Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Consolidated Financial Statements

For the Year Ended 31 December 2011

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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as at 31 December 2011, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2011 were approved by management on 12 April 2012:

R. Antolovic	**G.I. Kachan**
Acting as Chief Executive Officer	Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte & Touche

12 April 2012
Moscow, Russia

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands of US Dollars, except earnings per share)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
REVENUE	6	1,049,539	635,315
COST OF SERVICES	7	(495,440)	(242,069)
GROSS PROFIT		**554,099**	**393,246**
Selling, general and administrative expenses	8	(78,168)	(46,643)
Loss on disposal of property, plant and equipment		(692)	(131)
OPERATING PROFIT		**475,239**	**346,472**
Interest income		4,434	18,632
Finance costs	9	(144,619)	(30,401)
Share of loss in joint venture	32	(4,746)	(831)
Foreign exchange loss, net		(167,940)	(12,753)
Other income, net		2,152	1,759
PROFIT BEFORE INCOME TAX		**164,520**	**322,878**
Income tax expense	10	(34,207)	(64,438)
PROFIT FOR THE YEAR		**130,313**	**258,440**
OTHER COMPREHENSIVE LOSS			
Effect of translation to presentation currency		(54,508)	(6,873)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**75,805**	**251,567**
Profit for the year attributable to:			
Equity shareholders of the parent company		127,100	252,529
Non-controlling interests		3,213	5,911
		130,313	**258,440**
Total comprehensive income attributable to:			
Equity shareholders of the parent company		74,144	245,803
Non-controlling interests		1,661	5,764
		75,805	**251,567**
Weighted average number of ordinary shares outstanding		19,087,586,568	19,259,815,400
BASIC AND DILUTED EARNINGS PER SHARE (US Dollars)		0.0067	0.0131

R. Antolovic
Acting as Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(in thousands of US Dollars)

	Notes	31 December 2011	31 December 2010
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	1,967,938	563,839
Goodwill	13	1,491,070	391,618
Mooring rights	14	7,980	9,024
Investments in securities and other financial assets	15	34,842	22,219
Investment in joint venture	32	9,425	15,578
Non-current VAT recoverable		-	858
Spare parts		5,007	4,862
Deferred tax assets	10	7,318	1,156
Other intangible assets		1,593	1,286
Other non-current assets		13,971	1,426
		3,539,144	1,011,866
CURRENT ASSETS:			
Inventories	16	11,258	8,991
Advances to suppliers		2,991	2,608
Trade and other receivables, net	17	47,796	28,440
VAT recoverable and other taxes receivable		41,132	12,683
Income tax receivable		41,209	6,183
Investments in securities and other financial assets	15	21,833	46,919
Cash and cash equivalents	18	127,522	265,017
		293,741	370,841
TOTAL ASSETS		**3,832,885**	**1,382,707**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	19	10,471	10,471
Share premium		-	9,255
Treasury shares		(281)	-
Foreign currency translation reserve		(103,641)	(50,685)
Retained earnings		1,032,044	996,330
Equity attributable to shareholders of the parent company		**938,593**	**965,371**
Non-controlling interests		25,582	23,927
TOTAL EQUITY		**964,175**	**989,298**
NON-CURRENT LIABILITIES:			
Long-term debt	20	2,113,843	305,412
Defined benefit obligation	21	7,286	6,906
Deferred tax liabilities	10	266,907	30,937
Other non-current liabilities		2,864	1,070
		2,390,900	344,325
CURRENT LIABILITIES:			
Current portion of long-term debt	20	392,413	15,900
Trade and other payables	22	18,251	9,828
Advances received from customers		47,442	6,432
Taxes payable		4,292	4,812
Income tax payable		4,034	579
Accrued expenses	23	11,378	11,533
		477,810	49,084
TOTAL EQUITY AND LIABILITIES		**3,832,885**	**1,382,707**

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands of US Dollars)

	Notes	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 2010		**10,471**	**-**	**9,255**	**(43,959)**	**823,035**	**798,802**	**18,170**	**816,972**
Profit for the period		-	-	-	-	252,529	**252,529**	5,911	**258,440**
Effect of translation to presentation currency		-	-	-	(6,726)	-	**(6,726)**	(147)	**(6,873)**
Total comprehensive (loss)/income for the period		-	-	-	(6,726)	252,529	**245,803**	5,764	**251,567**
Dividends	11	-	-	-	-	(79,234)	**(79,234)**	(7)	**(79,241)**
At 31 December 2010		**10,471**	**-**	**9,255**	**(50,685)**	**996,330**	**965,371**	**23,927**	**989,298**
Profit for the period		-	-	-	-	127,100	**127,100**	3,213	**130,313**
Effect of translation to presentation currency		-	-	-	(52,956)	-	**(52,956)**	(1,552)	**(54,508)**
Total comprehensive (loss)/income for the period		-	-	-	(52,956)	127,100	**74,144**	1,661	**75,805**
Buy-back of shares	19	-	(281)	(9,255)	-	(76,741)	**(86,277)**	-	**(86,277)**
Dividends	11	-	-	-	-	(14,645)	**(14,645)**	(6)	**(14,651)**
At 31 December 2011		**10,471**	**(281)**	**-**	**(103,641)**	**1,032,044**	**938,593**	**25,582**	**964,175**

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands of US Dollars)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Cash from operations	24	554,586	400,114
Income tax paid		(90,329)	(63,074)
Interest paid		(143,895)	(27,071)
Net cash generated by operating activities		**320,362**	**309,969**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		1,064	1,331
Purchases of property, plant and equipment		(95,081)	(82,986)
Proceeds from investments in securities and other financial assets		198,106	889,680
Purchases of investments in securities and other financial assets		(182,153)	(782,434)
Acquisition of subsidiary, net of cash acquired	25	(2,100,577)	-
Investment in joint venture	32	-	(15,060)
Interest received		6,861	17,798
Purchases of other intangible assets		(1,026)	(763)
Net cash (used in)/generated by investing activities		**(2,172,806)**	**27,566**
Cash flows from financing activities			
Repayments of loans and borrowings		(115,449)	(155,396)
Proceeds from loans and borrowings	20	1,938,300	20,350
Dividends paid	11	(14,797)	(79,410)
Payment for remediation of Loan Participation Notes covenants		-	(4,322)
Payment for buy-back of shares	19	(86,151)	-
Payment for shares buy-back costs	19	(126)	-
Net cash generated by/(used in) financing activities		**1,721,777**	**(218,778)**
Net (decrease)/increase in cash and cash equivalents		**(130,667)**	**118,757**
Cash and cash equivalents at the beginning of the year	18	265,017	159,075
Effect of translation into presentation currency on cash and cash equivalents		(6,828)	(12,815)
Cash and cash equivalents at the end of the year		**127,522**	**265,017**

The notes on pages 8 to 51 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP") was founded in 1845. NCSP was transformed from a state-owned enterprise to a PJSC in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. The principal activities and significant entities of the Group as at 31 December 2011 were as follows:

Significant Subsidiaries	Nature of business
OJSC IPP	Stevedoring and additional port services
PJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services and bunkering
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services
OJSC Novoroslesexport	Stevedoring and additional port services
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services
LLC Baltic Stevedore company	Stevedoring and additional port services
LLC Primorsk trade port	Stevedoring and additional port services
CJSC Sovfracht-Primorsk	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 Kaliningrad and Leningrad 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:

OJSC IPP ("IPP")

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

PJSC Fleet NCSP ("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.

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 transhipment 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.

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.

PJSC Novorossiysk Grain Terminal ("Grain Terminal")

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

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.

