Novorossiysk Commercial Sea Port

Interim Condensed Consolidated Financial Statements
For the Six Months Ended 30 June 2015

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 30 June 2015, and the consolidated results of its operations, cash flows and changes in shareholder's equity for the six months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position, financial performance and cash flows; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 were approved by management on 28 August 2015:

S.K. Batov
Chief Executive Officer

G.I. Kachan
Chief Accountant

Deloitte.

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively – the "Group") as of 30 June 2015 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Deloitte & Touche

Moscow, Russian Federation
28 August 2015

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

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

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
REVENUE	5	438,118	511,100
COST OF SERVICES	6	(122,265)	(215,208)
GROSS PROFIT		**315,853**	**295,892**
Selling, general and administrative expenses	7	(20,638)	(33,554)
Other operating income, net		1,803	955
OPERATING PROFIT		**297,018**	**263,293**
Finance income	8	35,981	15,546
Finance costs	9	(48,257)	(66,647)
Share of profit in joint venture, net	15	3,719	2,653
Foreign exchange gain/(loss), net		7,060	(43,361)
Other income/(loss), net		3	(822)
PROFIT BEFORE INCOME TAX EXPENSE		**295,524**	**170,662**
Income tax expense	10	(45,242)	(32,795)
PROFIT FOR THE PERIOD		**250,282**	**137,867**
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX			
Items that may be subsequently reclassified to profit or loss:			
Effect of translation to presentation currency		12,174	(24,059)
Items that may not be subsequently reclassified to profit or loss:			
Remeasurement of net defined benefit liability		3	(22)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		12,177	(24,081)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**262,459**	**113,786**
Profit for the period attributable to:			
Equity shareholders of the parent company		244,585	134,208
Non-controlling interests		5,697	3,659
		250,282	**137,867**
Total comprehensive income attributable to:			
Equity shareholders of the parent company		256,212	110,884
Non-controlling interests		6,247	2,902
		262,459	**113,786**
Weighted average number of ordinary shares outstanding		18,743,128,904	18,743,128,904
Basic and diluted earnings per share, US Dollars		0.0130	0.0072

S.K. Batov
Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 7 to 26 are an integral part of these interim condensed consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015 (UNAUDITED)

(in thousands of US Dollars)

	Notes	30 June 2015	31 December 2014
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	1,176,523	1,163,391
Goodwill	13	640,208	631,850
Mooring rights		3,487	3,602
Other financial assets	14	17,999	17,999
Investment in joint venture	15	3,580	-
Spare parts		5,629	4,721
Deferred tax assets		113,377	128,899
Other intangible assets		1,640	1,442
Other non-current assets		3,510	3,195
		1,965,953	1,955,099
CURRENT ASSETS:			
Inventories		9,762	9,069
Advances to suppliers		5,939	7,992
Trade and other receivables, net	16	34,181	20,979
VAT recoverable and other taxes receivable		15,934	15,518
Income tax receivable		922	355
Other financial assets	14	1,469	679
Cash and cash equivalents	17	301,029	310,723
		369,236	365,315
TOTAL ASSETS		**2,335,189**	**2,320,414**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(494,051)	(505,673)
Retained earnings		929,469	763,735
Equity attributable to shareholders of the parent company		**445,608**	**268,252**
Non-controlling interests		26,971	25,521
TOTAL EQUITY		**472,579**	**293,773**
NON-CURRENT LIABILITIES:			
Long-term debt	18	1,323,618	-
Obligations under finance leases	19	8,362	10,437
Defined benefit obligation		4,649	4,448
Deferred tax liabilities		154,460	152,437
Other non-current liabilities		1,297	711
		1,492,386	168,033
CURRENT LIABILITIES:			
Current portion of long-term debt	18	251,379	1,722,119
Current portion of obligations under finance leases	19	6,148	8,809
Trade and other payables		5,563	7,823
Advances received from customers		4,112	14,100
Taxes payable		3,821	3,247
Income tax payable		4,124	11,951
Cross-currency and interest rate swap	20	-	72,820
Accrued expenses	21	95,077	17,739
		370,224	1,858,608
TOTAL EQUITY AND LIABILITIES		**2,335,189**	**2,320,414**

