

Global Ports Investments Plc

**Directors' report and consolidated financial statements
31 December 2016**

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

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BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Mr. Peder Sondergaard (appointed 14 February 2017)
(Mrs. Iana Boyd Penkova is the alternate to Mr. Peder Sondergaard)
Non-Executive Director
Member of Remuneration and Nomination Committees

Mr. Nikita Mishin (appointed 15 December 2008)
(Mr Mikhail Loganov is the alternate to Mr Nikita Mishin)
Vice-Chairman of the Board of Directors
Non-Executive Director
Member of Remuneration and Nomination Committees

Capt. Bryan Smith (appointed 19 August 2008)
Senior Independent Non-Executive Director
Chairman of Remuneration and Nomination Committees

Mrs. Siobhan Walker (appointed 30 May 2011)
Independent Non-Executive Director
Chairman of Audit and Risk Committee

Mr. Morten Henrick Engelstoft (appointed 31 October 2016)
(Mrs Iana Boyd Penkova is the alternate to Morten Henrick Engelstoft)
Non-Executive Director
Member of Remuneration, Nomination and Audit and Risk Committees

Dr. Alexander Nazarchuk (appointed 15 December 2008)
(Mr. Alexander Iodchin is the alternate to Dr. Alexander Nazarchuk)
Non-Executive Director
Member of Remuneration and Nomination Committees

Mr. Alexander Iodchin (appointed 15 August 2008)
Executive Director

Mr. Mikhail Loganov (appointed 15 December 2008)
Executive Director

Mr. Konstantin Shirokov (appointed 15 December 2008)
Non-Executive Director
Member of Audit and Risk Committee

Mrs. Laoura Michael (appointed 23 January 2013)
(Mr. Nicholas Charles Terry is the alternate to Mrs. Laoura Michael)
Non-Executive Director

Board of Directors and other officers (continued)

Board of Directors (continued)

Mr. Michalakis Christofides (appointed 30 July 2014)

Non-Executive Director

Mr. Vadim Kryukov (appointed 30 July 2014)

Non-Executive Director

Mr. Gerard Jan van Spall (appointed 22 April 2016)

(Mrs. Laoura Michael is the alternate to Mr. Gerard Jan van Spall)

Non-executive Director

Mr. Nicholas Charles Terry (appointed 31 October 2016)

(Mrs. Laoura Michael is the alternate to Mr. Nicholas Charles Terry)

Non-executive Director

Mr. Constantinos Economides (resigned on 22 April 2016)

Ms. Chrystalla Stylianou (resigned on 31 October 2016)

Mr. Kim Fejfer (resigned on 31 October 2016)

Mr. Tiemen Meester (resigned on 14 February 2017)

Board support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures.

Also a procedure is in place to enable Directors, if they so wish, to seek independent professional advice at the Company's expense.

Company Secretary

Team Nominees Limited

20 Omirou Street

Ayios Nicolaos

CY-3095 Limassol

Cyprus

Registered office

20 Omirou Street

Ayios Nicolaos

CY-3095 Limassol

Cyprus

MANAGEMENT REPORT

1. The Board of Directors presents its report together with the audited consolidated financial statements of Global Ports Investments Plc (hereafter also referred to as "GPI" or the "Company") and its subsidiaries and joint-ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2016. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter also referred to as "IFRS") as adopted by the European Union ("EU") and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities and nature of operations of the Group

2. The principal activities of the Group, which are unchanged from the previous year, are the operation of container and oil products terminals in Russia and the Baltics. The Group offers its customers a wide range of services for their import and export logistics operations.

Changes in group structure

3. During the year ended 31 December 2016 a new subsidiary, Global Ports (Finance) Plc, was incorporated. During the year Global Ports (Finance) Plc issued Eurobonds in the total amount of US\$700 million at a fixed coupon rate. The proceeds from the Eurobonds were used to refinance the existing indebtedness of the Group.
4. During the year ended 31 December 2016 the management of the Group continued its efforts in optimisation of the Group structure. The 7,999 shares of First Container Terminal Inc. representing the 25% less two shares were sold by NCC Group Limited to Petrolport JSC.
5. There were no other material changes in the group structure.

Review of Developments, Position and Performance of the Group's Business

6. The macro-economic backdrop in Russia remained challenging throughout 2016 affecting consumer demand. While there were elements of a recovery in the Russian container market in the second half of 2016, resulting in a 4% y-o-y increase in volumes in that period, the recovery remained subdued with an overall increase of 1% for the year. Global Ports' container throughput in Russia declined 19% in 2016 to 1,128 thousand TEU on the back of disciplined commercial approaches of the Group, growing competition and low capacity utilisation rates in the Russian container industry.
7. The situation in Estonia remained challenging and is characterised by a structural deterioration of the business environment in which the Group's oil products terminal operates, which is heavily dependent on the flows of Russian oil products.
8. The net profit of the Group for the year ended 31 December 2016 was US\$61,263 thousand (2015: net loss US\$(33,679) thousand). On 31 December 2016 the total assets of the Group were US\$1,643,007 thousand (2015: US\$1,519,778 thousand) and the net assets were US\$324,916 thousand (2015: US\$171,932 thousand). The financial position, development and performance of the Group as presented in these consolidated financial statements are considered satisfactory.
9. In the reporting period, the Group continued to focus on developing additional revenue streams, improving operational efficiency, free cash flow generation and deleveraging. As a result of these actions, Global Ports' Adjusted EBITDA was US\$224.3 million with strong Free Cash Flow of US\$178 million and a healthy Adjusted EBITDA margin of 67.7%. The Group decreased its Total Debt by a further US\$104.2 million over the period.

Adjusted EBITDA (a non-IFRS financial measure) for Global Ports Group is defined as profit for the period before income tax expense, finance (income)/costs—net, depreciation of property, plant and equipment, amortisation of intangible assets, share of profit/(loss) of joint ventures accounted for using the equity method, other gains/(losses)—net and impairment of goodwill and property, plant and equipment and intangible assets.

Adjusted EBITDA Margin (a non-IFRS financial measure) is calculated as Adjusted EBITDA divided by revenue, expressed as a percentage.

Free Cash Flow (a non-IFRS financial measure) is calculated as Net cash from operating activities less Purchase of property, plant and equipment.

Total Debt (a non-IFRS financial measure) is defined as a sum of current borrowings, non-current borrowings and derivative financial instruments.

Management Report (continued)

Risk Management Process, Principal Risks and Uncertainties

10. Global Ports maintains and continuously reviews a rigorous risk management system that is designed to identify, monitor, mitigate and, where possible, eliminate threats to the business.
11. Identifying and managing risks is central to achieving the corporate objective of delivering long-term growth and added value to our shareholders. Global Ports' risk management process is focused on mitigating or, to the extent possible, eliminating the potential negative impact on the business caused by changes in the external and internal business, financial, regulatory and operating environment. It is based on a series of well-defined risk management principles, derived from experience, best practices and corporate governance principles. The Group updates and improves its risk management system on a regular basis.
12. The Board has established risk management rules and procedures for identifying risks at an early stage, and taking proactive steps to assess, monitor and manage the risks inherent to any commercial activity. The Board systematically monitors and assesses the risks critical to the Group's performance and delivery of its strategy. After identifying and assessing a risk, the Group identifies remediation measures aimed at reducing the likelihood of its occurrence and/or potential impact.
13. The Board delegates to the Russian Ports CEO the responsibility for the effective and efficient implementation and maintenance of the risk management system. The Audit and Risk Committee of the Board is in charge of the routine oversight of risk management and review of the effectiveness of the systems that have been established for this purpose.
14. The Group's business involves a number of risks, the most notable of which are listed below. The order in which the risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects. Additional risks that are not known to the Group or recognised as risks at this time, or that it currently believes are immaterial, could also have a material adverse effect on the Group's business, financial position, results of operations or future prospects and the trading price of the GDRs.

Strategic risks

Trade volumes: The Group is dependent on trade volumes, in particular container volumes, and, accordingly, on the strength of the Russian economy. The country's container market throughput has historically demonstrated a very strong correlation with the volume of imports of goods, which in turn is driven by domestic consumer demand. The Group has and may continue to be subject to significant container market deterioration as economic growth and consumer demand in Russia also deteriorate.

Competition: The Group may be subject to increasing competition from other existing or newly developed container terminals through the introduction of new capacity or consolidation between container terminal operators and container shipping companies, which could result in intensified price competition, lower utilisation and a potential reduction of profitability. In recent years, both competitors and new market entrants have introduced or announced that they plan to introduce significant new container handling capacity to the Russian market. For example, a new port terminal has been constructed in the Port of Bronka, which commenced commercial operations in January 2016 and competes with the Group's ports in the Baltic Sea Basin. In particular, strategic international investors may develop or acquire stakes in existing competitor Russian container terminals, which could bring new expertise into the market and lure customers and cargoes away from the Group.

Infrastructure: The Group's ability to maintain or increase throughput volumes depends on the ongoing improvement, development and maintenance of railway and road infrastructure at or connected to its terminals, and the ability of private and state-controlled rail and truck operators to arrange inbound and outbound transportation of sufficient cargo flows. In addition, Russia's physical infrastructure is in poor condition, which could disrupt or impair the Group's normal business activity, and any efforts by the government to improve such infrastructure may increase the Group's costs.

Political, economic and social stability: Instability in the Russian economy and exposure to social and political factors could create an uncertain operating environment and affect the Group's ability to sell its services due to significant economic, political, legal and legislative risks. Certain government policies or the selective and arbitrary enforcement of such policies could make it more difficult for the Group to compete effectively and/or impact its profitability.

Management Report (continued)

Situation in Ukraine: Political instability in Ukraine, heightened levels of tension between Russia and other states, increased military activity on its border with Russia and the imposition by the US, the EU and other countries of sanctions, asset freezes, travel limitations and certain other restrictive measures against specified Ukrainian and Russian individuals and legal entities, including a number of Russian banks, and the imposition by Russia of sanctions, including import and travel restrictions, has had in the past, and may continue to have in the future, an adverse effect on the Russian economy and demand for commodities. Such factors also could adversely affect the Group's ability to obtain financing on favourable terms and to deal with certain persons and entities in Russia or in other countries.

Operational risks

Leases of terminal land: The Group is dependent on a limited number of shipping lines and customers for a significant portion of its business. The Group leases a significant amount of the land and quays required to operate its terminals from government agencies and any revision or alteration of the terms of these leases or the termination of these leases, or changes to the underlying property rights under these leases, could adversely affect the Group's business.

Reliance on third parties: The Group is dependent on the performance of services by third parties outside its control, including the performance by all other participants in the logistics chain, such as customs inspectors, supervisory authorities and others, and the performance of security procedures carried out at other port facilities and by its shipping line customers.

Logistics costs: Changes in costs in any part of the logistics chain in which the Group operates could affect the Group's competitive position.

Inflation: Inflation could increase the Group's cost base and the Group may be adversely affected by wage increases in Russia

Oil products: The Group's oil products business could be affected by changes in Russia's exports of oil products and handling of such exports at its oil products terminal in Estonia, a decline in global demand for oil products or in Russian oil product export volumes or any change in trade relationships with Estonia.

Tariff regulation: Tariff regulation: Tariffs for certain services at certain of the Group's terminals have been in the past regulated by the Russian Federal Antimonopoly Service and, as a result, the tariffs charged for such services were, and may potentially in the future be, subject to a maximum tariff rate and/or fixed in Russian roubles as PLP, VSC, and FCT, like many other Russian seaport operators, are classified as natural monopolies under Russian law. In addition, as of the date of publication of these Financial Statements, the FAS has commenced investigations of several Russian seaport operators, including PLP, VSC and FCT, suggesting potential breach of antimonopoly laws in relation to the pricing of stevedoring services at Russia's ports. In particular, the FAS suggests that PLP, VSC and FCT have possibly violated antimonopoly laws of Russia by way of utilising their dominant position on the market and establishing monopolistically high prices for their handling services. There can be no assurance that the investigations will not result in fines being levied against PLP, VSC and FCT, which could have a material adverse effect on the Group.

Management resources: The Group's competitive position and prospects depend on the expertise and experience of its key managers and its ability to continue to attract, retain and motivate qualified personnel.

Environment, safety and security: Accidents involving the handling of hazardous materials and oil products at the Group's terminals could disrupt its business and operations and/or subject the Group to environmental and other liabilities. The risk of safety incidents is inherent in the Group's businesses. The Group's operations could be adversely affected by terrorist attacks, natural disasters or other catastrophic events beyond its control.

Regulatory risks

Regulatory compliance: The Group is subject to a wide variety of regulations, standards and requirements and may face substantial liability if it fails to comply with existing or future regulations applicable to its businesses. The Group's terminal operations are subject to extensive laws and regulations governing, among other things, the loading, unloading and storage of hazardous materials, environmental protection and health and safety.

Management Report (continued)

Changes in regulations: Changes to existing regulations or the introduction of new regulations, procedures or licensing requirements are beyond the Group's control and may be influenced by political or commercial considerations not aligned with the Group's interests. Any expansion of the scope of the regulations governing the Group's environmental obligations, in particular, would likely involve substantial additional costs, including costs relating to maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of its ability to address environmental incidents or external threats.

Compliance and shareholder risk

Conflict of interests: The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs or notes.

Legal risks: Adverse determination of pending and potential legal actions involving the Group's subsidiaries could have an adverse effect on the Group's business, revenues and cash flows and the price of the GDRs. Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and business activity and legislation may not adequately protect against expropriation and nationalisation. The lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion claims could prevent the Group from obtaining effective redress in court proceedings.

Financial risks

Holding company: The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries and joint ventures.

FOREX risks: The Group is subject to foreign-exchange risk arising from various currency exposure, primarily the Russian rouble and the US dollar. Foreign-exchange risk is the risk to profits and cash flows of the Group arising from movement of foreign-exchange rates due to inability to appropriately plan for and react to fluctuations in foreign-exchange rates. Risk arises from revaluation of assets and liabilities denominated in foreign currency.

Transfer pricing: Russian transfer pricing rules may affect the Group's results of operations and due to uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge prices of transactions of the Group and make adjustments, which could adversely affect the Group's tax position.

Interest rate risk: The Group is subject to interest-rate risk due to floating rate liabilities in relation to its leases and long-term borrowings. Increases in interest rates may adversely affect the Group's financial condition.

Credit risk: The Group may be subject to credit risk due to its dependence on key customers and suppliers.

Debt and leverage: The Group's indebtedness or the enforcement of certain provisions of its financing arrangements could affect its business or growth prospects. The Group has high leverage and a substantial amount of its bank borrowings are secured and subject to covenants, which could be breached.

General business risk

Labour: Industrial action or adverse labour relations could disrupt the Group's business operations and have an adverse effect on operating results.

Information technology: Failure of information systems to adequately protect critical data and infrastructure from theft, corruption and unauthorised usage.

15. The Group's financial risk management and critical accounting estimates and judgments are disclosed in Notes 3 and 4 to the consolidated financial statements.
16. The Group's contingencies are disclosed in Note 27 to the consolidated financial statements.

Management Report (continued)

Internal control and risk management systems in relation to the financial reporting process

17. The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to ensure compliance with applicable laws and regulations.
18. Financial reporting and supervision are based on approved budgets and on monthly performance reporting.
19. The Audit and Risk Committee of the Board of directors of the Company reviews certain high-risk areas at least once a year, including the following:
 - Significant accounting estimates;
 - Material changes to the accounting policies;
20. Reporting from various Group entities to the centralised unit is supervised on an ongoing basis and procedures have been established for control and checking of such reporting. Procedures have also been set up to ensure that any errors are communicated to and corrected by the reporting entities. The internal controls are subject to ongoing reviews, including in connection with the regular control inspections at subsidiaries conducted by the central unit. The results from these reviews are submitted to the executive management, the Audit and Risk Committee and Board of Directors. The internal financial reporting ensures an effective process to monitor the Company's financial results, making it possible to identify and correct any errors or omissions. The monthly financial reporting from the respective entities is analysed and monitored by the centralised department in order to assess the financial and operating performance as well as to identify any weaknesses in the internal reporting, failures to comply with procedures and the group accounting policies. The Audit and Risk Committee follows up to ensure that any internal control weaknesses are mitigated and that any errors or omissions in the financial statements identified and reported by the auditors are corrected, including controls or procedures implemented to prevent such errors or omissions.

Use of financial instruments by the Group

21. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial results. Risk management is carried out by a central financial department as well as financial departments in operating entities under policies approved by the Board of Directors. These departments identify, evaluate and take actions to mitigate financial risks in close co-operation with the operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

22. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in the currency different from the functional currency of each of the entities of the Group.
23. The revenues of Russian operations are mainly priced in US Dollars and Russian Roubles, whereas most of expenses are denominated and settled in Russian Roubles.
24. The Group uses from time to time foreign currency swaps (derivatives) to manage its exposures to foreign exchange risk.
25. The Group will continue to review its borrowing policy in order to maintain a balance between term and interest rate of available financing and its currency.
26. Currently the long-term debt of the Group is denominated in US dollars and Russian Roubles. Most of Rouble-denominated debt is effectively swapped to USD-debt with a lower interest rate.
27. The US dollar and Euro interest rates are relatively more attractive compared to the Russian Rouble interest rate.

(ii) Cash flow and fair value interest rate risk

28. The Group is not significantly exposed to changes in market interest rates as substantially all of its borrowings portfolio consists of fixed rate debt.
29. However, the Group is exposed to fair value interest rate risk through market value fluctuations of loans receivable, borrowings and lease liabilities with fixed rates.

Management Report (continued)

30. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable and economically feasible.

(b) Credit risk

31. Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and loans receivable (Note 19) and cash and cash equivalents (Note 20). The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. However, the Group's business is heavily dependent on several large key customers accounting for substantial part of the Group's revenue. Cash and cash equivalents are placed in reliable banks with good history.