LLC Primorsk trade port ("PTP")

PTP is involved in the transhipment of oil and oil products in the port of Primorsk, Leningrad District. The Group acquired 100% of the shares in PTP, 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 (Note 25).

CJSC Sovfracht-Primorsk ("Sovfracht-Primorsk")

Sovfracht-Primorsk is the subsidiary of PTP. Sovfracht-Primorsk is an 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 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.

At 31 December 2011, current liabilities of the Group exceeded its current assets by 184,069. The Group is however profitable (year ended 31 December 2011: 130,313; year ended 31 December 2010: 258,440) and also historically has generated positive cash flow from operating activities (year ended 31 December 2011: 320,362; year ended 31 December 2010: 309,969).

Management has plans to raise additional funds through the sale of its treasury shares held, and if required, attract additional financing (Note 33) in order to settle a substantial portion of its current liabilities and improve working capital ratios. Management has prepared a detailed forecast of cash flows for 2012 and 2013 and believes that future cash flows from operating and financing activities will be sufficient for the Group to meet its obligations as they become due.

Based on the measures described above, management believes that it continues to be appropriate for the Group to prepare its consolidated financial statements on a going concern basis.

2. BASIS FOR PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes standards and interpretations approved by the International Accounting Standards Board (the "IASB"), including International Accounting Standards ("IASs") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") which replaced the Standing Interpretations Committee.

In preparing these consolidated financial statements, management complied with existing standards and interpretations that are effective or available for early adoption at the Group's IFRS annual reporting date.

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

New and revised Standards and Interpretations adopted in the current period

In the current period, the Group adopted all of the following new and revised Standards and Interpretations issued by the IASB and the IFRIC which became effective for the Group's annual consolidated financial statement for the year ended 31 December 2011:

- IFRS 3 (2008) "Business Combinations" / IAS 27 "Consolidated and Separate Financial Statements" – amendments resulting from May 2010 Annual Improvements to IFRSs:
  1. Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; and
  2. Clarification on measurement of non-controlling interests;
- IFRS 7 "Financial Instruments: Disclosures" – amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans; and
- IAS 24 "Related Party Disclosures" – (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The first-time application of the aforementioned amendments to Standards had no material effects on the consolidated financial statements of the Group for the period ended 31 December 2011.

Standards and Interpretations issued but not yet adopted

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

	Effective for periods annual periods beginning on or after
• IFRS 7 "Financial Instruments: Disclosures"	
- Amendments enhancing disclosures about the transfer of financial assets	1 July 2011
- 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 12 "Income Taxes" – Limited scope amendment (recovery of underlying assets)	1 January 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 consolidated financial statements are presented in US Dollars as Management considers the USD to be a more relevant presentational currency for international users of the consolidated financial statements of the Group.

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

Exchange rates

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

	2011	2010
Year-end rates		
RUR / 1 USD	32.1961	30.4769
RUR / 1 EUR	41.6714	40.3331
Average for the period		
RUR / 1 USD	29.3874	30.3692
RUR / 1 EUR	40.8848	40.2980

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and its subsidiaries (Note 31), from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as those of NCSP; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them in line with those of the Group.

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated upon consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the Group includes any assets or liabilities resulting from a contingent consideration arrangement, they are measured at the acquisition-date fair value and included with the consideration transferred. Subsequent changes in the fair value of the contingent consideration are adjusted against the cost of the acquisition when they qualify as measurement period adjustments, with corresponding adjustments against goodwill. The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year, and measurement period adjustments are adjustments arising from additional information obtained during the measurement period, about facts and circumstances that existed at the acquisition date. Contingent consideration classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is measured at subsequent reporting dates in accordance with the relevant IFRSs.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is measured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from the interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

At the acquisition date, the acquiree's identifiable assets and liabilities, meeting the recognition criteria of IFRS 3 (2008) "*Business Combinations*", are generally recognised at their fair value except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "*Income Taxes"* and IAS 19 "*Employee Benefits"*, respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "*Share-based Payment"*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" ("IFRS 5") are recognised and measured at fair value less costs to sell.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill is measured as the excess of the sum of consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amount of identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

Non-controlling interest, identified separately from the Group's equity, may be initially measured either: (i) at fair value; or (ii) at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Subsequent to acquisition, the non-controlling interest carrying amount is the amount at initial recognition, plus the non-controlling interests' share of changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations with third parties taking place prior to 1 January 2010 were accounted for in accordance with IFRS 3 (2004) "*Business Combinations*".

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The results and assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "*Non-current Assets and Held for Sale and Discontinued Operations*". Under the equity method, investments in associates and joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate or joint venture, less any impairment in the value of individual investments. Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, forms part of the Group's net investment in the associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 "*Financial Instruments: Recognition and Measurement*" ("IAS 39") are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "*Impairment of Assets*" ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use or fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Goodwill

Goodwill arising on an acquisition of a business, as described in "Business combinations" above, is carried at cost as established at the acquisition date less accumulated impairment loss, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergy of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and joint ventures" above.

Foreign currencies

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

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

For the purpose of presenting consolidated financial statements for the Group, the assets and liabilities of entities in the Group with functional currencies other than the USD are translated in USD at exchange rates prevailing at the end of each reporting period presented. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates at the date of transactions are used. Exchange differences arising on these translations, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred, services have been rendered or construction works are fully completed, the amount of the revenue can be measured reliably, persuasive evidence of an arrangement exists and the collectability of the revenue is reasonably assured.

The Group's revenue is derived as follows:

(i) Stevedoring services (liquid, dry bulk cargo, general cargo and containers transhipment) including loading and unloading of oil, oil products, grain, mineral fertilizes, chemicals, containers, timber, timber products, metal products (slabs, tubing, rolled metal and others), sugar, and other cargo, fuel bunkering;
(ii) Additional port services provided to customers at their requests (e.g. forwarding, storage, custom documentation, repacking, ship repair services for all types of vessels and maintenance in docks, etc.);
(iii) Fleet services including tag, towing and other related services; and
(iv) Other services mainly including rent and resale of energy and utilities to external customers.

Revenue from cargo-transhipment, fleet and additional port services is recognised when the services are accepted by the customers (typically after the loading or unloading of cargo, as defined by the sales terms). Revenue from other services is recognised when the services are provided to the customers.

Prices for cargo transhipment and storage services are subject to Government regulations. The Group can provide discounts to its customers only within the limits set by the statutory legislation. Prices for additional port services, fleet services, ship repair and other services are set by the Group.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Depreciation of these assets is recorded on the same basis as for other property assets, and commences when the assets are put into operation.

Transaction costs associated with the issuance of a debt instrument are recorded as a reduction of the liability, and are amortised to interest expense over the term of the related borrowing. In any period in which the borrowing is redeemed, the related unamortized costs are expensed.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

Defined contribution plan

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund. The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to the consolidated statement of comprehensive income in the period to which they relate.

In the Russian Federation, all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through taxes of 0% to 34%, directly calculated based on the annual gross remuneration of each employee. The rate of contribution to the Russian Federation State Pension Fund varies from 0% to 26%. When the annual gross remuneration of an employee exceeds 463 thousand RUR (USD 15.8), the 0% tax rate is applied.

Contributions to the defined contribution retirement benefit plan are recognised as an expense as employees render service.

Defined benefit plans

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations performed at the end of each reporting period presented. Actuarial gains and losses are recognised in total in the period in which they occur. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs.

Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the end of each reporting period presented.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

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

Current and deferred taxes are recognised as an expense or income in the consolidated statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or they arise from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer’s interest in the net fair value of the acquirer’s identifiable assets, liabilities and contingent liabilities over the cost.

