OOO DeloPorts

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2016

Contents

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Independent Auditor's Report

To the participants and members of the Board of Directors of LLC DeloPorts:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Limited Liability Company DeloPorts (the "Company") and its subsidiaries (together, the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

- Overall group materiality: Russian roubles (RUB) 210 million representing 5% of average profit before income tax for 2016-2015.

- We conducted a full-scope audit of the financial information of two Group subsidiaries: LLC NUTEP and JSC KSK, consolidated in the consolidated financial statements;
- Our audit also involved performing audit procedures on individual significant items of the financial information of LLC DeloPorts, LLC TOS, DCP HOLDINGS LTD (Cyprus), ATOKOSA LIMITED (Cyprus), LLC TransTerminal-Holding;
- Our audit scope addressed 100% of the Group's revenues and 92% of the absolute value of its profit before income tax.

Key audit matters:

- Revenue recognition;
- Goodwill impairment test;
- Compliance with covenants.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

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Overall group materiality	RR 210 mln
How we determined it	5% of average profit before income tax for 2016 and 2015.
Rationale for the materiality benchmark applied	We chose using profit before income tax as the materiality benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users of consolidated financial statements. We used an average profit before income tax for 2016 and 2015 to smooth effect on profit of foreign exchange differences. We set 5% threshold, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue is disclosed in Note 17 to the consolidated financial statements. Revenues in the amount of RUB 7,799 million are recognised in the consolidated statement of comprehensive income. The Group provides services on cargo transhipment, storage, other stevedoring and bunkering services. Rates are fixed for each type of services and specified in agreements with customers. The time of revenue recognition depends on the type of service and is not related to application of professional judgement by the Group's management. A significant amount of transactions and potential manual interference create an opportunity for intentional manipulations and unintentional errors. The International Standards on Auditing (ISA) provide for rebuttable presumption that there is a significant risk of fraud in revenue recognition in every audit engagement.	We performed procedures designed to understand and assess the Group's management controls in the area of revenue recognition. The scope of our audit covers 100% of the Group's revenue. We confirmed 84% of the total amount of revenues through confirmation letters received by us directly from customers. The remaining part of revenues was audited using tests of randomly selected individual transactions, applying non-statistical audit sampling, by reconciliation of journal entries and supporting documents. We reviewed individual transactions recorded immediately before and after the end of the reporting period, in terms of cut off in their recognition. As a result of the work performed, no material misstatements in revenue recognition were identified.

Key audit matter	How our audit addressed the key audit matter
We included this issue in key audit matters because revenue is one of the most significant and relevant values for the users of the Group's consolidated financial statements, and because it involves a significant amount of audit procedures and time for their performance.	

Goodwill impairment test

Goodwill is disclosed in Note 8 to the consolidated financial statements. In the consolidated statement of financial position as at the reporting date, goodwill in the amount of RUB 190 million is recorded. The goodwill arose from acquisition of subsidiaries JSC KSK in 2007 and LLC NUTEP in 2011. Accordingly, the goodwill is allocated between two cash-generating units (CGU): grain terminal (RUB 67 million) and container terminal (RUB 123 million). Goodwill impairment test is carried out on an annual basis. As a result of the test, management believes that there was no impairment of goodwill as at the reporting date. We included this issue in the key audit matters, because the value in use of each CGU was estimated based on professional judgements and assumptions made by the Group's management in respect of future performance of the Group and discount rate applicable to its future cash flows. Key assumptions applied to estimation of the value in use are: average annual growth rates in the amounts of transhipment for five years, long-term growth rate after five years, discount rate.	Management tested the goodwill for impairment and provided the test results to us. The testing was carried out applying the value-in-use model based on discounted cash flows for the CGU in question. We reviewed whether the approach applied by management to definition of CGU within which the impairment test was performed is consistent with requirements imposed by IAS 36, *Impairment of Assets*. We tested the mathematical accuracy of goodwill allocation to the Group companies. For all CGUs we performed the following procedures in respect of assumptions applied by management in their projections: • we compared discount rates to the weighted average cost of capital for the Group, recalculated by us on the basis of macroeconomic figures, • we compared the average annual growth rates in the amounts of transhipment for CGUs to the effective growth rates for the recent years, • we reviewed the long-term growth rates after the end of the five-year period in terms of their reasonableness – the management applies a conservative approach setting the long-term growth rates at 0%. We concluded that the assumptions were consistent and met our expectations. As a result of our review of the impairment test model, we identified that the value in use of CGU is significantly higher than the carrying

Key audit matter	How our audit addressed the key audit matter
	value of goodwill. The amount of such excess is material even with a significant increase of the discount rate. We reviewed the goodwill disclosure in Note 8 for completeness and correctness. We did not identify any significant errors or omissions of data in the information disclosed. As a result of the procedures performed we concluded that at the reporting date goodwill does not require any significant adjustments for the purpose of presentation in the consolidated financial statements.
Compliance with covenants *Borrowed funds are disclosed in Note 15 to the consolidated financial statements. Compliance with covenants is disclosed in Note 25 to the consolidated financial statements.* The consolidated statement of financial position as at the reporting date includes liabilities on borrowings in the amount of RUB 6,501 million, including long-term liabilities of RUB 4,931 million and short-term liabilities of RUB 1,570 million. These figures include loans due to banks of RUB 3,459 million and amounts due on bonds, inclusive accrued coupon income, of RUB 3,042 million. Under the terms and conditions of loan agreements and prospectus for bonds issue, the Group should comply with certain financial and non-financial covenants, the breach of which may result in the requirement of early repayment of borrowings. The Group's management reviewed compliance with such covenants during the reporting period and as at the reporting date and concluded that no breach of covenants occurred. We included this issue in the key audit matters, as the amounts due under loans and bonds is material and because the potential need of early settlement of liabilities may result in a significant cash outflow and, as a result, in liquidity issues.	We reviewed the loan agreements and prospectus for bonds issue in terms of any covenants included therein, the breach of which may result in the requirement of early repayment of borrowings. We reviewed compliance with financial covenants by recalculating and comparing the results to thresholds set by the loan agreements and prospectus. In respect of non-financial covenants, we performed reconciliation to business activities. As a result of our procedures, we did not identify any cases of breach of covenants included in the loan agreements and prospectus, the breach of which may result in the requirement of early repayment of borrowings. We reviewed the disclosure of compliance with covenants included in loan agreements in Note 25 to the consolidated financial statements in terms of its completeness and correctness. We did not identify any significant errors or omissions of data in the information disclosed.

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How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We conducted a full-scope audit of the financial information of the following Group companies, which we identified as material components:

- LLC NUTEP;
- JSC KSK.

All audit work in respect of the material components was performed by the engagement team of AO PwC Audit.

For LLC DeloPorts, LLC TOS, DCP HOLDINGS LTD (Cyprus), ATOKOSA LIMITED (Cyprus) and LLC TransTerminal-Holding we performed audit procedures on individual significant items of the financial information of these companies. In particular, for LLC TOS we performed substantive testing in respect of revenues for the year.

The audit team visited facilities of LLC NUTEP, JSC KSK and LLC TOS located in Novorossiysk, Krasnodar Region.

Other information

Management is responsible for the other information. The other information comprises information contained in *the Management Annual Report for 2016 and the Issuer's Report for the 1 quarter of 2017*, other than the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the review of the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The certified auditor responsible for the audit resulting in this independent auditor's report is Vyacheslav Vladimirovich Solovyev.

AO PricewaterhouseCoopers Audit

7 April 2017
Moscow, Russian Federation

V.V. Solovyev, certified auditor (licence No. 01-000269),
AO PricewaterhouseCoopers Audit

Audited entity:
Limited Liability Company DeloPorts

Certificate of inclusion in the Unified State Register of Legal Entities issued on 15 April 2015 under No. 1157746350090.

21 Sukhumskoye Shosse, Novorossiysk, Krasnodar Region, the Russian Federation, 353915

Independent auditor:
AO PricewaterhouseCoopers Audit

State registration certificate No. 008.890
issued by Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under No. 1027700148431.

Member of Self-regulated organization of auditors "Russian Union of Auditors" (Association)

ORNZ 11603050547 in the register of auditors and audit organisations

In thousands of Russian Roubles	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	6 087 533	5 742 620
Goodwill	8	190 066	190 066
Mooring rights and other intangible assets	9	3 728 506	3 834 182
Investments in associates	10	3 827	6 491
Deferred income tax asset	24	67 173	11 640
Prepayments for non-current assets	7	593 349	433 988
Other non-current assets		13 447	-
Total non-current assets		**10 683 901**	**10 218 987**
Current assets			
Inventories	11	98 997	113 163
Trade and other receivables	12	333 023	417 809
Current income tax prepayments		57 581	104 819
Non-current assets held for sale		-	35 587
Short-term loans issued	6	2 761 169	835 117
Deposits (with maturity over 90 days)	13	395 613	571 996
Cash and cash equivalents	13	1 777 915	3 738 184
Total current assets		**5 424 298**	**5 816 675**
TOTAL ASSETS		**16 108 199**	**16 035 662**
EQUITY			
Chartered capital	14	100 000	100 000
Additional capital	14	15 590	15 590
Translation reserve		161 685	234 647
Retained earnings		7 017 313	4 444 490
Equity attributable to the Company's owners		**7 294 588**	**4 794 727**
Non-controlling interest	26	710 774	726 113
TOTAL EQUITY		**8 005 362**	**5 520 840**
LIABILITIES			
Non-current liabilities			
Long-term borrowings	15	4 931 303	6 312 857
Deferred income		8 867	9 167
Deferred income tax liability	24	1 122 637	1 035 735
Total non-current liabilities		**6 062 807**	**7 357 759**
Current liabilities			
Short-term borrowings	15	1 569 661	2 656 397
Trade and other payables	16	418 800	432 158
Current income tax payable		43 133	68 508
Other financial liabilities		8 436	-
Total current liabilities		**2 040 030**	**3 157 063**
TOTAL LIABILITIES		**8 102 837**	**10 514 822**
TOTAL LIABILITIES AND EQUITY		**16 108 199**	**16 035 662**