(c) Liquidity risk

32. Management controls current liquidity based on expected cash flows and expected revenue receipts.
33. Cash flow forecasting is performed at the level of operating entities of the group and at consolidated level by the centralised department. Group finance monitors forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs as well as scheduled debt service while maintaining sufficient headroom to ensure that the group does not breach covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration potential variations in operating cash flows due to market conditions, the group's debt repayments and covenant compliance. Taking into account expected levels of operating cash flows, availability of cash and cash equivalents and long-term nature of the debt portfolio, the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

(d) Capital risk management

34. The Group's main objective when managing capital is to maintain the ability to continue as a going concern in order to ensure the profitability of the Group, maintain optimum equity structure and reduce its cost of capital.
35. Defining capital, the Group uses the amount of equity and the Group's borrowings.
36. The Group manages the capital based on borrowings to total capitalisation ratio. Borrowings include lease liabilities and loan liabilities.
37. Total capitalisation is calculated as the sum of the total Group borrowings and equity at the date of calculation. The management does not currently have any specific target for the rate of borrowings to total capitalisation.

Future Developments of the Group

38. The Board of Directors does not expect any significant changes in the activities of the Group in the foreseeable future.

Results

39. The Group's results for the year are set out on pages 16 and 17.

Dividends

40. Pursuant to the Articles of Association the Company may pay dividends out of its profits. To the extent that the Company declares and pays dividends, owners of Global Depositary Receipts (hereafter also referred as "GDRs") on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Company expects to pay dividends in US Dollars. If dividends are not paid in US Dollars, they will be converted into US Dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.
41. The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries and joint ventures to pay dividends to the Company in accordance with the relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries and joint-ventures is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company's subsidiaries and joint-ventures is restricted to the total accumulated retained earnings of the relevant subsidiary or joint-venture, determined according to the law applicable to each entity.
42. During the years 2015 and 2016 the Company did not declare and pay any dividends.
43. The Board of Directors of the Company does not recommend the payment of a final dividend for the year 2016.

Management Report (continued)

Share Capital

Authorised share capital

44. On 29 April 2015 the Company increased its authorised share capital from 431,128,048 ordinary shares and 150,457,316 ordinary non-voting shares to 750,000,000 ordinary shares and 1,000,000,000 ordinary non-voting shares with a par value of US\$0.10 each
45. The authorised share capital of the Company amounts to US\$175,000,000.00 divided into 750,000,000 ordinary shares and 1,000,000,000 ordinary non-voting shares with a par value of US\$0.10 each.

Issued share capital

46. The issued share capital of the Company amounts to US\$57,317,073.10 divided into 422,713,415 ordinary shares and 150,457,316 ordinary non-voting shares with a par value of US\$0.10 each.
47. The ordinary shares and the ordinary non-voting shares rank pari passu in all respects save that, the ordinary non-voting shares do not have the right to receive notice, attend or vote at any general meeting, nor to be taken into account for the purpose of determining the quorum of any general meeting.

Rules for Amending Articles

48. The Articles of association of the Company may be amended from time to time by the special resolution of the General Meeting of the shareholders.

The Role of the Board of Directors

49. GPI is governed by its Board of Directors (hereafter also referred as "the Board") which is collectively responsible to the shareholders for the short- and long-term successful performance of the Group.
50. The Board of Directors' role is to provide entrepreneurial leadership to the Group through setting the corporate strategic objectives, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives and reviewing management performance. The Board sets the Group's values and standards and ensures all obligations to shareholders are understood and met. The Board maintains a sound system of internal control and enterprise risk management to safeguard the Group's assets and shareholders' investments in the Group.

Members of the Board of Directors

51. The Board of Directors leads the process in making new Board member appointments and makes recommendations on appointments to shareholders. In accordance with the Terms of Reference of the Board, all Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election at intervals of no more than three years. Any term beyond six years for a Non-Executive Director is subject to particularly rigorous review, and takes into account the need to refresh the Board on a regular basis.
52. The Board currently has 14 members and they were appointed as shown on pages 1 and 2.
53. On 22 April 2016 Mr. Constantinos Economides resigned from the Board and Mr. Gerard Jan van Spall replaced him. On 31 October 2016 Mr. Kim Fejfer and Mrs. Crystalla Stylianou resigned from the Board and Messrs. Morten Henrick Engelstoft and Nicholas Charles Terry replaced them.
54. All other Directors were members of the Board throughout the year ended 31 December 2016.
55. On 14 February 2017 Mr. Tiemen Meester resigned from the Board and Mr. Peder Sondergaard replaced him on the same day.

Management Report (continued)

56. There is no provision in the Company's Articles of Association for retirement of Directors by rotation. However in accordance with the Terms of Reference of the Board of Directors and the resolutions adopted by the Shareholders at the Annual General Meetings held 29 April 2015 and 22 April 2016 and Extraordinary General Meetings held on 31 October 2016 and 14 February 2017 Mr. Michalakis Christofides and Mr. Vadim Kryukov will continue in office and Mr. Peder Sondergaard, Mr. Nikita Mishin, Mr. Morten Engelstoft, Capt. Bryan Smith, Mrs. Siobhan Walker, Dr. Alexander Nazarchuk, Mr. Alexander Iodchin, Mr. Mikhail Loganov, Mr. Konstantin Shirokov, Ms. Laoura Michael, Mr. Gerard Jan van Spall and Mr. Nicholas Charles Terry will be offered for re-election at the next Annual General Meeting of the Shareholders of the Company.
57. Team Nominees Limited has been acting as the Company Secretary since its incorporation in February 2008. Mr. Alexander Iodchin has been acting as the Board Secretary since December 2008.
58. On 31 October 2016 Mr. Kim Fejfer resigned from the Board and consequently from the Audit and Risk, Nominations and Remuneration Committees. On the same day Mr. Morten Henrick Engelstoft was appointed at the member of the Audit and Risk, Nominations and Remuneration Committees. There were no other significant changes in the responsibilities of the Directors during 2016.
59. On 14 February 2017 Mr. Tiemen Meester resigned from the Board and consequently from the Nominations and Remuneration Committees and from the position of the Chairman of the Board. On 16 February 2017 Mr. Peder Sondergaard was appointed at the member of the Nominations and Remuneration Committees.

Directors' Interests

60. The interests in the share capital of Global Ports Investments Plc, both direct and indirect, of those who were Directors as at 31 December 2016 and 31 December 2015 are shown below:

Name	Type of holding	Shares held at 31 December 2016	Shares held at 31 December 2015
Nikita Mishin	Through shareholding in Transportation Investments Holding Limited and other related entities	42,267,114 ordinary shares	39,731,086 ordinary shares
		16,477,011 ordinary non-voting shares	15,488,390 ordinary non-voting shares

Board Performance

61. The Board meets at least four times a year. Fixed meetings are scheduled at the start of each year. Ad hoc meetings are called when there are pressing matters requiring the Board's consideration and decision in between the scheduled meetings.
62. In 2016 the Board met formally 21 (2015: 19) times to review current performance and to discuss and approve important business decisions.
63. In 2016 the Board met to discuss and approve important business decisions:
- FY2015 financial statements, 1H2016 interim financial statements and Annual Report;
 - Changes in Group management and the Board of Directors;
 - Remuneration guidelines;
 - Review of segments financial and operational performance;
 - Consideration of 2017 financial budget;
 - Consideration and approval of the Group refinancing and restructuring and the issuance of Eurobonds and Russian Rouble Bonds;
 - Consideration and approval of major capital expenditures and operating expenditures;
 - Consideration and approval of various resolutions related to the operations of the Company's subsidiaries and joint-ventures.

Management Report (continued)

64. The number of Board and Board Committee meetings held in the year 2016 and the attendance of directors during these meetings is as follows:

	<i>Board of Directors</i>		<i>Nomination Committee</i>		<i>Remuneration Committee</i>		<i>Audit and Risk Committee</i>	
	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>
Alexander Iodchin	21	21	-	-	-	-	-	-
Bryan Smith	21	21	6	6	2	2	-	-
Nikita Mishin	18	21	4	6	1	2	-	-
Alexander Nazarchuk	21	21	6	6	2	2	-	-
Mikhail Loganov	12	21	-	-	-	-	-	-
Konstantin Shirokov	21	21	-	-	-	-	12	12
Siobhan Walker	18	21	-	-	-	-	12	12
Morten Henrick Engelstoft	5	5	2	3	-	-	3	3
Tiemen Meester	21	21	6	6	2	2	-	-
Laura Michael	19	21	-	-	-	-	-	-
Gerard Jan van Spall	13	14	-	-	-	-	-	-
Nicholas Terry	5	5	-	-	-	-	-	-
Vadim Kryukov	21	21	-	-	-	-	-	-
Michalakis Christofides	21	21	-	-	-	-	-	-
Kim Fejfer	16	16	3	3	2	2	9	9
Chrystalla Stylianou	15	16	-	-	-	-	-	-
Constantinos Economides	4	6	-	-	-	-	-	-

A = Number of meetings attended

B = Number of meetings eligible to attend during the year

65. The operation of the Board, its Committees and individual Directors is subject to regular evaluation. The evaluation of the Board and individual Directors' performance is conducted through self-assessment, cross-assessment or by an external third party. The Non-Executive Directors, led by the Senior Independent Director, are responsible for the performance evaluation of the Chairman of the Board.

The Board Committees

66. Since December 2008 the Board of Directors established the operation of three committees: an Audit and Risk Committee, a Nomination Committee and a Remuneration Committee.

Management Report (continued)

67. The Audit and Risk Committee comprises of three Non-Executive Directors, and meets at least four times a year. The Audit and Risk Committee is chaired by Mrs. Siobhan Walker (an Independent Non-Executive Director) and the other members are Mr. Konstantin Shirokov and Mr. Morten Henrick Engelstoft who replaced Mr. Kim Fejfer on 31 October 2016. The Committee is responsible for considering, among other matters: (i) the integrity of the Company's financial information, including its annual and interim condensed consolidated financial information, and the effectiveness of the Company's internal controls, risk management systems and the work of the Internal Auditor; (ii) auditors' reports; and (iii) the terms of appointment and remuneration of the auditor. The Committee supervises and monitors, and advises the Board of Directors on risk management and control systems and the implementation of codes of conduct. In addition, the Committee supervises the submission of financial information by the Company. The Committee recommends the Board on appointment, re-appointment and removal of the external auditor, reviews its independence, objectivity and effectiveness of the audit process. In addition the Committee implements the policy on the engagement of the external auditors to perform non-audit services.
68. In the year 2016 the Audit and Risk Committee met 12 times to review and discuss inter alia:
- a. Review of the parent financial statements of Global Ports Investments Plc and consolidated financial statements of the Group for 2015 and recommendation for approval of the same to the Board;
 - b. Review of the interim condensed consolidated financial statements for the six month period ended 30 June 2016 and recommendation for approval to the Board;
 - c. Review of the press releases containing financial information;
 - d. Review of the reports prepared by external and internal auditors on significant matters arising from their audit and review procedures;
 - e. Review of the fees and terms of engagement of external auditors and recommendation for their approval;
 - f. Consideration and approval of non-audit services provided by the external auditors and their fees;
 - g. Consideration of the independence of the external auditors and performance and recommendation to the Board to recommend to shareholders to reappoint the external auditor for the next year.
69. The Nomination Committee as of the date of this report comprises five Directors, one of whom is independent. The Committee meets at least once each year. Currently the Nomination Committee is chaired by Capt. Bryan Smith (an Independent Non-Executive Director) and the other members are Mr. Nikita Mishin, Dr. Alexander Nazarchuk, Mr. Morten Henrick Engelstoft (appointed on 31 October 2016) and Mr. Peder Sondergaard (appointed on 14 February 2017). Mr. Kim Fejfer and Mr. Tiemen Meester resigned from the position of the member of the Nomination Committee in October 2016 and February 2017 respectively. The Committee's role is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size, diversity and composition of the Board. In undertaking this role, the Committee refers to the skills, knowledge and experience required of the Board given the Company's stage of development and makes recommendations to directors as to any changes. The Committee also considers future appointments in respect to the composition of the Board of Directors as well as making recommendations regarding the membership of the Audit and Risk Committee and the Remuneration Committee. In addition to it the Committee advises the Board on the appointment of the senior management of the Company.

Management Report (continued)

70. In 2016 the Nomination Committee met six times to discuss and recommend to the Board the appointment of senior management of the Group companies and also to recommend the Directors the candidates to the Board and Board Committees.
71. The Remuneration Committee as of the date of this report comprises five Directors, one of whom is independent. The Committee meets at least once each year. Currently the Remuneration Committee is chaired by Capt. Bryan Smith (an Independent Non-Executive Director), and the other members are Mr. Nikita Mishin, Dr. Alexander Nazarchuk, Mr. Morten Henrick Engelstoft (appointed on 31 October 2016) and Mr. Peder Sondergaard (appointed on 14 February 2017). Mr. Kim Fejfer and Mr. Tiemen Meester resigned from the position of the member of the Nomination Committee in October 2016 and February 2017 respectively. The Committee is responsible for determining and reviewing the remuneration of the executive directors, Chairman and the executive management and the Company's remuneration policies. The remuneration of independent Directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his or her own remuneration.
72. In 2016 the Remuneration Committee met 2 times to discuss and recommend to the Board the Group management remuneration guidelines and the remuneration for the executive management of the Group.

Corporate Governance

73. Improving its corporate governance structure in accordance with the internationally recognised best practices the Company adopted in 2008, 2012, 2015 and 2016 important policies and procedures. The Group is regularly reviewing and updating its policies and procedures. The new Code of Ethics was approved by the Board of Directors on 08 December 2016.
74. The Company's corporate governance policies and practices are designed to ensure that the Company is focused on upholding its responsibilities to the shareholders. They include, inter alia:
- Appointment policy;
 - Terms of reference of the Board of Directors;
 - Terms of reference of the Audit and Risk Committee;
 - Terms of reference of the Nomination Committee;
 - Terms of reference of the Remuneration Committee;
 - Code of Ethics and Conduct;
 - Antifraud policy;
 - Anti-Corruption Policy;
 - Foreign Trade Controls Policy;
 - Insurance Standard;
 - Charity and Sponsorship Policy; and
 - Group Securities Dealing Code.

Board and Management Remuneration

75. Non-Executive Directors serve on the Board pursuant to the letters of appointment. Such letters of appointment specify the terms of appointment and the remuneration of Non-Executive Directors.
76. Levels of remuneration for the Non-Executive Directors reflect the time commitment, responsibilities of the role and membership of the respective committees of the Board. Directors are also reimbursed for expenses associated with discharge of their duties.
77. The shareholders of the Company approved the remuneration of the members of the Board on 29 April 2013.
78. Refer to Note 29(g) to the consolidated financial statements for details of the remuneration paid to the members of the Board and key management.

Management Report (continued)

Events after the balance sheet date

79. The events after the balance sheet date are disclosed in Note 30 to the consolidated financial statements.

Research and development activities

80. The Group is not engaged in research and development activities.

Branches

81. The Group did not have or operate through any branches during the year.

Treasury shares

82. The Company did not acquire either directly or through a person in his own name but on behalf of the Company any of its own shares.

Going Concern

83. Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2017 and the latest forecasts, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

84. The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution approving their reappointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



.....
Konstantin Shirokov

Director



.....
Alexander Iodchin

Director

16 March 2017

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of Global Ports Investments Plc ("Company") is responsible for preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements which are presented on pages 16 to 82 have been prepared in accordance with IFRS as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as whole.

By Order of the Board



.....
Konstantin Shirokov

Director



.....
Alexander Iodchin

Director

Limassol

16 March 2017

CONSOLIDATED INCOME STATEMENT **FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of US dollars)

		For the year ended 31 December	
	Note	2016	2015
Revenue	5	331,468	405,692
Cost of sales	6	(186,064)	(176,367)
Gross profit		145,404	229,325
Administrative, selling and marketing expenses	6	(36,675)	(42,343)
Share of (loss)/profit of joint ventures accounted for using the equity method	26	(40,423)	3,812
Other gains/(losses) – net	7	(68,757)	(6,039)
Operating (loss)/profit		(451)	184,755
Finance income	9	1,367	1,560
Finance costs	9	(98,064)	(60,146)
Change in fair value of derivative	9	64,432	(5,488)
Net foreign exchange gains/(losses) on financial activities	9	142,572	(150,995)
Finance income/(costs) – net	9	110,307	(215,069)
Profit/(loss) before income tax		109,856	(30,314)
Income tax expense	10	(48,593)	(3,365)
Profit/(loss) for the year		61,263	(33,679)
<i>Attributable to:</i>			
Owners of the Company		61,038	(25,138)
Non-controlling interest		225	(8,541)
		61,263	(33,679)
Basic and diluted earnings per share for profit attributable to the owners of the parent of the Company during the year (expressed in US\$ per share)	12	0.11	(0.04)

The notes on pages 21 to 82 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME **FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of US dollars)

		For the year ended 31 December	
	Note	2016	2015
Loss for the year		61,263	(33,679)
<i>Other comprehensive loss</i>			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Currency translation differences		30,661	(123,463)
Share of currency translation differences of joint ventures accounted for using the equity method	26	(2,133)	(24,711)
Fair value losses on cash flow hedge		-	(20,577)
Reclassification to income statement of realised gains on cash flow hedge	23	-	(235)
Reclassification to income statement of a loss/(gain) on cash flow hedge termination	23	63,149	(13,491)
Reclassification to currency translation reserve of a gain on cash flow hedge termination	23	(1,793)	-
Total items that can be reclassified subsequently to profit or loss		89,884	(182,477)
<i>Items that may not be subsequently reclassified to profit or loss</i>			
Share of currency translation differences attributable to non-controlling interest		2,638	(3,639)
Total items that cannot be reclassified subsequently to profit or loss		2,638	(3,639)
Other comprehensive loss for the year, net of tax		92,522	(186,116)
Total comprehensive loss for the year		153,785	(219,795)
<i>Total comprehensive loss attributable to:</i>			
Owners of the Company		150,922	(207,615)
Non-controlling interest		2,863	(12,180)
Total comprehensive loss for the year		153,785	(219,795)

Items in the statement above are disclosed net of tax. There is no income tax relating to the components of other comprehensive income above.