The notes on pages 7 to 26 are an integral part of these interim condensed consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)
(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 2014		**10,471**	**(281)**	**(130,371)**	**1,203,686**	**1,083,505**	**35,177**	**1,118,682**
Profit for the period		-	-	-	134,208	134,208	3,659	**137,867**
Other comprehensive loss for the period, net of tax		-	-	(23,299)	(25)	(23,324)	(757)	**(24,081)**
Total comprehensive income/(loss) for the period		-	-	**(23,299)**	**134,183**	**110,884**	**2,902**	**113,786**
Dividends	11	-	-	-	(12,975)	**(12,975)**	-	**(12,975)**
Increase of ownership in subsidiaries		-	-	-	(347)	**(347)**	347	**-**
At 30 June 2014		**10,471**	**(281)**	**(153,670)**	**1,324,547**	**1,181,067**	**38,426**	**1,219,493**
At 1 January 2015		**10,471**	**(281)**	**(505,673)**	**763,735**	**268,252**	**25,521**	**293,773**
Profit for the period		-	-	-	244,585	244,585	5,697	**250,282**
Other comprehensive income for the period, net of tax		-	-	11,622	5	11,627	550	**12,177**
Total comprehensive income for the period		-	-	**11,622**	**244,590**	**256,212**	**6,247**	**262,459**
Dividends	11	-	-	-	(78,856)	**(78,856)**	(4,797)	**(83,653)**
At 30 June 2015		**10,471**	**(281)**	**(494,051)**	**929,469**	**445,608**	**26,971**	**472,579**

The notes on pages 7 to 26 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)
(in thousands of US Dollars)

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014
Cash flows from operating activities			
Cash from operations	23	298,907	285,318
Income tax paid		(36,888)	(28,966)
Interest paid		(47,095)	(59,122)
Net cash generated by operating activities		**214,924**	**197,230**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		290	553
Purchases of property, plant and equipment		(27,582)	(32,815)
Proceeds from sale of other financial assets		224	1,954
Purchases of other financial assets		(984)	(2,017)
Interest received		17,005	14,745
Purchases of other intangible assets		(667)	(378)
Net cash used in investing activities		**(11,714)**	**(17,958)**
Cash flows from financing activities			
Repayments of loans and borrowings		(151,476)	(189,658)
Dividends paid	11	(569)	(12)
Payments for cross-currency and interest rate swap	20	(57,872)	-
Payments under finance leases		(5,451)	(6,389)
Net cash used in financing activities		**(215,368)**	**(196,059)**
Net decrease in cash and cash equivalents		**(12,158)**	**(16,787)**
Cash and cash equivalents at the beginning of the period	17	310,723	420,966
Effect of translation into presentation currency on cash and cash equivalents		2,464	1,316
Cash and cash equivalents at the end of the period	17	**301,029**	**405,495**

The notes on pages 7 to 26 are an integral part of these interim condensed 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 30 June 2015 were as follows:

		Ownership % held*	
Significant subsidiaries	**Nature of business**	**30 June 2015**	**31 December 2014**
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 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 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 interim condensed consolidated financial statements of the Group have been prepared assuming that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realise its assets and discharge its liabilities in the normal course of business.

Statement of compliance

These interim condensed consolidated financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements as at and for the year ended 31 December 2014 (with the exception of new standards implemented during the period, detailed below) and in compliance with the requirements of International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements are unaudited, do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements as at and for the year ended 31 December 2014. These financial statements reflect all adjustments which are, in the opinion of Group management, necessary to fairly state the results of interim periods. Interim results are not necessarily indicative of results to be expected for the full year.

