Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Interim Condensed Consolidated Financial Statements (Unaudited)
For the Six Months Ended 30 June 2013

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 2013

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 2013, and the consolidated results of its operations, cash flows and changes in shareholders' 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 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 2013 were approved by management on 28 August 2013

Y.V. Matvienko	**G.I. Kachan**
Chief Executive Officer	Chief Financial Officer

ZAO Deloitte & Touche CIS
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITOR'S 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 statement of financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at June 30, 2013 and the related interim condensed consolidated statements of comprehensive loss, 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 this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 financial information 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 information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Deloitte & Touche

28 August 2013
Moscow, Russian Federation

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED)
(in thousands of US Dollars, except earnings per share)

	Notes	Six months ended 30 June 2013	Six months ended 30 June 2012
REVENUE	5	467,815	541,073
COST OF SERVICES	6	(219,248)	(220,739)
GROSS PROFIT		**248,567**	**320,334**
Selling, general and administrative expenses	7	(39,760)	(39,850)
Gain on disposal of property, plant and equipment	11	185	37
OPERATING PROFIT		**208,992**	**280,521**
Interest income		11,973	3,997
Finance costs	8	(75,771)	(93,564)
Share of profit/(loss) in joint venture, net	14	362	(3,220)
Foreign exchange loss, net		(129,234)	(14,009)
Other income, net		1,453	631
PROFIT BEFORE INCOME TAX EXPENSE		**17,775**	**174,356**
Income tax expense	9	(3,901)	(33,307)
PROFIT FOR THE PERIOD		**13,874**	**141,049**
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX			
Items not to be subsequently reclassified to profit or loss:			
Effect of translation to presentation currency		(93,674)	(26,331)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		(93,674)	(26,331)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(79,800)**	**114,718**
Profit for the period attributable to:			
Equity shareholders of the parent company		10,557	137,561
Non-controlling interests		3,317	3,488
		13,874	**141,049**
Total comprehensive (loss)/income attributable to:			
Equity shareholders of the parent company		(80,795)	111,941
Non-controlling interests		995	2,777
		(79,800)	**114,718**
Weighted average number of ordinary shares outstanding		18,743,128,904	18,743,128,904
BASIC AND DILUTED EARNINGS PER SHARE (US Dollars)		0.0006	0.0073

Y.V. Matvienko
Chief Executive Officer

G.I. Kachan
Chief Financial Officer

The notes on pages 8 to 31 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 2013 (UNAUDITED)
(in thousands of US Dollars)

	Notes	30 June 2013	31 December 2012
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	1,936,120	2,068,857
Goodwill	12	1,382,652	1,489,007
Mooring rights		7,025	7,864
Investments in securities and other financial assets	13	18,005	11,159
Investment in joint venture	14	8,438	8,916
Spare parts		6,041	5,467
Deferred tax assets	9	16,432	1,075
Other intangible assets		2,210	2,691
Other non-current assets		1,998	9,958
		3,378,921	3,604,994
CURRENT ASSETS:			
Inventories		8,552	8,195
Advances to suppliers		5,962	8,093
Trade and other receivables, net	15	49,038	43,037
VAT recoverable and other taxes receivable		30,197	23,965
Income tax receivable		1,338	272
Investments in securities and other financial assets	13	5,122	50,131
Cash and cash equivalents	16	326,477	242,579
		426,686	376,272
TOTAL ASSETS		**3,805,607**	**3,981,266**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital		10,471	10,471
Treasury shares		(281)	(281)
Foreign currency translation reserve		(132,765)	(41,413)
Retained earnings		1,323,375	1,327,102
Equity attributable to shareholders of the parent company		1,200,800	1,295,879
Non-controlling interests		33,434	32,445
TOTAL EQUITY		**1,234,234**	**1,328,324**
NON-CURRENT LIABILITIES:			
Long-term debt	17	1,865,044	2,171,762
Obligations under finance leases	18	11,863	6,089
Cross currency and interest rate swap	19	15,309	4,602
Defined benefit obligation		9,025	9,551
Deferred tax liabilities	9	265,998	292,082
Other non-current liabilities		826	949
		2,168,065	2,485,035
CURRENT LIABILITIES:			
Current portion of long-term debt	17	332,567	90,200
Current portion of obligations under finance leases	18	6,219	2,711
Trade and other payables		22,740	12,380
Advances received from customers		5,422	26,392
Taxes payable		5,795	6,113
Income tax payable		3,613	11,183
Accrued expenses		26,952	18,928
		403,308	167,907
TOTAL EQUITY AND LIABILITIES		**3,805,607**	**3,981,266**