The notes on pages 21 to 82 are an integral part of these consolidated financial statements.

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016**

(in thousands of US dollars)

		As at 31 December	
	Note	2016	2015
ASSETS			
Non-current assets		1,462,472	1,360,300
Property, plant and equipment	14	580,226	499,145
Intangible assets	15	666,223	622,686
Investments in joint ventures	26	123,149	167,815
Prepayments for property, plant and equipment	14	4,640	3,357
Deferred tax assets	24	44,440	66,021
Derivative financial instruments	23	35,529	-
Trade and other receivables	19	8,265	1,276
Current assets		180,535	159,478
Inventories	18	5,013	3,825
Derivative financial instruments	23	17,428	-
Trade and other receivables	19	38,011	29,800
Income tax receivable		804	2,718
Cash and cash equivalents	20	119,279	123,135
TOTAL ASSETS		1,643,007	1,519,778
EQUITY AND LIABILITIES			
Total equity		324,916	171,932
Equity attributable to the owners of the Company		309,623	158,701
Share capital	21	57,317	57,317
Share premium	21	923,511	923,511
Capital contribution		101,300	101,300
Currency translation reserve		(806,407)	(834,935)
Cash flow hedge reserve	23	(57,426)	(118,782)
Transactions with non-controlling interest		(209,122)	(209,122)
Retained earnings		300,450	239,412
Non-controlling interest		15,293	13,231
Total liabilities		1,318,091	1,347,846
Non-current liabilities		1,211,794	1,217,605
Borrowings	22	1,040,875	1,062,371
Trade and other payables	25	8,208	-
Derivative financial instruments	23	-	5,360
Deferred tax liabilities	24	162,711	149,874
Current liabilities		106,297	130,241
Borrowings	22	78,681	103,029
Trade and other payables	25	26,320	26,897
Current income tax liabilities		1,296	315
TOTAL EQUITY AND LIABILITIES		1,643,007	1,519,778

On 16 March 2017 the Board of Directors of Global Ports Investments Plc authorised these consolidated financial statements for issue.

Alexander Iodchin, Director

Konstantin Shirokov, Director

The notes on pages 21 to 82 are an integral part of these consolidated financial statements.

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of US dollars)

	Note	Attributable to the owners of the Company							Non-controlling interest	Total
		Share capital	Share premium	Capital contribution	Translation reserve	Cash flow hedge reserve	Transactions with non-controlling interest	Retained earnings*		
Balance at 1 January 2015		57,317	923,511	101,300	(686,761)	(84,479)	(209,122)	264,550	25,411	391,727
Total other comprehensive loss		-	-	-	(148,174)	(34,303)	-	-	(3,639)	(186,116)
Loss for the year		-	-	-	-	-	-	(25,138)	(8,541)	(33,679)
Total comprehensive loss for the year ended 31 December 2015		-	-	-	(148,174)	(34,303)	-	(25,138)	(12,180)	(219,795)
Balance at 31 December 2015		57,317	923,511	101,300	(834,935)	(118,782)	(209,122)	239,412	13,231	171,932
Total other comprehensive income		-	-	-	28,528	61,356	-	-	2,638	92,522
Profit for the year		-	-	-	-	-	-	61,038	225	61,263
Total comprehensive income for the year ended 31 December 2016		-	-	-	28,528	61,356	-	61,038	2,863	153,785
Distributions to non-controlling interest	13	-	-	-	-	-	-	-	(801)	(801)
Total transactions with owners for the year ended 31 December 2016		-	-	-	-	-	-	-	(801)	(801)
Balance at 31 December 2016		57,317	923,511	101,300	(806,407)	(57,426)	(209,122)	300,450	15,293	324,916

*Retained earnings in the separate financial statements of the Company is the only reserve that is available for distribution in the form of dividends to the Company's shareholders.

The notes on pages 21 to 82 are an integral part of these consolidated financial statements.

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of US dollars)

		For the year ended 31 December	
	Note	2016	2015
<i>Cash flows from operating activities</i>			
Profit/(loss) before income tax		109,856	(30,314)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	14	34,843	42,794
Impairment of property, plant and equipment	14	-	46,686
Impairment of intangible assets	15	67,532	-
(Profit)/loss on sale of property, plant and equipment	14	(652)	(2,722)
Write off of property, plant and equipment	14	440	950
Amortisation of intangible assets	15	13,225	14,498
Interest income	9	(1,367)	(1,560)
Interest expense	9	98,064	60,146
Share of (profit)/loss in jointly controlled entities	26	40,423	(3,812)
Change in fair value of swap	9	(64,432)	5,488
Foreign exchange differences on non-operating activities		(79,432)	160,354
Other non-cash items		(738)	(289)
Operating cash flows before working capital changes		217,762	292,219
<i>Changes in working capital</i>			
Inventories		(379)	38
Trade and other receivables		(2,439)	6,421
Trade and other payables		3,751	(1,362)
Cash generated from operations		218,695	297,316
Dividends received from joint ventures		5,281	10,406
Income tax paid		(28,135)	(59,699)
Net cash from operating activities		195,841	248,023
<i>Cash flows from investing activities</i>			
Purchases of intangible assets	15	(118)	(100)
Purchases of property, plant and equipment	14	(18,043)	(11,733)
Proceeds from sale of property, plant and equipment	14	1,021	8,708
Loans granted to related parties	29(h)	(9,900)	(8,690)
Loan repayments received from related parties		444	477
Interest received		983	1,528
Net cash used in investing activities		(25,613)	(9,810)
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		829,308	285,061
Repayments of borrowings		(943,030)	(398,624)
<i>incl. payment under interest rate and cross-currency exchange rate swap linked to the bank loan repaid</i>		-	(125,580)
Interest paid		(70,259)	(74,406)
Proceeds from derivative financial instruments not used for hedging		11,372	-
Finance lease principal payments (third parties)		(2,514)	(4,426)
Dividends paid to the owners of non-controlling interest	13	(732)	-
Net cash used in financing activities		(175,855)	(192,395)
Net increase in cash and cash equivalents		(5,627)	45,818
Cash and cash equivalents at beginning of the year		123,135	78,808
Exchange losses on cash and cash equivalents		1,771	(1,491)
Cash and cash equivalents at end of the year	20	119,279	123,135

The notes on pages 21 to 82 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Country of incorporation

Global Ports Investments Plc (hereafter the "Company" or "GPI") was incorporated on 29 February 2008 as a private limited liability company and is domiciled in Cyprus in accordance with the provisions of the Companies Law, Cap. 113. The address of the Company's registered office is 20 Omirou Street, Ayios Nicolaos, CY-3095, Limassol, Cyprus.

On 18 August 2008, following a special resolution passed by the shareholder, the name of the Company was changed from "Global Ports Investments Ltd" to "Global Ports Investments Plc" and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113.

During the first half of 2011, the Company successfully completed an initial public offering ("IPO") of its shares in the form of global depositary receipts ("GDRs"). The Company's GDRs (one GDR representing 3 ordinary shares) are listed on the Main Market of the London Stock Exchange under the symbol "GLPR".

On 27 December 2013, GPI completed the acquisition of 100% of the share capital of NCC Group Limited, (together with its subsidiaries, "NCC Group").

Approval of the consolidated financial statements

These consolidated financial statements were authorised for issue by the Board of Directors on 16 March 2017.

Principal activities

The principal activities of the Company, its subsidiaries and joint ventures (hereinafter collectively referred to as the "Group") are the operation of container and oil products terminals in Russia and the Baltics. The Group offers its customers a wide range of services for their import and export logistics operations.

Composition of the Group and its joint ventures

The Group's terminals are located in the Baltic and Far East Basins, key regions for foreign trade cargo flows. The Group operates:

- five container terminals in Russia – Petrosport, First Container Terminal (FCT, Ust-Luga Container Terminal (ULCT) and Moby Dik in the St. Petersburg and Ust-Luga port cluster, and Vostochnaya Stevedoring Company (VSC) in Port of Vostochny;
- two container terminals in Finland – Multi-Link Terminals Helsinki and Multi-Link Terminals Kotka;
- inland Yanino Logistics Park (YLP) and inland Logistika-Terminal, both located in the vicinity of St. Petersburg;
- oil product terminal AS Vopak E.O.S. that is located in Estonia;

See also Note 5 for the description of segmental information of the Group.

The Company fully controls all of the above terminals except for as described below:

- MLT and CD Holding groups are joint ventures with Container Finance OY where the Company has 75% effective ownership interest (Note 26). Moby Dik (a container terminal in the vicinity of St. Petersburg) and Multi-Link Terminals (a container terminal in Vuosaari (near Helsinki, Finland) and a container terminal in Kotka, Finland) constitute the MLT group. Yanino Logistics Park (an inland container terminal in the vicinity of St. Petersburg), CD Holding and some other entities constitute the CD Holding group.
- AS Vopak E.O.S. and its subsidiaries (VEOS) is a joint venture with Royal Vopak, the world's largest independent tank storage provider, specialising in the storage and handling of liquid chemicals, gasses and oil products, where the Company has a 50% effective ownership interest (Note 26). VEOS facilities are located in Estonia.
- Ust-Luga Container Terminal (located in Ust-Luga, North-West Russia) is an 80% subsidiary where Eurogate, one of the leading container terminal operators in Europe has a 20% non-controlling interest.

Notes to the consolidated financial statements (continued)

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113.

As of the date of the authorisation of these consolidated financial statements all International Financial Reporting Standards issued by International Accounting Standards Board (IASB) that are effective as at 1 January 2016 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivatives.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

New and amended standards adopted by the Group

The Group adopted all the new and revised IFRS as adopted by the EU that are relevant to its operations and are effective for accounting periods beginning on 1 January 2016. The adoption did not have a material effect on the accounting policies of the Group.

New standards and interpretations not yet adopted by the Group

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on these consolidated financial statements, except the following set out below:

(a) Adopted by the European Union

- IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018; EU effective date 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, minimum amounts must be recognised if they are not at 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. Management is currently assessing the effects of applying the new standard on the group's financial statements and has not yet identified any areas that are likely to be affected.
At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months.
The standard must be applied for financial years commencing on or after 1 January 2018. The group does not intend to adopt IFRS 15 before its mandatory effective date.
- 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).

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

New standards and interpretations not yet adopted by the Group (continued)

(a) Adopted by the European Union (continued)

- 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. While the group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses, although these have traditionally been quite rare and insignificant.
- 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.

While the group has yet to undertake a detailed assessment of the classification and measurement of the financial instruments it holds the group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The standard must be applied for financial years commencing on or after 1 January 2018. The group does not intend to adopt IFRS 9 before its mandatory effective date.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

New standards and interpretations not yet adopted by the Group (continued)

(b) Not yet adopted and not yet endorsed by the European Union

- IFRS 16 "Leases" (issued on 13 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 standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has certain non-cancellable operating lease commitments, see note 28. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Although some of the commitments may be covered by the exception for short-term and low-value leases; some commitments may relate to arrangements that will not qualify as leases under IFRS 16; the group expects that the new guidance will have a significant impact on its financial statements; more specifically:

- The recognition of the right to use the assets and a related liabilities will grow its balance sheet; and
- The operating lease rentals will be replaced by depreciation of the right to use the assets and interest expense on the outstanding liability.

The standard must be applied for financial years commencing on or after 1 January 2019, however the EU has not yet adopted this standard. The group does not intend to adopt IFRS 16 before its EU mandatory effective date.

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 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.
- 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.
- 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.
- 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.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

New standards and interpretations not yet adopted by the Group (continued)

(b) Not yet adopted and not yet endorsed by the European Union (continued)

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.

- 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.

Other accounting standards that have not been endorsed by EU and are not considered to be relevant to the Group

- IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (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, even if these assets are held by a subsidiary.
- Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Other accounting standards that have not been endorsed by EU and are not considered to be relevant to the Group (continued)

- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

The Board of Directors assesses the impact of new standards and interpretations at the point when these are endorsed by the European Union. As a result the impact of the above new standards and interpretations that have not been endorsed by the European Union has not been assessed.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully included in the consolidated financial statements from the date on which control was transferred to the Group or to the extent that the subsidiaries were obtained through a transaction between entities under common control from the date which control was transferred to its shareholders. They are derecognised from the financial statements from the date that control ceases.

Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, and that control is not transitory) are accounted using the predecessor basis of accounting. Under this method, the financial statements of the acquiree are included in the consolidated financial statements using pre-acquisition IFRS carrying amounts using uniform accounting policies, on the assumption that the Group was in existence from the date where common control was established. For these transactions, the excess of the cost of acquisition over the carrying amount of the Group's share of identifiable net assets acquired, including goodwill, arising at the date of acquisition by the shareholders, is recorded in equity in retained earnings at the date of the legal restructuring.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Basis of consolidation (continued)

The purchase method of accounting is used for acquisitions of subsidiaries that do not involve entities or businesses under common control with the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement.

All intra-company transactions, balances, income, expenses and unrealised gains and losses are eliminated on consolidation. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into compliance with those used by the Group.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using equity method of accounting.

Under the equity method of accounting, interests in joint ventures are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures. The Group applies the requirements of IAS 39 to determine whether any additional impairment loss needs to be recognised in respect of loans given to joint ventures.

The Group's share of losses in a joint venture is first allocated against the Group's investment in the joint venture and then to any other long term interests that in substance form part of the Group's net investment.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is calculated by estimating the Group's share of the present value of the estimated future cash flows expected to be generated from the asset, including the cash flows from the operations of the asset and the proceeds from the ultimate disposal of the asset. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Transactions with equity holders

The Group enters into transactions with its shareholders. When consistent with the nature of the transaction (i.e. when these transactions are not at arm's length prices), the Group's accounting policy is to recognise any gains or losses with equity holders, directly through equity and consider these transactions as the receipt of additional capital contribution or the distribution of dividends. Similar transactions with non-equity holders, or parties which are not under the control of the parent company, are recognised through the income statement.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, 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. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues earned by the Group are recognised on the following bases:

(a) Sales of services

The Group provides container handling, general cargoes handling, ro-ro cargoes handling, reefer cargoes handling, oil products handling and other related stevedoring services. Revenue from rendering of services is recognised based on the stage of completion determined by reference to services performed to date as a percentage of total services to be provided. If the income from rendering of services cannot be reliably measured, only the income up to the level of the expenses to be claimed is recognised.

(b) Sales of goods

The Group sells unused materials and goods. These sales are ex works from the sales of the terminals and with usual payment terms. Revenue from the sale of goods is recognised when the customer takes the goods out of the territory of the terminal (i.e. risks and rewards of ownership are transferred to the buyer).

(c) Rental income

See accounting policy for leases below.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method and is included within finance income.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Foreign currency translation

(a) Functional and presentation currency

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'). The consolidated financial statements are presented in United States dollars (US\$), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to loans receivable, cash and cash equivalents and borrowings are presented net in the income statement within 'net foreign exchange losses on financing activities'. All other foreign exchange gains and losses are presented in the income statement within 'other gains/(losses) – net'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items at the exchange rates prevailing at the date of transaction or using average rates as a reasonable approximation;
- Share capital, share premium and all other reserves are translated using the historic rate; and
- All exchange differences resulting from the above translation are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. On disposal of a foreign operation (including partial disposals which result in loss of control, significant influence or joint control of a subsidiary, associate or joint venture respectively, that include a foreign operation), the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss is recognised. In these cases, the cumulative amount of exchange differences relating to the foreign operation sold that have been attributed to the non-controlling interests are derecognised but are not reclassified to profit or loss.

On partial disposal of a subsidiary that includes a foreign operation, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation, the Group reclassifies to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income.

Property, plant and equipment ("PPE")

Property, plant and equipment are recorded at purchase or construction cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the items.

Land is not depreciated.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, less residual value, over their estimated useful lives, as follows:

	Number of years
Buildings and facilities	5 to 50
Loading equipment and machinery	3 to 25
Other production equipment	3 to 25
Office equipment	1 to 10

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Property, plant and equipment ("PPE") (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the income statement of the year in which they are incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for intended use or sale are capitalised and amortised over the useful life of the asset. Other borrowing costs are recognised as an expense in the reporting period incurred. Interest is capitalised at a rate based on the Group's weighted average cost of borrowing or at the rate on project specific debt, where applicable.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds with carrying amount and these are included within operating income.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisition of joint ventures is included in the carrying amount of the Group's investment in the joint venture (refer to Note 2, Basis of consolidation, (c)). Separately recognised goodwill is tested for impairment annually and whenever there is indication that goodwill may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill related to the partial disposal of an entity is not derecognised unless there is loss of control.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the Group reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognises immediately in profit or loss any excess remaining after that reassessment.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each CGU.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. These costs are amortised using straight line method over their estimated useful lives (3 to 5 years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(c) Client base

Client base (mainly customer relationships) acquired as a result of business combinations is at the cost of acquisition. Client base have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of client base over their estimated useful lives (11 years).

(d) Contractual rights

Contractual rights acquired as a result of business combinations are shown at the cost of acquisition. Contractual rights relate primarily to quay and land lease agreements. These contractual rights are renewable. Contractual rights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their estimated useful lives (being up to 56 years as of 31 December 2016) which are in accordance with the underlying agreements, including renewal periods whenever renewal is at no significant cost and the Group has evidence, based on past experience that the contract will be renewed.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Impairment of non-financial assets

Non-financial assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable (refer to accounting policy for intangible assets in relation to the impairment of goodwill). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments, the right to use an asset for an agreed period of time.