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

2. SIGNIFICANT ACCOUNTING POLICIES

New and revised standards

On January 1, 2015 the following standards and interpretations were adopted by the Group:

- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions;
- Annual Improvements to IFRSs: 2010-2012 Cycle;
- Annual Improvements to IFRSs: 2011-2013 Cycle.

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

Standards and Interpretations issued but not yet effective

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

	Effective for annual periods beginning on or after
IFRS 9 (2014) “Financial Instruments”	1 January 2018
IFRS 15 “Revenue from Contracts with Customers”	1 January 2018
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 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements	1 January 2016
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.

Functional and presentation currency

The functional currency of NCSP and principally all of its subsidiaries is the Russian Rouble (“RUR”). The interim condensed consolidated financial statements are presented in US Dollars as management considers the USD to be a more relevant presentation currency for international users of the interim condensed consolidated financial statements of the Group.

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

Exchange rates

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

	30 June 2015	31 December 2014
Period-end rates		
RUR / 1 USD	55.52	56.26
RUR / 1 EUR	61.52	68.34

	Six months ended	
	30 June 2015	30 June 2014
Average for the period		
RUR / 1 USD	57.40	34.98
RUR / 1 EUR	64.31	47.99

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgments, estimates and assumptions made by management of the Group and applied in the accompanying interim condensed consolidated financial statements for the six months ended 30 June 2015 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2014.

4. SEGMENT INFORMATION

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

Segment results are evaluated based on segment profit as disclosed in the management accounts, which is determined under Russian statutory accounting standards. Adjustments to reconcile segment profit to profit before income tax under IFRS include the following: unallocated operating income and expenses, differences between Russian statutory accounting standards and IFRS, finance income, finance costs, share of profit in joint venture (net), foreign exchange gain/(loss) (net), and other income/(loss) (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 six months ended 30 June 2015 and 2014 are as follows:

	Segment revenue from external customers		Inter-segment sales		Segment profit	
	Six months ended		Six months ended		Six months ended	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014	30 June 2015	30 June 2014
Stevedoring and additional port services	392,696	458,386	1,958	4,157	260,797	232,913
Novorossiysk	320,844	365,848	1,852	3,968	215,615	184,684
Primorsk	67,395	84,409	106	189	43,114	44,412
Baltiysk	4,457	8,129	-	-	2,068	3,817
Fleet services	40,369	44,058	849	1,320	25,777	20,917
Novorossiysk	24,398	28,127	841	1,252	14,610	12,685
Primorsk	15,971	15,931	8	68	11,167	8,232
Total reportable segments	**433,065**	**502,444**	**2,807**	**5,477**	**286,574**	**253,830**
Other	5,053	8,656	4,971	7,633	7,068	9,269
Total segments	**438,118**	**511,100**	**7,778**	**13,110**	**293,642**	**263,099**
Unallocated amounts (see following table)					1,882	(92,437)
Profit before income tax					**295,524**	**170,662**

Revenue from TRANSNEFT-SERVICE of 54,038 for the six months ended 30 June 2015 (the six months ended 30 June 2014: 27,428) and revenue from LINK OIL TRADING LTD of 76,223 for the six months ended 30 June 2014 (the six months ended 30 June 2015: 0) represent more than 10% of revenue from stevedoring and additional services for respective period. Management of the Group believes that it adequately manages the corresponding credit risk by, inter alia, monitoring the schedule of payments based on agreed repayment terms.

