSP obtains control over the subsidiary and ceases when NCSP loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive loss from the date NCSP gains control until the date when NCSP ceases to control the subsidiary.

Profit or loss and each component of other comprehensive loss are attributed to the owners of NCSP and to the non-controlling interests. Total comprehensive loss of subsidiaries is attributed to the owners of NCSP and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

IFRS 11 “Joint Arrangements“ replaced IAS 31 “Interests in Joint Ventures”. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

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 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 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 loss and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

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 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 transshipment) 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-transshipment, 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.

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at 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 on initial recognition.

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 loss.

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 loss 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 624 thousand RUR (USD 16.2), the 10% tax rate is applied.

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 other comprehensive loss in the period in which they occur. Remeasurement recorded in the other comprehensive loss 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 loss 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 loss, 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 loss 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.

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 24.

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

Derecognition of financial liabilities

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

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 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.

The Group management believe that no allowance should be made in respect of deferred tax assets as of the reporting date as it is probable that deferred tax assets will be fully realised.

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.

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). Stevedoring services, additional port services and fleet services are then managed by regions. As a result, all decisions regarding allocation of resources and further assessment of performance are made separately for Novorossiysk, Primorsk and Baltiysk in respect of stevedoring and additional services and for Novorossiysk and Primorsk in respect of fleet services. All segments have different segment managers responsible for each segment’s operations. The chief operating decision maker is responsible for allocating resources to and assessing the performance of each segment of the business.

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

(in thousands of US Dollars, except as otherwise stated)

Segment revenue and segment results

Sales transactions between segments are made at prices which are defined in the Group companies' price lists. The price list contains both services for which tariffs are monitored by the state and other services for which prices are set by the Group. Prices for non-regulated services are at market rates.

The segment revenue and results for the years ended 31 December 2014 and 2013 are as follows:

	Segment revenue		Inter-segment sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Stevedoring and additional port services	859,395	821,500	6,192	10,428	458,885	369,552
Novorossiysk	695,854	615,374	5,791	10,382	379,928	266,172
Primorsk	148,194	192,140	401	46	72,012	98,727
Baltiysk	15,347	13,986	-	-	6,945	4,653
Fleet services	81,553	90,681	2,457	5,090	36,760	35,088
Novorossiysk	52,272	50,954	2,353	2,583	22,332	11,869
Primorsk	29,281	39,727	104	2,507	14,428	23,219
Total reportable segments	**940,948**	**912,181**	**8,649**	**15,518**	**495,645**	**404,640**
Other services	14,697	15,909	14,226	16,644	13,688	20,535
Total segments	**955,645**	**928,090**	**22,875**	**32,162**	**509,333**	**425,175**
Adjustments and eliminations (see following table)					(1,001,346)	(493,280)
Loss before income tax					**(492,013)**	**(68,105)**

During the years ended 31 December 2014 and 2013, revenue from LINK OIL TRADING LTD of 91,225 and BIG PORT SERVICE DMCC of 131,722, respectively, represents more than 10% of revenue from stevedoring and additional services. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

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

	Year ended	
	31 December 2014	31 December 2013
Total segment profit	**509,333**	**425,175**
Unallocated operating income and expenses:		
Impairment of goodwill	(29,539)	(259,903)
Other operating income, net	67	342
Defined benefit obligation expense	(592)	(508)
Differences between Russian statutory accounting standards and IFRS:		
Depreciation and amortisation	(15,216)	(18,021)
Repairs and maintenance	782	2,341
Professional services	211	250
Finance lease	13,586	11,824
Other	3,234	5,631
Operating profit	**481,866**	**167,131**
Interest income	33,437	25,465
Finance costs	(200,733)	(137,307)
Share of (loss)/profit in joint venture, net	(7,123)	1,757
Foreign exchange loss, net	(789,115)	(125,353)
Other (expense)/income, net	(10,345)	202
Loss before income tax	**(492,013)**	**(68,105)**

(in thousands of US Dollars, except as otherwise stated)

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Stevedoring and additional port services	58,163	62,540	80,358	116,928
Novorossiysk	46,794	49,064	72,747	103,619
Primorsk	9,031	11,070	495	2,243
Baltiysk	2,338	2,406	7,116	11,066
Fleet services	6,482	7,100	1,546	4,108
Novorossiysk	4,198	4,470	931	3,773
Primorsk	2,284	2,630	615	335
Total reportable segments	**64,645**	**69,640**	**81,904**	**121,036**
Other services	3,551	5,402	272	1,593
Total segments	**68,196**	**75,042**	**82,176**	**122,629**
Unallocated amounts	6,645	6,414	14,736	4,891
Consolidated	**74,841**	**81,456**	**96,912**	**127,520**

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 2014	31 December 2013
Stevedoring services	752,499	735,076
Additional port services	106,896	86,424
Fleet services	81,553	90,681
Other	14,697	15,909
Total	**955,645**	**928,090**

(in thousands of US Dollars, except as otherwise stated)

7. COST OF SERVICES

	Year ended	
	31 December 2014	31 December 2013
Fuel for resale and own consumption	107,373	138,501
Salaries	70,823	75,283
Depreciation and amortisation	70,603	77,211
Rent	55,149	65,970
Taxes directly attributable to salaries	18,802	19,870
Repairs and maintenance	16,871	14,012
Subcontractors	12,058	13,096
Materials	8,294	7,904
Energy and utilities	7,707	7,649
Defined benefit obligation expense	1,222	1,179
Insurance	1,194	1,162
Other	2,613	2,619
Total	**372,709**	**424,456**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended	
	31 December 2014	31 December 2013
Salaries	31,548	38,810
Taxes other than income tax	8,092	9,630
Taxes directly attributable to salaries	5,473	6,366
Impairment loss recognised on trade and other receivables	5,287	509
Depreciation and amortisation	4,238	4,245
Security services	3,772	4,325
Charitable donations	3,075	3,331
Professional services	1,816	1,821
Repairs and maintenance	1,753	1,581
Materials	1,091	1,262
Travel and representation expenses	860	1,079
Bank charges	424	526
Rent	321	706
Other	3,848	2,751
Total	**71,598**	**76,942**

9. FINANCE COSTS

	Year ended	
	31 December 2014	31 December 2013
Interest on loans and borrowings	114,729	125,126
Loss on cross-currency and interest rate swap	82,892	10,421
Interest expense – finance lease	3,112	1,760
Total	**200,733**	**137,307**