The Group is the lessee

(a) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

(b) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group is the lessor

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term. Assets leased out under operating leases include insignificant portions of some properties which are not used by the Group which cannot be sold or leased out separately under a finance lease. These properties are included in property, plant and equipment in the balance sheet based on the nature of the asset.

Loans and receivables

The Group classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date.

These are classified as non-current assets. The Group's loans and receivables comprise cash and cash equivalents, bank deposits with maturity over 90 days, trade and other receivables and loans to related and third parties.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Loans and receivables (continued)

Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the loans and receivables have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor/borrower, probability that the debtor/borrower will enter bankruptcy or financial difficulty, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement against 'administrative, selling and marketing expenses'.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or a liability or highly probable forecast transaction (cash flow hedge).

Derivative financial instruments not designated as a hedging instrument are included within financial assets at fair value through profit or loss when fair value is positive and within financial liabilities at fair value through profit or loss when fair value is negative. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting period. Changes in the fair value of foreign currency derivatives (cross currency swaps) are presented in the income statement within "change in fair value of derivative" as part of Finance income/(costs) - net.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 23. Movements on the hedging reserve are shown in the statement of other comprehensive income. The full fair value of hedging derivatives is classified as a non-current asset or liability when the maturity of the hedging relationship is more than 12 months and as a current asset or liability when the remaining maturity of the hedging relationship is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion of cross-currency interest rate swap hedging variable rate borrowings is recognised immediately in the income statement within "finance costs" and gain or loss relating to the hedging of currency risk in forecast sale is recognised in "other gains/(losses)-net".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cross-currency interest rate swap hedging variable rate borrowings is recognised in the income statement within 'finance costs' and gain or loss relating to the hedging of currency risk in forecast sale is recognised in "other gains/(losses)-net".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. Gain or loss existing in equity is recognised immediately in the income statement if the forecast transaction is no longer expected to occur.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

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 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Cash and cash equivalents

In the cash flow statement cash and cash equivalents include cash in hand and deposits held at call with original maturity up to 90 days with banks. Cash and cash equivalents are carried at amortised cost using the effective interest method. Deposits with original maturity over 90 days are included in the cash flow from investing activities.

Cash flow statement

The cash flow statement is prepared under the indirect method. Purchases of property, plant and equipment (including prepayments for PPE) are presented within cash flows from investing activities and finance lease repayments within cash flows from financing activities are shown net of VAT. Related input VAT is included in movement in changes of working capital, within trade and other receivables.

Share capital, share premium and capital contribution

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium. Share premium is subject to the provision of the Cyprus Companies Law on reduction of share capital.

Capital contribution represents contributions by the shareholders directly in the reserves of the Company. The Company does not have any contractual obligation to repay these amounts. However, these are distributable to the Company's shareholders at the discretion of the Board of Directors subject to the shareholders' approval.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Provisions and contingent liabilities (continued)

Provisions are only used to cover those expenses which they had been set up for. Other possible or present obligations that arise from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised and amortised over the useful life of the asset. Other borrowing costs are recognised as an expense in the reporting period incurred. Interest is capitalised at a rate based on the Group's weighted average cost of borrowing or at the rate on project specific debt, where applicable.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved, appropriately authorised and are no longer at the discretion of the Company.

More specifically, interim dividends are recognised as liability in the period in which these are approved by the Board of Directors and in the case of final dividends, they are recognised in the period in which these are approved by the Company's shareholders.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the probability of realising the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the income statement in 'other gains/(losses) – net'.

Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised on profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the country where the entity operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the consolidated financial statements (continued)

2 Basis of preparation and summary of significant accounting policies (continued)

Income taxes (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Value Added Tax ("VAT")

In the Russian Federation, output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice except for export sales related input VAT which is reclaimable upon confirmation of export. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for impairment of receivables, impairment loss is recognised for the gross amount of the debtor, including VAT. The lease liabilities are disclosed net of VAT. While the leasing payment includes VAT, the amount of VAT from the lease payment made is reclaimable against sales VAT. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability.

Employee benefits

Wages, salaries, contributions to state pension and social insurance funds, paid annual leave and sick leave, bonuses and other benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group. These are included in staff costs and the Group has no further obligations once the contributions have been paid. Staff costs of the group mainly consists of salaries.

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Notes to the consolidated financial statements (continued)

3 FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial results.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in the currency different from the functional currency of each of the entities of the Group.

The Group uses from time to time foreign currency swaps (derivatives) to manage its exposures to foreign exchange risk.

The Group will continue to review its borrowing policy in order to maintain a balance between term and interest rate of available financing and its currency.

The below tables demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion. Currently the long-term debt of the Group is denominated in US dollars and Russian Roubles. The US dollar and Euro interest rates are relatively more attractive compared to the Russian Rouble interest rate. The revenues of Russian operations are mainly priced in US Dollars and Russian Roubles, whereas most of expenses are denominated and settled in Russian Roubles.

The analysis below does not cover borrowings in joint ventures as they are not included in the financial position of the Group.

The carrying amount of financial assets and liabilities in Russian operations denominated in US dollars are as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Assets	104,233	110,001
Liabilities	399,074	1,174,513
Capital commitments	-	-

Had US dollar exchange rate strengthened/weakened by 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2016, would have (decreased)/increased by US\$70,762 thousand (2015: 30% change, effect US\$255,483 thousand) and the equity would have (decreased)/increased by US\$70,762 thousand (2015: 30% change, effect US\$255,483 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US dollars.

The carrying amount of financial assets and liabilities in Russian operations denominated in Euros as at 31 December 2016 and 31 December 2015 are as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Assets	424	3,654
Liabilities	-	-
Capital commitments	6,915	6,717

Notes to the consolidated financial statements (continued)

3 Financial risk management (continued)

Financial risk factors (continued)

(a) Market risk (continued)

Had Euro exchange rate strengthened/weakened by 30% against the Russian Rouble and all other variables remained unchanged, the post-tax profit and the equity of the Group for the year ended 31 December 2016, would have increased/(decreased) by US\$102 thousand (2015: 30% change, effect US\$877 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in Euros.

(ii) Cash flow and fair value interest rate risk

The Group is not significantly exposed to changes in market interest rates as substantially all of its borrowings portfolio consists of fixed rate debt. However, the Group is exposed to fair value interest rate risk through market value fluctuations of loans receivable, borrowings and lease liabilities with fixed rates.

Had market interest rates on US dollars, Euro and Russian Rouble denominated floating interest bearing financial assets and liabilities shift by 100 basis points and all other variables remained unchanged, the post-tax profit of the Group would have decreased by US\$29 thousand for the year ended 31 December 2016 (2015: US\$8,412 thousand).

The Group obtains borrowings at current market interest rates and usually does not hedge the interest rate risk. In the course of NCC Acquisition the Group has inherited a cross-currency interest rate swap (see Note 23(ii)).

Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable and economically feasible.

(b) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and loans receivable (Note 19) and cash and cash equivalents (Note 20). The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. These policies enable the Group to reduce its credit risk significantly. However, the Group's business is heavily dependent on several large key customers accounting for 57% and 62% of the Group's revenue for the year ended 31 December 2016 and 2015, respectively.

The table below summarises the analysis of trade and accounts receivables under contractual terms of settlement at the balance sheet date.

(in thousands of US dollars)

	Fully performing	Past due	Impaired	Impairment provision	Total
<i>As at 31 December 2016</i>					
Trade receivables	18,076	2,584	-	-	20,660
Loans receivable	8,472	169	-	-	8,641
Other receivables	4,452	-	-	-	4,452
Total	31,000	2,753	-	-	33,753
<i>As at 31 December 2015</i>					
Trade receivables	14,798	3,997	-	-	18,795
Loans receivable	1,638	174	-	-	1,812
Other receivables	4,559	-	-	-	4,559
Total	20,995	4,171	-	-	25,166

Notes to the consolidated financial statements (continued)

3 Financial risk management (continued)

Financial risk factors (continued)

(c) Liquidity risk

Management controls current liquidity based on expected cash flows and expected revenue receipts.

Cash flow forecasting is performed at the level of operating entities of the group and at consolidated level by group finance. Group finance monitors forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs as well as scheduled debt service while maintaining sufficient headroom to ensure that the group does not breach covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration potential variations in operating cash flows due to market conditions, the group's debt repayments and covenant compliance. Taking into account expected levels of operating cash flows, availability of cash and cash equivalents amounting to US\$119,279 thousand (31 December 2015: US\$123,135 thousand) (Note 20) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

The management of the Group believes that it is successfully managing the exposure of the Group to liquidity risk.

The table below summarises the analysis of financial liabilities by maturity as of 31 December 2016 and 2015. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

(in thousands of US dollars)

	Less than 1 month	1-3 months	3-6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years	Total
<i>As at 31 December 2016</i>								
Borrowings	13,435	25,800	31,813	70,914	134,016	512,149	818,254	1,606,381
Trade and other payables	4,711	12,336	610	434	-	9,931	-	28,022
Derivative financial instruments:								
- payments		4,152	2,324	6,476	12,952	238,751	-	264,655
- receipts	-	(10,522)	(5,384)	(15,907)	(31,813)	(321,441)		(385,067)
Total	18,146	31,766	29,363	61,917	115,155	439,390	818,254	1,513,991

<i>As at 31 December 2015</i>								
Borrowings	4,983	22,787	53,392	92,205	198,617	1,037,709	44,062	1,453,755
Trade and other payables	3,273	15,444	-	1,019	-	-	-	19,736
Derivative financial instruments	-	-	(1,982)	(1,792)	(3,116)	12,250	-	5,360
Total	8,256	38,231	51,410	91,432	195,501	1,049,959	44,062	1,478,851

(d) Capital risk management

The Group's main objective when managing capital is to maintain the ability to continue as a going concern in order to ensure the profitability of the Group, maintain optimum equity structure and reduce its cost of capital.

Defining capital, the Group uses the amount of equity and the Group's borrowings.

The Group manages the capital based on borrowings to total capitalisation ratio. Borrowings include lease liabilities and loan liabilities.

Total capitalisation is calculated as the sum of the total Group borrowings and equity at the date of calculation. The management does not currently have any specific target for the rate of borrowings to total capitalisation.

The rate of borrowings to total capitalisation is as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Total borrowings	1,119,556	1,165,400
Total capitalisation	1,444,472	1,337,332
Total borrowings to total capitalisation ratio (percentage)	78%	87%

Notes to the consolidated financial statements (continued)

3 Financial risk management (continued)

Financial risk factors (continued)

(e) Fair value estimation

Fair value is the amount at which a financial asset could be exchanged or a liability settled in a transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group, using available market information, where it exists, and appropriate valuation methodologies and assistance of experts. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore do not always represent the fair values of financial instruments. The Group has used all available market information in estimating the fair value of financial instruments.

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 instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate their fair values.

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade and other payables which are due within twelve months approximate their fair values.

The disclosure of the fair value of financial instruments carried at amortised cost and the fair value of financial instruments carried at fair value is determined using the following valuation methods:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group's specific estimates.

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group's only financial instrument carried at fair value is disclosed in Note 23. It is valued using Level 2 valuation technique from the table above. There are no changes in the valuation techniques during the year.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and they are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Notes to the consolidated financial statements (continued)

4 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(i) Estimated impairment of goodwill and property, plant and equipment and investments in joint ventures

The Group follows its accounting policies to test goodwill and other non-financial assets for possible impairment or reversal of impairment.

Estimating discounted future cash flows requires making judgments about long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain as they require assumptions about volumes, prices for the products and services, discount rates, future market conditions and future technological developments. Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period. Based on the current world-wide economic circumstances and also taking into account developments within the Russian Federation, the Group performed a test of the estimated recoverable amount of the cash-generating units (CGUs), compared to their carrying value.

Based on the results of the impairment tests carried out an impairment charges of US\$67,532 thousand for FCT CGU were recognised in 2016 resulting in the carrying amount of the CGU being written down to its recoverable amount. This impairment charge was fully allocated to intangible assets (Note 15).

For all CGUs, except for ULCT, cash flow projections cover a period of five years based on the assumptions of the next 12 months. In case of ULCT cash flow projections cover a nine year period as management considers that this terminal is still at a development stage. Cash flows beyond that five-year (nine-year period in case of ULCT) period have been extrapolated using a steady terminal growth rate. The terminal growth rate used does not exceed the long-term average growth rate for the market in which entities operate. For projections prepared for CGUs in Russian ports segments a terminal growth rate of 3% has been applied (2015: 3%). For projections prepared for VEOS CGU as at 31 December 2016 a terminal growth rate of 2% was applied (2015: 2%). The discount rate applied for Russian ports CGUs in projections prepared as at 31 December 2016 is 11.2% (2015: 12.1%) and for VEOS the discount rate is 8.6% (2015: 9.1%).

Key assumptions for all CGUs are throughput volume, price per unit, growth rates, and discount rates. The projected volumes reflect past experience adjusted by the management view on the prospective market developments. The growth rates for VEOS revenues are conservatively estimated to be very moderate in view of the competitive environment. For CGUs in the Russian ports segment volume growth is estimated to be in line with the long-term market development, position of each terminal on the market and its pricing power. As supported by historical market performance and in view of relatively low containerisation level in Russia, the long-term average throughput growth rate for the Russian container market is higher than in developed markets.

Based on the results of the impairment tests carried out in 2016, the Board of Directors believes that there is no requirement for further impairments or indications for reversal of impairments recognised in previous periods for non-financial assets other than goodwill.

For all units except for ULCT, FCT and VEOS CGUs management believes that any reasonably possible change in the key assumptions on which these units' recoverable amounts are based would not cause carrying amounts of these units to exceed their recoverable amounts.

In ULCT, the recoverable amount calculated based on value in use approximates the carrying value. If the estimated volumes handled each year are 5% lower, or the revenue per TEU each year 5% lower, terminal growth rate is 0,5% lower or discounting rate is 1% higher, then an impairment of property, plant and equipment would arise amounting to US\$5 million, US\$42 million, US\$1 million and US\$5 million respectively.

For FCT CGU, if the estimated volumes handled each year are 5% lower, or the revenue per TEU each year 5% lower, terminal growth rate is 0,5% lower or discounting rate is 1% higher, then a further impairment of intangible assets would arise amounting to US\$51 million, US\$191 million, US\$32 million and US\$80 million respectively.

In addition the impairment of investment in VEOS amounting to US\$39,218 thousand was recognised within 'Share of profit/(loss) of joint ventures accounted for using the equity method' (see Note 26).

For VEOS CGU, if the estimated volumes handled each year are 5% lower, or the revenue per TEU each year 5% lower or discounting rate is 1% higher, then this would result in a further loss under 'Share of profit/(loss) of joint ventures accounted for using the equity method' amounting to US\$2 million, US\$34 million and US\$10 million respectively.

Notes to the consolidated financial statements (continued)

4 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(ii) Russian legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 27).

(iii) Investigation by Russian anti-monopoly authorities

Substantial part of Russian seaport operators of the Group, including PLP, VSC and FCT are classified as natural monopolies under Russian law. As a matter of Russian law, tariffs for stevedoring services, including cargo handling and storage services, rendered by natural monopolies, are subject to monitoring by the Federal Antimonopoly Service (the "FAS"). In 2016 FAS undertook certain actions, in particular FAS has commenced investigation in respect of several Russian seaport operators, (including the following terminals of the Group: PLP, VSC and FCT), alleging potential breach of antimonopoly laws in relation to the pricing of stevedoring services at Russia's ports.

This may have adverse effect on operating, financial and investing activities of the Group. However, it is not possible to make any reasonable estimates about the likelihood, effect and magnitude of these developments on the financial performance and financial position of the Group.

5 SEGMENTAL INFORMATION

The chief operating decision-maker (CODM) has been identified as the Board of Directors. They review the Group's internal reporting in order to assess performance and allocate resources. The operating segments were determined based on these reports.

Group operations consist of several major business units which are usually and mainly organised as separate legal entities. Segment profit is obtained directly from the accounting records of each business unit and adjustments are made to bring their accounting records in line with IFRS as adopted by the EU; the accounting records are all prepared using the same accounting policies as those used for the preparation of these consolidated financial statements therefore there are no arbitrary allocations between segments. Certain business units are operating with one major operating company and some supporting companies.

The Board of Directors considers the business from both a geographic (which is represented by different port locations managed by separate legal entities) and services perspective regularly monitoring the performance of each major business unit.

The Board of Directors assesses the performance of the operating segments based on revenue (both in monetary and quantity terms) major costs items and net profit after the accounting records of business units are converted to be in line with IFRS as adopted by the EU with the exclusion of joint ventures and the netting off of deferred tax assets and liabilities. For the purposes of the internal reporting, joint ventures are assessed on a 100% ownership basis. Therefore there are no changes in the basis of measurement of segment profit or loss compared to prior years.

Assets are allocated based on the operations of the segment and the physical location of the asset.

For segmental reporting purposes the Group's consolidated financial position and consolidated results are presented by using the proportionate consolidation in relation to interests in jointly controlled entities (VEOS and MLT and CD groups). There are additional disclosures to reconcile segmental information with the consolidated income statement and the consolidated balance sheet.

According to this method of accounting, the Group combined its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognised the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. Unrealised gains on transactions between the Group and its joint venturers were eliminated to the extent of the Group's interest in the joint venture. Unrealised losses were also eliminated unless the transaction provided evidence of an impairment of the asset transferred.