The notes on pages 8 to 31 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 2013 (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 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**
Other comprehensive loss for the period, net of tax		-	-	(25,620)	-	**(25,620)**	(711)	**(26,331)**
Total comprehensive income for the period		**-**	**-**	**(25,620)**	**137,561**	**111,941**	**2,777**	**114,718**
Dividends	10	-	-	-	(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**
At 1 January 2013		**10,471**	**(281)**	**(41,413)**	**1,327,102**	**1,295,879**	**32,445**	**1,328,324**
Profit for the period		-	-	-	10,557	**10,557**	3,317	**13,874**
Other comprehensive loss for the period, net of tax		-	-	(91,352)	-	**(91,352)**	(2,322)	**(93,674)**
Total comprehensive loss for the period		**-**	**-**	**(91,352)**	**10,557**	**(80,795)**	**995**	**(79,800)**
Dividends	10	-	-	-	(14,273)	**(14,273)**	(2)	**(14,275)**
Increase of ownership in subsidiaries	20	-	-	-	(11)	**(11)**	(4)	**(15)**
At 30 June 2013		**10,471**	**(281)**	**(132,765)**	**1,323,375**	**1,200,800**	**33,434**	**1,234,234**

The notes on pages 8 to 31 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 CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED)
(in thousands of US Dollars)

	Notes	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash flows from operating activities			
Cash from operations	22	223,570	332,425
Income tax paid		(33,824)	(19,643)
Interest paid		(63,782)	(74,515)
Net cash generated by operating activities		**125,964**	**238,267**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		346	695
Purchases of property, plant and equipment		(42,069)	(20,669)
Proceeds from investments in securities and other financial assets		46,872	298,073
Purchases of investments in securities and other financial assets		(2,236)	(281,418)
Interest received		9,978	2,803
Purchases of other intangible assets		(229)	(313)
Net cash generated by/(used in) investing activities		**12,662**	**(829)**
Cash flows from financing activities			
Repayments of loans and borrowings		(43,731)	(343,140)
Proceeds from loans and borrowings	17	-	130,533
Dividends paid	10	(76)	(20)
Increase of ownership in subsidiaries	20	(15)	-
Payments under lease contracts		(2,854)	-
Net cash used in financing activities		**(46,676)**	**(212,627)**
Net increase in cash and cash equivalents		**91,950**	**24,811**
Cash and cash equivalents at the beginning of the period	16	242,579	127,522
Effect of translation into presentation currency on cash and cash equivalents		(8,052)	(2,180)
Cash and cash equivalents at the end of the period	16	**326,477**	**150,153**

The notes on pages 8 to 31 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 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 2013 were as follows:

			Ownership % held*	
Significant subsidiaries	**Nature of business**	**Country of incorporation**	**30 June 2013**	**31 December 2012**
LLC Primorsk Trade Port	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
OJSC Novoroslesexport	Stevedoring and additional port services	Russian Federation	91.38%	91.38%
OJSC IPP	Stevedoring and additional port services	Russian Federation	99.98%	99.98%
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services	Russian Federation	65.18%	65.18%
LLC Baltic Stevedore Company	Stevedoring and additional port services	Russian Federation	100.00%	100.00%
PJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services and bunkering	Russian Federation	95.19%	95.19%
CJSC SoyuzFlot Port	Tug and towing services	Russian Federation	99.99%	99.99%

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

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

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

LLC Primorsk Trade Port ("PTP")

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

PJSC Novorossiysk Grain Terminal ("Grain Terminal")

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

OJSC Novoroslesexport ("Novoroslesexport")

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

OJSC IPP ("IPP")

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

OJSC Novorossiysk Shipyard ("Shipyard")

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

LLC Baltic Stevedore Company ("BSC")

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

PJSC Fleet Novorossiysk Commercial Sea Port ("Fleet")

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

CJSC SoyuzFlot Port ("SFP")

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

Golden share

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

Going concern assumption

The accompanying 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 2012 (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 2012. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

New and revised standards

The Group has applied, in accordance with their transitional provisions, a package of five standards on consolidation, joint arrangements, associates and the related disclosures, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

The key requirements of these five Standards are described below.

IFRS 10 *Consolidated Financial Statements* replaced the parts of IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and resulted in the withdrawal of SIC-12 *Consolidation – Special Purpose Entities*. Under IFRS 10 *Consolidated Financial Statements*, there is only one basis for consolidation, that is, control. In addition, IFRS 10 *Consolidated Financial Statements* includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return.

The Group assessed whether the consolidation conclusion under IFRS 10 *Consolidated Financial Statements* differs from IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at 1 January 2013.

