# Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

**Interim Condensed Consolidated Financial Statements (Unaudited)**
For the Six Months Ended 30 June 2012

# 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 2012

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the interim condensed consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as of 30 June 2012, and the related consolidated results of operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the interim condensed 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 2012 were approved by management on 21 September 2012:

On behalf of the Management:

| | |
|---|---|
| **R. Antolovic** | **A.V. Vishchanenko** |
| Chief Executive Officer | Chief Financial Officer |

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# INDEPENDENT AUDITORS' REPORT ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") which comprise the interim condensed consolidated statement of financial position as of 30 June 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). 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 Auditors 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.

Deloitte & Touche

Moscow, Russia
21 September 2012

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

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
### FOR THE SIX MONTHS ENDED 30 JUNE 2012 (UNAUDITED)
***(in thousands of US Dollars, except earnings per share)***

| | Notes | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|---|
| REVENUE | 5 | 541,073 | 494,117 |
| COST OF SERVICES | 6 | (220,739) | (252,664) |
| **GROSS PROFIT** | | **320,334** | **241,453** |
| Selling, general and administrative expenses | 7 | (39,850) | (39,937) |
| Gain on disposal of property, plant and equipment | 10 | 37 | 257 |
| Impairment of property, plant and equipment | | - | (2,757) |
| **OPERATING PROFIT** | | **280,521** | **199,016** |
| Interest income | | 3,997 | 2,253 |
| Finance costs | 8 | (93,564) | (69,169) |
| Share of (loss)/profit in joint venture, net | 13 | (3,220) | 1,436 |
| Foreign exchange (loss)/gain, net | | (14,009) | 143,384 |
| Other income, net | | 631 | 2,066 |
| **PROFIT BEFORE INCOME TAX** | | **174,356** | **278,986** |
| Income tax expense | | (33,307) | (56,514) |
| **PROFIT FOR THE PERIOD** | | **141,049** | **222,472** |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | | |
| Effect of translation to presentation currency | | (26,331) | 85,519 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **114,718** | **307,991** |
| Profit for the period attributable to: | | | |
| Equity shareholders of the parent company | | 137,561 | 221,088 |
| Non-controlling interests | | 3,488 | 1,384 |
| | | **141,049** | **222,472** |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the parent company | | 111,941 | 304,533 |
| Non-controlling interests | | 2,777 | 3,458 |
| | | **114,718** | **307,991** |
| Weighted average number of ordinary shares outstanding | | 18,743,128,904 | 19,173,700,984 |
| BASIC AND DILUTED EARNINGS PER SHARE (US Dollars) | | 0.0073 | 0.0115 |

**R. Antolovic**
Chief Executive Officer

**A.V. Vishchanenko**
Chief Financial Officer

21 September 2012

The notes on pages 7 to 27 are an integral part of these interim condensed consolidated financial statements.

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

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### AS AT 30 JUNE 2012 (UNAUDITED)
***(in thousands of US Dollars)***

| | Notes | 30 June 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 10 | 1,918,523 | 1,967,938 |
| Goodwill | 11 | 1,462,863 | 1,491,070 |
| Mooring rights | | 7,554 | 7,980 |
| Investments in securities and other financial assets | 12 | 34,170 | 34,842 |
| Investment in joint venture | 13 | 5,910 | 9,425 |
| Spare parts | | 5,760 | 5,007 |
| Deferred tax assets | | 5,889 | 7,318 |
| Other intangible assets | | 1,429 | 1,593 |
| Other non-current assets | | 4,297 | 13,971 |
| | | 3,446,395 | 3,539,144 |
| CURRENT ASSETS: | | | |
| Inventories | | 9,098 | 11,258 |
| Advances to suppliers | | 6,230 | 2,991 |
| Trade and other receivables, net | 14 | 45,497 | 47,796 |
| VAT recoverable and other taxes receivable | | 21,052 | 41,132 |
| Income tax receivable | | 30,445 | 41,209 |
| Investments in securities and other financial assets | 12 | 9,138 | 21,833 |
| Cash and cash equivalents | 15 | 150,153 | 127,522 |
| | | 271,613 | 293,741 |
| **TOTAL ASSETS** | | **3,718,008** | **3,832,885** |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY: | | | |
| Share capital | | 10,471 | 10,471 |
| Treasury shares | | (281) | (281) |
| Foreign currency translation reserve | | (129,261) | (103,641) |
| Retained earnings | | 1,155,229 | 1,032,044 |
| Equity attributable to shareholders of the parent company | | **1,036,158** | **938,593** |
| Non-controlling interests | | 28,355 | 25,582 |
| TOTAL EQUITY | | **1,064,513** | **964,175** |
| NON-CURRENT LIABILITIES: | | | |
| Long-term debt | 16 | 2,190,577 | 2,113,843 |
| Cross-currency and interest rate swap liability | 17 | 18,784 | - |
| Defined benefit obligation | | 7,300 | 7,286 |
| Deferred tax liabilities | | 262,037 | 266,907 |
| Other non-current liabilities | | 997 | 2,864 |
| | | 2,479,695 | 2,390,900 |
| CURRENT LIABILITIES: | | | |
| Current portion of long-term debt | 16 | 89,227 | 392,413 |
| Trade and other payables | | 23,205 | 18,251 |
| Advances received from customers | | 26,220 | 47,442 |
| Taxes payable | | 5,537 | 4,292 |
| Income tax payable | | 4,501 | 4,034 |
| Accrued expenses | | 25,110 | 11,378 |
| | | 173,800 | 477,810 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,718,008** | **3,832,885** |