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

	Six months ended	
	30 June 2015	30 June 2014
Total segment profit	**293,642**	**263,099**
Unallocated operating income and expenses:		
Other operating income, net	1,803	955
Defined benefit obligation expense	(140)	(111)
Differences between Russian statutory accounting standards and IFRS:		
Depreciation and amortization	(4,069)	(8,521)
Repairs and maintenance	-	290
Professional services	293	615
Finance lease	5,520	6,994
Other	(31)	(28)
Operating profit	**297,018**	**263,293**
Finance income	35,981	15,546
Finance costs	(48,257)	(66,647)
Share of profit in joint venture, net	3,719	2,653
Foreign exchange gain/(loss), net	7,060	(43,361)
Other income/(loss), net	3	(822)
Profit before income tax	**295,524**	**170,662**

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

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Six months ended		Six months ended	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
Stevedoring and additional port services	21,321	30,610	22,362	28,205
Novorossiysk	17,461	24,500	21,961	25,776
Primorsk	3,019	4,870	89	462
Baltiysk	841	1,240	312	1,967
Fleet services	2,133	3,508	311	398
Novorossiysk	1,363	2,273	263	41
Primorsk	770	1,235	48	357
Total reportable segments	**23,454**	**34,118**	**22,673**	**28,603**
Other	1,075	2,149	137	321
Total segments	**24,529**	**36,267**	**22,810**	**28,924**
Unallocated amounts	2,850	3,417	1,964	3,617
Consolidated	**27,379**	**39,684**	**24,774**	**32,541**

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

5. REVENUE

	Six months ended	
	30 June 2015	30 June 2014
Stevedoring services	336,105	402,334
Additional port services	56,591	56,052
Fleet services	40,369	44,058
Other	5,053	8,656
Total	**438,118**	**511,100**

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

6. COST OF SERVICES

	Six months ended	
	30 June 2015	**30 June 2014**
Fuel for resale and own consumption	29,598	74,532
Depreciation and amortisation	25,735	37,498
Salaries	25,145	37,678
Rent	18,985	30,107
Taxes directly attributable to salaries	6,990	10,679
Repairs and maintenance	4,620	7,119
Subcontractors	3,880	6,738
Materials	2,997	4,097
Energy and utilities	2,662	4,392
Insurance	419	613
Defined benefit obligation expense	355	463
Other	879	1,292
Total	**122,265**	**215,208**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended	
	30 June 2015	**30 June 2014**
Salaries	8,994	14,980
Taxes other than income tax	2,554	4,562
Taxes directly attributable to salaries	2,071	3,042
Depreciation and amortisation	1,644	2,186
Security services	1,309	2,039
Charitable donations	762	1,412
Impairment loss recognised on trade and other receivables	391	563
Repairs and maintenance	338	529
Materials	330	546
Travel and representation expenses	244	411
Professional services	240	1,129
Bank charges	181	230
Rent	91	162
Other	1,489	1,763
Total	**20,638**	**33,554**

8. FINANCE INCOME

	Six months ended	
	30 June 2015	**30 June 2014**
Interest income	17,329	15,546
Gain on cross currency and interest rate swap	18,652	-
Total	**35,981**	**15,546**

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

9. FINANCE COSTS

	Six months ended	
	30 June 2015	**30 June 2014**
Interest on loans and borrowings	47,107	59,233
Interest expense – finance lease	1,150	1,694
Loss on cross-currency and interest rate swap	-	5,720
Total	**48,257**	**66,647**

10. INCOME TAX EXPENSE

	Six months ended	
	30 June 2015	**30 June 2014**
Current income tax expense	28,570	28,536
Deferred income tax charge	16,672	4,259
Total	**45,242**	**32,795**

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.

During the six months ended 30 June 2015 the Group utilised tax loss carry forward incurred in the previous period, in the amount of 12,017 (the six months ended 30 June 2014: 4,178).

11. DIVIDENDS

Dividends declared by the Group during the six months ended 30 June 2015 and 30 June 2014 were 83,653 and 12,975, respectively, including dividends to non-controlling interest. Dividends declared by the parent company per share for the six months ended 30 June 2015 and 30 June 2014 were US cents 0.421 and 0.069, respectively. The total dividends paid during the six months ended 30 June 2015 and 30 June 2014 were 569 and 12, respectively.