If the consolidation conclusion under IFRS 10 *Consolidated Financial Statements* differs from IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at 1 January 2013, the immediately preceding comparative period (i.e. financial period beginning 1 January 2012) is restated to be consistent with the accounting conclusion under IFRS 10 *Consolidated Financial Statements*, unless impracticable. Any difference between IFRS 10 *Consolidated Financial Statements* carrying amounts and previous carrying amounts on 1 January 2012 is adjusted to equity.

For investments that will be consolidated under both IFRS 10 *Consolidated Financial Statements* and the previous guidance in IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at 1 January 2013, or investments that will be unconsolidated under both sets of guidance as at 1 January 2013, no adjustment to previous accounting would be made.

IFRS 10 *Consolidated Financial Statements* did not result in any change in the consolidation status of its subsidiaries or other investments.

IFRS 11 *Joint Arrangements* supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 Joint Arrangements deals with how a joint arrangement of which two or more parties have joint control should be classified.

Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.

In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting, removing the option for proportional consolidation.

Application of IFRS 11 *Joint Arrangements* did not result in changes to the Group's interim condensed consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013, and consequently the disclosures required pursuant to this standard will be included in the the Group's financial statements as at and for the year ended 31 December 2013.

Application of IFRS 12 *Disclosure of Interests in Other Entities* did not result in changes to the Group's interim consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. Application of IFRS 13 *Fair Value Measurement* resulted in more extensive disclosures in the interim condensed consolidated financial statements (note 25).

Amendments to IAS 1 Presentation of Financial Statements "Presentation of Items of Other Comprehensive Income"

The Group has applied amendments to IAS 1 *Presentation of Financial Statements* "Presentation of Items of Other Comprehensive Income". The amendments require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Several other amendments including amended IFRS 7 *Financial Instruments: Disclosures* "Disclosures – Offsetting Financial Assets and Financial Liabilities" and amendments resulting from "Annual Improvements to IFRSs" (2009-2011 cycle) were applied for the first time in these interim condensed consolidated financial statements. Application of these amendments did not result in significant changes to the Group's financial position or results of operations.

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

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 "Financial Instruments" – New requirements for classifying and measuring financial assets revised requirements for the classification and measurement of financial liabilities	1 January 2015
IAS 32 "Financial Instruments: Presentation" – amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IAS 36 "Impairment of Assets" – amendments to recoverable amount disclosures for non-financial assets	1 January 2014

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 presentational currency for international users of the interim condensed consolidated financial statements of the Group.

Exchange rates

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

	30 June 2013	**31 December 2012**
Period-end rates		
RUR / 1 USD	32.7090	30.3727
RUR / 1 EUR	42.7180	40.2286

	Six months ended	
	30 June 2013	**30 June 2012**
Average for the period		
RUR / 1 USD	31.0169	30.6390
RUR / 1 EUR	40.7444	39.7436

As at 30 June 2013 the USD exchange rate increased by 2.3363 rubles compared to 31 December 2012. This led to a significant amount of foreign exchange loss for the six months ended 30 June 2013 arising from loans from Sberbank received in USD, foreign currency deposits in Vneshprombank.

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 2013 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2012.

On 7 May 2013 direct price regulation for loading, unloading (excluding oil and petroleum products) and storage services for companies NCSP, NLE and NCRP was changed to price monitoring by the order of the Federal Tariff Service of Russia (“FTS”) of 7 May 2013.

Accordingly, these companies can independently set tariffs for the above services. These companies are not excluded from the register of natural monopolies in transport, which are subject to government regulation and price control and should submit quarterly information about applicable prices for their services to the FTS.

Direct price regulation for loading and unloading of oil and petroleum products for companies NCSP and IPP was changed to price monitoring by the FTS decision on 14 August 2013.

An order submitted to the Ministry of Justice for registration on 23 August 2013 and will be put into effect in the established order.

Change in the method of regulation in respect of the services of loading and unloading of oil and oil products for PTP is under consideration by FTS.

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). Substantially all Group operations are located within the Russian Federation. All segments have different segment managers responsible for each segment’s operations. The chief operating decision maker is responsible for allocating resources to and assessing the performance of each segment of the business.

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

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

Segment revenue and segment results

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

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

The segment revenue and results for the six months ended 30 June 2013 and 2012 are as follows:

	Segment revenue		Inter-segments sales		Segment profit	
	Six months ended		Six months ended		Six months ended	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Stevedoring and additional services	408,681	482,083	6,978	3,295	179,894	250,151
Novorossiysk	301,599	367,626	6,975	3,274	124,111	187,022
Primorsk	100,318	107,149	3	21	53,449	60,525
Baltiysk	6,764	7,308	-	-	2,334	2,604
Fleet services	50,923	51,572	2,549	2,644	21,886	27,999
Novorossiysk	25,847	28,434	1,262	1,341	5,718	12,193
Primorsk	25,076	23,138	1,287	1,303	16,168	15,806
Other services	8,211	7,418	8,633	7,135	10,286	8,782
Total reportable segments	**467,815**	**541,073**	**18,160**	**13,074**	**212,066**	**286,932**
Unallocated amounts (see following table)					(194,291)	(112,576)
Profit before income tax expense					**17,775**	**174,356**

During the six months ended 30 June 2013 and 30 June 2012, revenue from BIG PORT SERVICE DMCC of 77,724 and 75,649 represents more than 10% of revenue included in the stevedoring and additional services segment, respectively. Management of the Group believes that it adequately manages the corresponding possible credit risk by monitoring schedule of payments based on agreement conditions.