(in thousands of US Dollars, except as otherwise stated)

10. INCOME TAX

	Year ended	
	31 December 2014	31 December 2013
Current income tax expense	84,488	48,787
Deferred income tax benefit	(161,838)	(12,186)
Total	**(77,350)**	**36,601**

Income tax expense relating to the Group's activities in the Russian Federation, with the exception of the activities of PTP which is permitted to apply a reduced income tax rate of 15.5% until 2015 inclusively, is calculated at 20% of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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 loss as a consequence of the following factors:

	Year ended	
	31 December 2014	31 December 2013
Loss before income tax	**(492,013)**	**(68,105)**
Tax at the Russian Federation statutory rate of 20%	(98,403)	(13,621)
Impairment of goodwill	5,908	51,981
Different tax rates of subsidiaries	(3,408)	(5,118)
Revaluation of cross-currency and interest rate swap	16,772	2,000
Other non-deductible expenses	1,781	1,359
Total	**(77,350)**	**36,601**

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

	31 December 2014	31 December 2013
Net balance at the beginning of the year	**258,196**	**291,007**
Benefit recognised during the year	(161,838)	(12,186)
Effect of translation into presentation currency	(72,820)	(20,625)
Net balance at the end of the year	**23,538**	**258,196**

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

(in thousands of US Dollars, except as otherwise stated)

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

	31 December 2014	31 December 2013
Deferred tax assets		
Tax loss carry forward	122,646	12,640
Accrued expenses	29,215	13,656
Investment valuation	1,952	1,858
Allowance for doubtful receivables	242	-
Vacation accruals	177	137
Allowance for obsolete and slow-moving inventories	102	164
Total	**154,334**	**28,455**
Deferred tax liabilities		
Property, plant and equipment	163,615	281,266
Debt	13,537	4,037
Mooring rights	720	1,348
Total	**177,872**	**286,651**
Net deferred tax liability	**23,538**	**258,196**

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 2014	31 December 2013
Deferred tax assets	128,899	4,623
Deferred tax liabilities	152,437	262,819
Net deferred tax liability	**23,538**	**258,196**

11. DIVIDENDS

Dividends declared in 2014 and 2013 were 19,255 and 13,826, including dividends to non-controlling interest, respectively. Dividends declared by the parent company per share for 2014 and 2013 were US cents 0.066 and 0.074, respectively. The total dividends paid during 2014 and 2013 were 18,266 and 13,958, respectively.

As at 31 December 2014 the dividend liability of the Group amounted to 868 (31 December 2013: 66). It is included in accrued expenses as at 31 December 2014 and 2013.

(in thousands of US Dollars, except as otherwise stated)

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 2013	**1,274,754**	**560,978**	**402,092**	**155,861**	**26,955**	**10,778**	**75,690**	**2,507,108**
Additions	30	23,223	68,701	3,897	6,717	1,591	23,361	127,520
Transfer	-	3,388	1,192	-	413	64	(5,057)	-
Disposals	-	(997)	(13,305)	(327)	(2,807)	(473)	(287)	(18,196)
Reclassification as assets held for sale	(6,645)	-	-	-	-	-	-	(6,645)
Effect of translation into presentation currency	(91,604)	(41,080)	(30,474)	(10,264)	(2,057)	(808)	(5,935)	(182,222)
As at 31 December 2013	**1,176,535**	**545,512**	**428,206**	**149,167**	**29,221**	**11,152**	**87,772**	**2,427,565**
Accumulated depreciation								
As at 1 January 2013	**-**	**(144,217)**	**(224,993)**	**(44,450)**	**(16,153)**	**(8,438)**	**-**	**(438,251)**
Depreciation expense	-	(28,697)	(36,812)	(9,381)	(3,256)	(1,535)	-	(79,681)
Disposals	-	646	13,181	327	2,464	460	-	17,078
Effect of translation into presentation currency	-	11,139	16,836	3,308	1,184	634		33,101
As at 31 December 2013	**-**	**(161,129)**	**(231,788)**	**(50,196)**	**(15,761)**	**(8,879)**	**-**	**(467,753)**
Carrying value								
As at 1 January 2013	**1,274,754**	**416,761**	**177,099**	**111,411**	**10,802**	**2,340**	**75,690**	**2,068,857**
As at 31 December 2013	**1,176,535**	**384,383**	**196,418**	**98,971**	**13,460**	**2,273**	**87,772**	**1,959,812**

(in thousands of US Dollars, except as otherwise stated)

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Motor transport	Other	Construction in progress	Total
Cost								
As at 1 January 2014	**1,176,535**	**545,512**	**428,206**	**149,167**	**29,221**	**11,152**	**87,772**	**2,427,565**
Additions	95	13,342	34,655	3,384	4,262	2,318	38,856	96,912
Transfer	125	17,785	9,960	-	-	25	(27,895)	-
Disposals	-	(2,206)	(5,825)	(672)	(1,172)	(395)	(727)	(10,997)
Effect of translation into presentation currency	(492,149)	(236,014)	(189,928)	(56,993)	(12,876)	(5,295)	(40,627)	(1,033,882)
As at 31 December 2014	**684,606**	**338,419**	**277,068**	**94,886**	**19,435**	**7,805**	**57,379**	**1,479,598**
Accumulated depreciation								
As at 1 January 2014	**-**	**(161,129)**	**(231,788)**	**(50,196)**	**(15,761)**	**(8,879)**	**-**	**(467,753)**
Depreciation expense	-	(25,965)	(34,295)	(8,615)	(2,994)	(1,368)	-	(73,237)
Disposals	-	1,829	5,490	643	1,113	394	-	9,469
Impairment on construction in progress	-	-	-	-	-	-	(344)	(344)
Effect of translation into presentation currency	-	75,131	106,693	22,488	7,281	4,011	54	215,658
As at 31 December 2014	**-**	**(110,134)**	**(153,900)**	**(35,680)**	**(10,361)**	**(5,842)**	**(290)**	**(316,207)**
Carrying value								
As at 1 January 2014	**1,176,535**	**384,383**	**196,418**	**98,971**	**13,460**	**2,273**	**87,772**	**1,959,812**
As at 31 December 2014	**684,606**	**228,285**	**123,168**	**59,206**	**9,074**	**1,963**	**57,089**	**1,163,391**

As at 31 December 2014 the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 23,871 (31 December 2013: 40,341).