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The brief description of segments is as follows:

Russian ports

The segment consists of the following operating units:

- Petrolesport, Farwater (PLP) and various other entities (including some intermediate holdings) that own and manage a container terminal in St. Petersburg port, North-West Russia. PLP is engaged in handling of containers, ro-ro, general cargo and scrap metal.
- First Container Terminal (FCT), the biggest container terminal in Russia, located in St. Petersburg port, North-West Russia.
- Ust-Luga Container Terminal (ULCT), a container terminal in Ust-Luga, near St. Petersburg, North-West Russia. Vostochnaya Stevedoring Company (VSC) and various other entities (including some intermediate holdings) that own and manage a container terminal in Port of Vostochny near Nahodka, Far-East Russia.
- Moby Dik (MD) and various other entities (including some intermediate holdings) that own and manage a container terminal in Kronstadt near St. Petersburg, North-West Russia.
- Logistika-Terminal (LT), an in-land container terminal in Shushary near St. Petersburg, North-West Russia.
- Yanino Logistic Park (YLP) being an in-land container terminal in Yanino near St. Petersburg, North-West Russia.

Finnish ports

The segment consists of container terminals in the ports of Vuosaari (Helsinki) and Kotka, Finland owned and operated by Multi-Link Terminals Ltd Oy.

VEOS

The segment consists of AS Vopak E.O.S., various other entities and the intermediate holding company that own and manage an oil products terminal in Muuga port near Tallinn, Estonia.

The following items do not represent operating segments, however are provided to the CODM together with segment information:

Holding companies (all other)

The segment consists of Global Ports Investments Plc (GPI) and some intermediate managing, holding and service companies.

Reconciliation adjustments

Reconciliation adjustments consist of two major components:

- Effect of proportionate consolidation – demonstrates the effect of proportionate consolidation of MD, YLP, Finnish ports and VEOS. In the financial statements the financial position and financial results of these segments are incorporated using the proportionate consolidation method (using respectively 75%, 75%, 75% and 50% proportion). In the current segment reporting the information is presented on the 100% basis and then the portion which is not consolidated is deducted as a 'Reconciliation Adjustment'.
- Other adjustments – all other consolidation adjustments including but not limited to:
 - elimination of intragroup transactions (mainly intragroup sales and dividends) and balances (mainly intragroup loans and investments in subsidiaries and joint ventures);
 - consolidation adjustments of results of sale or purchase of shares of subsidiaries;
 - other consolidation adjustments.

The Group does not have any material regular transactions between segments except for those which mainly relate to management and financing activities.

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The segment results for the year ended 31 December 2016 are as follows:

(in thousands of US dollars)

	Russian ports	VEOS	Finnish ports	Total operating segments	Holdings	Reconciliation adjustments		Group as per proportionate consolidation
						Effect of proportionate consolidation	Other adjustments	
Sales to third parties	359,681	58,970	12,864	431,515	-	(39,759)	-	391,756
Inter-segment revenue	-	-	45	45	-	(11)	(34)	-
Total revenue	359,681	58,970	12,909	431,560	-	(39,770)	(34)	391,756
Cost of sales	(199,728)	(105,877)	(12,381)	(317,986)	-	39,844	33	(278,109)
Administrative, selling and marketing expenses	(14,754)	(7,765)	(887)	(23,406)	(23,361)	4,431	61	(42,275)
Other gains/(losses)– net	(68,526)	(270)	244	(68,552)	101,623	144	(102,210)	(68,995)
Operating profit	76,673	(54,942)	(115)	21,616	78,262	4,649	(102,150)	2,377
Finance income/(costs) – net	112,126	(693)	(168)	111,265	66	(57)	(104)	111,170
<i>incl. interest income</i>	<i>4,060</i>	<i>18</i>	-	<i>4,078</i>	<i>3,244</i>	<i>(28)</i>	<i>(6,186)</i>	<i>1,108</i>
<i>incl. interest expenses</i>	<i>(102,441)</i>	<i>(709)</i>	<i>(168)</i>	<i>(103,318)</i>	<i>(2,891)</i>	<i>774</i>	<i>6,186</i>	<i>(99,249)</i>
<i>incl. change in the fair value of derivative instruments</i>	<i>64,884</i>	-	-	<i>64,884</i>	-	-	-	<i>64,884</i>
<i>incl. net foreign exchange gains on financing activities</i>	<i>146,078</i>	<i>(3)</i>	-	<i>146,075</i>	<i>(286)</i>	<i>(803)</i>	<i>(104)</i>	<i>144,882</i>
Profit/(loss) before income tax	188,799	(55,635)	(283)	132,881	78,328	4,592	(102,254)	113,547
Income tax expense	(51,132)	1,956	206	(48,970)	(595)	(246)	-	(49,811)
Profit/(loss) after tax	137,667	(53,679)	(77)	83,911	77,733	4,346	(102,254)	63,736
CAPEX* on cash basis	18,386	4,637	120	23,143	463	(2,550)	-	21,055

*CAPEX represents purchases of property, plant and equipment

Included within 'Other adjustments' on the line 'Other gains/(losses) - net' is the elimination of intragroup dividends and profit from the sale of shares in subsidiaries.

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The reconciliation of results for the year ended 31 December 2016 calculated with proportional consolidation to the results presented in consolidated income statement above is as follows:

(in thousands of US dollars)

	Group as per proportionate consolidation	Equity method and other adjustments	Group as per equity method consolidation of joint ventures
Sales to third parties	391,756	(60,288)	331,468
Inter-segment revenue	-	-	-
Total revenue	391,756	(60,288)	331,468
Cost of sales	(278,109)	92,045	(186,064)
Administrative, selling and marketing expenses	(42,275)	5,600	(36,675)
Share of profit/(loss) of joint ventures accounted for using the equity method	-	(40,423)	(40,423)
Other gains/(losses) – net	(68,995)	238	(68,757)
Operating profit	2,377	(2,828)	(451)
Finance income/(costs) – net	111,170	(863)	110,307
<i>incl. interest income</i>	<i>1,108</i>	<i>259</i>	<i>1,367</i>
<i>incl. interest expenses</i>	<i>(99,249)</i>	<i>1,185</i>	<i>(98,064)</i>
<i>incl. change in the fair value of derivative instruments</i>	<i>64,884</i>	<i>(452)</i>	<i>64,432</i>
<i>incl. net foreign exchange gains on financing activities</i>	<i>144,882</i>	<i>(2,310)</i>	<i>142,572</i>
Profit before income tax	113,547	(3,691)	109,856
Income tax (expense)/credit	(49,811)	1,218	(48,593)
Profit for the year	63,736	(2,473)	61,263
CAPEX on cash basis	21,055	(3,012)	18,043

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Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The segment items operating expenses for the year ended 31 December 2016 are as follows:

(in thousands of US dollars)

	Russian ports	VEOS	Finnish ports	Total operating segments	Holdings	Reconciliation adjustments		Group as per proportionate consolidation
						Effect of proportionate consolidation	Other adjustments	
Depreciation of property, plant and equipment	37,956	19,359	1,852	59,167	116	(10,950)	-	48,333
Amortisation of intangible assets	13,435	921	-	14,356	-	(514)	-	13,842
Impairment of property, plant and equipment and intangible assets	67,532	53,026	-	120,558	-	(6,904)	-	113,654
Staff costs	46,139	14,752	6,174	67,065	15,362	(10,154)	-	72,273
Transportation expenses	7,914	10,124	1,343	19,381	-	(5,716)	-	13,665
Fuel, electricity and gas	7,009	6,862	503	14,374	6	(3,813)	-	10,567
Repair and maintenance of property, plant and equipment	8,723	2,715	1,422	12,860	2	(2,163)	-	10,699
Total	188,708	107,759	11,294	307,761	15,486	(40,214)	-	283,033
Other operating expenses	25,774	5,883	1,974	33,631	7,875	(4,060)	(94)	37,352
Total cost of sales, administrative, selling and marketing expenses	214,482	113,642	13,268	341,392	23,361	(44,274)	(94)	320,385

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The reconciliation of operating expenses for the year ended 31 December 2016 calculated with proportional consolidation to the results presented in consolidated income statement above is as follows:

(in thousands of US dollars)

	Group as per proportionate consolidation	Equity method and other adjustments	Group as per equity method consolidation of joint ventures
Depreciation of property, plant and equipment	48,333	(13,490)	34,843
Amortisation of intangible assets	13,842	(617)	13,225
Impairment of property, plant and equipment and intangible assets	113,654	(46,122)	67,532
Staff costs	72,273	(15,709)	56,564
Transportation expenses	13,665	(7,023)	6,642
Fuel, electricity and gas	10,567	(4,573)	5,994
Repair and maintenance of property, plant and equipment	10,699	(3,775)	6,924
Total	283,033	(91,309)	191,724
Other operating expenses	37,352	(6,337)	31,015
Total cost of sales, administrative, selling and marketing expenses	320,385	(97,646)	222,739

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The segment assets and liabilities as at 31 December 2016 are as follows:

(in thousands of US dollars)

	Russian ports	VEOS	Finnish ports	Total operating segments	Holdings	Reconciliation adjustments	
						Effect of proportionate consolidation	Other adjustments
Property, plant and equipment (including prepayments for PPE)	620,977	152,181	6,980	780,138	232	(86,921)	-
Investments in joint ventures	-	-	-	-	165,844	-	(165,844)
Intangible assets	693,100	236	-	693,336	-	(2,101)	-
Other non-current assets	112,095	-	126,731	238,826	1,059,083	(33,662)	(1,226,562)
Inventories	5,681	1,831	23	7,535	19	(1,093)	-
Trade and other receivables (including income tax prepayment)	54,553	24,577	1,707	80,837	23,598	(12,681)	(22,298)
Cash and cash equivalents	124,956	4,103	2,923	131,982	2,984	(4,946)	-
Total assets	1,611,362	182,928	138,364	1,932,654	1,251,760	(141,404)	(1,414,704)
Long-term borrowings	1,044,138	2,628	3,102	1,049,868	22,197	(4,277)	(22,942)
Other long-term liabilities	175,548	-	125	175,673	3	(1,190)	(44,440)
Trade and other payables	23,721	19,489	1,246	44,456	6,222	(9,951)	(4,127)
Short-term borrowings	104,361	9,049	968	114,378	636	(6,682)	(18,807)
Other short-term liabilities	1,312	2,055	2	3,369	-	(1,036)	-
Total liabilities	1,349,080	33,221	5,443	1,387,744	29,058	(23,136)	(90,316)
Non-controlling interest	15,293	-	-	15,293	-	-	-
							15,293

Included within 'Russian ports', 'Finnish ports' and 'Holdings' segments 'Other non-current assets' are investments in subsidiaries and joint ventures in the total amount of US\$7,924 thousand, US\$126,614 thousand and US\$1,057,676 thousand respectively (fully eliminated on consolidation).

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The reconciliation of total segment assets and liabilities as at 31 December 2016 calculated with proportional consolidation to the results presented in consolidated balance sheet above is as follows:

(in thousands of US dollars)

	Group as per proportionate consolidation	Equity method and other adjustments	Group as per equity method consolidation of joint ventures
Property, plant and equipment (including prepayments for PPE)	693,449	(108,583)	584,866
Investments in joint ventures	-	123,149	123,149
Intangible assets	691,235	(25,012)	666,223
Other non-current assets	37,685	50,549	88,234
Inventories	6,461	(1,448)	5,013
Trade and other receivables (including income tax prepayment)	69,456	(13,213)	56,243
Cash and cash equivalents	130,020	(10,741)	119,279
Total assets	1,628,306	14,701	1,643,007
Long-term borrowings	1,044,846	(3,971)	1,040,875
Other long-term liabilities	130,046	40,873	170,919
Trade and other payables	36,600	(10,280)	26,320
Short-term borrowings	89,525	(10,844)	78,681
Other short-term liabilities	2,333	(1,037)	1,296
Total liabilities	1,303,350	14,741	1,318,091
Non-controlling interest	15,293	-	15,293

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The segment results for the year ended 31 December 2015 are as follows:

(in thousands of US dollars)

	Russian ports	VEOS	Finnish ports	Total operating segments	Reconciliation adjustments		Group as per proportionate consolidation
					Effect of proportionate consolidation	Other adjustments	
Sales to third parties	439,095	86,285	19,546	544,926	-	-	488,538
Inter-segment revenue	65	-	45	110	-	(99)	-
Total revenue	439,160	86,285	19,591	545,036	-	(99)	488,538
Cost of sales	(190,721)	(66,949)	(17,223)	(274,893)	-	34	(233,485)
Administrative, selling and marketing expenses	(18,889)	(8,504)	(1,027)	(28,420)	(25,380)	65	(48,774)
Other gains/(losses) – net	(4,668)	73	(612)	(5,207)	8,816	125	(6,486)
Operating profit	224,882	10,905	729	236,516	(16,564)	(10,220)	199,793
Finance costs – net	(220,496)	(1,189)	(272)	(221,957)	970	71	(218,905)
<i>incl. interest income</i>	2,317	31	-	2,348	4,198	(4,922)	1,586
<i>incl. interest expenses</i>	(65,861)	(1,208)	(261)	(67,330)	(1,772)	1,544	(62,636)
<i>incl. change in the fair value of derivative instruments</i>	(5 489)	-	-	(5 489)	-	-	(5 489)
<i>incl. net foreign exchange losses on financing activities</i>	(151,464)	(11)	(11)	(151,486)	(1,457)	119	(152,367)
Profit/(loss) before income tax	4,386	9,716	457	14,559	(15,594)	(10,149)	(19,112)
Income tax expense	(8,244)	(1,946)	(336)	(10,526)	(759)	2,469	(8,816)
Profit/(loss) after tax	(3,858)	7,770	121	4,033	(16,353)	(5,459)	(27,928)
CAPEX* on cash basis	12,073	2,073	3,483	17,629	66	-	15,682

*CAPEX represents purchases of property, plant and equipment

Included within 'Other adjustments' on the line 'Other gains/(losses) – net' is the elimination of intragroup dividends.

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The reconciliation of results for the year ended 31 December 2015 calculated with proportional consolidation to the results presented in consolidated income statement above is as follows:

(in thousands of US dollars)

	Group as per proportionate consolidation	Equity method and other adjustments	Group as per equity method consolidation of joint ventures
Sales to third parties	488,538	(82,846)	405,692
Inter-segment revenue	-	-	-
Total revenue	488,538	(82,846)	405,692
Cost of sales	(233,485)	57,118	(176,367)
Administrative, selling and marketing expenses	(48,774)	6,431	(42,343)
Share of profit/(loss) of joint ventures accounted for using the equity method	-	3,812	3,812
Other gains/(losses) – net	(6,486)	447	(6,039)
Operating profit	199,793	(15,038)	184,755
Finance costs - net	(218,905)	3,836	(215,069)
<i>incl. interest income</i>	<i>1,586</i>	<i>(26)</i>	<i>1,560</i>
<i>incl. interest expenses</i>	<i>(62,636)</i>	<i>2,490</i>	<i>(60,146)</i>
<i>incl. change in the fair value of derivative instruments</i>	<i>(5 489)</i>	<i>-</i>	<i>(5 489)</i>
<i>incl. net foreign exchange losses on financing activities</i>	<i>(152,367)</i>	<i>1,372</i>	<i>(150,995)</i>
Loss before income tax	(19,112)	(11,202)	(30,314)
Income tax (expense)/credit	(8,816)	5,451	(3,365)
Loss for the year	(27,928)	(5,751)	(33,679)
CAPEX on cash basis	15,682	(3,949)	11,733

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Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The segment items operating expenses for the year ended 31 December 2015 are as follows:

(in thousands of US dollars)

	Russian ports	VEOS	Finnish ports	Total operating segments	Reconciliation adjustments			Group as per proportionate consolidation
					Holdings	Effect of proportionate consolidation	Other adjustments	
Depreciation of property, plant and equipment	46,582	20,537	2,610	69,729	44	(11,878)	-	57,895
Amortisation of intangible assets	14,698	1,042	-	15,740	-	(570)	-	15,170
Impairment of property, plant and equipment	46,686	-	-	46,686	-	-	-	46,686
Staff costs	50,319	16,503	7,323	74,145	17,576	(11,377)	-	80,344
Transportation expenses	7,386	15,810	2,496	25,692	-	(8,801)	-	16,891
Fuel, electricity and gas	7,601	12,388	689	20,678	7	(6,643)	-	14,042
Repair and maintenance of property, plant and equipment	9,086	3,105	1,456	13,647	69	(2,379)	-	11,337
Total	182,358	69,385	14,574	266,317	17,696	(41,648)	-	242,365
Other operating expenses	27,252	6,068	3,676	36,996	7,684	(4,687)	(99)	39,894
Total cost of sales, administrative, selling and marketing expenses	209,610	75,453	18,250	303,313	25,380	(46,335)	(99)	282,259

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The reconciliation of operating expenses for the year ended 31 December 2015 calculated with proportional consolidation to the results presented in consolidated income statement above is as follows:

(in thousands of US dollars)

	Group as per proportionate consolidation	Equity method and other adjustments	Group as per equity method consolidation of joint ventures
Depreciation of property, plant and equipment	57,895	(15,101)	42,794
Amortisation of intangible assets	15,170	(672)	14,498
Impairment of property, plant and equipment	46,686	-	46,686
Staff costs	80,344	(17,628)	62,716
Transportation expenses	16,891	(10,591)	6,300
Fuel, electricity and gas	14,042	(7,538)	6,504
Repair and maintenance of property, plant and equipment	11,337	(4,034)	7,303
Total	242,365	(55,564)	186,801
Other operating expenses	39,894	(7,985)	31,909
Total cost of sales, administrative, selling and marketing expenses	282,259	(63,549)	218,710

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The segment assets and liabilities as at 31 December 2015 are as follows:

(in thousands of US dollars)

	Russian ports	VEOS	Finnish ports	Total operating segments	Holdings	Reconciliation adjustments		Group as per proportionate consolidation
						Effect of proportionate consolidation	Other adjustments	
Property, plant and equipment (including prepayments for PPE)	535,067	171,912	8,913	715,892	92	(96,349)	-	619,635
Investments in joint ventures	-	-	-	-	165,844	-	(165,844)	-
Intangible assets	645,249	55,758	3,723	704,730	-	(8,981)	-	695,749
Other non-current assets	1,151,126	-	115,644	1,266,770	1,156,437	(30,893)	(2,390,471)	1,843
Inventories	4,430	2,304	-	6,734	-	(1,303)	-	5,431
Trade and other receivables (including income tax prepayment)	72,282	26,947	3,203	102,432	18,005	(14,083)	(58,861)	47,493
Cash and cash equivalents	117,883	4,248	2,934	125,065	9,944	(4,028)	-	130,981
Total assets	2,526,037	261,169	134,417	2,921,623	1,350,322	(155,637)	(2,615,176)	1,501,132
Long-term borrowings	1,145,352	12,052	4,178	1,161,582	144,852	(11,154)	(216,455)	1,078,825
Other long-term liabilities	93,634	1,957	327	95,918	-	(1,940)	(904)	93,074
Trade and other payables	21,403	21,051	2,436	44,890	18,899	(10,381)	(16,413)	36,995
Short-term borrowings	130,954	13,623	1,751	146,328	29,119	(10,632)	(43,829)	120,986
Other short-term liabilities	278	2,557	98	2,933	310	(1,373)	-	1,870
Total liabilities	1,391,621	51,240	8,790	1,451,651	193,180	(35,480)	(277,601)	1,331,750
Non-controlling interest	13,231	-	-	13,231	-	-	-	13,231

Included within 'Russian ports', 'Finnish ports' and 'Holdings' segments 'Other non-current assets' are investments in subsidiaries and joint ventures in the total amount of US\$1,004,924 thousand, US\$115,484 thousand and US\$1,082,211 thousand respectively (fully eliminated on consolidation).