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

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

	Six months ended	
	30 June 2013	**30 June 2012**
Total segment profit	**212,066**	**286,932**
Unallocated amounts:		
Gain on disposal of property, plant and equipment	185	37
Defined benefit obligation expense	(165)	(162)
Differences between Russian statutory accounts and IFRS:		
Bank commission	-	(469)
Depreciation and amortisation	(10,470)	(9,705)
Repairs and maintenance	2,622	2,265
Professional services	930	779
Finance lease	5,249	-
Other	(1,425)	844
Operating profit	**208,992**	**280,521**
Interest income	11,973	3,997
Finance costs	(75,771)	(93,564)
Share of profit/(loss) in joint venture, net	362	(3,220)
Foreign exchange loss, net	(129,234)	(14,009)
Other income, net	1,453	631
Profit before income tax	**17,775**	**174,356**

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Six months ended		Six months ended	
	30 June 2013	**30 June 2012**	**30 June 2013**	**30 June 2012**
Stevedoring and additional services	31,317	31,427	51,186	26,007
Novorossiysk	24,102	24,254	47,492	16,600
Primorsk	6,017	5,986	721	9,257
Baltiysk	1,198	1,187	2,973	150
Fleet services	3,545	3,324	945	69
Novorossiysk	2,204	2,020	894	69
Primorsk	1,341	1,304	51	-
Other services	2,760	2,759	559	368
Total reportable segments	**37,622**	**37,510**	**52,690**	**26,444**
Unallocated amounts	3,203	3,110	2,364	776
Consolidated	**40,825**	**40,620**	**55,054**	**27,220**

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid in the period (Note 11).

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

5. REVENUE

	Six months ended	
	30 June 2013	**30 June 2012**
Stevedoring services	362,879	434,935
Fleet services	50,923	51,572
Additional port services	45,802	47,148
Other	8,211	7,418
Total	**467,815**	**541,073**

6. COST OF SERVICES

	Six months ended	
	30 June 2013	**30 June 2012**
Fuel for resale and own consumption	75,740	78,144
Depreciation and amortisation	38,749	38,631
Salaries	38,587	35,059
Rent	32,895	33,607
Taxes directly attributable to salaries	10,560	9,433
Subcontractors	6,577	4,960
Repairs and maintenance	5,989	9,779
Energy and utilities	3,928	4,290
Materials	3,778	5,043
Defined benefit obligation expense	534	451
Insurance	527	358
Other	1,384	984
Total	**219,248**	**220,739**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended	
	30 June 2013	**30 June 2012**
Salaries	18,855	19,416
Taxes other than income tax	5,059	4,349
Taxes directly attributable to salaries	3,637	3,636
Security services	2,276	2,199
Depreciation and amortisation	2,076	1,989
Charitable donations	1,984	1,406
Change in allowance for doubtful receivables	1,082	1,152
Travel and representation expenses	628	700
Materials	590	450
Repairs and maintenance	565	543
Rent	432	741
Professional services	393	849
Bank charges	281	671
Other	1,902	1,749
Total	**39,760**	**39,850**

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

8. FINANCE COSTS

	Six months ended	
	30 June 2013	**30 June 2012**
Interest on loans and borrowings	63,588	73,445
Loss on cross-currency and interest rate swap (Note 19)	11,639	20,119
Interest expense - finance lease	544	-
Total	**75,771**	**93,564**

9. INCOME TAX

	Six months ended	
	30 June 2013	**30 June 2012**
Current income tax expense	25,683	31,732
Deferred tax (benefit)/loss	(21,782)	1,575
Total	**3,901**	**33,307**

For the six months ended 30 June 2013 the effective income tax rate was 22% (2012: 19%).

The significant amount of deferred tax benefit for the six months ended 30 June 2013 occurred due to tax loss carry forward. Tax loss relates to foreign exchange differences arising from the revaluation of financial liabilities. The right to utilize this tax loss expires in 2023.

Commencing 1 January 2012 PTP applies a reduced income tax rate of 15.5% until 2015.