During the years ended 31 December 2014 and 2013 no interest expense was capitalised.

(in thousands of US Dollars, except as otherwise stated)

The carrying value of property, plant and equipment held under finance leases at 31 December 2014 was 18,490 (31 December 2013: 36,047). There were no additions of property, plant and equipment under finance leases during the year ended 31 December 2014 (during the year ended 31 December 2013 additions to machinery and equipment: 29,885). Leased assets are pledged as security for the related finance liabilities.

In 2014, the Group acquired property, plant and equipment with an aggregate cost of 96,912 (2013: 127,520). Cash payments of 107,085 were made to purchase property, plant and equipment, (2013: 105,373).

As at 31 December 2013 a part of land in the amount of 6,466 was recorded in the category of assets held for sale due to the planned sale of land area of approximately 166 969 sq.m. by the Group following the expansion of the railway station Novorossiysk. On 16 July 2014 the transaction took place, and the consideration received amounted to 6,488.

13. GOODWILL

	31 December 2014	31 December 2013
Cost	854,998	1,469,661
Accumulated impairment loss	(223,148)	(340,768)
Carrying amount	**631,850**	**1,128,893**

	31 December 2014	31 December 2013
Cost		
Balance at the beginning of the year	1,469,661	1,583,687
Effect of translation into presentation currency	(614,663)	(114,026)
Balance at the end of the year	**854,998**	**1,469,661**
Accumulated impairment loss		
Balance at the beginning of the year	(340,768)	(94,680)
Impairment losses recognised during the year	(29,539)	(259,903)
Effect of translation into presentation currency	147,159	13,815
Balance at the end of the year	**(223,148)**	**(340,768)**

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

	Cost		**Accumulated impairment loss**		**Carrying amount**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Stevedoring and additional services segment:						
PTP	436,388	750,111	(113,716)	(152,665)	322,672	597,446
Grain Terminal	84,404	145,082	-	-	84,404	145,082
Novoroslesexport	68,114	117,082	-	-	68,114	117,082
IPP	14,681	25,236	-	-	14,681	25,236
Shipyard	6,647	11,425	(1,675)	(2,879)	4,972	8,546
BSC	1,519	2,611	-	-	1,519	2,611
Fleet services segment:						
SFP	204,784	352,004	(107,757)	(185,224)	97,027	166,780
Fleet	38,461	66,110	-	-	38,461	66,110
Total	**854,998**	**1,469,661**	**(223,148)**	**(340,768)**	**631,850**	**1,128,893**

Annual impairment test information

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

With the exception of the PTP CGU (see below), the estimated recoverable amount of each of the Group's CGU exceeded its carrying value. For all such CGUs, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of a CGU to exceed its recoverable amount.

The most significant estimates and assumptions used by management in the value in use calculations as at 31 December 2014 were as follows:

- Cash flow projections were based on the business plans of the Company for the years 2015-2019, approved by management. Such business plans consider significant industrial and macroeconomic trends including change in the structure of transshipment services, emergence of new competitors, etc.;
- Due to highly significant uncertainty in respect to foreign currency rates, cash flow projections for 2015 were prepared in USD using RUR/USD currency rates projections from the Economist Intelligence Unit;
- Cash flow projections for 2016-2019 were then adjusted by inflation rate for each respective year;
- Cash flow projections beyond 2019 were extrapolated using a steady 2.5% per annum growth rate assessed based on past performance of the Group and management expectations of market development; and
- Discount rates were applied for each CGU based on the Group's weighted average cost of capital adjusted for tax effect to arrive at pre-tax rate.

The Group's CGUs 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 CGU.

Discount rates for each CGU were estimated in nominal terms using the weighted average cost of capital basis and amounted to 13.37% for PTP.

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

Impairment loss – Year ended 31 December 2013

PTP

Due to delays as a result of factors outside of the Group's control, in the construction of the railway to port Primorsk the Group has moved the anticipated start date of the transshipment of oil and oil-products from 2015 to 2017. As a result of this delay, management reduced the expected oil and oil-product transshipment forecasts utilized in the Group's business plan. In addition, Russian export sales were realigned from oil to oil products. Accordingly, the volumes of oil transshipment were adjusted for a decreasing trend and the volumes of oil-product transshipment were adjusted for an increasing trend.

The annual goodwill impairment test was performed based on the updated projections of oil and oil products transshipment volumes. As a result goodwill attributable to the stevedoring and additional services (Primorsk) segment was impaired for 69,554 as at 31 December 2013.

SFP

In accordance with the reduction in the forecasts of services volumes due to heightened competition resulting from a new entrant to the market, management reduced the expected forecasts applied in the Group's business. The annual goodwill impairment test was performed based on the updated projections of services volumes. As a result goodwill attributable to the fleet services (Primorsk) segment was impaired for 190,349 as at 31 December 2013.

Impairment loss – Year ended 31 December 2014

PTP

In 2014, the construction of a railway terminal for oil-product transhipment in port Primorsk was interrupted and completion of construction was further delayed. As a result, management reduced the expected oil and oil-product transshipment forecasts utilized in the Group's business plan. Also, following the trends in oil and oil products export volumes mentioned above, the volumes of oil and oil-product transshipment were adjusted accordingly.

Based on the value in use calculations, the Group recorded an impairment loss attributable to stevedoring and additional port services (Primorsk) segment in amount of 29,539 for the year ended 31 December 2014.

Management prepared a sensitivity analysis relating to the PTP CGU and determined that, in each case in isolation and for the year ended 31 December 2014 (i) a 10% reduction in revenue would lead to an increase to the aggregate impairment loss recognised of 150,347; (ii) an increase in capital expenditure of 10% would lead to an increase to the aggregate impairment loss recognised of 7,021; and, (iii) a 10% increase in the costs applied in the impairment testing would lead to an increase to the aggregate impairment loss recognised of 52,082. These are the most sensitive assumptions used in the impairment test for this particular CGU.