Property, plant and equipment

The Group adopted IFRS effective 1 January 2005. As part of the adoption, the Group elected to utilise exemptions available for first-time adopters under IFRS 1, choosing to record property, plant and equipment at fair value (deemed cost). Valuations were performed by independent appraisers as at 1 January 2005. After that date, property, plant and equipment is stated at deemed cost less accumulated depreciation and impairment losses.

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

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

Capitalised cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost or deemed cost of assets, other than land and property under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

	Number of years
Buildings and completed constructions	3-75
Machinery and equipment	4-20
Marine vessels	4-25
Vehicles	4-7
Office and other equipment	3-10

Properties in the course of construction for production, rental or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation.

Construction in progress comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mooring rights and other intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortisation of mooring rights and other intangible assets is charged to profit or loss.

Mooring rights and other intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, mooring rights and other intangible assets acquired in a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets acquired separately.

Useful lives of mooring rights and other intangible assets are as follows:

	Number of years
Mooring rights	20
Marine vessels rights	10
Other intangible assets	3-5

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Spare parts

Major spare parts and stand-by equipment qualify as non-current assets when an entity expects to use them during more than one year. Such spare parts are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the spare parts to their present location and condition. Spare parts are recognised in profit or loss as consumed.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an financial assets is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group’s financial assets consist of cash and cash equivalents, loans and receivables.

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

Effective interest method

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

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the asset of an entity deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

The Group's financial liabilities can be classified into financial liabilities as at fair value through profit and loss ("FVTPL") and other financial liabilities.

Financial liabilities as at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities as at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 29.

Other financial liabilities

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

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

Derivative financial instruments

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

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Provisions

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

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

Dividends declared

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Allowance for trade and other receivables and advances to suppliers

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

Useful lives of fixed assets

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

Impairment of goodwill

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

Key estimates used in the Group's annual impairment testing are presented in Note 13.

Impairment of assets (excluding goodwill)

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Taxation

The Group is subject to income tax and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation where the Group's operations are principally located. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of the whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

In addition, the Group records deferred tax assets at the end of each reporting period presented based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recorded on the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an adjustment to derecognise the deferred tax asset will be required, with the corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the further recognition and utilisation of the deferred tax assets may be appropriate, with the corresponding credit recognised to income.

Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

Allowance for obsolete and slow-moving inventory

The Group creates an allowance for obsolete and slow-moving raw materials. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the end of each reporting period represented to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products or any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving raw materials.

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

5. 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 and 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) in management accounts, as 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 in joint venture, foreign exchange gains/(losses), and other income, net.

In 2011, in addition to the change in segments, the Group's management revised the presentation of segment profit/(loss) in management accounts. As such, certain comparative information, presented for the year ended 31 December 2010 has been reclassified in order to achieve comparability with the presentation used for the year ended 31 December 2011.

Segment revenue and segment results

The segment revenue and results for the years ended 31 December 2011 and 31 December 2010 are as follows:

	Segment revenue		Inter-segments sales		Segment profit	
	Year ended		Year ended		Year ended	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Stevedoring and additional services	941,009	578,271	8,786	4,885	426,753	318,522
Fleet services	92,902	45,028	5,092	2,398	42,876	24,690
Other services	15,628	12,016	14,609	11,685	17,323	11,599
Total reportable segments	**1,049,539**	**635,315**	**28,487**	**18,968**	**486,952**	**354,811**
Adjustments and eliminations (see following table)					(322,432)	(31,933)
Consolidated profit before income tax					**164,520**	**322,878**

During the year ended 31 December 2011 and 31 December 2010, revenue from PORATH SERVICES LIMITED of 169,484 and 63,659, respectively, represents more than 10% of revenue included in stevedoring and additional services segment. Management of the Group believes that it adequately manages the corresponding possible credit risk.

A loss on an advance for property, plant and equipment in the amount of 8,456 attributable to the Fleet services segment was recognised in the year ended 31 December 2009. This loss was subsequently reversed in 2010.

(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:

	Year ended 31 December 2011	Year ended 31 December 2010
Total segment profit	**486,952**	**354,811**
Unallocated amounts:		
Loss on disposal of property, plant and equipment	(692)	(131)
Defined benefit obligation benefit/(expense)	(820)	2,761
Differences between Russian statutory accounts and IFRS:		
Bank commission	10,307	-
Depreciation and amortisation	(20,720)	(22,334)
Payment for remediation of Loan Participation Notes covenants	-	4,322
Other	212	7,043
Operating profit	**475,239**	**346,472**
Interest income	4,434	18,632
Finance costs	(144,619)	(30,401)
Share of loss in joint venture	(4,746)	(831)
Foreign exchange loss, net	(167,940)	(12,753)
Other income, net	2,152	1,759
Profit before income tax	**164,520**	**322,878**

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Year ended		Year ended	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Stevedoring and additional services	57,939	55,854	94,400	80,336
Fleet services	6,888	3,453	1,995	2,742
Other services	6,215	4,005	410	421
Total reportable segments	**71,042**	**63,312**	**96,805**	**83,499**
Adjustments and eliminations	6,587	5,263	2,545	2,486
Consolidated	**77,629**	**68,575**	**99,350**	**85,985**

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

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

Geographical information

The Group's entities operate in different geographical regions. The following geographical segments were allocated: Novorossiysk, Primorsk, Baltiysk (assuming the anticipated growth in this segment) to estimate financial results and economic conditions of activities of the Group by users of financial statements.

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

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue		
Novorossiysk	784,454	622,184
Primorsk	249,690	-
Baltiysk	12,901	11,690
Other	2,494	1,441
Total	**1,049,539**	**635,315**

6. REVENUE

	Year ended 31 December 2011	Year ended 31 December 2010
Stevedoring services	857,451	494,804
Additional port services	83,558	83,467
Fleet services	92,902	45,028
Other	15,628	12,016
Total	**1,049,539**	**635,315**

7. COST OF SERVICES

	Year ended 31 December 2011	Year ended 31 December 2010
Fuel	214,649	64,767
Depreciation and amortisation	73,503	64,918
Personnel expenses	66,704	50,825
Rent	66,487	10,723
Repairs and maintenance	21,062	16,713
Taxes directly attributable to salaries	19,005	13,183
Subcontractors	13,695	8,467
Energy and utilities	8,653	6,129
Raw materials	7,787	8,031
Defined benefit obligation expense/(benefit)	1,443	(2,294)
Change in provision for payable to lessor	-	(2,857)
Insurance	503	430
Other	1,949	3,034
Total	**495,440**	**242,069**

During 2009, a provision for a payable to lessor was recorded in Cost of services related to a provision for possible additional rental payments as at 31 December 2009. During 2009, based on the current legislation, but without lessor permission, the Group made lower rental payments. Due to the above fact, the Group recognized a provision for the possible additional rental payments in the amount of 2,735. In 2010, however, court rulings favourable to the lessee in similar situations occurred; thus, the Group fully reversed the provision for payable to lessor in fiscal 2010.