10. DIVIDENDS

During the six months ended 30 June 2013, NCSP declared dividends for the year ended 31 December 2012 in the amount of 14,273 (US cents 0.076 per 1 share). The total dividends paid during the first six months ended 30 June 2013 were 76.

As at 30 June 2013 the dividend liability of the Group amounted to 13,660 (31 December 2012: 211) and is included in accrued expenses as at 30 June 2013 and 31 December 2012.

During the six months ended 30 June 2012, NCSP declared dividends for the year ended 31 December 2011 in the amount of 14,376 (US cents 0.075 per 1 share). The total dividends paid during the first six months ended 30 June 2012 were 20.

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

11. PROPERTY, PLANT AND EQUIPMENT

On 30 June 2013 and 1 January 2013, the net book value of assets of the Group amounted to 1,936,120 and 2,068,857, respectively. During the six months ended 30 June 2013 and 30 June 2012, the Group acquired assets at a cost of 55,054 and 27,220, respectively. During the same period the Group disposed of assets with a net book value of 160 and 659, respectively, resulting in a net gain on disposal of 185 and 37, respectively.

For the six months ended 30 June 2013 and 30 June 2012, depreciation expense amounted to 39,999 and 39,869, respectively, accumulated depreciation relating to assets that were disposed of amounted to 1,267 and 2,523, respectively.

As at 30 June 2013 construction in progress was 92,744 (31 December 2012: 75,690).

The carrying value of property, plant and equipment held under finance leases at 30 June 2013 was 22,206 (31 December 2012: 10,812). Additions to machinery and equipment during the six months ended 30 June 2013 include 14,124 of property, plant and equipment under finance leases (31 December 2012: 10,687). Leased assets are pledged as security for the related finance liabilities.

12. GOODWILL

	30 June 2013	31 December 2012
Cost	1,470,569	1,583,687
Accumulated impairment loss	(87,917)	(94,680)
Carrying amount	**1,382,652**	**1,489,007**

For the six months ended 30 June 2013 and 2012 changes in the carrying amount of goodwill relate to effect of translation into presentation currency.

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

	Carrying amount	
	30 June 2013	31 December 2012
Stevedoring and additional services segment:		
PTP	750,574	808,309
Grain Terminal	145,171	156,338
Novoroslesexport	117,154	126,166
IPP	25,252	27,194
Shipyard	11,432	12,312
BSC	2,613	2,814
Fleet services segment:		
SFP	352,221	379,314
Fleet	66,152	71,240
Total	**1,470,569**	**1,583,687**

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

PTP

Upon review of actual performance results for the six months ended 30 June 2013 the management reduced the expected oil and oil-product transshipment forecasts applied in the Group's business plan. The reduction in the forecasts indicated that an impairment loss may have occurred and as such, management performed an impairment analysis with respect to goodwill as at 30 June 2013.

Based on the value in use calculation no impairment was recognised as at 30 June 2013.

Management prepared a sensitivity analysis of PTP for change of 10% in the oil and oil products transshipment volumes.

The analysis revealed that the reduction of 10% in the oil and oil products transshipment volumes would cause the PTP carrying value to exceed its recoverable amount by 118,560.

The most significant estimates and assumptions used by management in the value in use calculation for PTP on 30 June 2013 are as follows:

- Cash flows were projected based on the budgeted figures for the period from 2013 to 2017;
- Cash flow projections were prepared in RUR and based on long-term price trends both for sales prices and material costs, specific to the operating segment and geographic region;
- Cash flows beyond that five-year period were extrapolated using a steady 2.3% per annum growth rate;
- Calculations were based on RUR/USD currency rates projections for each respective year published in the Economist Intelligence Unit; and
- A pre-tax discount rate of 9.35% was applied for the CGU 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, %
2013	6.3
2014	6.2
2015	5.7
2016	5.1
2017	5.0
Thereafter	3.0

Values assigned to key assumptions and estimates used to measure the CGUs recoverable amount are consistent with external sources of information and historic data. Management believes that the values assigned to the key assumptions and estimates represent the most probable assessment of future trends.

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

13. INVESTMENTS IN SECURITIES

	30 June 2013	31 December 2012
Current		
Deposits	674	512
Loans issued	4,448	49,619
Total current	**5,122**	**50,131**
Non-current		
Loans issued	18,005	11,159
Total non-current	**18,005**	**11,159**

As at 30 June 2013 short-term deposits placed in LLC “Vneshprombank” (“Vneshprombank”) consist of short-term deposits denominated in RUR with interest rates varying from 6% to 11.75% per annum and short-term deposits denominated in USD with an interest rate of 2.75% per annum. Short-term deposits placed in CJSC “Raiffeisenbank” (“Raiffeisenbank”) consist of short-term deposits denominated in RUR with an interest rate of 7.20% per annum.