Notes to the consolidated financial statements (continued)

5 Segmental information (continued)

The reconciliation of total segment assets and liabilities as at 31 December 2015 calculated with proportional consolidation to the results presented in consolidated balance sheet above is as follows:

(in thousands of US dollars)

	Group as per proportionate consolidation	Equity method and other adjustments	Group as per equity method consolidation of joint ventures
Property, plant and equipment (including prepayments for PPE)	619,635	(117,133)	502,502
Investments in joint ventures	-	167,815	167,815
Intangible assets	695,749	(73,063)	622,686
Other non-current assets	1,843	65,454	67,297
Inventories	5,431	(1,606)	3,825
Trade and other receivables (including income tax prepayment)	47,493	(14,975)	32,518
Cash and cash equivalents	130,981	(7,846)	123,135
Total assets	1,501,132	18,646	1,519,778
Long-term borrowings	1,078,825	(16,454)	1,062,371
Other long-term liabilities	93,074	62,160	155,234
Trade and other payables	36,995	(10,098)	26,897
Short-term borrowings	120,986	(17,957)	103,029
Other short-term liabilities	1,870	(1,555)	315
Total liabilities	1,331,750	16,096	1,347,846
Non-controlling interest	13,231	-	13,231

The revenue of the Group mainly comprises of stevedoring services, storage and ancillary port services for container and bulk cargoes (Russian ports and Finnish ports segments) and oil products (VEOS segment). The subsidiaries and joint ventures of the Group also provide services which are of support nature in relation to the core services mentioned above.

The consolidated revenue comprises only from the services related to containers and bulk cargo since the operations of VEOS are equity accounted (Note 2, Basis of consolidation, (c)).

Revenue attributable to domestic and foreign customers for the year ended 31 December 2016 is disclosed below in accordance with their registered address. Major clients of the Group are internationally operating companies and their Russian branches. Their registered addresses are usually not relevant to the location of their operations.

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Revenue from domestic customers - Cyprus	21,064	21,234
Revenue from foreign customers by countries:		
Russia	182,905	237,404
Denmark	47,717	45,970
UK	25,093	28,937
France	12,334	20,393
Other	42,355	51,754
Revenue from foreign customers total	310,404	384,458
Total revenue	331,468	405,692

In 2016 there was one and in 2015 there were two customers representing more than 10% of consolidated revenue. They originated from Russian ports segment and were domiciled in Russia.

Notes to the consolidated financial statements (continued)

6 EXPENSES BY NATURE

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Staff costs (Note 8)	56,564	62,716
Depreciation of property, plant and equipment (Note 14)	34,843	42,794
Amortisation of intangible assets (Note 15)	13,225	14,498
Impairment of property, plant and equipment (Note 14)	-	46,686
Impairment of intangible assets (Note 15)	67,532	-
Transportation expenses	6,642	6,300
Fuel, electricity and gas	5,994	6,504
Repair and maintenance of property, plant and equipment	6,924	7,303
Taxes other than on income	5,356	6,190
Legal, consulting and other professional services	3,579	3,126
Auditors' remuneration	1,544	1,848
Operating lease rentals	4,944	5,368
Purchased services	5,311	4,564
Insurance	894	1,389
Other expenses	9,387	9,424
Total cost of sales, administrative, selling and marketing expenses	222,739	218,710

The total fees charged by the Company's statutory auditor for the statutory audit of the annual financial statements of the Company for the year ended 31 December 2016 amounted to US\$305 thousand (2015: US\$340 thousand). The total fees charged by the Company's statutory auditor for the year ended 31 December 2016 for other assurance services amounted to US\$199 thousand (2015: US\$112 thousand), for tax advisory services amounted to US\$77 thousand (2015: US\$31 thousand).

The above expenses are analysed by function as follows:

Cost of sales

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Staff costs	34,239	36,779
Depreciation of property, plant and equipment	34,281	42,080
Amortisation of intangible assets	13,205	14,473
Impairment of property, plant and equipment (Note 14)	-	46,686
Impairment of intangible assets (Note 15)	67,532	-
Transportation expenses	6,642	6,300
Fuel, electricity and gas	5,731	6,263
Repair and maintenance of property, plant and equipment	6,232	6,454
Taxes other than on income	4,337	4,829
Operating lease rentals	2,637	3,015
Purchased services	5,311	4,564
Insurance	539	973
Other expenses	5,378	3,951
Total cost of sales	186,064	176,367

Notes to the consolidated financial statements (continued)

6 Expenses by nature (continued)

Administrative, selling and marketing expenses

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Staff costs	22,325	25,937
Depreciation of property, plant and equipment	562	714
Amortisation of intangible assets	20	25
Fuel, electricity and gas	263	241
Repair and maintenance of property, plant and equipment	692	849
Taxes other than on income	1,019	1,361
Legal, consulting and other professional services	3,579	3,126
Auditors' remuneration	1,544	1,848
Operating lease rentals	2,307	2,353
Insurance	355	416
Other expenses	4,009	5,473
Total administrative, selling and marketing expenses	36,675	42,343

7 OTHER GAINS/(LOSSES) – NET

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Foreign exchange (losses)/gains on non-financing activities – net (Note 11)	(2,354)	5,702
Settlement of commercial claim	(3,413)	-
Recycling of derivative losses previously recognised through other comprehensive income (Note 23(ii))	(63,149)	-
Other gains/(losses) – net	159	(337)
Total	(68,757)	(6,039)

8 EMPLOYEE BENEFIT EXPENSE

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Salaries	44,672	49,935
Social insurance costs	10,510	11,381
Other staff costs	1,382	1,400
Total	56,564	62,716
 Average number of staff employed during the year	 2,743	 2,883

Included within 'Social insurance costs' for 2016 are contributions made to the state pension funds in the total amount of US\$7,762 thousand (2015: US\$8,805 thousand).

Notes to the consolidated financial statements (continued)

9 FINANCE INCOME/(COSTS) - NET

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
<i>Included in finance income:</i>		
Interest income on bank balances	482	451
Interest income on short-term bank deposits	447	1,036
Interest income on loans to related parties (Note 29(h))	438	73
Total finance income	1,367	1,560
<i>Included in finance costs:</i>		
Interest expenses on bank borrowings	(46,645)	(58,277)*
Interest expenses on bonds	(49,786)	(245)
Interest expenses on finance lease	(1,428)	(1,577)
Interest expenses on loans from third parties	(205)	(47)
Total finance costs	(98,064)	(60,146)
<i>Included in the change in fair value of derivatives:</i>		
Interest component**	14,411	121
Foreign currency exchange component	50,021	(5,609)
Total change in fair value of derivatives (Note 23(i))	64,432	(5,488)
Net foreign exchange losses on financing activities	142,572	(150,995)
Finance incomes/(costs) – net	110,307	(215,069)

*Includes gains on derivatives used for hedging (see Note 23).

**Interest component represents the difference between interest expenses on RUR-denominated bonds and lower interest rates embodied in swap agreements (see Note 23).

Notes to the consolidated financial statements (continued)

10 INCOME TAX EXPENSE

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Current tax	31,833	52,109
Deferred tax (Note 24)	16,760	(48,744)
Total	48,593	3,365

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Profit/(loss) before tax	109,856	(30,314)
Tax calculated at the applicable tax rates – 20% ⁽¹⁾	21,972	(6,063)
Tax effect of expenses not deductible for tax purposes	19,092	14,299
Tax effect of share of profit in jointly controlled entities	8,085	(762)
Withholding tax on undistributed profits	(556)	(1,616)
Tax effect of reduced tax rates of an entity in Russian ports segment ⁽²⁾	-	(2,493)
Tax charge	48,593	3,365

(1) The applicable tax rate used for 2016 and 2015 is 20% as this is the income statutory tax rate applicable to the Russian ports segment, where a substantial part of the taxable income arises.

(2) In 2015 the statutory tax rate in an entity within Russian ports was 18.5% instead of normal tax rate of 20%.

Deferred tax is provided on the undistributed profits of subsidiaries and joint ventures, except when it is probable that the Group will not distribute dividends from the specific investment in the foreseeable future and the Group can control the payment of dividends.

The Company is subject to corporation tax on taxable profits at the rate of 12.5%. Under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 30%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 17%. In certain cases dividends received from other Cyprus tax resident Companies may also be subject to special contribution for defence.

Notes to the consolidated financial statements (continued)

11 NET FOREIGN EXCHANGE GAINS/(LOSSES)

The exchange differences (charged)/credited to the income statement are as follows:

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Included in 'finance income/(costs) - net' (Note 9)	142,572	(150,995)
Included in 'other gains/(losses) – net' (Note 7)	(2,354)	(5,702)
Total	140,218	(156,697)

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number in issue during the respective period.

	For the year ended 31 December	
	2016	2015
Profit attributable to the owners of the parent of the Company - in thousands of US dollars	61,038	(25,138)
Weighted average of ordinary shares in issue (thousands)	573,171	573,171
Basic and diluted earnings per share for profit attributable to the owners of the parent (expressed in US\$ per share)	0.11	(0.04)

13 DIVIDEND DISTRIBUTION

During 2016 and 2015 the Company did not declare or pay dividends to the equity holders of the Company.

During 2016 a Group company has declared dividends of which US\$801 thousand (2015: US\$Nil) are payable to non-controlling interest.

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

14 PROPERTY, PLANT AND EQUIPMENT

(in thousands of US dollars)

At 1 January 2015

	Land	Buildings and facilities	Assets under construction	Loading equipment and machinery	Other production equipment	Office equipment	Total
Cost	194,806	456,206	21,039	257,874	48,637	3,354	981,916
Accumulated depreciation and impairment	-	(119,757)	-	(106,394)	(20,605)	(2,925)	(249,681)
Net book amount	194,806	336,449	21,039	151,480	28,032	429	732,235
Additions	861	4,574	2,141	4,127	1,095	102	12,900
Transfers	-	139	(526)	82	283	22	-
Disposals	(465)	(9)	(68)	(6,184)	(209)	(1)	(6,936)
Depreciation charge (Note 6)	-	(21,918)	-	(15,945)	(4,684)	(247)	(42,794)
Impairment charge (Note 6)	-	(45,443)	(1,243)	-	-	-	(46,686)
Translation reserve	(44,449)	(62,975)	(4,714)	(31,514)	(5,847)	(75)	(149,574)
Closing net book amount	150,753	210,817	16,629	102,046	18,670	230	499,145

At 31 December 2015

Cost	150,753	285,330	17,872	163,451	31,856	1,539	650,801
Accumulated depreciation and impairment	-	(74,513)	(1,243)	(61,405)	(13,186)	(1,309)	(151,656)
Net book amount	150,753	210,817	16,629	102,046	18,670	230	499,145

GLOBAL PORTS INVESTMENTS PLC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Notes to the consolidated financial statements (continued)

14 Property, plant and equipment (continued)

(in thousands of US dollars)

At 1 January 2016

	Land	Buildings and facilities	Assets under construction	Loading equipment and machinery	Other production equipment	Office equipment	Total
Cost	150,753	285,330	17,872	163,451	31,856	1,539	650,801
Accumulated depreciation and impairment	-	(74,513)	(1,243)	(61,405)	(13,186)	(1,309)	(151,656)
Net book amount	150,753	210,817	16,629	102,046	18,670	230	499,145
Additions	-	5,463	8,644	2,219	1,815	85	18,226
Transfers	-	835	(835)	-	-	-	-
Disposals	-	(18)	(260)	(155)	(375)	(1)	(809)
Depreciation charge (Note 6)	-	(17,346)	-	(14,683)	(2,630)	(184)	(34,843)
Translation reserve	30,385	41,223	4,300	19,018	3,545	36	98,507
Closing net book amount	181,138	240,974	28,478	108,445	21,025	166	580,226

At 31 December 2016

Cost	181,138	346,439	29,721	192,545	39,035	1,897	790,775
Accumulated depreciation and impairment	-	(105,465)	(1,243)	(84,100)	(18,010)	(1,731)	(210,549)
Net book amount	181,138	240,974	28,478	108,445	21,025	166	580,226

Notes to the consolidated financial statements (continued)

14 Property, plant and equipment (continued)

In the cash flow statement proceeds from sale of property, plant and equipment comprise of:

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Net book amount	809	6,936
Less: Non-cash items - write-offs of property, plant and equipment	(440)	(950)
	369	5,986
Profit on sale of property, plant and equipment ⁽¹⁾	652	2,722
Proceeds from sale of property, plant and equipment	1,021	8,708

(1) Profit on sale of property, plant and equipment is included in 'Cost of sales' in the income statement.

Net carrying amount of property, plant and equipment (included above) that are held under finance leases are as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Buildings and constructions	7,662	6,529
Loading equipment	9,527	8,588
Total	17,189	15,117

The total net book value of pledged property, plant and equipment (included above) which are held as collateral for borrowings and loans are as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Buildings and constructions	-	11,150
Loading equipment and machinery	6,266	29,038
Other production equipment	-	4,307
Total	6,266	44,495

Depreciation expense amounting to US\$34,281 thousand in 2016 (2015: US\$42,080 thousand) has been charged to 'cost of sales' and US\$562 thousand in 2016 (2015: US\$714 thousand) has been charged to 'administrative, selling and marketing' expenses (Note 6).

There were no capitalised borrowing costs in 2016 and 2015.

Lease rentals relating to the lease of machinery and property amounting to US\$2,637 thousand in 2016 (2015: US\$3,015 thousand) have been charged to 'cost of sales' and US\$2,307 thousand in 2016 (2015: US\$2,353 thousand) has been charged to 'administrative, selling and marketing expenses'.

As at 31 December 2016 the amounts prepaid for equipment not delivered and prepayments for construction works not yet carried out were US\$4,640 thousand (2015: US\$3,357 thousand).

Notes to the consolidated financial statements (continued)

15 INTANGIBLE ASSETS

(in thousands of US dollars)

	Goodwill	Contractual rights	Client base	Computer software	Total
<i>At 1 January 2015</i>					
Cost	10,391	833,192	24,191	920	868,694
Accumulated amortisation and impairment	-	(24,679)	(21,242)	(526)	(46,447)
Net book amount	10,391	808,513	2,949	394	822,247
Additions	-	-	-	100	100
Amortisation charge (Note 6)	-	(13,001)	(1,364)	(133)	(14,498)
Translation reserve	(2,370)	(182,262)	(447)	(84)	(185,163)
Closing net book amount	8,021	613,250	1,138	277	622,686
<i>At 31 December 2015</i>					
Cost	8,021	636,441	11,949	643	657,054
Accumulated amortisation and impairment	-	(23,191)	(10,811)	(366)	(34,368)
Net book amount	8,021	613,250	1,138	277	622,686
Additions	-	-	-	118	118
Amortisation charge (Note 6)	-	(11,830)	(1,241)	(154)	(13,225)
Impairment charge (Note 6)	-	(67,532)	-	-	(67,532)
Translation reserve	1,616	122,405	103	52	124,176
Closing net book amount	9,637	656,293	-	293	666,223
<i>At 31 December 2016</i>					
Cost	9,637	764,303	-	726	774,666
Accumulated amortisation and impairment	-	(108,010)	-	(433)	(108,443)
Net book amount	9,637	656,293	-	293	666,223

As at 31 December 2016 the remaining useful lives for contractual rights were up to 56 years (2015: up to 57 years).

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to their operating segment. An operating segment-level summary of the goodwill allocation is presented below:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
PLP (Russian ports segment)	4,168	3,469
VSC (Russian ports segment)	5,469	4,552
Total	9,637	8,021

The recoverable amount of CGU is determined based on value in use calculations. These calculations are based on post-tax cash flow projections and all the assumptions in relation to growth rates are determined by reference to management's past experience and industry forecasts. The discount rates used reflect the specific risks of each segment. See Note 4(a)(i) for details of assumptions used.