As at 30 June 2015 the dividend liability of the Group amounted to 83,913 (31 December 2014: 868). It is included in accrued expenses as at 30 June 2015 and 31 December 2014.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment
Cost	
As at 1 January 2014	**1,959,812**
Additions	32,541
Disposals	(65)
Depreciation expense	(38,843)
Effect of translation into presentation currency	(52,441)
As at 30 June 2014	**1,901,004**
As at 1 January 2015	**1,163,391**
Additions	24,774
Disposals	(111)
Depreciation expense	(26,727)
Effect of translation into presentation currency	15,196
As at 30 June 2015	**1,176,523**

During the six months ended 30 June 2015 and 30 June 2014, the Group disposed of assets resulting in a net gain on disposal of 179 and 488, respectively.

As at 30 June 2015 construction in progress was 54,605 (31 December 2014: 57,089).

The carrying value of property, plant and equipment held under finance leases as at 30 June 2015 was 16,879 (31 December 2014: 18,490). There were no additions of property, plant and equipment under finance leases during the six months ended 30 June 2015 and 30 June 2014. Leased assets are pledged as security for the related finance liabilities.

13. GOODWILL

	30 June 2015	31 December 2014
Cost	866,308	854,998
Accumulated impairment loss	(226,100)	(223,148)
Carrying amount	**640,208**	**631,850**

For the six months ended 30 June 2015 changes in the carrying amount of goodwill relate to effect of translation into the presentation currency.

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

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

	Cost		Accumulated impairment loss		Carrying amount	
	30 June 2015	**31 December 2014**	**30 June 2015**	**31 December 2014**	**30 June 2015**	**31 December 2014**
Stevedoring and additional services segment:						
PTP	442,160	436,388	(115,220)	(113,716)	326,940	322,672
Grain Terminal	85,520	84,404	-	-	85,520	84,404
Novoroslesexport	69,015	68,114	-	-	69,015	68,114
IPP	14,876	14,681	-	-	14,876	14,681
Shipyard	6,735	6,647	(1,697)	(1,675)	5,038	4,972
BSC	1,539	1,519	-	-	1,539	1,519
Fleet services segment:						
SFP	207,492	204,784	(109,183)	(107,757)	98,309	97,027
Fleet	38,971	38,461	-	-	38,971	38,461
Total	**866,308**	**854,998**	**(226,100)**	**(223,148)**	**640,208**	**631,850**

14. OTHER FINANCIAL ASSETS

	30 June 2015	**31 December 2014**
Current		
Deposits	1,428	409
Loans issued	41	270
Total current	**1,469**	**679**
Non-current		
Loans issued	17,999	17,999
Total non-current	**17,999**	**17,999**

As at 30 June 2015 short-term deposits placed in LLC Vneshprombank ("Vneshprombank") consist of deposits denominated in RUR with a fixed interest rate varying from 6% to 17% per annum (2014: 6%) and deposits denominated in USD with an interest rates of 2.75% per annum (2014: 2.75%).

As at 30 June 2015 current loans issued in RUR include loans given to other related parties with interest rate of 7% per annum.

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.

As at 30 June 2015 non-current loans issued consist of loans issued in USD to LLC Novorossiysk Fuel Oil Terminal ("NFT"), a joint venture created in 2009 (Note 15), in the amount of 17,998 (2014: 17,998) maturing in March 2020 with an interest rate of 7% per annum and others.

As of 30 June 2015 an allowance for loans issued to other related parties in amount of 2,972 was recognized in full due to uncertainty of their recoverability (2014: 2,941).

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

15. 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 profit of the joint venture for the six months ended 30 June 2015 and 30 June 2014 recognised in comprehensive income amounted to 3,719 and 2,653, 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. Profits earned in the six months ended 30 June 2015, exceeded the amount of unrecognized losses.

	Ownership % held	
Joint venture	**30 June 2015**	**31 December 2014**
NFT	50.00%	50.00%

Loans issued by the Group to NFT are disclosed in Note 14.