As at 30 June 2013 current loans issued in RUR include short-term loans given to employees of the Group and to other related parties with interest rates varying from 7% to 8% per annum. Current loans issued in USD include short-term loans given to other related parties with interest rate of 5% per annum.

As at 30 June 2013 non-current loans issued consist of non-current loans given to employees of the Group denominated in RUR with an interest rate of 5% per annum and long-term loan issued in USD to LLC Novorossiysk Fuel Oil Terminal (“NFT”), a joint venture created in 2009 (Note 14), in the amount of 17,998 maturing in March 2020 with an interest rate of 7% per annum.

In January 2013 NFT repaid to the Group the principal balance on loans in the amount of 45,000.

14. INVESTMENT IN JOINT VENTURE

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

The Group owns 50% of NFT and its share in gain/ (loss) of the joint venture for the six months ended 30 June 2013 and 30 June 2012 amounted to 362 and (3,220), respectively.

	Ownership % held	
Joint venture	**30 June 2013**	**31 December 2012**
NFT	50.00%	50.00%

Loans issued by the Group to NFT are disclosed in Note 13.

As at 30 June 2013 the Group pledged its 50% share in NFT under a credit agreement between NFT and Raiffeisenbank. The Group also issued a guarantee of 20,000 to secure NFT obligations under the credit agreement.

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

15. TRADE AND OTHER RECEIVABLES, NET

	30 June 2013	31 December 2012
Trade receivables (RUR)	21,837	20,741
Trade receivables (USD)	20,575	19,309
Trade receivables (EUR)	-	622
Other receivables and prepayments	8,433	4,640
Interest receivable	2,238	1,017
Less: allowance for doubtful trade and other receivables	(4,045)	(3,292)
Total	**49,038**	**43,037**

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

	Six months ended	
	30 June 2013	30 June 2012
As at beginning of the period	**3,292**	**3,779**
Impairment losses/(reversal) recognised in the interim condensed consolidated statement of comprehensive loss	1,082	1,152
Amounts written-off as uncollectable	(40)	(42)
Amounts recovered during the period	-	-
Effect of translation into presentation currency	(289)	(145)
As at end of the period	**4,045**	**4,744**

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.

16. CASH AND CASH EQUIVALENTS

	30 June 2013	31 December 2012
Bank deposits in USD	198,278	110,981
Bank deposits in RUR	118,188	124,181
Bank deposits in EUR	622	-
Current accounts in USD	5,823	3,093
Current accounts in RUR	3,535	4,278
Current accounts in EUR	2	12
Cash in hand	29	34
Total	**326,477**	**242,579**

Bank deposits as at 30 June 2013 mainly represent deposits with Vneshprombank and 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 USD with interest rates from 2.75% to 6.55% per annum, deposits denominated in RUR with interest rates varying from 6% to 9.60% per annum and deposits denominated in EUR with an interest rate 5.25% per annum. Deposits denominated in RUR, placed in Sberbank, are represented by deposits with interest rates from 4.06% to 4.25% per annum.

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

17. DEBT

	Interest rate	Maturity date	30 June 2013	31 December 2012
Unsecured borrowings				
Bonds (RUR)	9.0%	April 2015	123,793	133,347
Unsecured bank loans (RUR)				
Sberbank	8.5%	November 2014	123,458	177,314
Sberbank	8.5%	November 2014	4,591	6,594
Total unsecured borrowings			**251,842**	**317,255**
Secured bank loans (USD)				
Sberbank	LIBOR 3M + 4.85%	January 2018	1,945,769	1,944,707
Total debt			**2,197,611**	**2,261,962**
Current portion of long-term borrowings			(332,567)	(90,200)
Total non-current debt			**1,865,044**	**2,171,762**

Sberbank

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

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

- The term of the facility is seven years;
- Floating interest of LIBOR 3M + 4.85% per annum is applied during the first three years of the loan;
- Fixed interest of 7.48% is applied during the last four years of the loan;
- A lump sum commission of 11,700 (or 0.6%) was paid for the receipt of the loan;
- No principal is due for the first 36 calendar months from the date of the loan agreement (“the grace period”), after which the principal amount of the loan is to be paid by equal quarterly instalments;
- The loan is secured by a pledge of 50.1% of the Company’s shares and a guarantee of PTP; and
- Certain financial covenants are imposed on the Group (e.g. restrictions as to the Group’s debt to equity ratio and net debt to earnings before interest, income taxes, depreciation and amortization ratio, and reduction of NCSP’s share price, etc).

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

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

Rouble bonds

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

As at 30 June 2013, the average effective borrowing rate relating to the Group's debt was 5.52% per annum (31 December 2012: 5.79% per annum).