(in thousands of US Dollars, except as otherwise stated)

14. MOORING RIGHTS

	31 December 2014	31 December 2013
Cost	6,336	10,891
Accumulated amortisation	(2,734)	(4,146)
Carrying value	**3,602**	**6,745**

	31 December 2014	31 December 2013
Cost		
Balance at the beginning of year	10,891	11,736
Effect of translation into presentation currency	(4,555)	(845)
Balance at the end of the year	**6,336**	**10,891**
Accumulated amortisation		
Balance at the beginning of year	(4,146)	(3,872)
Charge for the year	(480)	(568)
Effect of translation into presentation currency	1,892	294
Balance at the end of the year	**(2,734)**	**(4,146)**

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

15. OTHER FINANCIAL ASSETS

	31 December 2014	31 December 2013
Current		
Deposits	409	970
Loans issued	270	4,062
Total current	**679**	**5,032**
Non-current		
Loans issued	17,999	18,615
Total non-current	**17,999**	**18,615**

As at 31 December 2014 short-term deposits placed in LLC Vneshprombank (“Vneshprombank”) consist of deposits denominated in RUR with a fixed interest rate of 6% per annum (2013: variable from 6% to 11.75%) and deposits denominated in USD with an interest rate of 2.75% per annum (2013: 2.75%).

As at 31 December 2014 current loans issued in RUR include loans given to employees of the Group and to other related parties with interest rates varying from 7% to 8.50% per annum (2013: from 7% to 8.50%).

As at 31 December 2014 non-current loans issued consist of loans issued in USD to LLC Novorossiysk Fuel Oil Terminal (“NFT”), a joint venture created in 2009 (Note 16), in the amount of 17,998 (2013: 17,998) maturing in March 2020 with an interest rate of 7% per annum and others.

As at 31 December 2013 non-current loans issued consist of loans given to employees of the Group denominated in RUR with an interest rate of 5% per annum and long-term loans issued in USD to other related parties with interest rates varying from 5% to 7% per annum.

As of 31 December 2014 an allowance for loans of 2,941 issued was recognized in full due to uncertainty of their recoverability.

(in thousands of US Dollars, except as otherwise stated)

16. INVESTMENT IN JOINT VENTURE

NFT is a fuel oil terminal in Novorossiysk with maximum transshipment capacity of four million tons per year.

The Group owns 50% of NFT and its share in (loss)/profit of the joint venture for the years 2014 and 2013 recognised in comprehensive loss amounted to (7,123) and 1,757, respectively.

By the end of 2014 the Group's share of losses in NFT exceeded the carrying value of it's investment by 5,859. The Group discontinued its recognition of losses when the carrying value of the investment was written down to zero, as the Group has no legal or constructive obligation to fund NFT's activities.

	Ownership % held	
Joint venture	**31 December 2014**	**31 December 2013**
NFT	50.00%	50.00%

Summarised financial information of NFT is represented below:

	31 December 2014	**31 December 2013**
Current assets	25,578	14,770
Non-current assets	80,930	141,080
Total assets	**106,508**	**155,850**
Current liabilities	(19,757)	(19,868)
Non-current liabilities	(96,326)	(113,551)
Total liabilities	**(116,083)**	**(133,419)**
Net assets	**(9,575)**	**22,431**
Group's share of joint venture net assets	**(4,788)**	**11,216**
Elimination of unrealised profit	(1,071)	(1,464)
Unrecognised share of losses	5,859	-
Carrying value of investment	**-**	**9,752**

The above amounts of assets and liabilities include the following:

	31 December 2014	**31 December 2013**
Cash and cash equivalents	19,241	9,827
Current financial liabilities (excluding trade and other payables and provisions)	(17,192)	(17,418)
Non-current financial liabilities (excluding trade and other payables and provisions)	(91,882)	(105,572)

(in thousands of US Dollars, except as otherwise stated)

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	67,425	73,105
Operating profit	26,532	24,309
(Loss)/profit for the year	(28,149)	3,514
Group share of (loss)/profit for the year at 50%	(14,075)	1,757
Other comprehensive loss	(3,857)	(1,570)

The above (loss)/profit for the year includes the following:

	Year ended 31 December 2014	Year ended 31 December 2013
Depreciation	(13,825)	(15,741)
Interest income	223	318
Interest expense	(7,902)	(9,432)
Income tax	6,275	(1,246)

Loans issued by the Group to NFT are disclosed in Note 15.

As at 31 December 2014 and 31 December 2013 the Group pledged its 50% share in NFT under a credit agreement between NFT and Raiffeisenbank. The Group also issued a guarantee of 20,000 to secure NFT obligations under the credit agreement. NFT also concluded pledge agreements with Raiffeisenbank to secure obligations under the credit agreement.

It was agreed that dividends and other payments to shareholders should not be made without prior written consent of Raiffeisenbank.

During the 2014 NFT repaid part of the loan of Raiffeisenbank in the amount of 16,296. Interest liabilities are repaid on schedule.

17. DETAILS OF SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
Name of subsidiary	**31 December 2014**	**31 December 2013**	**2014**	**2013**	**31 December 2014**	**31 December 2013**
Shipyard	34.82%	34.82%	4,363	834	11,010	13,493
Fleet	4.81%	4.81%	4,523	1,830	4,815	9,907
Novoroslesexport	8.62%	8.62%	5,891	2,283	9,342	11,340
Other subsidiaries with non-controlling interests					354	437
Total					**25,521**	**35,177**

The “Southern Shipbuilding and Repair Center”, a wholly owned subsidiary of JSC “United Shipbuilding Corporation”, is a shareholder with significant influence over Shipyard. The owner of 100% of the JSC “United Shipbuilding Corporation” ordinary shares is the Russian Federation represented by the Federal Property Agency of the Russian Federation.

(in thousands of US Dollars, except as otherwise stated)

Summarised financial information in respect of Shipyard is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 December 2014	31 December 2013
Current assets	18,197	17,395
Non-current assets	18,174	28,529
Current liabilities	(2,288)	(3,172)
Non-current liabilities	(2,464)	(4,000)
Equity attributable to shareholders of the parent company	20,609	25,259
Non-controlling interests	11,010	13,493

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	26,805	22,736
Profit for the year attributable to:		
Equity shareholders of the parent company	8,168	1,562
Non-controlling interests	4,363	834
Profit for the year	**12,531**	**2,396**
Other comprehensive loss attributable to:		
Equity shareholders of the parent company	(12,818)	(1,963)
Non-controlling interests	(6,846)	(1,051)
Other comprehensive loss for the year	**(19,664)**	**(3,014)**
Total comprehensive loss attributable to:		
Equity shareholders of the parent company	(4,650)	(401)
Non-controlling interests	(2,483)	(217)
Total comprehensive loss for the year	**(7,133)**	**(618)**
Net cash inflow/(outflow) from:		
Operating activities	8,542	4,641
Investing activities	(5,035)	(4,395)
Effect of exchange rate changes on cash and cash equivalents	(536)	77
Net cash inflow	**2,971**	**323**

No dividends were declared to non-controlling interests in 2014 and 2013.