The notes on pages 7 to 27 are an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE SIX MONTHS ENDED 30 JUNE 2012 (UNAUDITED)**
***(in thousands of US Dollars)***

| | | Attributable to shareholders of the parent company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital | Treasury shares | Share premium | Foreign currency translation reserve | Retained earnings | Total | Non-controlling interests | Total |
| **At 1 January 2011** | | **10,471** | **-** | **9,255** | **(50,685)** | **996,330** | **965,371** | **23,927** | **989,298** |
| Profit for the period | | - | - | - | - | 221,088 | **221,088** | 1,384 | **222,472** |
| Effect of translation to presentation currency | | - | - | - | 83,445 | - | **83,445** | 2,074 | **85,519** |
| Total comprehensive income for the period | | - | - | - | 83,445 | 221,088 | **304,533** | 3,458 | **307,991** |
| Buy-back of shares | | - | (281) | (9,255) | - | (79,042) | **(88,578)** | - | **(88,578)** |
| Dividends | 9 | - | - | - | - | (15,060) | **(15,060)** | (1) | **(15,061)** |
| **At 30 June 2011** | | **10,471** | **(281)** | **-** | **32,760** | **1,123,316** | **1,166,266** | **27,384** | **1,193,650** |
| **At 1 January 2012** | | **10,471** | **(281)** | **-** | **(103,641)** | **1,032,044** | **938,593** | **25,582** | **964,175** |
| Profit for the period | | - | - | - | - | 137,561 | **137,561** | 3,488 | **141,049** |
| Effect of translation to presentation currency | | - | - | - | (25,620) | - | **(25,620)** | (711) | **(26,331)** |
| Total comprehensive income for the period | | - | - | - | (25,620) | 137,561 | **111,941** | 2,777 | **114,718** |
| Dividends | 9 | - | - | - | - | (14,376) | **(14,376)** | (4) | **(14,380)** |
| **At 30 June 2012** | | **10,471** | **(281)** | **-** | **(129,261)** | **1,155,229** | **1,036,158** | **28,355** | **1,064,513** |

The notes on pages 7 to 27 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 2012 (UNAUDITED)
***(in thousands of US Dollars)***

| | Notes | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash from operations | 19 | 332,425 | 246,194 |
| Income tax paid | | (19,643) | (66,108) |
| Interest paid | | (74,515) | (67,688) |
| **Net cash generated by operating activities** | | **238,267** | **112,398** |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property, plant and equipment | | 695 | 759 |
| Purchases of property, plant and equipment | | (20,669) | (41,121) |
| Proceeds from investments in securities and other financial assets | | 298,073 | 120,083 |
| Purchases of investments in securities and other financial assets | | (281,418) | (101,843) |
| Acquisition of subsidiaries, net of cash acquired | | - | (2,100,577) |
| Interest received | | 2,803 | 3,179 |
| Purchases of other intangible assets | | (313) | (344) |
| **Net cash used in investing activities** | | **(829)** | **(2,119,864)** |
| **Cash flows from financing activities** | | | |
| Repayments of loans and borrowings | | (343,140) | (63,935) |
| Proceeds from loans and borrowings | | 130,533 | 1,938,300 |
| Dividends paid | | (20) | (93) |
| Payment for buy-back of shares | | - | (88,448) |
| Payment for shares buy-back costs | | - | (130) |
| **Net cash (used in)/generated by financing activities** | | **(212,627)** | **1,785,694** |
| **Net increase/(decrease) in cash and cash equivalents** | | **24,811** | **(221,772)** |
| Cash and cash equivalents at the beginning of the period | 15 | 127,522 | 265,017 |
| Effect of translation into presentation currency on cash and cash equivalents | | (2,180) | 5,004 |
| **Cash and cash equivalents at the end of the period** | | **150,153** | **48,249** |

The notes on pages 7 to 27 are an integral part of these interim condensed consolidated financial statements.

## 1. GENERAL INFORMATION

### Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP") was founded in 1845. NCSP was transformed from a state-owned enterprise to a PJSC in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. The principal activities and significant entities of the Group as at 30 June 2012 were as follows:

| Significant Subsidiaries | Nature of business |
|---|---|
| LLC Primorsk Trade Port | Stevedoring and additional port services |
| PJSC Novorossiysk Grain Terminal | Stevedoring and additional port services |
| OJSC Novoroslesexport | Stevedoring and additional port services |
| OJSC IPP | Stevedoring and additional port services |
| OJSC Novorossiysk Shipyard | Stevedoring and marine vessels repair services |
| LLC Baltic Stevedore Company | Stevedoring and additional port services |
| PJSC Fleet Novorossiysk Commercial Sea Port | Tug and towing services and bunkering |
| CJSC SoyuzFlot Port | Tug and towing services |

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 has the main cargo-loading district, the Sheskharis oil terminal, the technical support base and the passenger terminal in Novorossiysk. NCSP has eight significant subsidiaries, the primary activities of which are as follows:

#### *LLC Primorsk Trade Port ("PTP")*

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

#### *PJSC Novorossiysk Grain Terminal ("Grain Terminal")*

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

#### *OJSC Novoroslesexport ("Novoroslesexport")*

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

#### *OJSC IPP ("IPP")*

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

#### *OJSC Novorossiysk Shipyard ("Shipyard")*

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

***LLC Baltic Stevedore Company ("BSC")***

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

***PJSC Fleet Novorossiysk Commercial Sea Port ("Fleet")***

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

***CJSC SoyuzFlot Port ("SFP")***

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

**Golden Share**

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

**Going concern assumption**

The accompanying unaudited 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 unaudited interim condensed consolidated financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements as of and for the year ended 31 December 2011 and in compliance with the requirements of International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These financial statements do not include all of the information required for disclosure in annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements as of and for the year ended 31 December 2011. 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)*

## 2. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies applied in the interim condensed consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2011.

### Standards and Interpretations issued but not yet adopted

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 periods annual periods beginning on or after |
|---|---|
| • IFRS 7 "Financial Instruments: Disclosures" | |
| - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities | 1 January 2013 |
| - Amendments requiring disclosures about the initial application of IFRS 9 | 1 January 2015 |
| • IFRS 9 "Financial Instruments" | 1 January 2013 |
| • IFRS 10 "Consolidated Financial Statements" – New standard published in May 2011 | 1 January 2013 |
| • IFRS 11 "Joint Arrangements" – New standard published in May 2011 | 1 January 2013 |
| • IFRS 12 "Disclosure of Interests in Other Entities" – New standard published in May 2011 | 1 January 2013 |
| • IFRS 13 "Fair Value Measurement" – New standard published in May 2011 | 1 January 2013 |
| • IAS 1 "Presentation of financial statements" – Amendment to revise the presentation of other comprehensive income | 1 July 2012 |
| • IAS 19 "Employee Benefits" – Amendment regarding post-employment and termination benefits | 1 July 2013 |
| • IAS 27 "Consolidated and Separate Financial Statements" – Amendments to modify the consolidation principles in accordance with IFRS 10 | 1 January 2013 |
| • IAS 28 "Investments in Associates" – Amendment to reissue as "Investments in Associates and Joint Ventures" | 1 January 2013 |
| • IAS 32 "Financial Instruments: Presentation" – Amendments to application guidance on the offsetting of financial assets and financial liabilities | 1 January 2014 |

### Functional and presentation currency

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

*(in thousands of US Dollars)*

### Exchange rates

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

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Period-end rates | | |
| RUR / 1 USD | 32.8169 | 32.1961 |
| RUR / 1 EUR | 41.3230 | 41.6714 |

| | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|
| Average for the period | | |
| RUR / 1 USD | 30.6390 | 28.6242 |
| RUR / 1 EUR | 39.7436 | 40.1647 |

## 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 unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2011.

### Reclassifications

Certain comparative information, presented in the interim condensed consolidated financial statements for the six months ended 30 June 2011, has been reclassified in order to achieve comparability with the presentation used in the interim condensed consolidated financial statements for the six months ended 30 June 2012.

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

### Valuation of financial instruments

As described in Note 17, the Group uses valuation techniques that include inputs that are based on observable market data to estimate the fair value of certain types of financial instruments. Note 17 provides detailed information about the key assumptions used in the determination of the fair value of  cross-currency and interest rate swap, as well as the detailed sensitivity analysis for these assumptions. The management believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

***(in thousands of US Dollars)***

## 4. SEGMENT INFORMATION

As at 1 January, 2011, management changed the structure of its internal organisation such that the Group's operations are now managed under three reportable segments by type of service: stevedoring services and additional port services; fleet services; and other services mainly comprised of rent, resale of energy and utilities to external customers (which individually do not constitute separate reportable segments). Substantially all of the Group's operations are located within the Russian Federation. All segments have different segment managers responsible for each segment's operations. The chief operating decision maker (the Board of Directors) is responsible for allocating resources to and assessing the performance of each segment of the business.

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

### Segment revenue and segment results

The segment revenue and results for the six months ended 30 June 2012 and 30 June 2011 are as follows:

| | **Segment revenue** | | **Inter-segments sales** | | **Segment profit** | |
|---|---|---|---|---|---|---|
| | **Six months ended** | | **Six months ended** | | **Six months ended** | |
| | **30 June 2012** | **30 June 2011** | **30 June 2012** | **30 June 2011** | **30 June 2012** | **30 June 2011** |
| Stevedoring and additional services | 482,083 | 442,187 | 3,295 | 4,912 | 250,151 | 175,962 |
| Fleet services | 51,572 | 44,354 | 2,644 | 2,574 | 27,999 | 20,062 |
| Other services | 7,418 | 7,576 | 7,135 | 7,408 | 8,782 | 8,172 |
| **Total reportable segments** | **541,073** | **494,117** | **13,074** | **14,894** | **286,932** | **204,196** |
| Adjustments and eliminations (see following table) | | | | | (112,576) | 74,790 |
| **Consolidated profit before income tax** | | | | | **174,356** | **278,986** |

During the six months ended 30 June 2012 and 30 June 2011, revenue from BIG PORT SERVICE of 75,649 and PORATH SERVICES LIMITED of 112,878, respectively, represents more than 10% of revenue included in the stevedoring and additional services segment. Management of the Group believes that it adequately manages the corresponding possible credit risk.