Approved for issue and signed on 7 April 2017:

I.A. Yakovenko
General director

The accompanying notes on pages 5 - 43 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2016	2015
Revenue	17	7 798 982	7 771 017
Cost of sales	18	(2 091 170)	(2 947 462)
Gross profit		**5 707 812**	**4 823 555**
Selling, general and administrative expenses	19	(457 062)	(471 258)
Other operating income and expenses, net	20	58 720	(20 765)
Net foreign exchange (loss)/gain from operating activities		(17 709)	24 389
Operating profit		**5 291 761**	**4 355 921**
Share of result of associate	10	(2 664)	3 639
Finance income	21	429 448	137 115
Finance costs	22	(613 146)	(372 642)
Net foreign exchange gain/(loss) from financing activities		388 463	(1 221 169)
Profit before income tax		**5 493 862**	**2 902 864**
Income tax expense	24	(1 109 938)	(589 488)
PROFIT FOR THE YEAR		**4 383 924**	**2 313 376**
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation to presentation currency		(72 962)	96 237
Other comprehensive (loss)/income		**(72 962)**	**96 237**
TOTAL COMPREHENSIVE INCOME		**4 310 962**	**2 409 613**
Profit is attributable to:			
- Owners of the Company		3 772 823	1 786 610
- Non-controlling interest		611 101	526 766
Profit for the year		**4 383 924**	**2 313 376**
Total comprehensive income is attributable to:			
- Owners of the Company		3 699 861	1 882 879
- Non-controlling interest		611 101	526 734
Total comprehensive income for the year		**4 310 962**	**2 409 613**

The accompanying notes on pages 5 - 43 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Attributable to owners of the Company: Chartered capital	Additional capital	Reorganisation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
Balance at 1 January 2015	**-**	**-**	**19 790**	**138 378**	**2 737 990**	**2 896 158**	**199 379**	**3 095 537**
Profit for the year	-	-	-	-	1 786 610	1 786 610	526 766	2 313 376
Other comprehensive income/(loss)	-	-	-	96 269	-	96 269	(32)	96 237
Total comprehensive income for 2015	**-**	**-**	**-**	**96 269**	**1 786 610**	**1 882 879**	**526 734**	**2 409 613**
Establishment of the Company, Note 14	100 000	-	-	-	(99 900)	100	-	100
Contribution to additional capital, Note 14	-	15 590	-	-	-	15 590	-	15 590
Group reorganisation*	-	-	(19 790)	-	19 790	-	-	-
Total transactions with equity holders for 2015	**100 000**	**15 590**	**(19 790)**	**-**	**(80 110)**	**15 690**	**-**	**15 690**
Balance at 31 December 2015	**100 000**	**15 590**	**-**	**234 647**	**4 444 490**	**4 794 727**	**726 113**	**5 520 840**
Profit for the year	-	-	-	-	3 772 823	3 772 823	611 101	4 383 924
Other comprehensive loss	-	-	-	(72 962)	-	(72 962)	-	(72 962)
Total comprehensive (loss)/income for 2016	**-**	**-**	**-**	**(72 962)**	**3 772 823**	**3 699 861**	**611 101**	**4 310 962**
Dividends declared, Note 6	-	-	-	-	(1 200 000)	(1 200 000)	(626 440)	(1 826 440)
Balance at 31 December 2016	**100 000**	**15 590**	**-**	**161 685**	**7 017 313**	**7 294 588**	**710 774**	**8 005 362**

*After completion of reorganisation of the Group reorganisation reserve in the amount of 19 790 thousand RR was transferred back to retained earnings.

In thousands of Russian Roubles	Note	2016	2015
Cash flows from operating activities			
Profit for the year		4 383 924	2 313 376
Adjustments for:			
Depreciation of property, plant and equipment	7	412 292	397 383
Amortisation of intangible assets	9	107 626	107 539
Impairment of trade and other receivables		310	32 000
Write-down of non-current assets held for sale		7 352	-
(Profit) / loss on disposal of property, plant and equipment	20	(72 249)	6 851
Finance income	21	(429 448)	(137 115)
Finance costs	22	613 146	372 642
Foreign exchange (gain)/loss on financing activities	5	(388 463)	1 221 169
Income tax expense	24	1 109 938	589 488
Share of result of associate	10	2 664	(3 639)
Operating cash flows before working capital changes		**5 747 092**	**4 899 694**
Decrease in trade and other receivables		84 792	38 331
Decrease in inventories		14 166	30 304
Decrease in trade and other payables		(56 568)	(80 818)
Operating cash flows including working capital changes		**5 789 482**	**4 887 511**
Income taxes paid		(1 056 705)	(434 009)
Net cash from operating activities		**4 732 777**	**4 453 502**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(1 072 409)	(562 217)
Proceeds from sale of property, plant and equipment		380 022	3 970
Interest from deposits	21	149 915	95 833
Interest received	6	165 091	367
Loans granted	6	(4 538 135)	(709 543)
Short-term deposits with maturity from 90 to 365 days		(408 179)	(571 996)
Proceeds from repayment of loans granted		2 564 891	-
Repayment of deposits with maturity from 90 to 365 days		571 996	-
Acquisition of intangible assets	9	(1 950)	(5 309)
Dividends received from associate	10	-	6 090
Net cash used in investing activities		**(2 188 758)**	**(1 742 805)**
Cash flows from financing activities			
Proceeds from borrowings	15	866 434	3 927 272
Repayment of borrowings	15	(2 487 364)	(3 642 267)
Interest paid	22	(635 285)	(400 359)
Capital contributions	14	-	12 100
Proceeds from government grants		10 264	9 891
Commissions paid		(34 429)	(13 044)
Dividends paid to the owners of the Company	6	(1 200 000)	-
Dividends paid to non-controlling interests		(632 314)	-
Net cash used in financing activities		**(4 112 694)**	**(106 407)**
Net change in cash and cash equivalents		(1 568 675)	2 604 290
Cash and cash equivalents at the beginning of the year	13	**3 738 184**	**764 470**
Effect of exchange rate changes on cash and cash equivalents		(391 594)	369 424
Cash and cash equivalents at the end of the year	13	**1 777 915**	**3 738 184**

1 General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016 for OOO DeloPorts (hereinafter, the "Company") and its subsidiaries (hereinafter, jointly referred to as the "Group" or "DeloPorts Group").

The principal activities of the Group include stevedoring services and bunkering operations in the Russian Federation. The Group's operating facilities are primarily based in Novorossiysk, Krasnodar Region.

The Company was established on 15 April 2015 and became the Group's new parent company as a result of reorganisation (for details, please see the section "Reorganisation of the Group and establishment of the Company").

The Company is registered at 21 Sukhumskoye shosse, Novorossiysk, Russian Federation, 353902.

As at 31 December 2016, the Group's immediate parent company was Limited liability company Management company Delo. As at 31 December 2015, the Group's immediate parent company was Utterlan Limited. As at 31 December 2016, the Group's ultimate controlling party was S.N. Shishkarev.

Reorganisation of the Group and establishment of the Company

OOO DeloPorts was incorporated on 15 April 2015 as a subsidiary of DELOPORTS LIMITED (Cyprus) for the purpose of centralised asset management. In 2015, investments in all subsidiaries owned by DELOPORTS LIMITED were transferred to OOO DeloPorts as a contribution to its chartered capital. Thus OOO DeloPorts became the Group's new parent company.

The issued chartered capital and additional capital reflects the capital of company OOO DeloPorts (see Note 14). The equity items (such as retained earnings, translation reserve) for the periods preceeding the contribution of investments are those from the consolidated financial statements of the previous group holding company. The resulting difference was recognised as a separate component of equity – "reorganisation reserve" as at 1 January 2015. Reorganisation is accounted retrospectively by restating the comparative periods.

Group company name	Country of registration	Activity	Percentage of control as at 31 December, % 2016	2015
OOO NUTEP	Russia	Container terminal	100	100
OOO TransTerminal-Holding	Russia	Holding company	100	100
ATOKOSA LIMITED	Cyprus	Holding company	100	100
AO KSK	Russia	Grain terminal	75	75
DCP HOLDINGS LIMITED	Cyprus	Holding company	75	75
OOO TOS	Russia	Bunkering company	100	100

2 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016.

These consolidated financial statements have been prepared applying the IFRSs issued and effective as at 31 December 2016; the Group has not applied early any standards or amendments which are not yet effective (further information presented in the Note 4). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements, unless otherwise noted.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2 Summary of Significant Accounting Policies (continued)

Foreign currency translation. The functional currency of each of the Group's entities is the Russian Rouble ("RR"), except for the Company Atokosa Limited, where the functional currency is US Dollar, which reflects the economic substance of the underlying events and circumstances. Items, included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

These consolidated financial statements are presented in Russian Roubles ("RR"), which is the Group's presentation currency. The Group prepares the consolidated financial statements both in United States Dollars and Russian Roubles. The Group prepares consolidated financial statements in United States Dollars on a voluntary basis for a variety of financial statement users.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss. Foreign currency exchange gains and losses are shown net in the separate line of the consolidated statement of comprehensive income.

The results and financial position of each group entity which has a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

iii) components of equity are translated at the historic rate;

iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation with a functional currency other than the functional or presentation currency of the Group is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

At 31 December 2016, the exchange rate used for translating foreign currency balances was USD 1 = RR 60,6569 (31 December 2015: USD 1 = RR 72,8827) and Euro 1 = RR 63,8111 (31 December 2015: Euro 1 = RR 79,6972). The average exchange rate used for translating income and expense accounts (except for foreign exchange income and expenses which were translated on the transaction basis) for the year ended 31 December 2016, was USD 1 = RR 66,9973, Euro 1 = RR 74,3004 (for the year ended 31 December 2015: USD 1 = RR 61,6062 and Euro 1 = RR 67,8784).