Summarised financial information in respect of Fleet is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 December 2014	31 December 2013
Current assets	80,945	167,320
Non-current assets	28,321	48,819
Current liabilities	(8,939)	(9,746)
Non-current liabilities	(230)	(435)
Equity attributable to shareholders of the parent company	95,282	196,051
Non-controlling interests	4,815	9,907

(in thousands of US Dollars, except as otherwise stated)

	Year ended	
	31 December 2014	**31 December 2013**
Revenue	168,618	203,716
Profit for the year attributable to:		
Equity shareholders of the parent company	89,567	36,219
Non-controlling interests	4,523	1,830
Profit for the year	**94,090**	**38,049**
Other comprehensive loss attributable to:		
Equity shareholders of the parent company	(89,972)	(13,428)
Non-controlling interests	(4,546)	(678)
Other comprehensive loss for the year	**(94,518)**	**(14,106)**
Total comprehensive (loss)/income attributable to:		
Equity shareholders of the parent company	(405)	22,791
Non-controlling interests	(23)	1,152
Total comprehensive (loss)/income for the year	**(428)**	**23,943**
Net cash inflow/(outflow) from:		
Operating activities	23,853	25,871
Investing activities	37,755	2,277
Financing activities	(105,298)	-
Effect of exchange rate changes on cash and cash equivalents	11,091	(165)
Net cash (outflow)/inflow	**(32,599)**	**27,983**

In 2014 dividends to non-controlling interests were declared in the amount of 5,069 and were paid in the amount of 4,934. No dividends were declared to non-controlling interests in 2013.

Summarised financial information in respect of Novoroslesexport is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 December 2014	**31 December 2013**
Current assets	61,530	47,321
Non-current assets	59,575	101,778
Current liabilities	(7,389)	(5,559)
Non-current liabilities	(5,335)	(11,984)
Equity attributable to shareholders of the parent company	99,039	120,216
Non-controlling interests	9,342	11,340

(in thousands of US Dollars, except as otherwise stated)

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	86,590	69,069
Profit for the year attributable to:		
Equity shareholders of the parent company	62,443	24,202
Non-controlling interests	5,891	2,283
Profit for the year	**68,334**	**26,485**
Other comprehensive loss attributable to:		
Equity shareholders of the parent company	(64,352)	(8,166)
Non-controlling interests	(6,071)	(770)
Other comprehensive loss for the year	**(70,423)**	**(8,936)**
Total comprehensive (loss)/income attributable to:		
Equity shareholders of the parent company	(1,909)	16,036
Non-controlling interests	(180)	1,513
Total comprehensive (loss)/income for the year	**(2,089)**	**17,549**
Net cash inflow/(outflow) from:		
Operating activities	43,422	33,773
Investing activities	(5,664)	(10,602)
Financing activities	(23,221)	(2,333)
Effect of exchange rate changes on cash and cash equivalents	(120)	(192)
Net cash inflow	**14,417**	**20,646**

In 2014 dividends to non-controlling interests were declared in the amount of 1,818 and were paid in the amount of 968. No dividends were declared to non-controlling interests in 2013.

18. INVENTORIES

	31 December 2014	31 December 2013
Materials and low value items	4,581	7,461
Goods for resale	3,930	3,383
Fuel	1,079	1,909
Less: allowance for obsolete and slow-moving inventories	(521)	(302)
Total	**9,069**	**12,451**

19. TRADE AND OTHER RECEIVABLES, NET

	31 December 2014	31 December 2013
Trade receivables (RUR)	12,876	18,234
Trade receivables (USD)	6,755	18,429
Other receivables and prepayments	5,855	6,352
Interest receivable	1,444	2,806
Less: allowance for doubtful trade and other receivables	(5,951)	(2,966)
Total	**20,979**	**42,855**

(in thousands of US Dollars, except as otherwise stated)

The average credit period for the Group's customers is 7 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.

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 (2013: 6) in total represent 49% (2013: 52%) of the outstanding balance.

Included in the Group's receivable balance are debtors with carrying value of 4,719 (2013: 4,146) 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 2014	31 December 2013
Not past due and not impaired	**16,260**	**38,709**
Past due but not impaired		
less than 45 days	4,103	2,642
45-90 days	63	496
90-180 days	1	281
180-365 days	356	389
Over 1 year	196	338
	4,719	**4,146**
Past due and impaired	**5,951**	**2,966**
Total	**26,930**	**45,821**

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:

	Year ended 31 December 2014	Year ended 31 December 2013
As at beginning of the year	**2,966**	**3,292**
Impairment loss recognised in the consolidated statement of comprehensive loss	5,287	509
Amounts written-off as uncollectable	(197)	(601)
Effect of translation into presentation currency	(2,105)	(234)
As at end of the year	**5,951**	**2,966**

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.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of 5,951 (2013: 2,966) due from companies which have been considered as insolvent based on the Group's legal department analysis. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds.

(in thousands of US Dollars, except as otherwise stated)

20. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Bank deposits in USD	269,858	335,607
Bank deposits in RUR	37,476	77,958
Bank deposits in EUR	633	672
Current accounts in USD	487	923
Current accounts in RUR	2,103	5,768
Current accounts in EUR	147	2
Cash in hand	19	36
Total	**310,723**	**420,966**

Bank deposits as at 31 December 2014 mainly represent deposits with Vneshprombank, OJSC Bank Otkritie Financial Corporation, Sberbank of Russia (Sberbank) and JSC VTB Bank with an original maturity of three months or less. Bank deposits with original maturity of three months or less, placed in Vneshprombank, are represented by deposits denominated in RUR with interest rates from 12.10% to 29.85% per annum, deposits denominated in USD with interest rates varying from 2.75% to 9.75% per annum and deposits denominated in EUR with an interest rate 7.15% per annum. Bank deposits with original maturity of three months or less, placed in OJSC Bank Otkritie Financial Corporation, are represented by deposits denominated in RUR with interest rates varying from 11.58% to 29% per annum and deposits denominated in USD with interest rates from 4.35% to 6% per annum. Deposit denominated in RUR, placed in Sberbank, are represented by deposit with interest rate 9.68% per annum. Deposits denominated in RUR, placed in JSC VTB Bank, are represented by deposits with interest rates from 13.13% to 13.21% per annum.