***(in thousands of US Dollars)***

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

| | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|
| **Total segment profit** | **286,932** | **204,196** |
| Unallocated amounts: | | |
| Impairment of property, plant and equipment | - | (2,757) |
| Gain on disposal of property, plant and equipment | 37 | 257 |
| Defined benefit obligation expense | (162) | (307) |
| Differences between Russian statutory accounts and IFRS: | | |
| Bank commission | (469) | 12,227 |
| Depreciation and amortisation | (9,705) | (10,870) |
| Repairs and maintenance | 2,265 | 1,004 |
| Professional services | 779 | 915 |
| Change in allowance for doubtful receivables | - | (4,063) |
| Intercompany purchases of property, plant and equipment | - | (2,934) |
| Other | 844 | 1,348 |
| **Operating profit** | **280,521** | **199,016** |
| Interest income | 3,997 | 2,253 |
| Finance costs | (93,564) | (69,169) |
| Share of (loss)/profit in joint venture,net | (3,220) | 1,436 |
| Foreign exchange (loss)/gain, net | (14,009) | 143,384 |
| Other income, net | 631 | 2,066 |
| **Profit before income tax** | **174,356** | **278,986** |

**Other segment information**

| | Depreciation and amortisation charge | | Capital expenditures | |
|---|---|---|---|---|
| | Six months ended | | Six months ended | |
| | 30 June 2012 | 30 June 2011 | 30 June 2012 | 30 June 2011 |
| Stevedoring and additional services | 31,427 | 30,689 | 26,007 | 40,517 |
| Fleet services | 3,324 | 2,078 | 69 | 1,201 |
| Other services | 2,759 | 4,503 | 368 | 521 |
| **Total reportable segments** | **37,510** | **37,270** | **26,444** | **42,239** |
| Adjustments and eliminations | 3,110 | 3,290 | 776 | 1,202 |
| **Consolidated** | **40,620** | **40,560** | **27,220** | **43,441** |

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid in the period (Note 10).

***(in thousands of US Dollars)***

### Geographical information

The Group's entities operate in different geographical regions. The following primary geographical locations were identified to demonstrate the financial results of the Group by region to the users of financial statements: Novorossiysk, Primorsk and Baltiysk (assuming the anticipated growth in this location).

The Group's revenue from external customers by geographical location (area where services rendered) is as follows:

| **Revenue** | **Six months ended 30 June 2012** | **Six months ended 30 June 2011** |
|---|---|---|
| Novorossiysk | 401,652 | 363,246 |
| Primorsk | 130,845 | 122,874 |
| Baltiysk | 7,334 | 6,767 |
| Other | 1,242 | 1,230 |
| **Total** | **541,073** | **494,117** |

## 5. REVENUE

| | **Six months ended 30 June 2012** | **Six months ended 30 June 2011** |
|---|---|---|
| Stevedoring services | 434,935 | 399,444 |
| Additional port services | 47,148 | 42,743 |
| Fleet services | 51,572 | 44,354 |
| Other | 7,418 | 7,576 |
| **Total** | **541,073** | **494,117** |

## 6. COST OF SERVICES

| | **Six months ended 30 June 2012** | **Six months ended 30 June 2011** |
|---|---|---|
| Fuel | 78,144 | 116,098 |
| Depreciation and amortisation | 38,631 | 38,388 |
| Personnel expenses | 35,059 | 32,636 |
| Rent | 33,607 | 32,212 |
| Repairs and maintenance | 9,779 | 6,481 |
| Taxes directly attributable to salaries | 9,433 | 10,078 |
| Raw materials | 5,043 | 3,525 |
| Subcontractors | 4,960 | 6,213 |
| Energy and utilities | 4,290 | 4,892 |
| Defined benefit obligation expense | 451 | 596 |
| Insurance | 358 | 116 |
| Other | 984 | 1,429 |
| **Total** | **220,739** | **252,664** |

*(in thousands of US Dollars)*

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

| | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|
| Personnel expenses | 19,416 | 14,712 |
| Taxes other than income tax | 4,349 | 7,282 |
| Taxes directly attributable to salaries | 3,636 | 2,907 |
| Security services | 2,199 | 2,435 |
| Depreciation and amortisation | 1,989 | 2,172 |
| Charitable donations | 1,406 | 1,142 |
| Change in allowance for doubtful receivables | 1,152 | 2,833 |
| Professional services | 849 | 1,209 |
| Rent | 741 | 326 |
| Travel and representation expenses | 700 | 833 |
| Bank charges | 671 | 1,124 |
| Repairs and maintenance | 543 | 490 |
| Raw materials | 450 | 466 |
| Other | 1,749 | 2,006 |
| **Total** | **39,850** | **39,937** |

## 8. FINANCE COSTS

| | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|
| Interest on loans and borrowings | 73,445 | 69,169 |
| Loss on cross-currency and interest rate swap | 20,119 | - |
| **Total** | **93,564** | **69,169** |

The swap liability is recognised in statement of financial position as a cross-currency and interest rate swap liability (Note 17).

## 9. DIVIDENDS

During the first six months ended 30 June 2012, NCSP declared dividends for the year ended 31 December 2011 in the amount of 14,376 (0.0008 USD per 1 share).