On 4 May 2012 in conjunction with the placement of the rouble bonds, the Group entered into cross-currency and interest rate swap agreement (Note 19).

The Group borrowings as at 30 June 2013 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	21,317	28,063	49,380
Due from three to six months	21,317	7,772	29,089
Due from six months to twelve months	285,239	100,361	385,600
	327,873	**136,196**	**464,069**
Between 1 and 2 years	650,454	126,452	776,906
Between 2 and 5 years	1,214,591	126,404	1,340,995
Total	**2,192,918**	**389,052**	**2,581,970**

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 2013 of 5.13%.

18. 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 5.10% to 14.57% per annum.

	Minimum lease payments as at 30 June 2013	Minimum lease payments as at 31 December 2012	Present value of lease payments as at 30 June 2013	Present value of lease payments as at 31 December 2012
Less than one year	7,450	3,296	6,219	2,711
In the second and third year	12,958	6,591	11,863	6,089
Less: future financing costs	(2,326)	(1,087)	-	-
Present value of minimum lease payments	**18,082**	**8,800**	**18,082**	**8,800**

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

	30 June 2013	31 December 2012
Non-current obligations under finance leases	11,863	6,089
Current portion of obligations under finance leases	6,219	2,711
	18,082	**8,800**

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets as disclosed in Note 11.

19. CROSS-CURRENCY AND INTEREST RATE SWAP

On 4 May 2012, the Group entered into a cross currency interest rate swap agreement with CJSC "Bank Credit Suisse (Moscow)" related to the bond tranche BO-02 (Note 17). The Group agreed to pay interest in USD at a rate of 3.85% per annum based on a notional amount of USD 135 million, in exchange for interest paid in RUR at a rate of 9% per annum based on a notional of RUR 4 billion (USD 136 million) over three years and to exchange USD 135 million for RUR 4 billion at maturity of the bond tranche. Settlements of interest and principal are made in net amounts.

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

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

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

Settlement dates	Expected rate, RUR / 1 USD	Discount rate, %
30 October 2013	33.64	0.28
30 April 2014	34.59	0.34
29 October 2014	35.53	0.40
29 April 2015	36.48	0.49

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

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

	30 June 2013	
	Depreciation of US Dollar exchange rate by 3 RUR	Appreciation of US Dollar exchange rate by 3 RUR
Gain/(loss) from cross-currency and interest rate swap	11,652	(9,870)

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

	Principal amount	Contractual interest asset	Total
Due from three to six months	-	2,783	2,783
Due from six to twelve months	-	2,706	2,706
Between 1 and 2 years	(28,408)	5,186	(23,222)
Total	**(28,408)**	**10,675**	**(17,733)**

20. INCREASE OF OWNERSHIP IN SHARES IN A SUBSIDIARY

On 31 May 2013 the Group acquired an additional 0.0049% of interest in IPP for a cash consideration of 15. The carrying value of IPP's net assets in the consolidated financial statements on the date of acquisition of non-controlling interest was 77,830 in total. As a result of this transaction, the Group recognised a decrease in net assets attributable to non-controlling interests in the amount of 4. The excess of the consideration paid over the Group's share in net assets acquired in the amount of 11 was recognised in the statement of changes in equity as a decrease of retained earnings.

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

21. 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.

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 2013 and 30 June 2012, the Group transacted with Sberbank, Russian Agricultural Bank, VTB Bank, Rosneft, Russian Railways and other state-controlled entities (apart from Transneft).

Transactions with state-controlled entities:

	Six months ended	
	30 June 2013	**30 June 2012**
Sales		
Sales of goods and services	48,067	54,442
Interest income	262	1,982
Purchases		
Services and materials received	5,952	16,614
Finance costs	57,751	63,063

Balances with state-controlled entities:

	30 June 2013	**31 December 2012**
Cash and cash equivalents		
Cash and cash equivalents	10,269	18,896
Receivables		
Long-term receivables	-	2,264
Trade and other receivables	5,055	3,319
Advances to suppliers	729	1,025
Payables		
Trade and other payables	672	310
Advances received from customers	1,959	3,606
Debt		
Long-term debt	1,743,060	2,040,395
Current portion of long-term debt	330,758	88,219

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

Transactions with NFT:

	Six months ended	
	30 June 2013	**30 June 2012**
Sales and income		
Sales of goods and services	7,004	116
Interest income	590	789
Purchases		
Services and materials received	91	-

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

Balances with NFT:

	30 June 2013	31 December 2012
Receivables		
Trade and other receivables	2	-
Long-term loans and interest receivable	18,964	18,179
Short-term loans and interest receivable	-	45,000
Payables to related parties		
Advances received from customers	565	972
Trade and other payables	16	-

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 Z. Magomedov.