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

21. 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 (0.015 Russian roubles) per share. Authorised share capital at par is 10,471. Each ordinary share has equal voting rights.

The number of shares outstanding is 18,743,128,904 as of 31 December 2014 and 2013.

(in thousands of US Dollars, except as otherwise stated)

22. DEBT

	Interest rate	Maturity date	31 December 2014	31 December 2013
Unsecured borrowings				
Bonds (RUR)	9.0%	April 2015	72,180	123,909
Unsecured bank loans (RUR)				
Sberbank	8.5%	November 2014	-	82,274
Sberbank	8.5%	November 2014	-	3,060
Total unsecured borrowings			**72,180**	**209,243**
Secured bank loans (USD)				
Sberbank	LIBOR 3M + 5%	January 2018	1,649,939	1,946,802
Total debt			**1,722,119**	**2,156,045**
Current portion of long-term borrowings			(1,722,119)	(388,666)
Total non-current debt			**-**	**1,767,379**

Sberbank

In January 2011 NCSP received a loan in the amount of 1,950,000 from Sberbank to be used for acquisition of PTP. The loan has 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, of LIBOR 3M + 5% per annum – during the last four years;
- A lump sum commission of 11,700 (or 0.6%) was paid for the receipt of the loan;
- 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 market share price, etc.)

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 starting 31 October 2012.

On 4 May 2012 in conjunction with the placement of the rouble bonds, the Group entered into cross-currency and interest rate swap agreement (Note 24).

As at 31 December 2014, the average effective borrowing rate relating to the Group’s debt was 5.4% per annum (31 December 2013: 5.48% per annum).

(in thousands of US Dollars, except as otherwise stated)

The Group borrowings as of 31 December 2014 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	1,498,191	22,495	1,520,686
Due from three to six months	145,623	23,908	169,531
Due from six months to twelve months	74,548	41,434	115,982
	1,718,362	**87,837**	**1,806,199**
Between 1 and 2 years	-	74,318	74,318
Between 2 and 5 years	-	54,469	54,469
Total	**1,718,362**	**216,624**	**1,934,986**

Contractual interest liability are calculated based on assumption that no early repayment claims will be received from Sberbank and that the loan will be repaid according to payment schedule under the agreement.

The Group borrowings as of 31 December 2013 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	21,304	26,888	48,192
Due from three to six months	170,549	32,623	203,172
Due from six months to twelve months	191,830	53,963	245,793
	383,683	**113,474**	**497,157**
Between 1 and 2 years	270,486	90,069	360,555
Between 2 and 5 years	1,496,892	128,757	1,625,649
Total	**2,151,061**	**332,300**	**2,483,361**

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 2014 of 5.25% (31 December 2013: 5.10%).

The financial obligations of the Group consist primarily of borrowings denominated in USD. The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2014, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 1,007,139 (during the year ended 31 December 2013, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 144,399).

As of the reporting date covenants under Sberbank's secured US Dollar loan agreement were breached (Note 1) so the loan amount was reclassified to current liabilities and the Group's current liabilities exceeded the current assets.

(in thousands of US Dollars, except as otherwise stated)

23. FINANCE LEASE

The Group rents transshipment machinery and equipment under finance lease agreements with terms ranging from two to five years. The Group has the right to purchase the equipment after expiration of lease contracts at a purchase price close to zero. Interest rates for all obligations under the finance lease agreements are fixed at the dates of the agreements at rates ranging from 5.13% to 17.14% per annum.

	Minimum lease payments as at 31 December 2014	Minimum lease payments as at 31 December 2013	Present value of lease payments as at 31 December 2014	Present value of lease payments as at 31 December 2013
Less than one year	10,901	12,843	8,809	9,709
In the second and fifth year	12,892	24,769	10,437	20,183
Thereafter	-	78	-	77
Less: future financing costs	(4,547)	(7,721)	-	-
Present value of minimum lease payments	**19,246**	**29,969**	**19,246**	**29,969**

	31 December 2014	31 December 2013
Non-current obligations under finance leases	10,437	20,260
Current portion of obligations under finance leases	8,809	9,709
	19,246	**29,969**

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

24. 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 22). 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 a 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 principal are made on a net basis.

This swap agreement was recorded as a derivative financial instrument recognised at fair value through profit and loss with 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 non-performance 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.

(in thousands of US Dollars, except as otherwise stated)

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

Settlement dates	Expected rate, RUR / 1 USD	Discount rate, %
29 April 2015	64.42	0.26

The table below details the Group's sensitivity to depreciation and appreciation of currency exchange rates used in the fair value measurement (US Dollar against the Russian RUR by 10 RUR at each settlement date). The movement applied is based on the forecasted range of reasonable fluctuations over the next three years.

	31 December 2014	
	Depreciation of US Dollar exchange rate by 10 RUR	Appreciation of US Dollar exchange rate by 10 RUR
Gain/(loss) from cross-currency and interest rate swap	11,913	(8,711)

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 from three to six months	(83,633)	179	(83,454)
Total	**(83,633)**	**179**	**(83,454)**

25. EMPLOYEE BENEFITS

Unfunded defined benefit plans

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries (Novoroslesexport, Shipyard and Fleet). Certain one-time benefits are stipulated by the plans, and upon attainment of a retirement age the employees are entitled to regular retirement benefits. Also post-retirement benefits are provided to these employees ranging from RUR 300 (USD 8) to RUR 700 (USD 18) 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 2014. 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 2014	31 December 2013
Discount rate	13%	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

(in thousands of US Dollars, except as otherwise stated)

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

	Year ended	
	31 December 2014	**31 December 2013**
Interest on obligation	636	638
Current service cost	219	263
Past service cost	367	278
Total	**1,222**	**1,179**

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

The amount of actuarial gains recognized during the years ended 31 December 2014 and 2013 relates to changes in discount rate used as principal assumptions for actuarial valuation.

In 2014, the number of retired employees who received benefits was 2,604 (2013: 2,588).