16. TRADE AND OTHER RECEIVABLES, NET

	30 June 2015	31 December 2014
Trade receivables (RUR)	20,628	12,876
Trade receivables (USD)	12,515	6,755
Other receivables and prepayments	5,977	5,855
Interest receivable	1,476	1,444
Less: allowance for doubtful trade and other receivables	(6,415)	(5,951)
Total	**34,181**	**20,979**

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

	Six months ended	
	30 June 2015	**30 June 2014**
As at beginning of the period	**5,951**	**2,966**
Impairment loss recognised in the consolidated statement of comprehensive income	391	563
Amounts written-off as uncollectable	(19)	(22)
Effect of translation into presentation currency	92	(58)
As at end of the period	**6,415**	**3,449**

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.

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

17. CASH AND CASH EQUIVALENTS

	30 June 2015	31 December 2014
Bank deposits in USD	224,895	269,858
Bank deposits in RUR	72,318	37,476
Bank deposits in EUR	598	633
Current accounts in USD	529	487
Current accounts in RUR	2,672	2,103
Current accounts in EUR	-	147
Cash in hand	17	19
Total	**301,029**	**310,723**

Bank deposits as at 30 June 2015 mainly represent deposits with Vneshprombank, PJSC Bank Otkritie Financial Corporation, and PJSC Sberbank of Russia (“Sberbank”) with an original maturity of three months or less. Bank deposits with original maturity of three months or less, placed in Vneshprombank, are represented by deposits denominated in RUR with interest rates from 12.50% to 14.97% per annum, deposits denominated in USD with interest rates varying from 2.75% to 10.90% per annum and deposits denominated in EUR with an interest rate 8.00% per annum. Bank deposits with original maturity of three months or less, placed in PJSC Bank Otkritie Financial Corporation, are represented by deposits denominated in RUR with interest rates varying from 12.00% to 13.45% per annum and deposits denominated in USD with interest rates from 1.10% to 4.51% per annum. Bank deposits with original maturity of three months or less, placed in Sberbank, are represented by deposits denominated in RUR with interest rates varying from 8.47% to 8.78% per annum and deposits denominated in USD with interest rate of 2.47% per annum.

Bank deposits as at 31 December 2014 mainly represent deposits with Vneshprombank, PJSC Bank Otkritie Financial Corporation, 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 of 7.15% per annum. Bank deposits with original maturity of three months or less, placed in PJSC 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, is represented by deposits with interest rate of 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.

18. DEBT

	Interest rate	Maturity date	30 June 2015	31 December 2014
Unsecured borrowings				
Bonds (RUR)	9.0%	April 2015	-	72,180
Secured bank loans				
Sberbank (USD)	LIBOR 3M + 5%	January 2018	1,574,997	1,649,939
Total debt			**1,574,997**	**1,722,119**
Current portion of long-term borrowings			(251,379)	(1,722,119)
Total non-current debt			**1,323,618**	**-**

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

As of 31 December 2014,covenants under Sberbank's secured US Dollar loan agreement were breached so the loan amount was reclassified to current liabilities and the Group's current liabilities exceeded the current assets.

As at 31 December 2014, the share price was below the minimum level set by the loan agreement. 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. 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 30 June 2015 the credit Committee of Sberbank approved a new additional agreement on amendments to covenants based on net assets. This supplementary agreement was signed after the reporting date.

The Group borrowings as of 30 June 2015 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	-	20,986	20,986
Due from three to six months	74,539	20,736	95,275
Due from six months to twelve months	174,539	39,715	214,254
	249,078	**81,437**	**330,515**
Between 1 and 2 years	524,079	65,363	589,442
Between 2 and 5 years	799,539	24,538	824,077
Total	**1,572,696**	**171,338**	**1,744,034**

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.

For variable rate borrowings, the contractual interest liability for future periods was calculated based on the effective borrowing rate relating to the Group's variable rate borrowings as at 30 June 2015 of 5.28% (31 December 2014: 5.25%).