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

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Personnel expenses	33,274	21,463
Taxes other than income tax	9,499	8,660
Taxes directly attributable to salaries	4,871	2,788
Professional services	4,859	5,830
Security services	4,737	4,038
Depreciation and amortisation	4,126	3,657
Charitable donations	3,196	2,515
Bank charges	2,066	1,762
Travel and representation expenses	1,982	1,467
Repairs and maintenance	1,356	1,074
Change in allowance for doubtful receivables	1,289	1,411
Rent	1,232	1,440
Advertising	1,101	981
Raw materials	1,053	591
Reversal of loss on advances for property, plant and equipment	-	(8,456)
Change in provision for payable to customer	-	(2,700)
Other	3,527	122
Total	**78,168**	**46,643**

During 2009, the Group advanced Henford Logistics Ltd for a number of assets, which were ordered to be built at a foreign shipyard. One of the assets was not undergoing construction at the end of 2009 and receipt was deemed unlikely. As such, the Group wrote off the entire advance relating to this asset. During 2010, the Group acquired Henford Logistics Ltd, and was able to realise the benefit of the advances by utilising the advanced money in the construction of other assets. As such, the previously recognised impairment was reversed.

The change in provision for payable to customer recorded in Selling, general and administrative expenses in 2009 related to a potential reimbursement to a customer. In 2009, the Group was potentially liable to reimburse pass through expenses charged to a customer in relation to ongoing litigation with the taxation authority. As such, the Group recorded a provision for the charges totalling 2,585. In 2010, the claim made by the customer was settled in the customer's favour, and the Group was no longer liable to the customer for reimbursement. Accordingly, the full provision was subsequently reversed in 2010.

9. FINANCE COSTS

	Year ended 31 December 2011	Year ended 31 December 2010
Interest on loans and borrowings	144,619	26,079
Expense for remediation of Loan Participation Notes covenants	-	4,322
Total	**144,619**	**30,401**

The interest expense incurred during 2011 is primarily related to the borrowing received in January 2011 related to the acquisition of PTP (Note 20).

During 2010, the Group paid a consent fee in amount of 3,544 to Loan Participation Note holders and 778 for transaction support and consulting services to waive the early repayment requirements under the loan agreement dated 14 May 2007 (Note 20).

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

10. INCOME TAX

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax expense	54,755	66,568
Deferred tax benefit	(20,548)	(2,130)
Total	**34,207**	**64,438**

The corporate income tax rate in the Russian Federation is calculated at 20% of the estimated assessable profit for the year based on stand alone accounts. See below for a reconciliation of tax on profit before income tax at the statutory rate to actual income tax expense:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	164,520	322,878
Tax at the statutory rate of 20%	32,904	64,576
Effect of different tax rate of subsidiary	(550)	(135)
Effect on deferred tax balances due to the change in income tax rate of subsidiaries	-	(68)
Effect of other expenses that are not deductible in determining taxable profit	1,853	1,756
Non-deductible loss/(gain) on advances for property, plant and equipment	-	(1,691)
Total	**34,207**	**64,438**

On 1 November 2010, in accordance with Federal Law No. 16 dated 10 January 2006, "On special economic zone in the Kaliningrad region and on amendments to certain legislative acts of the Russian Federation", the Group subsidiary BSC was included in the register of residents of the special economic zone in the Kaliningrad region. As a consequence of this inclusion, income earned by BSC for the first six years after admission to the register related to the implementation of investment projects in this region receives a full tax exemption (i.e. 0% tax rate).

In November 2011 PTP signed an investment agreement with the authorities of Leningrad region. As a result PTP is eligible to apply a reduced income tax rate of 15.5% beginning in 2012. There is no impact on deferred tax liabilities as at 31 December 2011 because the deferred tax liabilities are expected to be released after the period end of the tax rate reduction.

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

	31 December 2011	31 December 2010
Net balance at the beginning of the year	**29,781**	**32,149**
Benefit recognised during the year	(20,548)	(2,130)
Deferred tax liability acquired on acquisition of subsidiaries	269,450	-
Effect of translation into presentation currency	(19,094)	(238)
Net balance at the end of the year	**259,589**	**29,781**

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

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

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

	31 December 2011	31 December 2010
Deferred tax assets		
Tax loss carry forward	16,750	-
Investment valuation	2,037	52
Accrued expenses	1,572	1,081
Allowance for obsolete and slow-moving inventories	213	340
Vacation accruals	10	722
Allowance for doubtful receivables	4	529
Total	**20,586**	**2,724**
Deferred tax liabilities		
Difference in value of property, plant and equipment	276,630	30,413
Long-term debt	1,949	261
Mooring rights	1,596	1,805
Other adjustments	-	26
Total	**280,175**	**32,505**
Net deferred tax liability	**259,589**	**29,781**

The tax loss carry forward recognized expires within 10 years in accordance with the Tax Code. The Group's management believes that the tax loss carry forward will be utilized before the expiration date.

The movement in the difference in value of property, plant and equipment is principally attributable to deferred tax liabilities acquired on acquisition of subsidiaries of 269,450.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) as they are recorded in the consolidated statement of financial position:

	31 December 2011	31 December 2010
Deferred tax assets	7,318	1,156
Deferred tax liabilities	266,907	30,937
Net deferred tax liability	**259,589**	**29,781**

11. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2011 and 2010 were 14,651 and 79,241, respectively. Dividends per share for 2011 and 2010 were US cents 0.077 and 0.411, respectively. The total dividends paid during 2011 and 2010 were 14,797 and 79,410, respectively.

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Vehicles	Office and other equipment	Construction in progress	Total
Cost								
As at 1 January 2010	**18,904**	**312,452**	**270,672**	**64,397**	**16,567**	**68,894**	**57,950**	**809,836**
Additions	233	7,077	19,860	2,560	1,131	1,439	53,685	85,985
Acquired on acquisition of subsidiaries	-	-	-	22,745	-	-	-	22,745
Transfer	-	821	592	1,645	-	307	(3,365)	-
Disposals	-	(2,179)	(4,184)	(2,129)	(835)	(1,097)	(220)	(10,644)
Disposal of advances for property, plant and equipment	-	-	-	-	-	-	(30,375)	(30,375)
Effect of translation into presentation currency	(146)	(2,407)	(2,124)	(579)	(127)	(527)	(672)	(6,582)
As at 31 December 2010	**18,991**	**315,764**	**284,816**	**88,639**	**16,736**	**69,016**	**77,003**	**870,965**
Accumulated depreciation								
As at 1 January 2010	**-**	**(59,386)**	**(130,644)**	**(23,810)**	**(8,759)**	**(28,500)**	**(8,870)**	**(259,969)**
Current year depreciation expense	-	(23,038)	(31,750)	(4,923)	(1,617)	(6,003)	-	(67,331)
Disposals	-	1,725	4,140	1,800	706	810	-	9,181
Reversal of impairment on advances for property, plant and equipment	-	-	-	-	-	-	8,456	8,456
Effect of translation into presentation currency	-	528	1,095	193	71	236	414	2,537
As at 31 December 2010	**-**	**(80,171)**	**(157,159)**	**(26,740)**	**(9,599)**	**(33,457)**	-	**(307,126)**
Carrying value								
As at 1 January 2010	**18,904**	**253,066**	**140,028**	**40,587**	**7,808**	**40,394**	**49,080**	**549,867**
As at 31 December 2010	**18,991**	**235,593**	**127,657**	**61,899**	**7,137**	**35,559**	**77,003**	**563,839**