2 Summary of Significant Accounting Policies (continued)

***Consolidated financial statements*.** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest in entitles that provide holder with the right to a proportionate share of net assets in the event of liquidation, on a transaction by transaction basis, either at: the non-controlling interest's proportionate share of net assets of the acquiree or at the fair value. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date over the fair value of net assets of the acquiree. Any negative amount ("negative goodwill, bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Reorganisation of the group. The transfer of a businesses under control of DeloPorts Limited into the newly established entity OOO DeloPorts is accounted for as a capital reorganization of the group. The financial statements of the Company are presented as a continuation of the underlying business and is accounted for using the carrying amounts of assets and liabilities of the transferred business from the consolidated financial statements of the predecessor Group's holding company.

The issued chartered capital and additional capital reflects is the capital of company newly established company. The equity items (such as retained earnings, cumulative translation reserves) for the periods preceding the contribution of investments are those from the consolidated financial statements of the predecessor . The resulting difference is recognised as a separate component of equity – "reorganisation reserve" as at 1 January 2015.

The comparatives are restated to reflect the comparative data of the underlying business.

2 Summary of Significant Accounting Policies (continued)

Purchases and sales of non-controlling interests. The Group treats transactions with non-controlling interests, that do not result in loss of control as transactions with equity holders in their capacity as equity owners of the Group. Any difference between the fair value of the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between the fair value of sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Associates. Associates are all entities over which the Group has significant influence (directly or indirectly) but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired by reference to the requirements of IAS39 "Financial Instruments: Recognition and Measurement". Significant adverse changes in the technological, market, economic and legal environment in which the associate operates is objective evidence that the equity interest in the associate may be impaired. In addition, a significant or prolonged decline in the fair value of the associate below its cost is also objective evidence of impairment. If there is an indication that an investment in associate may be impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount of impairment loss in the profit or loss. Impairment losses are presented in the profit or loss, adjacent to the share of the associates' results accounted for using the equity method.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the profit or loss.

Disposals of subsidiaries and associates. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that subsidiary, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2 Summary of Significant Accounting Policies (continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Financial assets that would meet the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

The Group has only the financial assets classified as ‘loans and receivables” (comprising: trade receivables, other receivables, loans granted, deposits, cash & cash equivalents) and the financial assets at fair value through profit or loss (comprising: derivative forward contracts).

The financial assets classified as loans and receivables” are measured after initial recognition at amortised costs using the effective interest rate method less any impairment.

The financial assets classified as “at fair value through profit or loss” are measured after initial recognition at fair value with the gains/losses recognised in profit or loss.

Classification of financial liabilities. Financial liabilities fall in the measurement of category of other financial liabilities. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. Financial instruments other than measured at fair value through profit or loss are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

2 Summary of Significant Accounting Policies (continued)

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Historic cost includes expenditure that is directly attributable to the acquisition or construction of these items. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or expenses.

Depreciation. Land is not depreciated.

Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	4 to 50 years
Constructions	5 to 50 years
Machinery and equipment	2 to 24 years
Vehicles and other	3 to 15 years

Assets under construction are not depreciated until they are completed and brought into use, at which time they are reclassified in the relevant class of property, plant and equipment and depreciated accordingly.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

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 the 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.

2 Summary of Significant Accounting Policies (continued)

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 value can be measured reliably. The cost of such intangible assets is the fair value at the acquisition date (for details refer to corresponding paragraph in Note 9).

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.

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

	Useful lives in years
Mooring rights	41 years
Other intangibles	4 years

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Spare parts are classified as inventories when not intended to be used for capital construction and capital repairs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;

2 Summary of Significant Accounting Policies (continued)

- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. 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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments for the non-current assets include VAT. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Non-current assets classified as held for sale. Non-current assets (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified. Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, are not depreciated or amortised.

Chartered capital and additional capital. The nominal value of equity stakes are classified as chartered capital. Any excess of the fair value of consideration received over the par value of the equity is recognized as additional capital.

2 Summary of Significant Accounting Policies (continued)

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the events after the reporting period note.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets. Government grants relating to finance expense are credited to profit or loss as finance income.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Revenue recognition. Revenues are recognised when goods are shipped or services rendered for concluded contracts, when the price is fixed or determinable and collectability reasonably assured. The Group provides load handling (mainly, grain and containers), storage and other related stevedoring services and oil bunkering (sale of fuel). Revenues are measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below. Sales of load handling services are recognised in the accounting period in which the services are rendered. Sales of storage and other related stevedoring services are recognised in the accounting period in which the services are rendered based on the stage of completion determined by reference to services performed to date as a percentage of total services to be provided. Revenues from sales of oil fuel (oil bunkering) are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when fuel is tanked to the customer's vessel.

2 Summary of Significant Accounting Policies (continued)

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond to or on behalf of its employees.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Operating segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

Exercise of control. In the end of the year 2013, the Group disposed 25%+1 shares of its subsidiary DCP HOLDINGS LIMITED to a third party and entered into a shareholders' agreement with this third party which regulates the affairs between the shareholders. The shareholders agreement includes, among others, various matters in relation to the mode of operation of DCP HOLDINGS LIMITED where certain decisions can be taken only after unanimous approval from both shareholders of this company ("reserved matters"). The Group has exercised its judgement and considers that the reserved matters are effectively to protect the rights of the non-controlling interest and that the Group still retains the power to govern the financial and operating policies of DCP HOLDINGS LIMITED so as to obtain benefits from its activities. As a result the Group continues to account for DCP HOLDINGS LIMITED as a subsidiary in the consolidated financial statements.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives 10% lower than management's estimates, the impact on depreciation for the year ended 31 December 2016 would have been an increase by 41 229 thousand RR (2015: 39 738 thousand RR).

Impairment of goodwill. The Group determines whether goodwill is impaired on an annual basis. This requires determination of the recoverable amount of the cash-generating units to which the goodwill is allocated. Management considers that there is no impairment of goodwill as at 31 December 2016. The carrying amount of goodwill as at 31 December 2016 was 190 066 thousand RR (2015: 190 066 thousand RR) (please see Note 8).

Rent of mooring area is treated as an operating lease as the economic life of the area is viewed longer than the lease term and there is no transfer of title at the end of lease term.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Recognition of deferrred tax asset in respect of unused tax losses carry-forward. According to the Group estimates, unused tax losses carry-forward can be used against taxable profits in future. Thus, the Group has recognised deferred tax assets in respect of unused tax losses carry-forward in amount of 65 930 thousand RR (2015: 166 649 thousand RR) (Note 24). In 2017-2020, the amount of tax losses generated in prior periods that can be used to reduce the tax base of the current reporting period are limited to 50% of the tax base of that reporting period determined by the taxpayer without taking that loss into account. Since 2021, accumulated tax losses can be recognised in full amounts. The law eliminates the time limit on carrying tax losses forward that was previously equal to 10 years (thus, losses received in 2007 and further are carried forward until exhaustion).

4 New Accounting Pronouncements

Standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, once they become effective.

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

4 New Accounting Pronouncements (continued)

The Group is currently assessing the impact of these interpretations on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, revenue is recognised if there is no significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of these changes on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group is currently assessing the impact of this interpretation on its consolidated financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

4 New Accounting Pronouncements (continued)

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

The following new standards and interpretations became effective for the Group from 1 January 2016, but did not have significant influence on its consolidated financial statements:

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group states there will be no changes in its consolidated financial statements as a result of these amendments.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group states there will be no changes in its consolidated financial statements as a result of these amendments.

4 New Accounting Pronouncements (continued)

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Group states there will be no changes in its consolidated financial statements as a result of these amendments.

Other new or amended standards and interpretations are either irrelevant for Group or are not expected to have any impact.

5 Segment Information

Operating segments are business units that are engaged in business activities that may earn revenues or incur expenses, the operating of which results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons responsible for allocating resources and assessing the performance of the entity. The CODM’s functions are performed by the members of the parent company’s Board of Directors.

For managerial purposes, the Group is organised into three operating divisions - container, grain and bunkering. The Group also includes certain companies that cannot be allocated to a specific division. Such entities include investment and management companies in the holding segment.

Container segment	is represented by a technologically advanced container terminal OOO NUTEP. OOO NUTEP also has a ferry auto complex for Ro-Ro cargo handling.
Grain segment	is represented by a new grain terminal, AO KSK, which also handles general and Ro-Ro cargo.
Bunkering segment	is represented by company OOO TOS, which provides bunkering services in the port of Novorossiysk.

The CODM evaluates the performance of each segment based on several operational and financial metrics, including earnings before interest, tax, depreciation and amortisation (EBITDA).

EBITDA is calculated as profit for the year adjusted for finance income, finance costs and other operating income and expenses net, depreciation and amortisation, share in the profit of associates, net foreign exchange gains/ losses from financing activities and income tax (see note 23). The segment profit or loss, segment assets and segment liabilities are measured applying the same policies as are used in the preparation of these consolidated financial statements.

Non-current assets referring to all three operating segments are located in Novorossiysk. Krasnodar region. All segment revenue is generated in Novorossiysk, Krasnodar region.

5 Segment Information (continued)

The table below represents revenue by segment and type of services:

In thousands of Russian Roubles	2016	2016, %	2015	2015, %
Container segment	3 394 873	43,5	2 802 919	36,1
Container cargo handling	1 843 905		1 378 498	
Storage services	655 848		571 718	
Inspection services	394 616		357 187	
General cargo handling	196 864		285 086	
Ro-Ro handling	31 371		61 069	
Other port services	272 269		149 361	
Grain segment	3 972 097	51,0	3 592 608	46,2
Grain handling	3 843 769		3 458 217	
General cargo handling	10 310		17 633	
Ro-Ro handling	38 910		47 021	
Other port services	79 108		69 737	
Bunkering segment	432 012	5,5	1 375 490	17,7
Total	**7 798 982**	**100**	**7 771 017**	**100**

Operating segments (Container, Grain, Bunkering) are reportable segments.

OOO NUTEP revenue mainly consists of load handling, storage and inspections of containers. Also, OOO NUTEP has revenue from handling of general cargo and Ro-Ro cargo. OOO NUTEP applies a range of tariffs each relevant for a certain service offered by the terminal or type of container handled, including but not limited to empty vs loaded containers, 20 ft vs 40 ft containers, regular vs reefer containers, interterminal movements, inspections, removal of hatches, container locks, passes, etc.