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 2014	**31 December 2013**
Present value of unfunded benefit obligation	4,448	9,184
Net liability arising from defined benefit obligation	**4,448**	**9,184**

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

	Year ended	
	31 December 2014	**31 December 2013**
Opening defined benefit obligation	**9,184**	**9,551**
Included in cost of service	**1,222**	**1,179**
Current service cost	219	263
Interest cost	636	638
Past service cost	367	278
Benefits paid	(631)	(671)
Actuarial gains in other comprehensive loss	(1,603)	(178)
Effect of translation to presentation currency	(3,724)	(697)
Closing defined benefit obligation	**4,448**	**9,184**

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

	31 December 2014	**31 December 2013**	**31 December 2012**	**31 December 2011**	**31 December 2010**
Present value of defined benefit obligation	4,448	9,184	9,551	7,286	6,906
Experience adjustments on plan liabilities	(1,603)	(178)	1,624	46	(3,727)

(in thousands of US Dollars, except as otherwise stated)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate increases by 1%, the defined benefit obligation would decrease by 181;
- If the expected salary growth increases by 1%, the defined benefit obligation would increase by 78.
- If the death rate decreases by 10%, the defined benefit obligation would increase by 121.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Defined contribution plans

Contributions to the Russian Federation State Pension Fund charged to profit or loss amounted to 19,708 and 21,114 for the years ended 31 December 2014 and 2013, respectively, which related to employee services rendered during each year.

26. TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
Trade payables (RUR)	2,825	9,345
Trade payables (USD)	74	53
Trade payables (EUR)	451	76
Payables for property, plant and equipment	4,207	3,346
Other accounts payable	266	9,279
Total	**7,823**	**22,099**

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 2014	31 December 2013
Past due	440	10,364
Due within three months	6,554	10,813
Due from three to six months	133	569
Due from six months to twelve months	696	353
Total	**7,823**	**22,099**

(in thousands of US Dollars, except as otherwise stated)

27. ACCRUED EXPENSES

	31 December 2014	31 December 2013
Accrued salaries and wages	10,199	15,313
Tax contingencies	6,169	-
Other accrued expenses	1,142	900
Accrued professional service expenses	229	721
Total	**17,739**	**16,934**

At the reporting date, the Group's subsidiary IPP is involved in legal proceedings with the Russian Federation tax authorities in connection with a decision reached by these authorities relating to VAT. In particular, IPP applies a VAT rate of 0% when providing transshipment and stevedoring services. The Russian Federation tax authorities have asserted that a rate of 18% is required to be applied.

The full amount of the additional assessed taxes of 6,169 was provided for by the Group because it is probable that court decision will be for the benefit of tax authorities.

28. RELATED PARTY TRANSACTIONS

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

OMIRICO LIMITED, which owns 50.1% of the Group, is the ultimate parent of the Group. OMIRICO LIMITED is registered under the legislation of the Republic of Cyprus, and is jointly controlled by OJSC Transneft and members of the Magomedov family.

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

The Federal Property Agency of the Russian Federation owns a direct 20% interest in NCSP and has significant influence over the Group, and significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the years ended 31 December 2014 and 2013, the Group transacted with Sberbank, Russian Agricultural Bank, VTB Bank, Rosneft, Russian Railways and other state-controlled entities (apart from OJSC Transneft).

Transactions with related parties are carried out in the normal course of business and on an arm's length basis. The amounts outstanding will be settled in cash. No guarantees have been given or received. No provisions have been made in respect of the amounts owed by related parties except those disclosed in Note 15.

Transactions with state-controlled entities:

	Year ended	
	31 December 2014	31 December 2013
Sales		
Sales of goods and services	108,666	99,982
Interest income	588	397
Purchases		
Services and materials received	7,472	15,052
Finance costs	104,981	113,580

(in thousands of US Dollars, except as otherwise stated)

Balances with state-controlled entities:

	31 December 2014	31 December 2013
Cash and cash equivalents		
Cash and cash equivalents	3,259	7,626
Receivables		
Trade and other receivables	683	2,807
Advances to suppliers	230	865
Payables		
Trade and other payables	26	66
Advances received from customers	888	3,045
Debt		
Long-term debt	-	1,645,339
Current portion of long-term debt	1,649,939	386,797

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

Transactions with NFT:

	Year ended	
	31 December 2014	31 December 2013
Sales and income		
Sales of goods and services	12,705	12,143
Interest income	1,027	1,179
Purchases		
Services and materials received	143	170

Balances with NFT:

	31 December 2014	31 December 2013
Receivables		
Trade and other receivable	200	-
Long-term loans and interest receivable	20,859	19,600
Payables to related parties		
Advances received from customers	3	907

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

(in thousands of US Dollars, except as otherwise stated)

Transactions with other related parties:

	Year ended	
	31 December 2014	**31 December 2013**
Sales		
Sales of goods and services	67,268	60,899
Interest income	51	276
Purchases		
Services and materials received	50,162	56,701

Balances with other related parties:

	31 December 2014	**31 December 2013**
Receivables		
Trade and other receivables	738	2,301
Advances to suppliers	3,296	2,281
Short-term loans and interest receivable	52	4,171
Long-term loans and interest receivable	-	610
Payables		
Trade and other payables	1,576	11,022
Advances received from customers	1,858	2,102

Compensation of key management personnel

For the years ended 31 December 2014 and 2013, the remuneration of the directors and members of key management was 13,854 (including termination benefits in the amount of 1,454) and 16,678 (including termination benefits in the amount of 1,446), 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.

(in thousands of US Dollars, except as otherwise stated)

29. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended	
	31 December 2014	31 December 2013
Loss for the year	**(414,663)**	**(104,706)**
Adjustments for:		
Depreciation and amortisation	74,841	81,456
Finance costs	200,733	137,307
Other operating income, net	(67)	(342)
Foreign exchange loss, net	789,115	125,353
Income tax	(77,350)	36,601
Defined benefit obligation expense	591	508
Interest income	(33,437)	(25,465)
Impairment of goodwill	29,539	259,903
Impairment loss recognised on trade and other receivables	5,287	509
Change in allowance for spare parts and slow-moving inventories	222	(1,392)
Share of loss/(profit) in joint venture, net	7,123	(1,757)
Other adjustments	6,112	278
	588,046	**508,253**
Working capital changes:		
Increase in inventories	(2,985)	(5,473)
Increase in receivables	(2,880)	(757)
(Decrease)/Increase in liabilities	(1,621)	2,491
Cash flows generated from operating activities	**580,560**	**504,514**

30. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

Taxation contingencies in the Russian Federation

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

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

Operating environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

(in thousands of US Dollars, except as otherwise stated)

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. International credit agencies downgraded Russia's long-term foreign currency sovereign rating with a negative outlook. In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. The exchange rate of the Russian Rouble depreciated significantly. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, further weakening of the Rouble and other negative economic consequences.