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

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Vehicles	Office and other equipment	Construction in progress	Total
Cost								
As at 1 January 2011	**18,991**	**315,764**	**284,816**	**88,639**	**16,736**	**69,016**	**77,003**	**870,965**
Additions	150	26,484	29,625	2,340	1,676	2,476	36,599	99,350
Acquisitions through business combinations (Note 25)	1,274,775	121,508	21,023	55,116	937	280	48,277	1,521,916
Transfer	-	55,536	27,513	-	87	109	(83,245)	-
Disposals	-	(2,034)	(3,045)	(92)	(744)	(585)	(1,358)	(7,858)
Effect of translation into presentation currency	(91,357)	(32,449)	(21,417)	(8,380)	(1,050)	(3,879)	(3,345)	(161,877)
As at 31 December 2011	**1,202,559**	**484,809**	**338,515**	**137,623**	**17,642**	**67,417**	**73,931**	**2,322,496**
Accumulated depreciation								
As at 1 January 2011	**-**	**(80,171)**	**(157,159)**	**(26,740)**	**(9,599)**	**(33,457)**	-	**(307,126)**
Depreciation expense	-	(28,263)	(27,939)	(9,177)	(2,203)	(8,725)	-	(76,307)
Disposals	-	1,876	2,979	8	703	536	-	6,102
Effect of translation into presentation currency	-	6,584	10,569	2,476	643	2,501	-	22,773
As at 31 December 2011	**-**	**(99,974)**	**(171,550)**	**(33,433)**	**(10,456)**	**(39,145)**	**-**	**(354,558)**
Carrying value								
As at 1 January 2011	**18,991**	**235,593**	**127,657**	**61,899**	**7,137**	**35,559**	**77,003**	**563,839**
As at 31 December 2011	**1,202,559**	**384,835**	**166,965**	**104,190**	**7,186**	**28,272**	**73,931**	**1,967,938**

As at 31 December 2011 the total amount of advances paid for property, plant and equipment recorded in construction in progress equals to 14,883 (31 December 2010: 44,194).

The total amount of capitalised interest expenses for the year ended 31 December 2011 amounted to 1,003. During the year ended 31 December 2010 no interest expenses were capitalised.

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

13. GOODWILL AND IMPAIRMENT OF GOODWILL

	31 December 2011	31 December 2010
Cost	1,493,996	394,710
Accumulated impairment loss	(2,926)	(3,092)
Carrying amount	**1,491,070**	**391,618**

	31 December 2011	31 December 2010
Cost		
Balance at the beginning of year	394,710	397,747
Acquired through business combinations (Note 25)	1,205,806	-
Effect of translation into presentation currency	(106,520)	(3,037)
Balance at the end of the year	**1,493,996**	**394,710**
Accumulated impairment loss		
Balance at the beginning of year	(3,092)	(3,115)
Effect of translation into presentation currency	166	23
Balance at the end of the year	**(2,926)**	**(3,092)**

For the purpose of impairment testing as at 31 December 2011, management of the Group estimated the recoverable amount of each of the Group's cash-generating units.

The recoverable amount of each 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 each individual cash generating unit.

The most significant estimates and assumptions used by management in the value in use calculations for 2011 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 both long-term price trends for sales prices and material costs, specific to each operating segment and geographic region;
- Revenue rates for transhipment expressed in USD were translated into RUR based on RUR/USD currency rates projections from the Ministry of Finance of the Russian Federation 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 each 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 projects are as follows:

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

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

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 each 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 in 2011 or 2010. Based on management's projections, up to 10% decrease of the budgeted cash flows would not cause the cash generating units carrying value to exceed their recoverable amounts.

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

	Carrying amount	
	31 December 2011	**31 December 2010**
Stevedoring and additional services segment:		
PTP	762,531	-
Grain Terminal	147,484	155,804
Novoroslesexport	119,021	125,735
IPP	25,654	27,101
Shipyard	11,614	12,270
BSC	2,655	2,804
Fleet services segment:		
Sovfracht-Primorsk	357,832	-
Fleet	67,205	70,996
Total	**1,493,996**	**394,710**

14. MOORING RIGHTS

	31 December 2011	**31 December 2010**
Cost	11,072	11,696
Accumulated amortisation	(3,092)	(2,672)
Carrying value	**7,980**	**9,024**

	31 December 2011	**31 December 2010**
Cost		
Balance at the beginning of year	11,696	11,786
Effect of translation into presentation currency	(624)	(90)
Balance at the end of the year	**11,072**	**11,696**
Accumulated amortisation		
Balance at the beginning of year	(2,672)	(2,094)
Charge for the year	(616)	(596)
Effect of translation into presentation currency	196	18
Balance at the end of the year	**(3,092)**	**(2,672)**

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

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

15. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December 2011	31 December 2010
Financial assets carried at amortised cost		
Current		
Deposits	18,976	46,323
Loans issued	2,857	596
Total current	**21,833**	**46,919**
Non-current		
Loans issued and other financial assets	34,842	22,219
Total non-current	**34,842**	**22,219**

Short-term deposits placed in Russian Agricultural Bank consist of short-term deposits denominated in RUR with interest rates varying from 4.60% to 5.58% per annum and short-term deposits denominated in USD with an interest rate of 0.80% per annum. Short-term deposits denominated in USD are also placed in Raiffeisenbank with interest rates varying from 2.40% to 3.25% per annum and in VTB bank with an interest rate of 2.25% per annum.

Current loans in RUR include short-term loans given to employees of the Group and to other related parties with an interest rates varying from 5% to 12% 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 32), 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. An additional agreement to postpone the maturity date from January 2012 to January 2019 was signed on the loan granted to LLC NFT in the amount of 5,000, and an additional agreement to postpone the maturity date from August 2012 to August 2019 was signed on the loan granted to LLC NFT in the amount of 14,600. 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.

16. INVENTORIES

	31 December 2011	31 December 2010
Raw materials and low value items	8,045	6,884
Fuel	1,850	1,922
Goods for resale	2,195	1,324
Other	-	3
Less: Allowance for obsolete and slow-moving inventories	(832)	(1,142)
Total	**11,258**	**8,991**

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

17. TRADE AND OTHER RECEIVABLES

	31 December 2011	31 December 2010
Trade accounts receivable (RUR)	25,598	10,152
Trade accounts receivable (USD)	19,222	15,557
Trade accounts receivable (EUR)	58	59
Other receivables and prepayments	5,628	3,901
Interest receivables	1,069	1,612
Less: Allowance for doubtful receivables	(3,779)	(2,841)
Total	**47,796**	**28,440**

The average credit period for the Group's customers is 11 days. During this period no interest is charged on the outstanding balances. Thereafter, interest according to the contracts is charged at between 0.3% and 6% per month on the outstanding balance.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's largest customers in total represent 67% (2010: 65%) of the outstanding balance.

The summary below shows the outstanding balances of the top main counterparties at the respective balance sheet dates (other counterparties are shown for comparative information):

	Customer location	31 December 2011	31 December 2010
BIG PORT SERVICE	United Arab Emirates	15,768	-
OJSC ROSNEFT OIL COMPANY	Moscow, Russia	5,895	602
OJSC Surgutneftegaz	Surgut, Russia	1,965	-
OJSC Lukoil	Moscow, Russia	1,943	286
FELION LIMITED	Limassol, Cyprus	1,877	959
LLC Ruskon	Novorossiysk, Russia	1,153	1,168
OJSC NLMK	Lipetsk, Russia	1,077	1,832
MILESEATRANS LTD	Wilmington, USA	295	1,126
PORATH SERVICES LIMITED	Marshall Islands	-	10,881
Total		**29,973**	**16,854**

Included in the Group's receivable balance are debtors with a carrying value of 3,675 (2010: 1,913) which are past due at the respective reporting date but not impaired and which the Group still considers recoverable.

A maturity analysis of trade and other receivables is as follows:

	31 December 2011	31 December 2010
Not past due and not impaired	**44,121**	**26,527**
Past due but not impaired		
less than 45 days	2,214	1,147
45-90 days	473	585
90-180 days	683	115
180-365 days	305	66
Past due and impaired	**3,779**	**2,841**
Total	**51,575**	**31,281**

The Group does not hold any collateral over these outstanding balances. No credit limits are set for the customers.