General cargoes are primarily represented by palleted perishable goods such as fruits and vegetables delivered to OOO NUTEP by ferries. They are towed out from ferries by terminal tugs and then discharged into auto-trucks.

Ro-Ro handling operations are represented by self-automated trucks and lorries and are described in a separate paragraph below.

Revenue from storage services is dependent on the number of days that a container stays on the terminal territory. The terminal typically offers several days of free storage, and subsequently, applies a progressive tariff, incentivizing cargo owners to expediently remove containers from the site.

Inspections are a function of customs service – Novorossiysk customs decide which containers to check and what level of inspection is required. The terminal is responsible for facilitating inspections – delivery of container to inspection site and discharge. Other revenue includes a combination of port services, which combined share does not exceed 8% of the total OOO NUTEP's revenue.

AO KSK revenue comes from grain loading operations. The terminal may charge its clients a different rate for different type of grain and volumes of grain loading. Freight forwarding is charged separately since clients of AO KSK retain an option to use their own agent and freight forwarder.

Ro-Ro handling revenue is represented by handling of self-automated cars, trucks and lorries on OOO NUTEP (Container segment). For AO KSK (Grain segment) Ro-Ro handling operations have been represented solely by handling of cars.

OOO TOS revenue comes from bunkering operations mainly in the port of Novorossiysk. The company bunkers the vessels calling Novorossiysk either during loading, or at sea, with fuel oil and/or diesel. OOO TOS purchases fuel from Russian refineries. Fuel oil accounts for 91% of total purchase and sales volume in terms of quantity.

5 Segment Information (continued)

Operational risks

The volume of containerized cargo in Russia began to increase in 2016 compared to 2015 especially in Azov - Black Sea basin where the biggest growth was shown by OOO NUTEP. Nevertheless OOO NUTEP's activities were influenced by the deterioration of relations between Russia and Turkey and the imposition of sanctions on the import of Turkish goods, which led to a reduction of general cargo handling and RoRo handling for ferries in 2016 compared to 2015. Political risk is outside of the Group's control. DeloPorts Group does not consider the risk of fluctuations in the container market driven by political events as critical because it is expected that lost volumes could be replaced by import from other regions.

Grain export duties were introduced in 2015. The mechanism of calculation of export duties has changed several times. Export duties were at their minimum level in the first half of 2016 and were abolished in the second half of 2016. The change in export duty rate affects the volume of grain shipments. This risk is outside of the Group's control. As a result of agricultural season of 2015 – 2016, deepsea grain shipments of AO KSK increased compared to 2014 – 2015 season partially due to the abolishment of export duties.

OOO TOS's volumes decreased during 2015 - 2016. This was the result of the overall drop in the profitability of bunkering services driven by lower oil prices, as well as the market redistribution in favor of the vertically integrated oil companies. The OOO TOS's operations in the current environment are aimed at ensuring operating profitability and reduction in fixed costs rather than protection of its market share. Thus, it was decided to sell two bunkering vessels and continue bunkering activity using rented vessels that reduced fixed costs and increased EBITDA starting from the 4th quarter of 2016 onwards.

5 Segment Information (continued)

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

In thousands of Russian Roubles	Container	Grain	Bunkering	Total for operating segments	Holdings	Reconciliation adjustments Inter-segment eliminations	Total for the Group
External revenue	3 394 873	3 972 097	432 012	7 798 982	-	-	7 798 982
Revenues from other segments	2 349	6 071	-	8 420	26 651	(35 071)	-
Total revenue	**3 397 222**	**3 978 168**	**432 012**	**7 807 402**	**26 651**	**(35 071)**	**7 798 982**
Cost of sales	(1 093 773)	(580 659)	(424 558)	(2 098 990)	(19 466)	27 286	(2 091 170)
Selling, general and administrative expenses	(154 231)	(142 272)	(24 730)	(321 233)	(137 567)	1 738	(457 062)
Foreign exchange loss from operating activities	-	(14 233)	(3 476)	(17 709)	-	-	(17 709)
Other operating income/(expenses), net	(10 668)	(38 373)	108 724	59 683	(655)	(308)	58 720
Operating profit/(loss)	**2 138 550**	**3 202 631**	**87 972**	**5 429 153**	**(131 037)**	**(6 355)**	**5 291 761**
Finance income/(expenses), net	(173 056)	(2 876)	(1 080)	(177 012)	(6 686)	-	(183 698)
Share of loss of associates	-	-	(2 664)	(2 664)	-	-	(2 664)
Foreign exchange (losses)/gains from financing activities	673 480	(143 119)	72	530 433	(141 970)	-	388 463
Profit/(loss) before income tax	**2 638 974**	**3 056 636**	**84 300**	**5 779 910**	**(279 693)**	**(6 355)**	**5 493 862**
Income tax (expense) /credit	(530 471)	(612 485)	(17 278)	(1 160 234)	51 375	(1 079)	(1 109 938)
Profit/(loss) for the year	**2 108 503**	**2 444 151**	**67 022**	**4 619 676**	**(228 318)**	**(7 434)**	**4 383 924**
EBITDA, Note 23	2 490 422	3 413 838	(15 213)	5 889 047	(129 867)	(6 221)	5 752 959
Additions to property, plant and equipment, Note 7	721 476	307 770	13 454	1 042 700	1 139	(6 781)	1 037 058
As at 31 December 2016							
Total reportable segment assets	8 658 717	3 971 527	356 737	12 986 981	3 552 527	(431 309)	16 108 199
Total reportable segment liabilities	(4 335 266)	(1 128 430)	(10 115)	(5 473 811)	(3 060 335)	431 309	(8 102 837)

5 Segment Information (continued)

Segment operating expenses included in cost of sales and selling, general and administrative expenses for the year ended 31 December 2016 were as follows:

						Reconciliation adjustments	
In thousands of Russian Roubles	**Container**	**Grain**	**Bunkering**	**Total for operating segments**	**Holdings**	**Inter-segment eliminations**	**Total for the Group**
Cost of oil products	-	-	336 242	336 242	-	-	336 242
Wages and salaries, including social charges	374 271	317 809	50 034	742 114	96 609	(17 253)	821 470
Depreciation of property, plant and equipment	233 618	172 794	5 539	411 951	515	(174)	412 292
Operating lease rentals	202 274	23 243	-	225 517	-	-	225 517
Amortization of intangible assets	107 586	40	-	107 626	-	-	107 626
Purchased services (including audit and consulting services)	116 518	32 989	32 440	181 947	23 809	(8 074)	197 682
Repairs and maintenance of property, plant and equipment	39 188	13 326	730	53 244	-	-	53 244
Taxes other than on profit	47 759	43 906	2 646	94 311	-	-	94 311
Fuel, electricity and gas	51 524	36 492	4 573	92 589	-	-	92 589
Other expenses	75 266	82 332	17 084	174 682	36 100	(3 523)	207 259
Total expenses	**1 248 004**	**722 931**	**449 288**	**2 420 223**	**157 033**	**(29 024)**	**2 548 232**

5 Segment Information (continued)

Segment information for the reportable segments for the year ended 31 December 2015 is set out below:

In thousands of Russian Roubles	Container	Grain	Bunkering	Total for operating segments	Holdings	Reconciliation adjustments Inter-segment eliminations	Total for the Group
External revenue	2 802 919	3 592 608	1 375 490	7 771 017	-	-	7 771 017
Revenues from other segments	2 487	4 494	-	6 981	9 450	(16 431)	-
Total revenue	**2 805 406**	**3 597 102**	**1 375 490**	**7 777 998**	**9 450**	**(16 431)**	**7 771 017**
Cost of sales	(1 030 521)	(554 849)	(1 368 373)	(2 953 743)	(700)	6 981	(2 947 462)
Selling, general and administrative expenses	(180 939)	(192 043)	(28 323)	(401 305)	(79 403)	9 450	(471 258)
Foreign exchange gain/(loss) from operating activities	2 225	24 899	(2 735)	24 389	-	-	24 389
Other operating income/(expenses), net	(12 026)	(6 806)	(805)	(19 637)	(1 128)	-	(20 765)
Operating profit/(loss)	**1 584 145**	**2 868 303**	**(24 746)**	**4 427 702**	**(71 781)**	**-**	**4 355 921**
Finance (expenses)/income, net	(204 848)	(19 439)	(5 687)	(229 974)	(5 553)	-	(235 527)
Share of profit of associates	-	-	3 639	3 639	-	-	3 639
Foreign exchange (losses)/gains from financing activities	(1 035 801)	(211 695)	4 813	(1 242 683)	21 514	-	(1 221 169)
(Loss)/profit before income tax	**343 496**	**2 637 169**	**(21 981)**	**2 958 684**	**(55 820)**	**-**	**2 902 864**
Income tax (expense) /credit	(70 885)	(530 107)	4 974	(596 018)	6 530	-	(589 488)
Profit/(loss) for the year	**272 611**	**2 107 062**	**(17 007)**	**2 362 666**	**(49 290)**	**-**	**2 313 376**
EBITDA, Note 23	1 918 892	3 046 022	(12 736)	4 952 178	(70 570)	-	4 881 608
Additions to property, plant and equipment, Note 7	309 139	127 900	157	437 196	907	-	438 103
As at 31 December 2015							
Total reportable segment assets	8 846 256	4 627 228	355 315	13 828 799	3 186 117	(979 254)	16 035 662
Total reportable segment liabilities	(6 552 201)	(1 722 776)	(75 715)	(8 350 692)	(3 143 384)	979 254	(10 514 822)

5 Segment Information (continued)

Segment operating expenses included in cost of sales and selling, general and administrative expenses for the year ended 31 December 2015 were as follows:

						Reconciliation adjustments	
In thousands of Russian Roubles	**Container**	**Grain**	**Bunkering**	**Total for operating segments**	**Holdings**	**Inter-segment eliminations**	**Total for the Group**
Cost of oil products	-	-	1 202 997	1 202 997	-	-	1 202 997
Wages and salaries, including social charges	386 368	302 580	60 451	749 399	49 642	-	799 041
Depreciation of property, plant and equipment	215 222	170 873	11 205	397 300	83	-	397 383
Operating lease rentals	174 989	20 714	-	195 703	-	-	195 703
Amortization of intangible assets	107 499	40	-	107 539	-	-	107 539
Purchased services (including audit and consulting services)	99 470	45 496	94 091	239 057	20 680	(16 431)	243 306
Repairs and maintenance of property, plant and equipment	47 219	31 198	1 079	79 496	3	-	79 499
Taxes other than on profit	47 946	46 956	5 061	99 963	-	-	99 963
Fuel, electricity and gas	49 924	27 906	9 066	86 896	-	-	86 896
Other expenses	82 823	101 129	12 746	196 698	9 695	-	206 393
Total expenses	**1 211 460**	**746 892**	**1 396 696**	**3 355 048**	**80 103**	**(16 431)**	**3 418 720**

6 Balances and Transactions with Related Parties

The Group had the following categories of related parties as at 31 December 2016 and for the year then ended:

1. Entities under common control;
2. Associates;
3. Key management personnel;
4. Other related parties. Other related parties include a noncontrolling shareholder which is able to exercise significant influence on the Group's significant subsidiary and companies on which the parent company of the Group is able to exercise significant influence.