During the first six months ended 30 June 2011, NCSP declared dividends for the year ended 31 December 2010 in the amount of 15,060 (0.0008 USD per 1 share).

## 10. PROPERTY, PLANT AND EQUIPMENT

On 1 January 2012 and 1 January 2011, the net book value of assets of the Group amounted to 1,967,938 and 563,839, respectively. During the six months ended 30 June 2012 and 30 June 2011, the Group acquired assets at a cost of 27,220 and 43,441, respectively, (excluding property, plant and equipment acquired through a business combination). During the same period, the Group disposed of assets with a net book value of 659 and 503, respectively, resulting in a net gain on disposal of 37 and 257, respectively.

For the six months ended 30 June 2012 and 30 June 2011, depreciation expense amounted to 39,869 and 39,865, respectively, accumulated depreciation relating to assets that were disposed of amounted to 2,523 and 2,204, respectively.

***(in thousands of US Dollars)***

As at 30 June 2012 construction in progress was 69,133 (31 December 2011: 73,931).

During the six months ended 30 June 2012, no interest expense was capitalised. The total amount of capitalised interest expenses for the six months ended 30 June 2011 amounted to 563.

As at 30 June 2012 and as at 30 June 2011 the net book value of assets of the Group amounted to 1,918,523 and 2,232,786, respectively.

## 11. GOODWILL

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Cost | 1,465,734 | 1,493,996 |
| Accumulated impairment loss | (2,871) | (2,926) |
| **Carrying amount** | **1,462,863** | **1,491,070** |

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| **Cost** | | |
| Balance at the beginning of the period | 1,493,996 | 394,710 |
| Acquired through business combinations | - | 1,205,806 |
| Effect of translation into presentation currency | (28,262) | (106,520) |
| **Balance at the end of the period** | **1,465,734** | **1,493,996** |
| | | |
| **Accumulated impairment loss** | | |
| Balance at the beginning of the period | (2,927) | (3,092) |
| Effect of translation into presentation currency | 56 | 166 |
| **Balance at the end of the period** | **(2,871)** | **(2,926)** |

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

| | Carrying amount | |
|---|---|---|
| | 30 June 2012 | 31 December 2011 |
| **Stevedoring and additional services segment:** | | |
| PTP | 748,106 | 762,531 |
| Grain Terminal | 144,694 | 147,484 |
| Novoroslesexport | 116,769 | 119,021 |
| IPP | 25,169 | 25,654 |
| Shipyard | 11,395 | 11,614 |
| BSC | 2,604 | 2,655 |
| | | |
| **Fleet services segment:** | | |
| SFP | 351,063 | 357,832 |
| Fleet | 65,934 | 67,205 |
| **Total** | **1,465,734** | **1,493,996** |

Delay in the railway construction to port Primorsk which was caused by reasons beyond control of the Group led to the shift in the expected date of transshipment of the oil products from 2013 to 2015 year. It resulted in the decrease of the expected oil products transshipment forecasts used in the financial model. Based on that fact Management of the Group performed the impairment test as of 30 June 2012.

*(in thousands of US Dollars)*

For the purpose of impairment testing as at 30 June 2012, management of the Group estimated the recoverable amount of PTP cash-generating unit.

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

The most significant estimates and assumptions used by management in the value in use calculations on 30 June 2012 are as follows:

- Cash flows were projected based on the budgeted figures for the period from 2012 to 2016;
- Cash flow projections were prepared in RUR and based on long-term price trends both for sales prices and material costs, specific to operating segment and geographic region;
- Cash flow projections were prepared based on RUR/USD currency rates projections from the Economist Intelligence Unit for each respective year;
- Cash flows beyond that five-year period have been extrapolated using a steady 2.2% per annum growth rate; and
- Discount rate of 9.77% was applied for cash-generating unit and was estimated in nominal terms using the weighted average cost of capital basis.

The inflation rates used for the cash flow projections are as follows:

| **Year** | **Inflation expectations, %** |
|---|---|
| 2012 | 5.1 |
| 2013 | 5.9 |
| 2014 | 5.2 |
| 2015 | 5.1 |
| 2016 | 5.1 |
| Thereafter | 3.0 |

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

Based on the value in use calculation prepared to calculate the recoverable amount, no impairment was recognised on 30 June 2012.

Based on management's projections, a 10% decrease of the budgeted cash flows would cause the PTP carrying value to exceed its recoverable amount by 75,859.

*(in thousands of US Dollars)*

## 12. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

| Financial assets carried at amortised cost | 30 June 2012 | 31 December 2011 |
|---|---|---|
| **Current** | | |
| Deposits | 6,691 | 18,976 |
| Loans issued | 2,447 | 2,857 |
| **Total current** | **9,138** | **21,833** |
| **Non-current** | | |
| Loans issued and other financial assets | 34,170 | 34,842 |
| **Total non-current** | **34,170** | **34,842** |

Short-term deposits placed in Russian Agricultural Bank consist of short-term deposits denominated in RUR with an interest rate of 5.58% per annum and short-term deposits denominated in USD with an interest rate of 0.80% per annum. Short-term deposits placed in Raiffeisenbank consist of short-term deposits denominated in USD with an interest rate of 3.08% per annum.

Current loans issued in RUR include short-term loans given to employees of the Group and to other related parties with interest rates varying from 5% to 8% per annum.