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

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

	31 December 2011	31 December 2010
As at beginning of the year	**2,841**	**1,511**
Recognised in the statement of comprehensive income	1,289	1,411
Amount recovered during the year	(96)	-
Effect of translation into presentation currency	(255)	(5)
Amounts written-off as uncollectable	-	(76)
As at end of the year	**3,779**	**2,841**

Trade receivables and other receivables with due dates between 45 and 365 days are 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.

18. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Bank deposits in USD	74,320	226,740
Bank deposits in RUR	24,132	23,029
Bank deposits in EUR	2	5,323
Current accounts in RUR	25,013	6,867
Current accounts in USD	4,018	2,250
Current accounts in EUR	13	787
Cash in hand	24	21
Total	**127,522**	**265,017**

Bank deposits as at 31 December 2011 mainly represent deposits with Raiffeisenbank, Sberbank and VTB bank 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 0.06% to 6.20% per annum and deposits denominated in USD with interest from 1% to 2.67% per annum. Deposits denominated in RUR, placed in Sberbank, are represented by deposits with interest rates varying from 0.05% to 5.69% per annum, in USD with interest 0.59% per annum. VTB Bank charges interest on deposits denominated in RUR with an original maturity of three months or less in a range from 6.07% to 7.20% and on deposits denominated in USD in a range from 0.02% to 1.70%. Deposits denominated in RUR are placed in UniCredit Bank with an interest rate 4.60% and in Russian Agricultural Bank with an interest rates varying from 4.60% to 5.58%.

19. SHARE CAPITAL

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

During the period from 24 February to 1 March 2011, NCSP repurchased 516,686,496 of its own shares for RUR 4.9 per share from shareholders of NSCP for a total of RUR 2,531,763 thousand (USD 86,151 thousand). The direct costs associated with the buy-back of shares were 126.
The obligatory purchase was performed in accordance with the Federal Law on Joint Stock Companies and the resulting decisions of NCSP's Board of Directors on 4 February 2011 which they approved the obligatory purchase from shareholders who voted against or did not participate in the vote to approve the transaction to acquire 100% of the PTP share capital through a loan for 1,950,000 from Sberbank. The Group's repurchased shares are held as treasury shares in equity as at 31 December 2011.

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

20. DEBT

	Interest rate	Maturity date	31 December 2011	31 December 2010
Unsecured bank loans(USD)				
Loan Participation Notes	7%	May 2012	302,241	301,312
Raiffeisenbank	4.5%	June 2012	-	20,000
Unsecured bank loans(RUR)				
Sberbank	8.5%	November 2014	250,908	-
Sberbank	8.5%	November 2014	9,331	-
Total unsecured bank loans			**562,480**	**321,312**
Secured bank loans(USD)				
Sberbank	LIBOR 3M + 4.85%	January 2018	1,943,776	-
Total debt			**2,506,256**	**321,312**
Current portion of long-term loans			(392,413)	(15,900)
Total non-current debt			**2,113,843**	**305,412**

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;
- Floating 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 in amount 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 Sovfracht-Primorsk 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 with maturity dates in November 2014. The loan interest for each is calculated and payable on a monthly basis.

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

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 Group applied the proceeds of the Loan Participation Notes to repay a portion of the then existing outstanding principal amount of the Sberbank loans.

Interest on the Loan Participation Notes is payable semi-annually on 17 November and 17 May of each year. The Loan Participation Notes are subject to provisions, including representations and warranties, covenants, undertakings and events of default, including change of control, negative pledge and cross-default provisions. A violation of these provisions can result in the Group being required to repay the Loan Participation Notes at 101% of par value.

Holders of the Loan Participation Notes have, by the way of an Extraordinary Resolution duly passed at the meeting of the note holders held on 6 December 2010, approved the waiver of the loan advanced repayment in connection with the change of the control and the breach of the Consolidated Leverage Ratio contained in the limitation on indebtedness covenant. A consent fee of 0.0125 (twelve and one half US dollar) for each 1 (one thousand US dollar) in principal amount of the Loan Participation Notes held was paid to those holders of the Loan Participation Notes who had voted in favour of the extraordinary resolution. A total payment of 3,544 was paid to the note holders and 778 was paid for transaction support and consulting services. Such amounts were expensed as incurred (Note 9).

Raiffeisenbank

In December 2010, the Group entered into a loan agreement with Raiffeisenbank for 20,000 with an interest rate of 4.5% per annum. The loan was granted to repay a loan from Sberbank. The loan principal was to be repaid in equal instalments of 3,333 on a quarterly basis beginning 31 March 2011. Loan interest was calculated and payable on monthly basis.The outstanding principal amount of the loan was repaid in full in September 2011 before the original maturity.

As at 31 December 2011, the average effective borrowing rate relating to the Group’s debt was 5.73% per annum (31 December 2010: 6.84% per annum).

The Group borrowings as at 31 December 2011 are repayable as follows:

	Principal amount	Contractual interest liability	Total
Due within three months	21,656	30,638	52,294
Due from three to six months	321,330	40,927	362,257
Due from six months to twelve months	43,313	59,818	103,131
	386,299	**131,383**	**517,682**
Between 1 and 2 years	86,625	115,527	202,152
Between 2 and 5 years	1,541,295	290,309	1,831,604
Over 5 years	485,923	23,477	509,400
Total	**2,500,142**	**560,696**	**3,060,838**

The contractual interest liability for future periods for variable rate borrowings was calculated based on the actual average interest rate for the year ended 31 December 2011 of 5.17%.

The financial obligations of the Group consist primarily of borrowings denominated in USD.
The fluctuation of the USD exchange rate leads to foreign exchange rate gains or losses which affect the financial performance of the Group. During the year ended 31 December 2011, the to foreign exchange losses on financial obligations decreased the Group’s profit by 171,356 and during the year ended 31 December 2010 decreased the Group’s profit before income tax by 3,624.

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

21. EMPLOYEE BENEFITS

Unfunded defined benefit plan

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries. Under the plans, the employees are entitled to one-time retirement benefits of 10% of the employee's final salary for every year worked for the eligible companies of the Group on attainment of a retirement age of 55 for women and 65 for men. Also, post-retirement benefits are provided to these employees ranging from RUR 200 (USD 0.006 thousand) to RUR 500 (USD 0.02 thousand) per month depending on each employee's years of service and qualifications.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2011. The present value of the defined benefit obligation, the related current service cost and the past service cost were all measured using the projected unit credit method.

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

	Valuation at	
	31 December 2011	**31 December 2010**
Discount rate	8%	8%
Employees turnover per annum	5%	5%
Expected annual rate of salary increase	10%	10%
Expected annual rate of post retirement benefits increase	0%	0%
Average residual period of work	7 years	7 years

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

	Year ended 31 December 2011	**Year ended 31 December 2010**
Interest on obligation	628	923
Current service cost	275	271
Past service cost	494	239
Actuarial losses/(gains) recognised during the year	46	(3,727)
Total	**1,443**	**(2,294)**

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

In 2011, the number of retired employees who received benefits was 2,668 (2010: 2,662).