At 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Parent company**	**Entities under common control**	**Associates**	**Other related parties**
Trade and other receivables	-	66 163	-	1 098
Loans issued*	2 311 278	448 578	1 313	-
Trade and other payables	-	(19 836)	(73)	(89 821)

* Information about interest rates and currency of loans issued is disclosed in Note 27.

The income and expense items with related parties for the year ended 31 December 2016 were as follows:

In thousands of Russian Roubles	**Parent company**	**Entities under common control**	**Associates**	**Other related parties**
Revenue	-	873 351	-	1 879 135
Cost of sales	-	(14 315)	(5 063)	-
Selling, general and administrative expense	-	(12 346)	-	-
Interest income	143 465	135 841	13	-

At 31 December 2015, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Entities under common control**	**Associates**	**Other related parties**
Prepayments for non-current assets	33 112	-	-
Trade and other receivables	119 641	-	833
Loans issued	835 117	-	-
Trade and other payables	(1)	(1 744)	(16 594)

6 Balances and Transactions with Related Parties (continued)

The income and expense items with related parties for the year ended 31 December 2015 were as follows:

In thousands of Russian Roubles	Entities under common control	Associates	Other related parties
Revenue	893 831	279	1 151 370
Cost of sales	(1 416)	(15 128)	-
Selling, general and administrative expense	(12 675)	-	-
Interest income	20 138	-	-
Interest expense	(8 284)	-	-

Borrowings. At 31 December 2014, the Group had borrowing from the former parent company which was repaid during the six months ended 30 June 2015. Interest expense on these borrowings was 8 284 thousand RR in 2015. At 31 December 2016, the Group has no borrowings from related parties.

Interest capitalised. During the years ended 31 December 2016 and 2015, no borrowing costs in relation to loans payable to related parties were capitalised into assets under construction.

Construction in progress additions. In 2016, construction in progress additions from entities under common control of the Group amounted to 92 108 thousand RR (2015: 14 497 thousand RR).

Management remuneration. Total compensation to 10 (2015: 10) representatives of key management personnel, included in employment costs in the consolidated statement of comprehensive income for salaries and other short-term benefits, amounted to 124 043 thousand RR for 2016 (2015: 92 924 thousand RR).

Dividends. In 2016, the Group distributed dividends to shareholders in amount of 1 826 440 thousand RR (2015: no dividends were distributed).

7 Property, Plant and Equipment

The changes in carrying amounts of property, plant and equipment were as follows:

In thousands of Russian Roubles	**Land**	**Buildings**	**Constructions**	**Machinery and equipment**	**Other**	**Construction in progress**	**Total**
Cost at 1 January 2015	68 381	253 521	3 784 006	2 393 646	72 111	220 092	**6 791 757**
Accumulated depreciation	-	(60 691)	(438 604)	(545 989)	(38 511)	-	**(1 083 795)**
Carrying amount at 1 January 2015	**68 381**	**192 830**	**3 345 402**	**1 847 657**	**33 600**	**220 092**	**5 707 962**
Additions	-	-	2 736	6 646	13 288	415 433	**438 103**
Transfers	-	34 469	264 722	15 407	5 172	(319 770)	**-**
Disposals	-	(545)	(327)	(2 970)	(2 220)	-	**(6 062)**
Depreciation charge, Note 18, 19	-	(18 013)	(163 741)	(195 591)	(20 038)	-	**(397 383)**
Carrying amount at 31 December 2015	**68 381**	**208 741**	**3 448 792**	**1 671 149**	**29 802**	**315 755**	**5 742 620**
Cost at 31 December 2015	68 381	283 849	4 051 075	2 409 049	76 208	315 755	**7 204 317**
Accumulated depreciation	-	(75 108)	(602 283)	(737 900)	(46 406)	-	**(1 461 697)**
Carrying amount at 31 December 2015	**68 381**	**208 741**	**3 448 792**	**1 671 149**	**29 802**	**315 755**	**5 742 620**
Additions	-	-	-	5 433	10 449	1 021 176	**1 037 058**
Transfers	-	71 840	168 311	30 175	578	(270 904)	**-**
Disposals	(25)	(37 450)	(3 091)	(265 051)	(2 470)	-	**(308 087)**
Depreciation charge, Note 18, 19	-	(15 972)	(188 755)	(204 122)	(3 443)	-	**(412 292)**
Reclassification to assets held for sale	-	-	-	28 234	-	-	**28 234**
Carrying amount at 31 December 2016	**68 356**	**227 159**	**3 425 257**	**1 265 818**	**34 916**	**1 066 027**	**6 087 533**
Cost at 31 December 2016	68 356	307 133	4 215 134	2 157 301	84 680	1 066 027	**7 898 631**
Accumulated depreciation	-	(79 974)	(789 877)	(891 483)	(49 764)	-	**(1 811 098)**
Carrying amount at 31 December 2016	**68 356**	**227 159**	**3 425 257**	**1 265 818**	**34 916**	**1 066 027**	**6 087 533**

7 Property, Plant and Equipment (continued)

As at 31 December 2016, property, plant and equipment carried at 592 390 thousand RR (31 December 2015: 2 215 292 thousand RR) have been pledged to third parties as collateral for borrowings. At 31 December 2016, the Group pledged property plant and equipment that related to Container terminal. At 31 December 2015, the Group pledged property plant and equipment that related to both Container and Grain terminals.

Borrowing costs and associated foreign exchange losses of 90 262 thousand RR were capitalised in 2016 at the rate of capitalisation of 13,1% (2015: borrowing costs of 64 791 thousand RR at the rate of capitalisation of 13,8% for Company's rouble borrowings).

Depreciation expense of 412 292 thousand RR (2015: 397 383 thousand RR) has been charged to cost of sales amounting to 404 973 thousand RR (2015: 388 033 thousand RR) and in selling, general and administrative expenses amounting to 7 319 thousand RR (2015: 9 350 thousand RR).

In order to reduce the fixed costs and provide operating profitability of the bunkering segment, OOO TOS sold bunkering vessels in 2016 with a net profit of 87 077 thousand RR.

Prepayments for non-current assets consist mainly of advances issued for construction of OOO NUTEP's Berth 38, installation of AO KSK's gas powered electricity generation and construction of tugboats for OOO TOS.

8 Goodwill

Goodwill related to grain and container terminals was formed as a result of acquisition of mentioned assets by Delo Group in 2007 and 2011 correspondingly. Goodwill is allocated to cash-generating units (CGUs), which represent the lowest level within the Group at which the goodwill is monitored by management and which is not larger than the operating segment itself, as follows:

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Grain terminal CGU	66 671	66 671
Container terminal CGU	123 395	123 395
Total carrying amount of goodwill	**190 066**	**190 066**

The recoverable amount of each CGU was determined based on value-in-use calculations. Cash flow models were prepared in US Dollars. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates. A reasonable change in key assumptions would not cause an impairment of goodwill. Key assumptions are determined on the basis of market analysis which is performed regularly.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

- Growth rate beyond 5 years is 0% both for grain CGU "KSK" and container CGU "NUTEP" taking into account US Dollar cash flows;
- Discount rate, calculated in US Dollars, is 12% for KSK and 11% for NUTEP;
- Average annual volume growth rate for grain cargo for 2017-2021 is 0-3% for KSK and 4-10% for container cargo for NUTEP.

No impairment was identified as a result of the impairment test as the recoverable amounts exceeded carrying value of CGUs.

9 Mooring Rights and Other Intangible Assets

In thousands of Russian Roubles		**Mooring rights**	**Other intangible assets**	**Total**
Cost at 1 January 2015		4 338 908	10 667	**4 349 575**
Accumulated amortisation		(406 170)	(6 993)	**(413 163)**
Carrying amount at 1 January2015		**3 932 738**	**3 674**	**3 936 412**
Additions		-	5 309	**5 309**
Amortisation charge	18, 19	(107 256)	(283)	**(107 539)**
Carrying amount at 31 December 2015		**3 825 482**	**8 700**	**3 834 182**
Cost at 31 December 2015		4 338 908	15 976	**4 354 884**
Accumulated amortisation		(513 426)	(7 276)	**(520 702)**
Carrying amount at 31 December 2015		**3 825 482**	**8 700**	**3 834 182**
Additions		-	1 950	**1 950**
Amortisation charge	18, 19	(107 256)	(370)	**(107 626)**
Carrying amount at 31 December 2016		**3 718 226**	**10 280**	**3 728 506**
Cost at 31 December 2016		4 338 908	17 926	4 356 834
Accumulated amortisation		(620 682)	(7 646)	(628 328)
Carrying amount at 31 December 2016		**3 718 226**	**10 280**	**3 728 506**

In 2011, Delo Group acquired intangible assets as part of 100% OOO NUTEP consolidation. The fair value was determined by an independent appraiser as of the acquisition date. Mooring rights represent the long-term lease rights to hydro-technical infrastructure in Novorossiysk, Krasnodar region, owned by the state.