Notes to the consolidated financial statements (continued)

16 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied in the line items below:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
<i>Loans and receivables</i>		
Financial assets as per balance sheet:		
Trade and other receivables ⁽¹⁾	33,753	25,166
Cash and cash equivalents	119,279	123,135
Total	153,032	148,301
<i>Financial liabilities measured at amortised cost</i>		
Financial liabilities as per balance sheet:		
Borrowings	1,119,556	1,165,400
Trade and other payables ⁽²⁾	28,022	19,736
Total	1,147,578	1,185,136
<i>Derivatives</i>		
Financial liabilities as per balance sheet:		
Derivative financial instruments	-	5,360
Total	-	5,360

(1) Trade and other receivables do not include taxes and prepayments.

(2) Trade and other payables do not include taxes, advances and deferred gains.

17 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external and internal sources of information like business reputation, financial position and performance, prior working history records. Customers with longer history of working with the Group are regarded by management as having lower risk of default.

The credit quality of financial assets 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 US dollars)

	As at 31 December	
	2016	2015
<i>Trade and other receivables</i>		
Core customers – new (less than one year of working history with the Group)	41	787
Core customers - existing (more than one year of working history with the Group)	9,042	10,260
Related party loans	8,472	1,629
Loans to third parties	-	9
Trade and other receivables from other customers (third parties)	1,467	715
Trade and other receivables from related parties	11,978	7,595
Total	31,000	20,995

Loans granted to the third parties, trade and other receivables are related to highly reputable counterparties with no external credit rating.

Notes to the consolidated financial statements (continued)

17 Credit quality of financial assets (continued)

Cash at bank and short-term bank deposits (Note 20):

(in thousands of US dollars)

Agency	Rating	As at 31 December	
		2016	2015
International rating agency Moody's Investors Service	A1 - Aa3	620	164
International rating agency Moody's Investors Service	B1 - Baa2	101,748	105,484
International rating agency Moody's Investors Service	Caa1 - Caa2	341	75
Fitch Ratings	AAA	16,517	12,064
Standard & Poor's	A-	-	5,219
* No rating	No rating	53	129
Total		119,279	123,135

* Cash in hand and cash and cash equivalents with banks for which there is no rating. These banks are highly reputable local banks in the country of operation of the respective Group entities.

18 INVENTORIES

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Spare parts	5,013	3,825
Total	5,013	3,825

All inventories are stated at cost.

19 TRADE AND OTHER RECEIVABLES

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Trade receivables - third parties	12,663	14,032
Trade receivables - related parties (Note 29(e))	7,997	4,763
Total trade receivables	20,660	18,795
Other receivables	358	569
Other receivables - related parties (Note 29(e))	4,094	3,990
Prepayments for goods and services	6,262	4,251
Prepayments for goods and services - related parties (Note 29(e))	525	106
Loans to third parties	169	183
Loans to related parties (Note 29(h))	8,472	1,629
VAT and other taxes recoverable	5,736	1,553
Total trade and other receivables	46,276	31,076
<i>Less non-current portion:</i>		
Loans to related parties	(8,265)	(1,193)
Other receivables	-	(83)
Total non-current portion	(8,265)	(1,276)
Current portion	38,011	29,800

Notes to the consolidated financial statements (continued)

19 Trade and other receivables (continued)

According to management estimates the fair values of trade and other receivables do not materially differ from their carrying amounts.

The effective interest rate on loans receivable from third parties and related parties were 4.2% (2015: 4.2%).

Trade and other receivables amounting to US\$22,527 thousand (31 December 2015: US\$19,357 thousand), were fully performing.

Trade and other receivables amounting to US\$2,584 thousand (31 December 2015: US\$3,997 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance.

The analysis of past due trade and other receivables is as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Less than 1 month overdue	1,892	3,736
From 1 to 3 months overdue	518	171
From 3 to 6 months overdue	114	80
Over 6 months overdue	60	10
Total	2,584	3,997

During 2016 trade receivables amounting to US\$17 thousand (2015: US\$32 thousand) were impaired and written off in full. These are individually impaired receivables mainly related to customers, which are in a difficult economic situation.

As of 31 December 2016 and 31 December 2015 none of loans to third parties were past due or impaired.

The other classes within trade and other receivables do not contain impaired assets except as disclosed in Note 3(b).

The creation and release of allowance and write off of impaired receivables have been included in 'administrative, selling and marketing expenses' in the income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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 7% (2015: 8%) discount rate.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Currency:		
US dollar	18,949	8,513
Russian Rouble	21,611	16,406
Euro	5,716	6,157
Total	46,276	31,076

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security for any receivables.

Notes to the consolidated financial statements (continued)

20 CASH AND CASH EQUIVALENTS

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Cash at bank and in hand	30,073	15,844
Short term bank deposits (less than 90 days)	89,206	107,291
Total	119,279	123,135

The effective average interest rate on short-term deposits was 0.8% in 2016 (2015: 0.8%) and these deposits have an average maturity of 18 days in 2016 (2015: 21 days).

Cash and cash equivalents include the following for the purposes of the cash flow statement:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Cash and cash equivalents	119,279	123,135
Total	119,279	123,135

21 SHARE CAPITAL, SHARE PREMIUM

Authorised share capital

In 2015 the Company increased its authorised share capital from 431,128,048 ordinary shares and 150,457,316 ordinary non-voting shares to 750,000,000 ordinary shares and 1,000,000,000 ordinary non-voting shares with a par value of US\$0.10 each

The authorised share capital of the Company amounts to US\$175,000,000.00 divided into 750,000,000 ordinary shares and 1,000,000,000 ordinary non-voting shares with a par value of US\$0.10 each.

Issued share capital

The issued share capital of the Company amounts to US\$57,317,073.10 divided into 422,713,415 ordinary shares and 150,457,316 ordinary non-voting shares with a par value of US\$0.10 each.

The ordinary shares and the ordinary non-voting shares rank pari passu in all respects save that, the ordinary non-voting shares do not have the right to receive notice, attend or vote at any general meeting, nor to be taken into account for the purpose of determining the quorum of any general meeting.

(in thousands of US dollars)

	Number of shares '000	Share capital	Share premium	Total
At 1 January/31 December 2015/ 31 December 2016	573,171	57,317	923,511	980,828

Notes to the consolidated financial statements (continued)

22 BORROWINGS

(in thousands of US dollars)

	As at 31 December	
	2016	2015
<i>Non-current borrowings</i>		
Bank loans	91,625	981,489
Non-convertible unsecured bonds	938,373	68,497
Finance lease liabilities	9,937	11,058
Interest payable for finance lease liabilities	-	584
Loans from third parties	755	628
Interest payable on loans from third parties	185	115
Total non-current borrowings	1,040,875	1,062,371
<i>Current borrowings</i>		
Bank loans	51,908	98,343
Interest payable on bank loans	252	1,429
Finance lease liabilities	2,523	2,514
Interest payable on finance lease liabilities	505	521
Interest payable on non-convertible unsecured bonds	23,493	222
Total current borrowings	78,681	103,029
Total borrowings	1,119,556	1,165,400

The maturity of non-current borrowings (excluding finance lease liabilities) is analysed as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Between 1 and 2 years	48,315	129,546
Between 2 and 5 years	290,475	921,183
Over 5 years	692,148	-
Total	1,030,938	1,050,729

Bank borrowings mature until 2019 (31 December 2015: 2020), bonds mature until 2023 (31 December 2015: 2020) and loans from other third parties mature until 2018 (31 December 2015: 2018).

In the end of 2015 the Group partly restructured its debt portfolio with the aim of facilitating greater financial flexibility and diversification of the debt portfolio of the Group.

For this purposes the Group has repaid certain bank facilities before their maturity dates, terminated the exiting swap arrangement, issued RUR-denominated bonds and entered in to the new swap agreement (see Note 23). These non-convertible unsecured RUR- denominated bonds in the total amount of RUR 5,000 million were issued on the Moscow Exchange with maturity of 5 years and with fixed coupon rate. In 2016 the Group continued the restructuring of its debt portfolio with the aim of facilitating greater financial flexibility and diversification of the debt portfolio of the Group. In 2016 a Company's subsidiary, issued second and third series of 5-year Russian rouble denominated non-convertible bonds in the amount of RUR 5,000 million each in the total amount of RUR 10,000 million. These bonds are guaranteed by the Company.

Proceeds from these bonds issuance were swapped using two cross currency swap instruments into US dollars with a lower interest rate (see Note 23(ii)) and were used for the refinancing of the Group's existing debt.

In April and September 2016 the GPI group has successfully finalised issue of two tranches of Eurobonds on the Irish Stock Exchange in the total amount of US\$700 million at a fixed coupon rate. Some companies within GPI group have unconditionally and irrevocably guaranteed these Eurobonds on a joint and several basis.

Notes to the consolidated financial statements (continued)

22 Borrowings (continued)

The carrying amount of outstanding bonds as of 31 December 2016 totalled to US\$961,866 thousand (as of 31 December 2015: US\$68,719 thousand)

Proceeds from above bond issues have been used for refinancing of the Group's debt.

Finance lease liabilities - minimum lease payments:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Under 1 year	3,927	3,607
Between 1 and 2 years	2,398	3,513
Between 2 and 5 years	4,060	3,824
Over 5 years	60,733	44,060
Total	71,118	55,004
Future finance charges of finance leases	(58,153)	(40,327)
Present value of finance lease liabilities	12,965	14,677

The present value of finance lease liabilities is analysed as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Under 1 year	3,019	3,035
Between 1 and 2 years	1,062	3,098
Between 2 and 5 years	11	1,055
Over 5 years	8,873	7,489
Total	12,965	14,677

According to the management's estimates the fair value of bank loans as at 31 December 2016 and as at 31 December 2015 amounts to US\$139,883 thousand and US\$1,088,939 thousand respectively. As at 31 December 2016 the fair value of outstanding bonds amounted to US\$980,911 thousand (31 December 2015: US\$68,784 thousand) and is within Level 1 of the fair value hierarchy. The fair value of other financial liabilities as at 31 December 2016 and as at 31 December 2015 approximates the carrying values. The fair values of bank loans and other financial liabilities are based on cash flows discounted using a rate based on the appropriate Libor and Euribor rates and are within Level 2 of the fair value hierarchy.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows (the table excludes interest payable):

(in thousands of US dollars)

	As at 31 December	
	2016	2015
6 months or less	3,966	842,161
6-12 months	-	1,808
1-5 years	143,880	311,056
Over 5 years	947,275	7,504
Total	1,095,121	1,162,529

Notes to the consolidated financial statements (continued)

22 Borrowings (continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Russian Rouble	263,487	78,045
US Dollar	856,069	1,087,355
Total	1,119,556	1,165,400

From the above amount of borrowings denominated in RUR, US\$253,168 thousand (2015: US\$68,719 thousand) are covered by a swap arrangement effectively converting the RUR-denominated obligation into USD-denominated one (see Note 23).

The weighted average effective interest rate on borrowings is 8.2% (2015: 6.5%). The weighted average effective interest rate on borrowings which includes the effect of the cross-currency swap would be 6.7% (2015: 6.1%).

The Group is leasing mainly container loading equipment, cars and terminal facilities.

The bank loans and overdrafts are secured as follows:

- by the pledge of the property, plant and equipment with carrying amount as at 31 December 2016 of US\$6,266 thousand (31 December 2015: US\$44,495 thousand) (see Note 14).
- some bank loans given to a group entities in Russian ports segment are secured also by the pledge of shares of certain group entities.

The finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Agreements of the bank loans given to some of the subsidiaries of the Group include certain covenants which set forth certain financial ratios that have to be complied with. There were no breaches of covenants as at 31 December 2016 and 2015.

23 DERIVATIVE FINANCIAL INSTRUMENTS

As of 31 December 2016 the fair value of derivatives was positive - US\$52,957 thousand. As of 31 December 2015 the fair value of derivatives was negative - US\$(5,360) thousand.

The fair value of derivative is classified as a non-current asset or liability if the remaining maturity of the hedging relationship is more than 12 months and, as a current asset or liability, if the maturity of the hedging relationship is less than 12 months.

(i) Derivatives related to RUR-denominated bonds issues

During 2015 and 2016 the Group entered into three cross-currency swap arrangements to exchange its RUR-denominated liabilities related to the newly issued bonds (3 issues of RUR 5,000 million each) with fixed interest rate of approximately 13% in the amount RUR 15,000 million (see Note 22) to USD-denominated debt with the lower fixed interest rate. The Group decided not to apply hedge accounting rules to new swaps. As a result the change in fair value is presented in the income statement under "change in fair value of derivative" as part of "finance income/(costs) – net" (see Note 9).

Cash collected/paid in relation to the swap arrangements not used for hedging that relate to the swap of fixed RUR denominated interest to fixed USD denominated interest is presented in the consolidated statement of cash flows as "proceeds from derivative financial instruments not used for hedging".

(ii) Derivatives used for hedging

Upon acquisition of NCC at the end of 2013 the Group has designated an acquired derivative as a cash flow hedge instrument where it was hedging the variability of the interest rate on an external borrowing of a Group entity and the highly probable forecasted revenues of the same Group entity which were expected to occur in USD (due to USD/RUR exchange rate).

At the end of 2015 the Group partly restructured its debt portfolio (see Note 22). This resulted in the termination of cross-currency interest rate swap arrangement explained above.

Notes to the consolidated financial statements (continued)

23 Derivative financial instruments (continued)

(ii) Derivatives used for hedging (continued)

The termination of the cross-currency interest rate swap arrangement together with the settlement of the related loan has led to the cancellation of the related interest rate cash flow hedge; and therefore the amount of USD 13,491 thousand was recycled from other comprehensive income to the income statement within finance costs in 2015.

In addition in 2015 realised gains related to interest component of the terminated swap (included within interest costs under finance costs, Note 9) amounted to US\$10,810 thousand and realised losses related to currency component of the swap (included within currency exchange gains under 'other gains/(losses) – net', Note 7) amounted to US\$10,575 thousand.

During 2016 there was recycled US\$61,356 thousand of derivative losses previously recognised through other comprehensive income that related to the cash flow hedge on forecasted sales. This amount has been recycled as a loss of US\$63,149 through the income statement under 'other gains/losses – net' (Note 7) and as a credit charge in amount of US\$1,793 thousand, relating to the foreign exchange difference arising on the retranslation of the cash flow hedge reserve using historic foreign exchange rate and average foreign exchange rate for the period, through currency translation differences in other comprehensive income. The recycling was based on the original forecasted sales that were expected to occur during the period.

As at 31 December 2016 an amount of US\$57,426 thousand (31 December 2015: US\$118,782 thousand) of derivative losses recognised through other comprehensive income in relation to the cash flow hedge on forecasted sales remained in equity and will be recycled through profit and loss based on the forecasted sales expected to occur during 2017.

24 DEFERRED INCOME TAX LIABILITIES

Deferred tax assets and liabilities are offset 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. The offset amounts are as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
<i>Deferred tax assets:</i>		
Deferred tax asset to be recovered after more than 12 months	44,440	66,021
<i>Deferred tax liabilities:</i>		
Deferred tax liability to be recovered after more than 12 months	(162,711)	(149,874)
Deferred tax liabilities (net)	(118,271)	(83,853)

The gross movement on the deferred income tax account is as follows:

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
At the beginning of the year	(83,853)	(169,057)
<i>Income statement charge:</i>		
Deferred tax credit	(16,760)	48,744
<i>Other movements:</i>		
Currency translation differences	(17,658)	36,460
At the end of the year	(118,271)	(83,853)

Notes to the consolidated financial statements (continued)

24 Deferred income tax liabilities (continued)

The movement on the deferred tax assets (+) and liabilities (-) during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in thousands of US dollars)

	Property, plant and equipment	Withholding tax provision	Intangible assets	Borrowings	Tax losses	Subtotal	Other assets and liabilities	Grand total
At 1 January 2015	(74,717)	(8,054)	(159,859)	(1,407)	73,581	(170,456)	1,399	(169,057)
Income statement (Note 10)	2,503	2,318	2,485	(287)	39,844	46,863	1,881	48,744
Translation differences	16,682	26	36,074	352	(15,964)	37,170	(710)	36,460
At 31 December 2015	(55,532)	(5,710)	(121,300)	(1,342)	97,461	(86,423)	2,570	(83,853)
Income statement (Note 10)	4,296	1,327	15,928	(2,073)	(34,731)	(15,253)	(1,507)	(16,760)
Translation differences	(10,938)	(1,021)	(24,039)	(187)	18,012	(18,173)	515	(17,658)
At 31 December 2016	(62,174)	(5,404)	(129,411)	(3,602)	80,742	(119,849)	1,578	(118,271)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The amount of unremitted earnings of certain subsidiaries and joint ventures on which no withholding tax provision was recognised amounts to US\$700,321 thousand (2015: US\$130,303 thousand).

25 TRADE AND OTHER PAYABLES

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Trade payables - third parties	3,659	3,296
Trade payables - related parties (Note 29(f))	106	69
Payables for property, plant and equipment	834	-
Other payables - third parties	4,756	361
Other payables - related parties (Note 29(f))	540	1,193
Payroll payable	1,559	1,091
Accrued expenses and deferred gains	14,846	13,726
Advances received	4,487	3,817
Taxes payable (other than income tax)	3,741	3,344
Total trade and other payables	34,528	26,897
Less non-current portion	(8,208)	-
Current portion	26,320	26,897

The fair value of trade and other payables approximates their carrying amount at the balance sheet date.

26 JOINT VENTURES

The Group has the following investments in joint ventures – VEOS, MLT group and CD Holding group. These entities are an integral part of operations of the Group. See Note 1 and Note 5 for more details.

There are no contingent liabilities or commitments relating to the Group's interest in the joint ventures.