The financial obligations of the Group consist of borrowings denominated in USD.
The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During six months ended 30 June 2015, the foreign exchange gain on financial obligations increased the Group's profit before income tax by 24,376 (during six months ended 30 June 2014, the foreign exchange loss on financial obligations decreased the Group's profit before income tax by 53,389).

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

19. 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 5.12% to 17.14% per annum.

	Minimum lease payments as at 30 June 2015	Minimum lease payments as at 31 December 2014	Present value of lease payments as at 30 June 2015	Present value of lease payments as at 31 December 2014
Less than one year	7,834	10,901	6,148	8,809
In the second and fifth year	10,066	12,892	8,362	10,437
Thereafter	-	-	-	-
Less: future financing costs	(3,390)	(4,547)	-	-
Present value of minimum lease payments	**14,510**	**19,246**	**14,510**	**19,246**

	30 June 2015	31 December 2014
Non-current obligations under finance leases	8,362	10,437
Current portion of obligations under finance leases	6,148	8,809
	14,510	**19,246**

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

20. CROSS-CURRENCY AND INTEREST RATE SWAP

On 29 April 2015, the Group fully repaid its obligations under the cross-currency interest rate swap, paying 57,872.

Net income from swap for the six months 2015 of 18,652 is reflected in the line “Financial income” in the statement of comprehensive income, including foreign exchange loss of 52,724 and increase in its fair value of 71,376.

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

21. ACCRUED EXPENSES

	30 June 2015	31 December 2014
Settlements with shareholders	83,913	868
Accrued salaries and wages	8,454	10,199
Tax contingencies	2,359	6,169
Accrued professional service expenses	101	229
Other accrued expenses	250	274
Total	**95,077**	**17,739**

As at 30 June 2015 the dividend liability of the Group in amount of 83,913 (31 December 2014: 868) is included in settlements with shareholders.

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.

At the end of 2014 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. IPP paid additional assessed taxes and penalties in the amount of 3,764 as a result of court decision at 27 April 2015 to allow its claim partly.

22. 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 six months ended 30 June 2015 and 30 June 2014, the Group transacted with Sberbank, 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 14.

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

Transactions with state-controlled entities (apart from OJSC Transneft):

	Six months ended	
	30 June 2015	**30 June 2014**
Sales		
Sales of goods and services	40,318	55,229
Interest income	138	190
Purchases		
Services and materials received	2,183	4,381
Finance costs	44,960	53,978

Balances with state-controlled entities (apart from OJSC Transneft):

	30 June 2015	**31 December 2014**
Cash and cash equivalents		
Cash and cash equivalents	6,605	3,259
Receivables		
Trade and other receivables	3,246	683
Advances to suppliers	413	230
Payables		
Trade and other payables	228	26
Advances received from customers	1	888
Debt		
Long-term debt	1,323,618	-
Current portion of long-term debt	251,379	1,649,939

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

Transactions with NFT:

	Six months ended	
	30 June 2015	**30 June 2014**
Sales and income		
Sales of goods and services	7,024	6,953
Interest income	376	628
Purchases		
Services and materials received	49	77

Balances with NFT:

	30 June 2015	**31 December 2014**
Receivables		
Trade and other receivable	99	200
Long-term loans and interest receivable	21,484	20,859
Payables to related parties		
Advances received from customers	-	3

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

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

Transactions with other related parties:

	Six months ended	
	30 June 2015	**30 June 2014**
Sales		
Sales of goods and services	63,929	34,826
Interest income	1	123
Purchases		
Services and materials received	17,137	25,806

Balances with other related parties:

	30 June 2015	**31 December 2014**
Receivables		
Trade and other receivables	2,140	738
Advances to suppliers	3,989	3,296
Short-term loans and interest receivable	54	52
Payables		
Trade and other payables	1,610	1,576
Advances received from customers	155	1,858

Compensation of key management personnel

For the six months ended 30 June 2015 and 30 June 2014, the remuneration of the directors and members of key management was 2,929 (including termination benefits in the amount of 6) and 5,339 (including termination benefits in the amount of 252), 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.