Non-current loans issued and other financial assets consist of long-term loans to third parties and other related parties, including long-term loans denominated in USD to LLC Novorossiysk Fuel Oil Terminal (“LLC NFT”), a joint venture created in 2009 (Note 13), in the amount of 5,000 maturing in January 2019 with an interest rate of 7% per annum, in the amount of 14,600 maturing in August 2019 with an interest rate of 7% per annum and in the amount of 13,300 maturing in December 2019 with an interest rate of 7% per annum each to be paid on the last day of the granted period. Other long-term loans are denominated in USD with an interest rate of 5% per annum and in RUR with an interest rate 7% per annum.

## 13. INVESTMENT IN JOINT VENTURE

LLC NFT is a fuel oil terminal with expected transshipment capacity of four million tons per year. The Group’s share in the financial results of the joint venture for the six months ended 30 June 2012 and 30 June 2011 amounted to (3,220) and 1,436, respectively.

In May-June 2012, LLC NFT provided stevedoring services through the newly introduced facilities in test mode. Revenue from services amounted to 622.

| | Ownership % held | |
|---|---|---|
| **Joint venture** | **30 June 2012** | **31 December 2011** |
| LLC NFT | 50.00% | 50.00% |

***(in thousands of US Dollars)***

Summarised financial information of LLC NFT is represented below:

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Current assets | 7,492 | 14,993 |
| Non-current assets | 163,978 | 145,290 |
| **Total assets** | **171,470** | **160,283** |
| Current liabilities | (36,686) | (38,754) |
| Non-current liabilities | (120,362) | (100,700) |
| **Total liabilities** | **(157,048)** | **(139,454)** |
| **Net assets** | **14,422** | **20,829** |
| **Group's share of joint venture net assets** | **7,211** | **10,415** |
| Elimination of unrealised profit for the current period | (330) | (990) |
| Elimination of unrealised profit for the last period | (971) | - |
| **Carrying value of investment** | **5,910** | **9,425** |

Loans issued to LLC NFT in the total amount of 32,900 are dicslosed in Note 12.

## 14. TRADE AND OTHER RECEIVABLES, NET

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Trade accounts receivable (RUR) | 26,802 | 25,598 |
| Trade accounts receivable (USD) | 16,722 | 19,222 |
| Trade accounts receivable (EUR) | 56 | 58 |
| Other receivables and prepayments | 5,371 | 5,628 |
| Interest receivables | 1,290 | 1,069 |
| Less: Allowance for doubtful receivables | (4,744) | (3,779) |
| **Total** | **45,497** | **47,796** |

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

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| **As at beginning of the period** | **3,779** | **2,841** |
| Recognised in the statement of comprehensive income | 1,152 | 1,289 |
| Amount recovered during the period | (42) | (96) |
| Effect of translation into presentation currency | (145) | (255) |
| **As at end of the period** | **4,744** | **3,779** |

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

*(in thousands of US Dollars)*

## 15. CASH AND CASH EQUIVALENTS

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Bank deposits in USD | 70,342 | 74,320 |
| Bank deposits in RUR | 61,924 | 24,132 |
| Bank deposits in EUR | - | 2 |
| Current accounts in USD | 9,881 | 4,018 |
| Current accounts in RUR | 7,893 | 25,013 |
| Current accounts in EUR | 89 | 13 |
| Cash in hand | 24 | 24 |
| **Total** | **150,153** | **127,522** |

Bank deposits as at 30 June 2012 mainly represent deposits with Sberbank, Russian Agricultural Bank, VTB bank and Raiffeisenbank with an original maturity of three months or less.

Bank deposits with an original maturity of three months or less, placed in Raiffeisenbank, are represented by deposits denominated in RUR with interest rates varying from 5.80% to 7.20% per annum and deposits denominated in USD with interest from 1.56% to 3.13% per annum. Deposits denominated in RUR, placed in Sberbank, are represented by deposits with interest rates varying from 2.96% to 6.60% per annum, in USD with interest from 0.03% to 1.12% per annum. VTB Bank charges interest on deposits denominated in RUR with an original maturity of three months or less in a range from 6.10% to 6.95%. Deposits denominated in RUR are placed in Russian Agricultural Bank with an interest rate 5.58%.

## 16. DEBT

| | Interest rate | Maturity date | 30 June 2012 | 31 December 2011 |
|---|---|---|---|---|
| ***Unsecured borrowings*** | | | | |
| Loan Participation Notes (USD) | 7% | May 2012 | - | 302,241 |
| Rouble bonds (RUR) | 9.0% | April 2015 | 123,336 | - |
| ***Unsecured bank loans (RUR)*** | | | | |
| Sberbank | 8.5% | November 2014 | 204,476 | 250,908 |
| Sberbank | 8.5% | November 2014 | 7,627 | 9,331 |
| **Total unsecured borrowings** | | | **335,439** | **562,480** |
| ***Secured bank loans (USD)*** | | | | |
| Sberbank | LIBOR 3M + 4.85% | January 2018 | 1,944,365 | 1,943,776 |
| **Total debt** | | | **2,279,804** | **2,506,256** |
| Current portion of long-term borrowings | | | (89,227) | (392,413) |
| **Total non-current debt** | | | **2,190,577** | **2,113,843** |

**Sberbank**

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

- The term of the facility is seven years;
- Ffloating interest rate of LIBOR 3M + 4.85% per annum is applied during the first three years of the loan;
- Fixed interest rate of 7.48% is applied during the remaining four years of the loan;
- A lump sum commission of 11,700 (or 0.6%) was payable for the receipt of the loan;
- No principal is due for the first 36 calendar months from the date of the loan agreement (“the grace period”), after which the principal amount of the loan is to be paid by equal quarterly instalments;
- The loan is secured by a pledge of 50.1% of NCSP 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 debt to earnings before interest, income taxes, depreciation and amortization ratio, and reduction of NCSP’s share price, etc).