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

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

Transactions with other related parties:

	Six months ended	
	30 June 2013	**30 June 2012**
Sales		
Sales of goods and services	32,563	45,827
Interest income	135	131
Purchases		
Services and materials received	28,615	28,539

Balances with other related parties:

	30 June 2013	31 December 2012
Receivables		
Trade and other receivables	1,227	1,455
Advances to suppliers	967	671
Short-term loans and interest receivable	4,457	4,571
Payables		
Trade and other payables	12,357	3,563
Advances received from customers	479	10,699

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

Compensation of key management personnel

For the six months ended 30 June 2013 and 30 June 2012, the remuneration of the directors and other members of key management was 7,609 (including termination benefits in the amount of 162) and 8,977 (including termination benefits in the amount of 678), 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.

22. CASH FLOWS FROM OPERATING ACTIVITIES

	Six months ended	
	30 June 2013	**30 June 2012**
Profit for the period	**13,874**	**141,049**
Adjustments for:		
Depreciation and amortization	40,825	40,620
Finance costs	75,771	93,564
Gain on disposal of property, plant and equipment	(185)	(37)
Foreign exchange loss, net	129,234	14,009
Income tax expense	3,901	33,307
Defined benefit obligation expense	165	162
Interest income	(11,973)	(3,997)
Change in allowance for doubtful receivables	1,082	1,152
Change in allowance for spare parts and slow-moving inventories	128	52
Share of (profit)/ loss in joint venture, net	(362)	3,220
Other adjustments	282	81
	252,742	323,182
Working capital changes:		
(Increase)/decrease in inventories	(2,147)	1,118
(Increase)/decrease in receivables	(15,479)	21,454
Decrease in liabilities	(11,546)	(13,329)
Cash flows generated from operating activities	**223,570**	**332,425**

23. COMMITMENTS AND CONTINGENCIES

Legal proceedings

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

In December 2012 CJSC "Transneft-Service" has cancelled oil product transshipment agreement with PTP. Management expects that cash outflow due to any resulting claim of CJSC "Transneft-Service" will not exceed the amount of advances received in accordance with the agreement. As of 30 June 2013 no additional provision was recorded in the interim condensed consolidated financial statements in respect of this claim.

Taxation contingencies in the Russian Federation

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

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

Pricing of transactions between each of the Group's subsidiaries in the course of its activities might be subject to transfer pricing rules. Russian transfer pricing legislation was amended effective 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As at 30 June 2013, no provision was recorded in the interim condensed consolidated financial statements in respect of such possible future claims.

Operating environment

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

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.

Environmental matters

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

Insurance

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

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

Operating lease arrangements

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

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

	30 June 2013	31 December 2012
Within 1 year	73,950	73,466
Between 1 and 2 years	72,336	70,833
Between 2 and 3 years	72,276	70,019
Between 3 and 4 years	69,011	69,781
Between 4 and 5 years	64,952	63,805
Thereafter	1,023,635	1,085,235
Total	**1,376,160**	**1,433,139**

24. CAPITAL COMMITMENTS

At 30 June 2013 and 31 December 2012, the Group had the following commitments for acquisition of property, plant and equipment and construction works at:

	30 June 2013	31 December 2012
NCSP	45,431	38,369
Novoroslesexport	8,116	12,877
BSC	6,923	264
IPP	5,379	11,479
Shipyard	1,032	52
Grain Terminal	279	720
PTP	129	604
Fleet	14	7
Total	**67,303**	**64,372**

As at 30 June 2013 capital commitments of NCSP include obligations under finance lease contracts for transshipment machinery and equipment in the amount of 18,612.

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

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

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVES)

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

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

As at 30 June 2013 and 31 December 2012, management believes that the carrying values of significant financial assets (Notes 13, 15 and 16) and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximated their fair value due to their short-term nature, except for the long-term loans and borrowings.

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

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

The fair value compared to the carrying value of long-term financial liabilities as at 30 June 2013 and 31 December 2012 is as follows:

	30 June 2013		31 December 2012	
	Carrying value	Fair value	Carrying value	Fair value
RUR bonds (Level 1)	123,793	123,098	133,348	133,146
Fixed rate financial liabilities (Level 2)	128,049	119,214	183,908	175,489
LIBOR+ rate agreement with Sberbank (Level 2)	1,945,769	1,905,154	1,944,707	1,827,628

26. EVENTS AFTER THE BALANCE SHEET DATE

On 12 July 2013 Grishanin M.S. was reappointed as the Chairman of the Board of Directors of the NCSP Company.

On 8 August 2013 NCSP acquired one share of IPP from a minority shareholder. As a result NCSP increased its share in IPP up to 99.99%.