10 Investment in Associate

In thousands of Russian Roubles	**2016**	**2015**
Carrying amount at 1 January	**6 491**	**2 852**
Share of loss of associate	(2 664)	3 639
Carrying amount at 31 December	**3 827**	**6 491**

At 31 December 2016 and for the year then ended, the Group’s interest in its principal associate, which is unlisted, and its summarised financial information, including total assets, liabilities, revenues and loss, was as follows:

Name	**Total assets**	**Total liabilities**	**Revenue**	**Loss**	**% interest held**
LLC Aquaspas	27 161	11 848	34 116	(10 654)	25 %

At 31 December 2015 and for the year then ended, the Group’s interest in its principal associate, which is unlisted, and its summarised financial information, including total assets, liabilities, revenues and profit, was as follows:

Name	**Total assets**	**Total liabilities**	**Revenue**	**Profit**	**% interest held**
LLC Aquaspas	32 090	6 123	63 031	14 556	25 %

11 Inventories

In thousands of Russian Roubles	31 December 2016	31 December 2015
Fuel and spare parts	82 166	98 228
Oil products for resale	16 831	14 935
Total inventories	**98 997**	**113 163**

There were no impairment write downs of inventories in 2016 and 2015.

12 Trade and Other Receivables

In thousands of Russian Roubles	31 December 2016	31 December 2015
Trade receivables	191 684	289 817
Provision for impairment of trade receivables	(32 310)	(32 000)
Trade receivables less provision for impairment of trade receivables	**159 374**	**257 817**
Other receivables	15 110	21 822
Financial receivables	**174 484**	**279 639**
VAT recoverable	112 317	103 441
Prepayments	21 383	12 714
Other taxes receivable	17 405	13 300
Receivables from employees	7 434	8 715
Total trade and other receivables	**333 023**	**417 809**

The Group has no overdue and not reserved trade and other accounts receivable as at 31 December 2016 and 31 December 2015. Financial receivables, stated as at 31 December 2016, will be settled within six months from the reporting date. The fair value of receivables approximates their carrying value as the impact of the discounting is insignificant and is within Level 2 of the fair value hierarchy. The fair value is based on discounting of cash flows using 14,3% (2015: 15,0%) discount rate.

13 Cash and Cash Equivalents

In thousands of Russian Roubles	31 December 2016	31 December 2015
Cash in hand	171	254
Cash at bank	387 126	29 529
Short-term bank deposits (less than 90 days)	1 390 618	3 708 401
Total cash and cash equivalents	**1 777 915**	**3 738 184**

The average interest rate on short-term deposits at 31 December 2016 was 3,80% (31 December 2015: 7,32%). These deposits have average original maturity of 65 days at 31 December 2016 (31 December 2015: 27 days). At 31 December 2016, these deposits have average period to maturity of 42 days from the reporting date (31 December 2015: 19 days).

The Group had deposits with maturity from 90 to 365 days at 31 December 2016 in the amount of 395 613 thousand RR (31 December 2015: 571 996 thousand RR). The average interest rate on these deposits at 31 December 2016 was 2,69% (31 December 2015: 1,66%). These deposits have average original maturity of 205 days (31 December 2015: 197 days). At 31 December 2016, these deposits have average period to maturity of 140 days from the reporting date (31 December 2015: 174 days).

14 Chartered and Additional Capital

There was no chartered capital at 1 January 2015 because the Company was established in 2015. Restructuring reserve at 1 January 2015 equal to the sum of individual share capitals of Group’s subsidiaries.

14 Chartered and Additional Capital (continued)

Chartered capital at 31 December 2016 amounts to 100 000 thousand RR, which was paid in cash for 100 thousand RR and for 99 900 thousand RR was made in the form of investments in subsidiaries as a result of completion of reorganisation of the Group. Contribution to the Company's additional capital in the amount of 15 590 thousand RR was made in cash in the amount of 12 000 thousand RR and in the form of intangible assets transferred to the Company by the parent company DELOPORTS LIMITED in the amount of 3 590 thousand RR.

15 Borrowings

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Short-term borrowings	1 569 661	2 656 397
Long-term borrowings	1 931 303	3 312 857
Long-term bonds with nominal in Russian Rubles	3 000 000	3 000 000
Total borrowings	**6 500 964**	**8 969 254**

In November 2015, the Company issued Rouble denominated bonds for 3 000 000 thousand RR at the rate 13,8%, which are traded on the Moscow Exchange with a mandatory call in November 2018. Bonds were issued without pledges and financial covenants. In November 2015, in connection with the debut bond issue of the Company the long-term issuer default rating of "BB-" was confirmed by Fitch Ratings, which was assigned at the beginning of 2015. In May 2016, bonds of the Company were included in the Lombard list of the Bank of Russia.

Bank loans are subject to pledges (Note 7) and covenants (Note 25). Interest rate for long-term and short-term loans and borrowings are disclosed in Financial Risk Management note (Note 27).

The fair value of long-term bonds equals to 3 081 000 thousand RR as at 31 December 2016 (31 December 2015: approximate the carrying amount) and is within Level 1 of the fair value hierarchy. The carrying amount of other borrowings doesn't materially differ from its fair value as the impact of discounting is not significant. The fair value of other borrowings is within Level 2 of the fair value hierarchy.

16 Trade and Other Payables

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Trade payables	65 819	54 781
Other payables	7 248	4 579
Financial payables	**73 067**	**59 360**
Advances from customers	142 573	169 555
Other taxes payable	84 879	90 086
Payables to employees	82 713	75 709
Accruals and provisions	35 568	37 448
Total trade and other payables	**418 800**	**432 158**

The carrying amounts of trade and other payables do not materially differ from their fair value. The fair value of payables approximates their carrying value as the impact of the discounting is insignificant and is within Level 2 of the fair value hierarchy. The fair value is based on discounting of cash flows using 14,3% (31 December 2015: 15,0%) discount rate.

17 Revenue

In thousands of Russian Roubles	2016	2015
Grain handling	3 843 769	3 458 217
Container cargo handling	1 843 905	1 378 498
Storage services	655 848	571 718
Inspection services	394 616	357 187
General cargo handling	207 174	302 719
Bunkering	432 012	1 375 490
Ro-Ro handling	70 281	108 090
Other port services	351 377	219 098
Total revenue	**7 798 982**	**7 771 017**

18 Cost of sales

In thousands of Russian Roubles	2016	2015
Depreciation of property, plant and equipment	404 973	388 033
Wages and salaries	386 013	371 739
Cost of oil products	336 242	1 202 997
Operating lease rentals, Note 25	225 517	195 703
Purchased services	166 925	215 419
Amortisation of intangible assets	107 503	107 443
Social charges	106 046	101 392
Taxes other than income taxes	94 311	99 963
Fuel, electricity and gas	89 803	83 955
Security services	62 524	61 272
Repair and maintenance of property, plant and equipment	50 353	67 125
Materials	28 394	24 017
Other expenses	25 050	20 036
Insurance	7 516	8 368
Total cost of sales	**2 091 170**	**2 947 462**

19 Selling, General and Administrative Expenses

In thousands of Russian Roubles	2016	2015
Wages and salaries	195 314	205 488
Other remunerations to personnel	77 254	60 149
Social charges	56 843	60 273
Audit and consulting services	30 757	27 887
Legal expenses	25 823	9 450
Information systems and communication	14 933	11 824
Rent expenses, Note 25	14 084	13 731
Travelling expenses and per diems	9 124	8 194
Materials	7 549	6 925
Depreciation of property, plant and equipment	7 319	9 350
Other expenses	6 969	4 133
Insurance	4 983	6 443
Repair and maintenance of property, plant and equipment	2 891	12 374
Fuel, electricity and gas	2 786	2 941
Impairment of trade and other receivables	310	32 000
Amortisation of intangible assets	123	96
Total selling, general and administrative expenses	**457 062**	**471 258**

20 Other Operating Income / (Expenses), net

In thousands of Russian Roubles	2016	2015
Gain / (loss) on disposal of property, plant and equipment	72 249	(6 851)
Charity and material aid	(4 134)	(4 280)
Other income and expenses, net	(9 395)	(9 634)
Total other operating income and expenses, net	**58 720**	**(20 765)**

21 Finance Income

In thousands of Russian Roubles	2016	2015
Interest income on deposits and overnights	149 244	96 695
Government grants received and amortisation of deferred income	885	20 282
Interest income on loans issued, Note 6	279 319	20 138
Total finance income	**429 448**	**137 115**

AO KSK receives government grants for partial compensation of interest expenses under bank credit used for construction of grain terminal.

22 Finance Costs

In thousands of Russian Roubles	2016	2015
Interest expense on bank loans and bonds	591 332	349 650
Bank charges and commissions	21 814	14 708
Interest expense on loans received	-	8 284
Total finance costs	**613 146**	**372 642**

The Group capitalised borrowing costs arising on financing directly attributable to the construction of qualifying assets. Amounts of interest capitalised are disclosed in Note 7.

23 Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

The Group uses EBITDA measure for assessment of segment performance (see Note 5). Since the term EBITDA is not a standard IFRS measure, the Group's definition of EBITDA may differ from that of other companies. A reconciliation of EBITDA to profit for the year is as follows:

In thousands of Russian Roubles	2016	2015
Profit for the year	4 383 924	2 313 376
Adjusted for:		
Depreciation and amortisation, Note 18, 19	519 918	504 922
Other income and expenses, net, Note 20	(58 720)	20 765
Share of profit of associates, Note 10	2 664	(3 639)
Finance income, Note 21	(429 448)	(137 115)
Finance costs, Note 22	613 146	372 642
Foreign exchange (losses)/gains on financing activity	(388 463)	1 221 169
Income tax, Note 24	1 109 938	589 488
EBITDA	**5 752 959**	**4 881 608**

24 Income Tax

(a) Components of income tax expense

In thousands of Russian Roubles	2016	2015
Current tax	1 078 569	536 944
Deferred tax	31 369	52 544
Income tax expense	**1 109 938**	**589 488**

24 Income Tax (continued)

(b) Reconciliation between the tax expense and profit multiplied by applicable tax rate

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2016	2015
Profit before income tax	5 493 862	2 902 864
Theoretical tax charge at statutory rate of 20%:	(1 098 772)	(580 573)
- Income tax on dividends at rate 13%	(1 079)	-
- Effect of non-deductible expenses	(11 021)	(9 691)
- Effect of different tax rates in other countries	934	776
Income tax expense	**(1 109 938)**	**(589 488)**

The income tax rate applicable to the majority of the Group in 2016 and 2015 is 20%. The Cypriot subsidiary is subject to corporation tax on taxable profits at the rate of 12,5% (2015: 12,5%).