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

**Loan Participation Notes**

On 17 May 2007, the Group, through a newly formed special purpose entity, Novorossiysk Port Capital S.A., issued 7% loan participation notes due in May 2012 (the “Loan Participation Notes”) in an aggregate principal amount of 300,000.

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

**Rouble bonds**

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

As at 30 June 2012, the average effective borrowing rate relating to the Group’s debt was 5.83% per annum (31 December 2011: 5.73% per annum).

***(in thousands of US Dollars)***

The Group borrowings as of 30 June 2012 are repayable as follows:

| | Principal amount | Contractual interest liability | Total |
|---|---|---|---|
| Due within three months | 20,637 | 30,677 | 51,314 |
| Due from three to six months | 21,247 | 35,420 | 56,667 |
| Due from six months to twelve months | 42,493 | 64,341 | 106,834 |
| | **84,377** | **130,438** | **214,815** |
| Between 1 and 2 years | 325,684 | 140,849 | 466,533 |
| Between 2 and 5 years | 1,621,916 | 245,222 | 1,867,138 |
| Over 5 years | 242,976 | 7,594 | 250,570 |
| **Total** | **2,274,953** | **524,103** | **2,799,056** |

The contractual interest liability for future periods for variable rate borrowings was calculated based on the average effective borrowing rate relating to the Group's variable rate borrowings as of 30 June 2012 of 5.32%.

## 17. CROSS-CURRENCY AND INTEREST RATE SWAP LIABILITY

On 4 May 2012 in conjunction with the placement of the bond tranche BO-02 the Group entered into cross-currency and interest rate swap agreement with Closed Joint-Stock Company "Bank Credit Suisse (Moscow)" in which the Group agreed to pay USD 3.85% interest rate per annum based on notional of USD 135 million, in the exchange of Russian rouble 9% interest rate per annum based on notional of Russian rouble 4 billion over 3 years and to exchange USD 135 million for Russian rouble 4 billion at maturity of the bond tranche.

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

The fair value measurement is based on the applicable forward curves as determined based on the foreign currencies, interest rates and settlement dates of the swap contract. The discount rates were based on a zero coupon yield curve. The Group cannot determine the impact of the credit risk on measurement of the fair value of swap. Change in the fair value of swap is primarily due to the appreciation of USD forward rates against the rouble during the period (Note 8). As the fair value measurement is based on the inputs derived from quoted prices, the instrument is classified as Level 2 in the fair value hierarchy.

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

| Settlement dates (DD.MM.YYYY) | Expected rate, RUR / 1 USD | Discount rate, % |
|---|---|---|
| 31.10.2012 | 33.83 | 0.46 |
| 01.05.2013 | 34.88 | 0.48 |
| 30.10.2013 | 35.94 | 0.52 |
| 30.04.2014 | 37.00 | 0.54 |
| 29.10.2014 | 38.09 | 0.58 |
| 29.04.2015 | 39.19 | 0.62 |

*(in thousands of US Dollars)*

The table below details the Group's sensitivity to depreciation and appreciation of currency exchage rates used in the fair value measurement (the Russian Rouble against the US Dollar by 3 roubles).

| | 30 June 2012 | |
|---|---|---|
| | **Depreciation by 3 roubles** | **Appreciation by 3 roubles** |
| (Loss)/gain from cross-currency and interest rate swap | (9,370) | 10,957 |

## 18. RELATED PARTY TRANSACTIONS

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

Given that the Federal Agency of the Russian Federation owns a 20% interest in NCSP, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. During the six months ended 30 June 2012 and 30 June 2011, the Group transacted with Sberbank, Russian Agricultural Bank, VTB bank, Rosneft, various military divisions of the Russian Federation, Russian Railways, and other state-controlled entities.

Transactions with state-controlled entities:

| | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|
| **Sales and income received from related parties** | | |
| Sales and income received from related parties | 54,442 | 51,389 |
| Interest income | 1,982 | 1,499 |
| **Purchases from related parties** | | |
| Services rendered and materials received | 16,614 | 40,317 |
| Finance costs | 63,063 | 57,755 |

Balances with state-controlled entities:

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash and cash equivalents | 139,203 | 50,034 |
| Deposits with related parties | 17 | 4,840 |
| **Receivables from related parties** | | |
| Trade and other receivables | 4,502 | 7,929 |
| Advances to suppliers | 695 | 437 |
| **Payables to related parties** | | |
| Trade and other payables | 73 | 1,045 |
| Advances received from customers | 1,635 | 2,080 |
| **Financial debt to related parties** | | |
| Long-term debt | 2,069,011 | 2,113,843 |
| Current portion of long-term debt | 87,457 | 90,172 |

***(in thousands of US Dollars)***

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

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

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

NCSP and its subsidiaries in the ordinary course of business enter into various sales, purchases and service transactions with related parties, including LLC NFT (Note 13), OJSC Transneft and its subsidiaries, etc.