The amount included in the statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	31 December 2011	**31 December 2010**
Present value of unfunded benefit obligation	7,286	7,382
Past service cost not yet recognised	-	(476)
Net liability arising from defined benefit obligation	**7,286**	**6,906**

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

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

	Year ended 31 December 2011	Year ended 31 December 2010
Opening defined benefit obligation	**7,382**	**10,451**
Actuarial losses/(gains) recognised during the year	46	(3,727)
Interest cost	628	923
Current service cost	275	271
Benefits paid	(623)	(467)
Effect of translation to presentation currency	(422)	(69)
Closing defined benefit obligation	**7,286**	**7,382**

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

	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Present value of defined benefit obligation	7,286	6,906	9,732	7,643	8,181
Experience adjustments on plan liabilities	46	(3,727)	1,380	339	580

Defined contribution plans

Contributions to the Russian Federation State Pension Fund amounted to 19,613 and 11,839 for the years ended 31 December 2011 and 2010, respectively, which related to employee services rendered during each year.

22. TRADE AND OTHER PAYABLES

	31 December 2011	31 December 2010
Trade payables (RUR)	13,176	4,804
Trade payables (USD)	303	804
Trade payables (EUR)	125	99
Trade payables (GBP)	1	-
Payables for property, plant and equipment	4,429	4,121
Other accounts payable	217	-
Total	**18,251**	**9,828**

The average credit period for trade payables relating to the purchase of inventories (e.g. fuel) and services (e.g. utilities) in the territory of the Russian Federation is 14 days. No interest is charged on the outstanding balance for trade and other payables during the credit period. Thereafter, interest may be charged from 0.3% to 9% per month on the outstanding balance.

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

	31 December 2011	31 December 2010
Past due	4,695	1,094
Due within three months	13,196	8,172
Due from three to six months	47	213
Due from six months to twelve months	313	349
Total	**18,251**	**9,828**

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

23. ACCRUED EXPENSES

	31 December 2011	31 December 2010
Accrued salaries and wages	9,908	6,936
Accrued professional service expenses	713	3,617
Other accrued expenses	757	980
Total	**11,378**	**11,533**

24. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year	**130,313**	**258,440**
Adjustments for:		
Depreciation and amortisation	77,629	68,575
Finance costs	144,619	30,401
Loss on disposal of property, plant and equipment	692	131
Foreign exchange loss, net	167,940	12,753
Income tax expense	34,207	64,438
Change in retirement benefit obligation	820	(2,761)
Interest income	(4,434)	(18,632)
Change in allowance for doubtful receivables	1,289	1,411
Change in allowance for spare parts and slow-moving inventories	193	(2,053)
Reversal of loss on advances for property, plant and equipment	-	(8,456)
Change in provisions for probable economic outflows	-	(5,557)
Share of loss in joint venture	4,746	831
Other adjustments	269	3,259
	558,283	402,780
Working capital changes:		
(Increase)/decrease in inventories	(3,507)	1,138
(Increase)/decrease in trade and other receivables	(42,231)	7,234
Decrease in long-term VAT receivables	890	228
Increase/(decrease) in trade and other payables and accruals	41,151	(11,266)
Cash flows generated from operating activities	**554,586**	**400,114**

The Change in provision for probable economic outflows relates to the provisions and subsequent reversals for the potential lease payments and customer payments recorded within Cost of services and Selling, general and administrative expenses, respectively. Refer to Note 7 and Note 8 for further details.

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

25. BUSINESS COMBINATION

On 21 January 2011, NCSP acquired 100% of the shares in PTP, an operator of oil and oil product transhipment at the port of Primorsk, Leningrad District, for a cash consideration of 2,153,000 from OMIRICO LIMITED. The Group also incurred acquisition costs of 4,077 which were recognised as an expense in profit or loss in December 2010. By acquiring PTP, management believes the Group will be able to materially increase the scale of its operations and to become a market leader in port management in Russia's two key regions, the North-Western and Southern basins.

As at the issuance date of these consolidated financial statements, the Group has determined the following fair values of the assets acquired and liabilities assumed as at the acquisition date:

	21 January 2011
Current assets	
Cash and cash equivalents	52,423
Trade and other receivables	33,419
Other current assets	1,715
Non-current assets	
Property, plant and equipment	1,521,916
Other non-current assets	1,980
Current liabilities	
Trade and other payables	20,207
Current portion of long-term debt	93,232
Non-current liabilities	
Deferred tax liabilities	269,450
Long-term debt	281,370
Net assets	**947,194**

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

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

Had this business combination occurred as at 1 January 2011, the revenue of the Group from operations would have been 1,064,408, the finance costs would have been 151,931 and the profit for the year would have been 145,210. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

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

PTP contributed 249,690 of revenue and 119,163 of profit before tax from the date of acquisition to 31 December 2011.

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

26. 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 2011 and 2010, 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:

	Year ended 31 December 2011	Year ended 31 December 2010
Sales and income received from related parties		
Sales and income received from related parties	113,671	87,688
Interest income	2,357	17,342
Purchases from related parties		
Services rendered and materials received	76,098	5,714
Finance costs	121,832	2,596

Balances with state-controlled entities:

	31 December 2011	31 December 2010
Cash and cash equivalents		
Cash and cash equivalents	50,034	260,921
Deposit with related parties	4,840	46,323
Receivables from related parties		
Trade and other receivables	7,929	2,417
Advances to suppliers	437	375
Payables to related parties		
Trade and other payables	1,045	112
Advances received from customers	2,080	3,074
Financial debt to related parties		
Long-term debt	2,113,843	-
Current portion of long-term debt	90,172	-

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 were 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.

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

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 32), OJSC Transneft and its subsidiaries, etc. For the year ended 31 December 2011 the transactions and balances with OJSC Transneft were reflected as transactions and balances with related parties while for the year ended 31 December 2010 as transactions and balances with state-controlled entities.

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

Transactions with joint venture:

	Year ended 31 December 2011	Year ended 31 December 2010
Sales and income received from related parties		
Sales and income received from related parties	109	101
Interest income	1,085	589
Purchases from related parties		
Services rendered and materials received	-	7
Capital expenditures	11	-

Balances with joint venture**:**

	31 December 2011	31 December 2010
Receivables from related parties		
Trade and other receivables	6	9
Long-term loans given to related parties and interest receivable	35,655	20,185
Payables to related parties		
Advances received from customers	3	

Transactions with other related parties:

	Year ended 31 December 2011	Year ended 31 December 2010
Sales and income received from related parties		
Sales and income received from related parties	84,816	1,899
Interest income	206	148
Purchases from related parties		
Services rendered and materials received	56,747	1,628
Capital expenditures	8	-

Balances with other related parties:

	31 December 2011	31 December 2010
Receivables from related parties		
Trade and other receivables	2,917	349
Advances to suppliers	62	-
Short-term loans given to related parties and interest receivable	3,353	937
Long-term loans given to related parties and interest receivable	2,530	2,607
Payables to related parties		
Trade and other payables	2,154	120
Advances received from customers	14,700	-

Compensation of key management personnel

For the year ended 31 December 2011 and 2010, the remuneration of the directors and other members of key management was 11,622 (including termination benefits in amount of 512) and 8,359, 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.

27. 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 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.

The Group has cancelled agreement with OJSC Leningrad shipyard Pella (OJSC Pella) for construction of a tug boat as the boat constructed did not satisfy the Group's requirements. In 2011 OJSC Pella (shipyard) filed a complaint with the Arbitration Court of Saint-Petersburg and Leningrad Region against PTP for invalid unilateral termination by PTP of the tugboat construction due to the breach of contractual terms by OJSC Pella. The amount under dispute excluding penalties was 10,386, consisting of the prepayment to OJSC Pella of 10,386. In June 2011, the Arbitration Court of Saint-Petersburg and Leningrad Region dismissed the case, and in November 2011, the Thirteenth Arbitration Court of Appeal confirmed the dismissal. However, in February 2012, the Arbitration Federal Court of North-West Region reversed the decision of the above courts. PTP has filed an application with the Supreme Arbitration Court for the review of the case.