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

According to management estimates, net deferred tax asset in the amount of 74 716 thousand RR is expected to be recovered no more than twelve months after the reporting period as at 31 December 2016 (31 December 2015: 161 127 thousand RR).

The tax effects for the movements in the temporary differences tax losses carry-forward for the year ended 31 December 2016 are:

In thousands of Russian Roubles	1 January 2016	(Credited)/ charged to profit or loss	31 December 2016
Tax effect of (taxable)/ deductible temporary differences			
Property, plant and equipment	(443 556)	33 650	(409 906)
Intangible assets	(765 010)	21 451	(743 559)
Trade and other receivables	9 069	10 121	19 190
Inventories	(3 703)	5 113	1 410
Tax loss carry-forward	166 649	(100 719)	65 930
Deferred income	1 833	(60)	1 773
Trade and other payables	10 623	(925)	9 698
Net deferred tax liability	**(1 024 095)**	**(31 369)**	**(1 055 464)**
Recognised deferred tax asset	11 640		67 173
Recognised deferred tax liability	(1 035 735)		(1 122 637)
Net deferred tax liability	**(1 024 095)**		**(1 055 464)**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity, when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

24 Income Tax (continued)

The tax effect of the movements in the temporary differences and tax losses carry-forward for the year ended 31 December 2015:

In thousands of Russian Roubles	1 January 2015	(Credited)/ charged to profit or loss	31 December 2015
Tax effect of (taxable)/ deductible temporary differences			
Property, plant and equipment	(428 498)	(15 058)	(443 556)
Intangible assets	(786 671)	21 661	(765 010)
Trade and other receivables	2 135	6 934	9 069
Inventories	(11 519)	7 816	(3 703)
Tax loss carry-forward	220 691	(54 042)	166 649
Deferred income	1 923	(90)	1 833
Trade and other payables	30 388	(19 765)	10 623
Net deferred tax liability	**(971 551)**	**(52 544)**	**(1 024 095)**
Recognised deferred tax asset	2 233		11 640
Recognised deferred tax liability	(973 784)		(1 035 735)
Net deferred tax liability	**(971 551)**		**(1 024 095)**

(d) Tax loss carry forwards

The Group has recognised deferred tax assets in respect of unused tax loss carry forwards of 65 930 thousand RR (2015: 166 649 thousand RR). In 2017-2020, the amount of tax losses generated in prior periods that can be used to reduce the tax base of the current reporting period are limited to 50% of the tax base of that reporting period determined by the taxpayer without taking that loss into account. Since 2021, accumulated tax losses can be recognised in full amounts. The law eliminates the time limit on carrying tax losses forward that was previously equal to 10 years (thus, losses received in 2007 and further are carried forward until exhaustion).

(e) Deferred taxes in respect of subsidiaries and associates

The Group has not recorded any deferred tax liability in respect of temporary differences associated with investments in subsidiaries as the legislation allows zero tax on dividends from subsidiaries under certain conditions.

25 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own best estimates, management is of the opinion that no material losses will be incurred in respect of claims.

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

25 Contingencies and Commitments (continued)

The Group includes companies incorporated outside of Russia, one of which is independently pleaded tax resident of the Russian Federation and created a representative on the territory of Russia. The tax liabilities of the Group are determined on the basis of the declared Group companies residence. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. The Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). CFC income is subject to a 20% tax rate.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2016 and 2015 management believes no additional tax liability has to be accrued in the consolidated financial statements.

Capital expenditure commitments. At 31 December 2016, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling 4 504 155 thousand RR (31 December 2015: 659 399 thousand RR). Increase in capital commitments is connected with the start of construction of berth 38 on OOO NUTEP with payments in amount of 3 055 447 thousand RR until the end of 2018 and the start of tugboats construction for OOO TOS with the amount of 1 139 028 thousand RR due at the expense of undrawn credit facility (Note 27).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Not later than 1 year	137 403	133 313
Later than 1 year and not later than 5 years	508 710	502 144
Later than 5 years	3 496 914	3 453 568
Total operating lease commitments	**4 143 027**	**4 089 025**

Most of long-term non-cancellable operating lease commitments relate to port facilities and infrastructure in Novorossiysk Port (mooring rights).

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Compliance with covenants. The Group is subject to certain covenants, both financial and non-financial, related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants specified in the loan agreements and the bond issue prospectus at 31 December 2016 and 31 December 2015.

25 Contingencies and Commitments (continued)

Under the credit facility provided by Raiffeisenbank OOO NUTEP is subject to four financial covenants calculated on the basis of financial statements under Russian accounting standards: 1) Debt to Equity, where Debt consists of short- and long-term loans and borrowings excluding the increase in value due to foreign exchange differences and excluding loan balances from the Group companies, and Equity equals to the sum of all lines of Section III of the balance sheet reduced by the increase in the cost of borrowings due to foreign exchange differences; 2) Current ratio, calculated as Current assets excluding long-term receivables to Current liabilities excluding deferred revenue, accruals and debt in relation to Raiffeisenbank; 3) Net operating margin calculated as Gross Profit divided by Revenue; 4) Debt to EBITDA, where Debt is calculated as all financial liabilities excluding those from Related parties and EBITDA is calculated as Operating profit excluding depreciation and amortisation. Besides, OOO "DeloPorts" is subject to two financial covenants calculated on the basis of IFRS consolidated financial statements in accordance with guarantee agreement: 1) Debt to EBITDA, where the rates are calculated similar to the sub-item 4 above; 2) Debt to Equity.

Under the credit facility provided by Alfa-Bank AO KSK is subject to two financial covenants calculated on the basis of financial statements under Russian accounting standards: 1) Net Debt to EBITDA Ratio, where Net debt is calculated as all financial liabilities less cash and deposits, and EBITDA is calculated as Operating profit excluding depreciation and amortisation and all types of income and expenses that are not directly related to the economic activity of AO KSK and not of permanent nature for the last twelve months 2) the Interest Coverage Ratio, calculated as 12-Month EBITDA to 12-Month Total Interest Expense.

26 Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

In thousands of Russian Roubles	Place of business and country of incorporation	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2016						
DCP Group (DCP HOLDINGS LTD and subsidiary AO KSK)	Cyprus, Russia	25	25	611 101	710 774	(626 440)
Year ended 31 December 2015						
DCP Group (DCP HOLDINGS LTD and subsidiary AO KSK)	Cyprus, Russia	25	25	526 766	726 113	-

The summarised financial information of these subsidiaries on a 100% basis and before intercompany eliminations was as follows at 31 December 2016 and 31 December 2015:

In thousands of Russian Roubles	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
Year ended 31 December 2016								
DCP Group (DCP HOLDINGS LTD and subsidiary AO KSK)	1 276 931	2 694 596	(805 300)	(323 130)	3 978 168	2 444 151	2 444 151	(358 878)
Year ended 31 December 2015								
DCP Group (DCP HOLDINGS LTD and subsidiary AO KSK)	1 992 639	2 634 589	(1 553 338)	(169 438)	3 597 103	2 107 063	2 106 936	1 103 593

27 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise these risks.

Russian operating environment. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 25). During 2016, the Russian economy was negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products and rendering of services on credit terms and other transactions with counterparties giving rise to financial assets. Financial assets, which potentially subject the Group to credit risk, consist primarily of trade and other receivables, loans granted and cash and cash equivalents. Short-term loans are issued to related parties and they are not overdue and impaired as at 31 December 2016.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position as follows:

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Trade and other receivables, Note 12	**174 484**	**279 639**
Trade receivables	159 374	257 817
Other receivables	15 110	21 822
Short-term loans issued	**2 761 169**	**835 117**
Deposits (with maturity over 90 days)	**395 613**	**571 996**
Cash and cash equivalents, Note 13	**1 777 744**	**3 737 930**
Cash at bank	387 126	29 529
Short-term bank deposits (less than 90 days)	1 390 618	3 708 401
Total maximum exposure to credit risk	**5 109 010**	**5 424 682**

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to review at least once a quarter. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12.

27 Financial Risk Management (continued)

The following table shows the credit quality and the concentration of the credit risk in relation to the cash and cash equivalents and other bank deposits as at 31 December 2016 and 31 December 2015:

In thousands of Russian Roubles	**Rating of bank according to Moody's**	**Cash amount at 31 December 2016**	**Cash amount at 31 December 2015**
Cash and cash equivalents at bank			
Unicredit Bank*	Baa1	27	27 492
Raiffeisenbank*	Baa2	140 497	74 904
Sberbank	Ba1	149 349	730 773
VTB	Ba1	91 821	2 904 439
Alfa-Bank	Ba2	537 525	-
Sovcombank	B1	653 113	-
Promsvyazbank	Ba3	200 010	-
Other	-	5 402	322
Total cash and cash equivalents	**-**	**1 777 744**	**3 737 930**
Bank deposits (with maturity 90 to 365 days)			
Raiffeisenbank*	Baa2	-	12 375
VTB	Ba1	62 000	249 623
Sberbank	Ba1	333 613	309 998
Total bank deposits		**395 613**	**571 996**

* Deposit rating of these banks refers to parent companies.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating, if available. For accounts receivable with no external credit rating available management assesses credit quality by reference to the prior history of working with customers. Customers with longer history of working with the Group are regarded by management as having lower risk of default. The credit quality of trade and other receivables that are neither past due nor impaired classified by reference to the working history of the counterparty with the Group is as follows:

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Core Clients	172 162	223 964
Other Clients	2 322	55 675
Total trade and other receivables	**174 484**	**279 639**

Core clients – Large customers with more than one year of working history with the Group.