The impact of further political and economic developments in Russia on future operations and financial position of the Group is at this stage difficult to determine.

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

The Group rents land plots, mooring installations, vessels and equipment under operating lease agreements with the Russian Federation and related parties. These arrangements have lease terms of between 3 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 2014	31 December 2013
Within 1 year	42,731	70,472
Between 1 and 2 years	42,483	69,243
Between 2 and 3 years	41,933	68,478
Between 3 and 4 years	39,482	67,739
Between 4 and 5 years	36,278	63,547
Thereafter	543,366	1,008,715
Total	**746,273**	**1,348,194**

(in thousands of US Dollars, except as otherwise stated)

31. CAPITAL COMMITMENTS

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

	31 December 2014	31 December 2013
NCSP	54,111	15,267
Novoroslesexport	5,493	3,450
IPP	1,432	5,182
BSC	1,009	3,692
Shipyard	160	40
Fleet	25	-
PTP	25	103
Total	**62,255**	**27,734**

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

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

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVES)

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

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

As at 31 December 2014 and 2013, management believes that the carrying values of financial assets (Notes 15, 19 and 20) and financial liabilities recorded at amortised cost (Note 22 and 26) in the consolidated financial statements approximate their fair values except for obligations under finance lease.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 3, Basis of preparation.

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organizations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of the Russian Central Bank. As at 31 December 2014 the discount rate used for obligations under finance lease comprised 6.57% (2013: 6.74%).

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

	31 December 2014		31 December 2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Obligations under finance lease (Level 2)	19,246	21,541	29,969	33,395

(in thousands of US Dollars, except as otherwise stated)

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 22). 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 2014	31 December 2013
Financial assets		
Cash and cash equivalents	310,723	420,966
Deposits	409	970
Trade and other receivables including long-term	24,157	44,488
Loans issued	18,269	22,677
Total financial assets	**353,558**	**489,101**
Financial liabilities carried at amortised cost		
Borrowings	(1,722,119)	(2,156,045)
Trade and other payables	(3,642)	(19,048)
Payables for property, plant and equipment	(4,892)	(4,352)
Finance lease	(19,246)	(29,969)
	(1,749,899)	**(2,209,414)**
Financial liabilities at FVTPL		
Cross-currency and interest rate swap	(72,820)	(14,411)
	(72,820)	**(14,411)**
Total financial liabilities	**(1,822,719)**	**(2,223,825)**

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.

(in thousands of US Dollars, except as otherwise stated)

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

	31 December 2014	31 December 2013
Assets		
Cash and cash equivalents	270,345	336,530
Investments and receivables carried at amortised cost	25,526	40,192
Total assets	**295,871**	**376,722**
Liabilities		
Borrowings	(1,649,939)	(1,946,802)
Finance lease	(13,254)	(16,421)
Trade payables	(74)	(53)
Total liabilities	**(1,663,267)**	**(1,963,276)**
Total net liability position	**(1,367,396)**	**(1,586,554)**

The table below details the sensitivity of the Group's financial instruments (excluding the cross-currency and interest rate swap disclosed in Note 24) to a 20% (2013: 20%) depreciation of the RUR against the US Dollar if all other variables are held constant. The analysis was applied to monetary items denominated in USD at the year end dates. 20% 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 20% appreciation of the RUR against the US Dollar would have an equal opposite impact:

	31 December 2014	31 December 2013
Loss	(273,479)	(317,311)

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

	31 December 2014	31 December 2013
Assets		
Cash and cash equivalents	780	674
Investments and receivables carried at amortised cost	5	2
Total assets	**785**	**676**
Liabilities		
Finance lease	(5,992)	(13,548)
Trade payables	(2,101)	(747)
Total liabilities	**(8,093)**	**(14,295)**
Total net liability position	**(7,308)**	**(13,619)**

(in thousands of US Dollars, except as otherwise stated)

The table below details the Group's sensitivity to a 20% (2013: 20%) 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 20% appreciation of the RUR against the EURO would have an equal opposite impact:

	31 December 2014	31 December 2013
Loss	(1,462)	(2,723)

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, floating interest rate of LIBOR 3M + 5% per annum is applied from 19 January 2014. The change in LIBOR rate by 1% would lead to an increase in interest expense by 16,500.

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 revenue for 2014 and 2013 and outstanding balances as at 31 December 2014 and 2013 of the top five counterparties:

	Customer location	Revenue for 2014	31 December 2014
LINK OIL TRADING LTD	United States of America	91,225	-
ROSNEFT	Russia	71,580	359
TRANSNEFT-SERVICE	Russia	55,841	1,088
CHERNOMORSERVICE	Russia	49,542	13
MEDITERRANEAN SHIPPING COMPANY	Russia	38,460	2,485
Total		**306,648**	**3,945**

	Customer location	Revenue for 2013	31 December 2013
BIG PORT SERVICE DMCC	United Arab Emirates	131,722	4,666
ROSNEFT	Russia	78,971	2,227
TRANSNEFT-SERVICE	Russia	46,896	31
METALLOINVEST LOGISTICS	United Arab Emirates	33,788	858
LUKOIL	Russia	33,511	734
Total		**324,888**	**8,516**

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

In order to manage and control the liquidity needs of the Group, management performs budgeting and forecasting of cash flows, which ensures the availability of the necessary funds for the discharging of payment obligations. Generally, net cash flows from operating activities provide an adequate amount of working capital for conducting the Group's underlying business activities. Negative working capital as of 31 December 2014 was caused by breach of covenants under Sberbank loan agreement but management considers the risk of early repayment claims from Sberbank as remote (Note 1).

For a maturity analysis of financial liabilities, see Notes 22 and 26.

34. EVENTS AFTER THE BALANCE SHEET DATE

A supplementary agreement changing the covenants was signed with Sberbank in 2015 (for details, see Note 1).