Management believes it is probable that the Group will recover the amount of the prepayment and that the Group will not incur any liabilities under these litigations. No amounts were written off or provided for in connection with the Group's potential obligations under this litigation.

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.

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

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, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business.

Because Russian Federation produces and exports large volumes of oil and gas, Russian Federation's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

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 five and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

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

	31 December
2012	73,413
2013	66,381
2014	65,192
2015	64,545
2016	64,346
Thereafter	1,054,963
Total	**1,388,840**

The increase in operating lease arrangements is associated with commitments assumed through the acquisition of PTP (Note 25).

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

28. CAPITAL COMMITMENTS

At 31 December 2011, the Group had the following commitments for the acquisition of property, plant and equipment and construction works at:

	31 December 2011	31 December 2010
IPP	8,366	809
NCSP	8,062	49,241
Novoroslesexport	1,992	2,028
Shipyard	211	4
PTP	49	-
BSC	-	12,074
Grain Terminal	-	7
Total	**18,680**	**64,163**

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

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

As at 31 December 2011 and 2010, management believes that the carrying values of significant financial assets (Notes 15, 17 and 18) and financial liabilities (Notes 20 and 22) recorded at amortised cost in the consolidated financial statements approximated their fair value due to their short-term nature, except for the long term loans and borrowings and long-term investments.

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

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

The fair value compared to the carrying value of long-term financial liabilities as at 31 December 2011 and 2010 is as follows:

	31 December 2011		31 December 2010	
	Carrying value	Fair value	Carrying value	Fair value
Loan Participation Notes (Level 1)	302,241	301,875	301,312	310,125
Fixed rate financial liabilities (Level 2)	260,239	248,168	20,000	18,989
LIBOR+ rate agreement with Sberbank (Level 2)	1,943,776	1,878,506	-	-

The Group's management believes that the carrying values of the long-term financial assets (Note 15) recorded at amortised cost in the consolidated financial statements approximates their fair values as at 31 December 2011 and 2010.

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

30. RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

Major categories of financial instruments

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

	31 December 2011	31 December 2010
Financial assets		
Cash and cash equivalents	127,522	265,017
Investments and receivables carried at amortised cost		
Deposits	18,976	46,323
Trade and other receivables	47,796	28,440
Loans issued	37,699	22,815
Total financial assets	**231,993**	**362,595**
Financial liabilities carried at amortised cost		
Loans and borrowings	(2,506,256)	(321,312)
Trade payables	(14,093)	(5,781)
Payables for property, plant and equipment	(7,022)	(5,117)
Total financial liabilities	**(2,527,371)**	**(332,210)**

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

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by obtaining loans and borrowings in the same currency as the Group's major operating inflows.

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

	31 December 2011	31 December 2010
Assets		
Cash and cash equivalents	78,338	228,990
Investments and receivables carried at amortised cost	72,769	38,293
Total assets	**151,107**	**267,283**
Liabilities		
Loans and borrowings	(2,246,017)	(321,312)
Trade payables	(303)	(805)
Total liabilities	**(2,246,320)**	**(322,117)**
Total net liability position	**(2,095,213)**	**(54,834)**

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

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

	31 December 2011	31 December 2010
Depreciation loss	(209,521)	(5,483)

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

	31 December 2011	31 December 2010
Assets		
Cash and cash equivalents	15	6,110
Investments and receivables carried at amortised cost	58	59
Total assets	**73**	**6,169**
Liabilities		
Trade payables	(125)	(99)
Total liabilities	**(125)**	**(99)**
Total net (liability)/assets position	**(52)**	**6,070**

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

	31 December 2011	31 December 2010
Depreciation (loss)/gain	(5)	607

Interest rate risk

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

Credit risk

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

Before accepting of any new customer, the Group uses an internal credit system to assess the potential customer's credit quality. No credit limits are set to the customers.

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

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

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

	Customer location	Turnover for 2010	31 December 2010
PORATH SERVICES LIMITED	British Virgin Island	63,659	10,881
TRANSNEFT-SERVICE	Russia	60,777	2
Palmpoint International Inc.	Panama	52,141	1
OJSC NLMK	Russia	29,568	1,832
MILESEATRANS LTD	USA	26,311	1,126
Total		**232,456**	**13,842**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Maturity analyses of financial liabilities are presented in Notes 20 and 22.

31. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

		Ownership % held*	
Subsidiary	**Country of incorporation**	**31 December 2011**	**31 December 2010**
IPP	Russian Federation	99.97%	99.97%
Fleet	Russian Federation	95.19%	95.19%
Shipyard	Russian Federation	65.18%	65.18%
Novoroslesexport	Russian Federation	91.38%	91.38%
Grain Terminal	Russian Federation	100.00%	100.00%
BSC	Russian Federation	100.00%	100.00%
PTP	Russian Federation	100.00%	-
Sovfracht-Primorsk	Russian Federation	99.99%	-

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

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

32. INVESTMENT IN JOINT VENTURE

LLC NFT is a fuel oil terminal with expected transhipment capacity of four million tons per year.

LLC NFT is in the final stage of construction of storage facilities and reconstruction and modernization of liquid cargo berths in order to facilitate loading of oil products from the terminal to tanker ships. The Group's share in the financial results of the joint venture for the year ended 31 December 2011 and 31 December 2010 amounted to (4,746) and (831), respectively. This loss is the result of fluctuations in the USD exchange rate which has led to a significant foreign exchange loss related to the financial debt of LLC NFT.

	Ownership % held	
Joint venture	**31 December 2011**	**31 December 2010**
LLC NFT	50.00%	50.00%

Summarised financial information LLC NFT is represented below:

	31 December 2011	**31 December 2010**
Total assets	160,284	89,657
Total liabilities	(139,454)	(58,501)
Net assets	**20,830**	**31,156**
Group's share of joint venture net assets	**10,415**	**15,578**
Elimination of unrealised profit	(990)	-
Carrying value of investment	**9,425**	**15,578**

33. EVENTS AFTER THE BALANCE SHEET DATE

The Group completed the conversion of the NCSP treasury shares, 2.68% of their shares, into global depository receipts (GDRs). The NCSP Board of Directors voted affirmatively to convert the shares within the framework of the registered program of GDRs on 17 February 2012. Further decisions for the GDRs will be made by NCSP based on future market conditions.

The NCSP Board of Directors met on 4 March 2012, during which they approved the issuance of Russian ruble bond tranches B0-1, B0-2, B0-3, B0-4 and B0-5 and the related offering circular for the bond program. The par values of the Russian ruble bond tranches B0-1, B0-2, B0-3, B0-4 and B0-5 are 5 billion rubles, 4 billion rubles, 4 billion rubles, 3 billion rubles and 2 billion rubles, respectively, with maturity of 3 years.

On 3 April 2012, ruble bond tranches BO-01, BO-02, BO-03, BO-04 and BO-05 were admitted to the list of securities traded on the MICEX.

On 10 April 2012, the NCSP Board of Directors approved the decision to raise additional funds either through the issuance of an additional ruble bond tranche or through a bank borrowing under a line of credit or loan not to exceed 5 billion rubles and with a maturity of not more than 3 years.

On 10 April 2012, the NCSP Board of Directors has decided to suspend the authority of NSCP Chief Executive Officer Vilinov I.E. and to appoint Rado Antolovic acting as Chief Executive Officer, former Deputy CEO for marketing and sales.