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

Transactions with joint venture:

| | **Six months ended 30 June 2012** | **Six months ended 30 June 2011** |
|---|---|---|
| **Sales and income received from related parties** | | |
| Sales and income received from related parties | 116 | 61 |
| Interest income | 789 | 499 |

Balances with joint venture:

| | **30 June 2012** | **31 December 2011** |
|---|---|---|
| **Receivables from related parties** | | |
| Trade and other receivables | 6 | 6 |
| Long-term loans given to related parties and interest receivable | 36,800 | 35,655 |
| **Payables to related parties** | | |
| Advances received from customers | 204 | 3 |

Transactions with other related parties:

| | **Six months ended 30 June 2012** | **Six months ended 30 June 2011** |
|---|---|---|
| **Sales and income received from related parties** | | |
| Sales and income received from related parties | 45,827 | 43,842 |
| Interest income | 131 | 110 |
| **Purchases from related parties** | | |
| Services rendered and materials received | 28,539 | 28,153 |
| Capital expenditures | - | 8 |

*(in thousands of US Dollars)*

Balances with other related parties:

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| **Receivables from related parties** | | |
| Trade and other receivables | 996 | 2,917 |
| Advances to suppliers | 2,496 | 62 |
| Short-term loans to related parties and interest receivable | 2,852 | 3,353 |
| Long-term loans to related parties and interest receivable | 1,264 | 2,530 |
| **Payables to related parties** | | |
| Trade and other payables | 13,256 | 2,154 |
| Advances received from customers | 10,494 | 14,700 |

### Compensation of key management personnel

For the six months ended 30 June 2012 and 30 June 2011, the remuneration of the directors and other members of key management was 8,977 (including termination benefits in amount of 678) and 4,944, respectively, which represented short-term employee benefits.

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

## 19. CASH FLOWS FROM OPERATING ACTIVITIES

| | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|
| **Profit for the period** | **141,049** | **222,472** |
| Adjustments for: | | |
| Depreciation and amortisation | 40,620 | 40,560 |
| Finance costs | 93,564 | 69,169 |
| Profit on disposal of property, plant and equipment | (37) | (257) |
| Impairment of property, plant and equipment | - | 2,757 |
| Foreign exchange loss/(gain), net | 14,009 | (143,384) |
| Income tax expense | 33,307 | 56,514 |
| Change in retirement benefit obligation | 162 | 307 |
| Interest income | (3,997) | (2,253) |
| Change in allowance for doubtful receivables | 1,152 | 2,833 |
| Change in allowance for spare parts and slow-moving inventories | 52 | (38) |
| Share of loss/(profit) in joint venture, net | 3,220 | (1,436) |
| Other adjustments | 81 | (117) |
| | 323,182 | 247,127 |
| Working capital changes: | | |
| Decrease/(increase) in inventories | 1,118 | (2,148) |
| Decrease/(increase) in trade and other receivables | 21,454 | (51,103) |
| (Decrease)/increase in trade and other payables and accruals | (13,329) | 52,318 |
| **Cash flows generated from operating activities** | **332,425** | **246,194** |

## 20. COMMITMENTS AND CONTINGENCIES

### Proceedings

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

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

### Taxation contingencies in the Russian Federation

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

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

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

### Russian Federation risk

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. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russian Federation and the Russian Federation's economy in general.

Laws and regulations affecting businesses in Russian Federation continue to change rapidly. Tax, currency and customs legislation within Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russian Federation. The future economic direction of Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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

Because the Russian Federation produces and exports large volumes of oil and gas, the Russian Federation's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during the six months ended 30 June 2012 and the year ended 31 December 2011.

*(in thousands of US Dollars)*

### Environmental matters

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

### Insurance

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

### Operating lease arrangements

Operating lease arrangements relate to the lease of land, mooring installation and vessels from the Russian State and related parties. These arrangements have lease terms between 5 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

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

| | 30 June 2012 |
|---|---|
| Within 1 year | 69,714 |
| Between 1 and 2 years | 65,829 |
| Between 2 and 3 years | 65,121 |
| Between 3 and 4 years | 65,082 |
| Between 4 and 5 years | 61,685 |
| Thereafter | 1,032,171 |
| **Total** | **1,359,602** |

## 21. CAPITAL COMMITMENTS

At 30 June 2012, the Group had the following commitments for the acquisition of property, plant and equipment and construction works at:

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| IPP | 8,218 | 8,366 |
| NCSP | 8,178 | 8,062 |
| PTP | 2,688 | 49 |
| Grain Terminal | 2,111 | - |
| Novoroslesexport | 1,776 | 1,992 |
| BSC | 1,095 | - |
| Shipyard | 723 | 211 |
| **Total** | **24,789** | **18,680** |

The above commitments were entered into in order to enhance the Group's transhipment capacities during the following 3-10 years.

## 22. EVENTS AFTER THE BALANCE SHEET DATE

On 11 July 2012, the Group entered into 2 leasing agreements for 7 cranes with handling capacities of 40-124 tones. The total minimum lease payments amount to 37,791 with finance lease terms of 36-62 months.