23. CASH FLOWS FROM OPERATING ACTIVITIES

	Six months ended	
	30 June 2015	**30 June 2014**
Profit for the period	**250,282**	**137,867**
Adjustments for:		
Depreciation and amortisation	27,379	39,684
Gain on disposal of property, plant and equipment	(179)	(488)
Finance income	(35,981)	(15,546)
Finance costs	48,257	66,647
Share of profit in joint venture, net	(3,719)	(2,653)
Foreign exchange (gain)/loss, net	(7,060)	43,361
Income tax expense	45,242	32,795
Defined benefit obligation expense	140	111
Impairment loss recognised on trade and other receivables	391	563
Change in allowance for spare parts and slow-moving inventories	322	28
Other adjustments	(63)	787
	325,011	**303,156**
Working capital changes:		
(Increase)/decrease in inventories	(1,694)	974
Increase in receivables	(10,782)	(5,256)
Decrease in liabilities	(13,628)	(13,556)
Cash flows generated from operating activities	**298,907**	**285,318**

24. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Russian transfer pricing legislation was amended starting from January 1, 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses may have more than one interpretation, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Operating environment

Emerging markets such as Russia 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 Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

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.

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. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments 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.

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

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:

	30 June 2015	31 December 2014
Within 1 year	44,904	42,731
Between 1 and 2 years	44,247	42,483
Between 2 and 3 years	43,083	41,933
Between 3 and 4 years	39,660	39,482
Between 4 and 5 years	38,478	36,278
Thereafter	576,201	543,366
Total	**786,573**	**746,273**

As of 30 June 2015 minimum lease payments were calculated according to the existing contract terms but at the moment conditions on a number of contracts are being renegotiated and this can lead to changes in lease periods and lease rates.

25. CAPITAL COMMITMENTS

As at 30 June 2015 and 31 December 2014, the Group had the following commitments for acquisition of property, plant and equipment and construction works at:

	30 June 2015	31 December 2014
NCSP	66,405	54,111
Novoroslesexport	4,132	5,493
Shipyard	2,047	160
BSC	875	1,009
IPP	530	1,432
PTP	463	25
Grain Terminal	60	-
Fleet	53	25
Total	**74,565**	**62,255**

As at 30 June 2015 and 31 December 2014 there were no capital commitments relating to obligations under finance lease contracts.

As at 30 June 2015 the Group's share of the capital commitments relating to its joint venture, NFT, is 50 (at 31 December 2014 is equal to zero).

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

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 30 June 2015 and 31 December 2014, management believes that the carrying values of financial assets (Notes 14, 16 and 17) and financial liabilities recorded at amortised cost (Note 18) and also finance lease liability (Note 19) in the interim condensed consolidated financial statements approximate their fair values except for long-term debt. See disclosure below.

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value of Level 2 financial liabilities was calculated by means of the discounted cash flow valuation technique based on the average interest rates applied to similar bank loans provided to non-financial organizations in the reporting period. The information about the discount rates was obtained from the Bank Statistics Bulletin of the Russian Central Bank. As at 30 June 2015 the discount rate used for obligations under agreement with Sberbank comprised 8.60% (31 December 2014: 6.57%).

The fair value compared to the carrying value of long-term financial liabilities as at 30 June 2015 and 31 December 2014 is as follows:

	30 June 2015		31 December 2014	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
LIBOR+ rate agreement with Sberbank (Level 2)	1,574,997	1,482,850	1,649,939	1,604,799

27. EVENTS AFTER THE BALANCE SHEET DATE

A supplementary agreement changing the covenants was signed with Sberbank in July 2015 (for details, see Note 18).