These accounts receivables were formed in an ordinary course of business. In 2016, the Group worked with most of customers on the following conditions:

- AO KSK works with most customers on a prepayment basis;
- OOO NUTEP provides its customers 15 to 45 working days payment deferral from the date of invoice delivery;
- OOO TOS grants 5 to 60 days payment deferral to its customers.

The Group's business is dependent on several large key customers accounting for 67% and 51% of the Group's revenue for the year ended 31 December 2016 and 2015 respectively.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total. The positions are monitored quarterly.

27 Financial Risk Management (continued)

The majority of the Group's revenue is denominated in US dollars, while at the same time the company's operating revenue comes both in rubles and in US dollars. Revenue received in Russian Roubles is linearly converted into foreign currency and placed on deposit in accordance with the Group's policy if there is no need to make payments in rubles. Thus, a currency risk exists between the dates of revenue accrual and the date of the actual currency purchase. Currency assets help to minimise the risk, as the majority of borrowings are denominated in US dollars.

Moreover, Group's companies use forward contracts for currency purchases matching in duration future loan repayments. During 2016 and 2015, the Group entered into a number of forward transactions for purchase of currency of 6 million US dollars and sale of currency of 6 million US dollars in 2016 (2015: purchase of currency of 5,5 million US dollars) which, in turn, led to the recognition financial liability equal to 8 436 thousand RR. According to the Group, as a result of a gain on the revaluation of USD-denominated bank deposits and exchange gains on transactions, the total loss from exchange differences came to 424 617 thousand RR in 2016 (2015: total gain from exchange differences came to 259 690 thousand RR).

In addition, the Group uses multi-currency credit facilities allowing for a choice of currency depending on market conditions.

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2016:

	At 31 December 2016			
In thousands of Russian Roubles	**RR**	**EUR**	**USD**	**TOTAL**
Financial assets				
Cash and cash equivalents	495 245	5 087	1 277 583	**1 777 915**
Deposits (with maturity over 90 days)	62 000	-	333 613	**395 613**
Short-term loans issued	2 443 085	-	318 084	**2 761 169**
Financial receivables	155 720	-	18 764	**174 484**
Total Financial Assets	**3 156 050**	**5 087**	**1 948 044**	**5 109 181**
Financial Liabilities				
Long-term borrowings	(3 000 000)	-	(1 931 303)	**(4 931 303)**
Short-term borrowings	(41 966)	-	(1 527 695)	**(1 569 661)**
Financial payables	(73 067)	-	-	**(73 067)**
Other financial liabilities	-	-	(8 436)	**(8 436)**
Total Financial Liabilities	**(3 115 033)**	**-**	**(3 467 434)**	**(6 582 467)**
Net Financial Assets/(Liabilities)	**41 017**	**5 087**	**(1 519 390)**	**(1 473 286)**

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2015:

	At 31 December 2015			
In thousands of Russian Roubles	**RR**	**EUR**	**USD**	**TOTAL**
Financial assets				
Cash and cash equivalents	2 508 430	68	1 229 686	**3 738 184**
Deposits (with maturity over 90 days)	-	44 690	527 306	571 996
Short-term loans issued	178 093	-	657 024	835 117
Financial receivables	251 156	-	28 483	**279 639**
Total Financial Assets	**2 937 679**	**44 758**	**2 442 499**	**5 424 936**
Financial Liabilities				
Long-term borrowings	(3 000 000)	-	(3 312 857)	**(6 312 857)**
Short-term borrowings	(39 699)	(123 747)	(2 492 951)	**(2 656 397)**
Financial payables	(43 029)	-	(16 331)	**(59 360)**
Total Financial Liabilities	**(3 082 728)**	**(123 747)**	**(5 822 139)**	**(9 028 614)**
Net Financial Assets/(Liabilities)	**(145 049)**	**(78 989)**	**(3 379 640)**	**(3 603 678)**

The above analysis includes only monetary assets and liabilities. Currency risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not that company's functional currency.

27 Financial Risk Management (continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	Impact on pre-tax profit or loss 2016		Impact on pre-tax profit or loss 2015	
In thousands of Russian Roubles	**EUR**	**USD**	**EUR**	**USD**
Strengthening by 30,00%	1 526	(455 818)	(23 697)	(1 013 892)
Weakening by 30,00%	(1 526)	455 818	23 697	1 013 892
Strengthening by 20,00%	1 017	(303 879)	(15 798)	(675 926)
Weakening by 20,00%	(1 017)	303 879	15 798	675 926
Strengthening by 10,00%	509	(151 939)	(7 899)	(337 965)
Weakening by 10,00%	(509)	151 939	7 899	337 965

Interest rate risk. The Group's interest rate risk arises from borrowings, loans issued and bank deposits. Borrowings raised at floating rates expose the Group to cash flow interest rate risk. Cash and cash equivalents, loans and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table presents the aggregated amounts of the Group's cash and cash equivalents, loans and borrowings granted and received, and other financial liabilities recognised at fair value split by exposure to fixed or variable interest rates:

In thousands of Russian Roubles	**31 December 2016**	**31 December 2015**
Fixed rate instruments		
Bank deposits	1 786 231	4 280 397
Short-term loans issued	2 761 169	835 117
Short-term borrowings	(41 967)	(39 699)
Long-term borrowings	(3 000 000)	(3 000 000)
Variable rate instruments		
Short-term borrowings	(1 527 694)	(2 616 698)
Long-term borrowings	(1 931 303)	(3 312 857)

The table below summarises effective interest rates at each reporting date:

	31 December 2016		31 December 2015		
In % p.a.	**RR**	**USD**	**RR**	**EUR**	**USD**
Assets					
Short-term loans issued	13,82 %	3,75 %	14,50 %	-	7,32 %
Cash and cash equivalents and bank deposits	9,81 %	1,04 %	10,55 %	1,04 %	0,55 %
Liabilities					
Loans and borrowings	13,80 %	4,77 %	13,80 %	4,59 %	4,60 %

The Group does not account for any fixed rate financial assets as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

27 Financial Risk Management (continued)

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

	Profit and equity impact	
In thousands of Russian Roubles	**100 bp decrease**	**100 bp increase**
2016		
Variable rate instruments	34 241	(34 241)
2015		
Variable rate instruments	58 773	(58 773)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management monitors this risk on a regular basis using calculations of current and future exposures and evaluating various hedging alternatives.

Fair value estimation. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity and similar other terms. The discount rates used depend on the credit risks of counterparty. Also, carrying amounts of trade receivables approximate fair values.

Liabilities carried at amortised cost. The fair value of floating rate liabilities is normally their carrying amount. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is unavailable, is estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity and similar other terms. As at 31 December 2016 the fair value of the Group’s borrowings and payables do not differ materially from their carrying amounts.

Liquidity risk. Liquidity risk is a risk whereby the Group encounters difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Group’s management monitors current liquidity based on expected cash flows and revenue receipts. Cash flow forecasting is performed at the level of the Group’s operating entities and at its consolidated level.

The Group has deposits of 1 452 619 thousand RR with a maturity of less than 90 days after the reporting date, deposits of 166 806 thousand RR with a maturity of more than 90 days but less than six months after the reporting date and deposits of 166 806 thousand RR with a maturity of more than six months after the reporting date. At 31 December 2016, the Group had an undrawn credit facility amounting to 1 250 080 thousand RR and 182 207 thousand RR at 31 December 2015. In August 2016, the Moscow Exchange registered stock bonds program of the Company which allows to issue stock bonds in the maximum amount of 50 000 000 thousand RR or its equivalent in foreign currency.

The tables below show liabilities as at 31 December 2016 and 31 December 2015, respectively, according to their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

27 Financial Risk Management (continued)

The maturity analysis of financial liabilities at 31 December 2016 is as follows:

In thousands of Russian Roubles	Carrying amount	Amount of future payments on the contract	Within 6 months	From 6 to 12 months	From 1 year to 2 years	From 2 years to 5 years
Liabilities						
Borrowings, Note 15	6 500 964	7 466 053	954 163	1 101 695	5 410 195	-
Financial payables, Note 16	73 067	73 067	73 067	-	-	-
Other financial liabilities	8 436	8 436	8 436	-	-	-
Total future payments	**6 582 467**	**7 547 556**	**1 035 666**	**1 101 695**	**5 410 195**	**-**

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

In thousands of Russian Roubles	Carrying amount	Amount of future payments on the contract	Within 6 months	From 6 to 12 months	From 1 year to 2 years	From 2 years to 5 years
Liabilities						
Borrowings, Note 15	8 969 254	10 576 662	1 571 844	1 646 753	1 751 504	5 606 561
Financial payables, Note 16	59 360	59 360	59 360	-	-	-
Total future payments	**9 028 614**	**10 636 022**	**1 631 204**	**1 646 753**	**1 751 504**	**5 606 561**

28 Management of Capital

The Group monitors its capital structure on the basis of Net-Debt-to-EBITDA ratio. For this purpose, the Group defines Net Debt as total current and non-current loans and borrowings (Note 15) less cash and cash equivalents (Note 13). The Group's Net-Debt-to-EBITDA ratio as at 31 December 2016 is 0,75 (31 December 2015: 0,95). Reduction in the Net-Debt-to-EBITDA ratio in 2016 compared to 2015 is the effect of a combination of factors, the main ones are the growth of operating cash flow and as a result of EBITDA (definition of EBITDA is disclosed in Note 23) and the repayment of debt (Note 15). Management believes that Group's Net-Debt-to-EBITDA ratio in 2016 is at a comfortable level.

29 Events After the Reporting Period

In March 2017, an interim dividend distribution for 2016 in the amount of 350 000 thousand RR was approved by the Company's stakeholders. In March 2017, it was also approved to distribute dividends in relation to non-controlling interest in the amount of 202 733 thousand RR.

In March 2017, OOO TOS was renamed to Limited Liability Company «Service Company «Delo» due to the fact that the company is prescheduled to provide towing services in addition to bunkering and is expected to become a single center for the provision of ancillary services at DeloPorts Group terminals.

There were no other material events after the reporting period that had an effect on the consolidated financial statements as at 31 December 2016.