Notes to the consolidated financial statements (continued)

26 Joint ventures (continued)

The summarised investments in joint ventures accounted for using the equity method as at 31 December 2016 and 31 December 2015 are as follows:

(in thousands of US dollars)

	VEOS	MLT	CD Holding	Total
At 1 January 2016	125,564	42,251	-	167,815
Recognised share of profit/(loss)	(46,412)	6,658	(669)	(40,423)
Translation differences (through other comprehensive income/(loss))	(4,298)	3,007	(842)	(2,133)
Dividends declared by joint venture	-	(5,048)	-	(5,048)
Loans converted to share capital (Note 29(h))			2,938	2,938
At 31 December 2016	74,854	46,868	1,427	123,149

As of 31 December 2016 the cumulative unrecognised total comprehensive income in relation CD Holding amounted US\$Nil (31 December 2015: US\$(2,550) thousand).

"Recognised share of profit/(loss)" includes US\$46,122 thousand of effect of impairment related to VEOS being impairment loss on goodwill amounting to US\$39,218 thousand (see Note 4(i)) and share of impairment of intangible assets in VEOS of US\$6,904 thousand (see Note 5).

(in thousands of US dollars)

	VEOS	MLT	CD Holding	Total
At 1 January 2015	135,686	52,654	-	188,340
Recognised share of profit/(loss)	3,913	8,569	(8,670)	3,812
Translation differences (through other comprehensive income/(loss))	(14,035)	(10,676)	-	(24,711)
Dividends declared by joint venture	-	(8,296)	-	(8,296)
Share of losses of joint ventures applied against other long-term interests (Note 29(h))	-	-	8,670	8,670
At 31 December 2015	125,564	42,251	-	167,815

Notes to the consolidated financial statements (continued)

26 Joint ventures (continued)

Set out below are the selected summarised financial information for joint ventures that are accounted for using the equity method.

Selected income statement items

(in thousands of US dollars)

	For the year ended 31 December 2016		
	VEOS	MLT	CD Holding
Revenue	58,970	34,076	7,018
Depreciation, amortisation and impairment	(20,280)	(4,422)	(866)
Interest income	18	74	1
Interest expense	(709)	(388)	(1,162)
Profit before income tax	(16,345)	11,804	2,508
Income tax expense	1,956	(2,927)	-
Profit after tax	(14,389)	8,877	2,508
Other comprehensive income/(loss)	(4,643)	4,735	(1,125)
Total comprehensive income/(loss)	(19,032)	13,612	1,383
Dividends declared by joint venture	-	6,731	-

Selected balance sheet items

(in thousands of US dollars)

	As at 31 December 2016		
	VEOS	MLT	CD Holding
Total non-current assets	152,417	34,510	16,860
Cash and cash equivalents (including current deposits with maturity over 90 days)	23,603	10,875	717
Other current assets	4,969	4,913	1,219
Total current assets	28,572	15,788	1,936
Total assets	180,989	50,298	18,796
Non-current financial liabilities	2,628	4,537	7,318
Other non-current liabilities	-	3,944	812
Total non-current liabilities	2,628	8,481	8,130
Current financial liabilities excluding trade and other payables	9,049	968	7,728
Other current liabilities including trade and other payables	19,604	3,623	1,035
Total current liabilities	28,653	4,591	8,763
Total liabilities	31,281	13,072	16,893
Net assets	149,708	37,226	1,903

Notes to the consolidated financial statements (continued)

26 Joint ventures (continued)

Selected income statement items

(in thousands of US dollars)

	For the year ended 31 December 2015		
	VEOS	MLT	CD Holding
Revenue	86,285	45,269	7,710
Depreciation and amortisation	(21,579)	(5,624)	(1,016)
Interest income	31	90	-
Interest expense	(1,208)	(687)	(3,266)
Profit before income tax	9,781	16,589	(4,432)
Income tax expense	(1,956)	(5,163)	(802)
Profit after tax	7,825	11,426	(5,234)
Other comprehensive income/(loss)	(18,740)	(7,450)	329
Total comprehensive income/(loss)	(10,915)	3,976	(4,905)
Dividends declared by joint venture	-	11,061	-

Selected balance sheet items

(in thousands of US dollars)

	As at 31 December 2015		
	VEOS	MLT	CD Holding
Total non-current assets	186,477	34,096	14,426
Cash and cash equivalents (including current deposits with maturity over 90 days)	17,644	6,991	642
Other current assets	13,855	6,214	806
Total current assets	31,499	13,205	1,448
Total assets	217,976	47,301	15,874
Non-current financial liabilities	12,052	5,371	15,145
Other non-current liabilities	1,957	3,168	675
Total non-current liabilities	14,009	8,539	15,820
Current financial liabilities excluding trade and other payables	13,623	5,018	10,263
Other current liabilities including trade and other payables	21,604	3,399	401
Total current liabilities	35,227	8,417	10,664
Total liabilities	49,236	16,956	26,484
Net assets	168,740	30,345	(10,610)

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the group and the joint ventures.

Notes to the consolidated financial statements (continued)

26 Joint ventures (continued)

Set out below is the reconciliation of the summarised financial information presented to the carrying amount of the Group interest in joint ventures.

(in thousands of US dollars)

	For the year ended 31 December 2016			
	VEOS	MLT	CD Holding	Total
Opening net assets at the beginning of the year	168,740	30,345	(10,610)	188,475
Profit/(loss) for the period	(14,389)	8,877	2,508	(3,004)
Conversion of loans to equity	-	-	11,130	11,130
Dividends declared	-	(6,731)	-	(6,731)
Other comprehensive income/(loss)	(4,643)	4,735	(1,125)	(1,033)
Closing net assets at the end of the year	149,708	37,226	1,903	188,837
Ownership interest	50%	75%	75%	
Interest in joint venture	74,854	27,920	1,427	104,201
Goodwill	39,218	18,948	-	58,166
Impairment of investment	(39,218)	-	-	(39,218)
Carrying value on 31 December 2016	74,854	46,868	1,427	123,149

(in thousands of USD)

	For the year ended 31 December 2015			
	VEOS	MLT	CD Holding	Total
Opening net assets at the beginning of the year	179,655	37,430	(104,909)	112,176
Profit/(loss) for the period	7,825	11,426	(5,234)	14,017
Conversion of loans to equity	-	-	99,204	99,204
Dividends declared	-	(11,061)	-	(11,061)
Other comprehensive income/(loss)	(18,740)	(7,450)	329	(25,861)
Closing net assets at the end of the year	168,740	30,345	(10,610)	188,475
Ownership interest	50%	75%	75%	
Interest in joint venture	84,370	22,759	(7,958)	99,171
Goodwill	41,194	19,492	-	60,686
Share of losses of joint ventures applied against other long-term interests	-	-	7,958	7,958
Carrying value on 31 December 2015	125,564	42,251	-	167,815

Notes to the consolidated financial statements (continued)

27 CONTINGENCIES

Operating environment of the Group

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.

During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and 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. Russian Rouble exchange rate (as nominated by Central Bank of the Russian Federation ("CBRF")) fluctuated between RUR 60.3 and RUR 83.6 per USD and between RUR 63.0 and RUR 91.2 per EUR.

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.

Estonia and Finland represent established market economies with the more stable political systems and developed legislation based on EU directives and regulations. However, the situation in Estonia remained challenging and is characterised by a structural deterioration of the business environment in which the Group's oil products terminal operates, which is heavily dependent on the flows of Russian oil products.

Tax legislation in Russia

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 challenged tax 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 noncompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. 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. 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 on an arm's length basis.

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.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Notes to the consolidated financial statements (continued)

27 Contingencies (continued)

Tax legislation in Russia (continued)

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. 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.

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 relevant 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 as of 31 December 2015 management believes that no additional tax liability has to be accrued in the financial statements.

Environmental matters

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of waste water and the clean-up of contaminated sites.

Issues related to protection of water resources in Russia are regulated primarily by Environmental Protection Law, the Water Code and a number of other federal and regional normative acts.

Pursuant to the Water Code, discharging waste water into the sea is allowed, provided that the volume does not exceed the established standards of admissible impact on water resources. At the same time, the Environmental Protection Law establishes a "pay-to-pollute" regime, which implies that companies need to pay for discharging waste waters. However, the payments of such fees do not relieve a company from its responsibility to comply with environmental protection measures.

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. The limitation period for lawsuits for the compensation of damage caused to the environment is twenty years. Courts may also impose clean-up obligations on offenders in lieu of or in addition to imposing fines.

The enforcement of environmental regulation in the countries in which the Group operates is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Legal proceedings and investigations

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements. See also Note 4(iii) in relation to investigation by the Russian anti-monopoly authorities.

Notes to the consolidated financial statements (continued)

28 COMMITMENTS

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Property, plant and equipment	10,432	7,046
Total	10,432	7,046

Operating lease commitments – Group as lessee

The future minimum lease payments payable under non-cancellable operating leases (mainly port infrastructure) are as follows:

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Not later than 1 year	2,738	2,225
Later than 1 year and not later than 5 years	11,112	8,833
Later than 5 years	52,984	45,150
Total	66,834	56,208

Notes to the consolidated financial statements (continued)

29 RELATED PARTY TRANSACTIONS

The Group is jointly controlled by Transportation Investments Holding Limited ("TIHL"), and APM Terminals B.V. ("APM Terminals").

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The following transactions were carried out with related parties:

(a) Sale of services

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Entities under control of owners of TIHL or APM Terminals	94,065	107,363
Joint ventures in which GPI is a venture	23	48
Other related parties	48	57
Total	94,136	107,468

(b) Sales of property, plant and equipment

Net book amount of sold property, plant and equipment

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Joint ventures in which GPI is a venturer	116	561
Total	116	561

Profit on sales of property, plant and equipment

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Joint ventures in which GPI is a venturer	-	40
Total	-	40

Notes to the consolidated financial statements (continued)

29 Related party transactions (continued)

(c) Purchases of services and incurred expenses

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Entities under control of owners of TIHL or APM Terminals	2,415	2,630
Other related parties	2,004	2,237
Total	4,419	4,867

(d) Interest income

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
Joint ventures in which GPI is a venturer	438	73
Total	438	73

(e) Trade and other receivables and prepayments

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Entities under control of owners of TIHL or APM Terminals	8,522	4,867
Joint ventures in which GPI is a venturer	3,981	3,992
Other related parties	113	-
Total	12,616	8,859

(f) Trade and other payables

(in thousands of US dollars)

	As at 31 December	
	2016	2015
Entities under control of owners of TIHL or APM Terminals	556	1,193
Other related parties	90	69
Total	646	1,262

Notes to the consolidated financial statements (continued)

29 Related party transactions (continued)

(g) Key management compensation/directors' remuneration

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
<i>Key management compensation:</i>		
Salaries, payroll taxes and other short term employee benefits	9,809	12,022
<i>Directors' remuneration (included also above):</i>		
Fees	381	384
Emoluments in their executive capacity	340	343
Total	721	727

(h) Loans to related parties

The details of loans provided mainly to joint ventures in which GPI is a venturer are presented below (see also Note 19):

(in thousands of US dollars)

	For the year ended 31 December	
	2016	2015
At the beginning of the year	1,629	2,259
Loans advanced during the year	9,900	8,690
Interest charged	438	73
Loan and interest repaid during the year	(482)	(550)
GPI's share of losses of joint ventures applied against other long-term interests (Note 26)	-	(8,670)
Loans converted to share capital (Note 26)	(2,938)	-
Foreign exchange differences	(75)	(173)
At the end of the year (Note 19)	8,472	1,629

The loans are not secured, bear average interest at 4.3% (2015: 4.6%) and are repayable in 2017-2022.

30 EVENTS AFTER THE BALANCE SHEET DATE

There were no material post balance sheet events which have a bearing on the understanding of these condensed consolidated interim financial statements.



Independent auditor's report

To the Members of Global Ports Investments Plc

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Global Ports Investments Plc (the "Company"), its subsidiaries and joint ventures (together with the Company, the "Group"), give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.

What we have audited

We have audited the consolidated financial statements which are presented on pages 16 to 82 and comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- 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; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

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 that are relevant to our audit of the consolidated financial statements in Cyprus. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

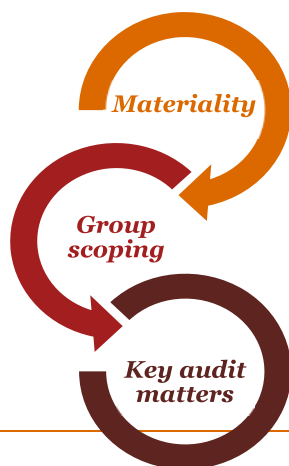
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Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we considered 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.



Overall Group materiality: USD 6 million, which represents 2,5% of Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA").

We conducted full scope audit procedures for the parent entity; all the significant components; and the consolidation process.

For the remaining non-significant components we performed a full scope audit; or analytical procedures; and/or audit of specific account balances.

We identified the Impairment assessment of goodwill and other non-financial assets including individual assets and cash generating units as the key audit matter.



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 financial statements as a whole.

Overall Group materiality	USD 6 million
How we determined it	2,5% of EBITDA
Rationale for the materiality benchmark applied	<p>We chose EBITDA as the most appropriate benchmark, because, in our view:</p> <ul style="list-style-type: none"> • it is the benchmark against which the performance of the Group is most commonly measured by users; and • it is a generally accepted benchmark.

We have agreed with the Audit and Risk Committee that we would report to them individual misstatements identified during our audit above USD 0,6 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored our audit scope

Global Ports Investments Plc controls or has joint control over a number of entities situated in a number of territories namely Russia, Estonia, Finland and Cyprus. Considering our ultimate responsibility for the opinion on the Company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit.

The Group's operations comprise 9 components. The financial information of these components is included in the consolidated financial statements of the Group. We tailored the scope of our audit and determined the nature and extent of the audit procedures for the components of the Group to ensure that we perform sufficient work to enable us to provide an opinion on consolidated financial statements as a whole. In this context, the determining factors were the structure of the Group, the significance of each component, the risk profile and relevant activities of the components, the accounting processes and controls, and the industry in which the Group operates.

We conducted full scope audit procedures for the parent entity; all the significant components; and the consolidation process. For the remaining non-significant components we performed a full scope audit; or analytical procedures; and/or audit of specific account balances.



The group consolidation was audited by the group engagement team. For components located in Russia and Estonia we used component auditors from other PwC network firms who are familiar with the local laws and regulations to perform the audit work. Where the work was performed by component auditors, we as group engagement team determined the level of involvement we needed to have in the audit work at those reporting units to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

Our involvement in the work performed by other auditors of the significant components included, amongst others, regular calls with the component auditors; discussion and agreement for the nature, timing and extent of the work; and review of the work performed by these component auditors for significant risk areas.

Our involvement in the work performed by other auditors of the non-significant components included, amongst others, discussion and review of the work performed by these component auditors for significant risk areas including impairment.

By performing the procedures above at components level, combined with the additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our audit opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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

Impairment assessment of goodwill and other non-financial assets, including individual assets and cash generating units

Based on the requirements of the standards and in line with Group accounting policy for impairment of goodwill as documented in Note 2 to the consolidated financial statements, the Group must perform an annual impairment test for goodwill.

In addition, the Board of Directors has assessed whether there were impairment indicators for each of the Group's cash generating units ('CGUs'). The analysis showed impairment indicators for all of the Group's CGUs and as a result the Group performed an impairment assessment of all the CGUs.

We focused on this area due to:

- the size of the goodwill and non-financial assets; and
- the assessment of the recoverable amount of the CGUs' involves complex and subjective judgements about the future results of the business and the applicable discount rates to be used.

In particular, we focused our audit effort on the Board of Directors' assessment of impairment of the First Container Terminal (FCT) and AS Vopak E.O.S. (VEOS) CGUs and Ust-Luga Container Terminal (ULCT) CGU due to the fact that the headroom between the carrying amount and recoverable amount of these CGUs was sensitive to changes in key assumptions.

We evaluated the valuation inputs and assumptions, methodologies and calculations adopted by the Board of Directors in determining the CGUs' recoverable amounts. In order to assist us in our audit we involved PwC valuation experts that have the knowledge and experience in the industry and country of operation to assist us in evaluating methodology, models and assumptions used.

We evaluated and challenged the composition of the future cash flow forecasts in the model including comparing them to the latest budgets approved by the Board of Directors.

We challenged:

- the Board of Directors' key assumptions for the long term growth rates of key inputs, such as volume and price and compared them to historical results, economic and industry forecasts;
- the discount rate applied to these cash flows, by assessing the weighted average cost of capital, cost of debt and considering territory specific factors; and
- the macroeconomic assumptions used by the Board of Directors, by comparing them to market benchmarks and publicly available information.



Key audit matter	How our audit addressed the Key audit matter
<p>The expected cash flows (budgets) for the year 2017 and the remaining assumptions used for the value in use calculation have been approved by the Board of Directors. Certain assumptions made by the Board of Directors in the determination of the two CGUs' value in use calculation were considered to be key estimates.</p> <p>The Group has recognised an impairment charge for FCT CGU amounting to US\$67,532 thousand. In addition, the impairment of investment in VEOS amounting to US\$39,218 thousand was recognised within the share of profit/(loss) of joint ventures accounted for using the equity method.</p> <p>Refer to Notes 4 and 26 to the consolidated financial statements for the related disclosures.</p>	<p>We further challenged the Board of Directors on the adequacy of their sensitivity calculations over the CGUs' recoverable amount and determined the assumptions that created the most variability; being assumptions for throughput volume, price per unit, growth rates, and discount rates.</p> <p>We lastly evaluated the adequacy of the disclosures made in Note 4 of the consolidated financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions.</p>



Other information

The Board of Directors is responsible for the other information. The other information comprises the Consolidated Management Report which we obtained prior to the date of this auditor's report, and the Company's Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

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 work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Company's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and if not corrected, we will bring the matter to the attention of the members of the Company at the Company's Annual General Meeting and we will take such other action as may be required.

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

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors 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 judgment 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 the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the consolidated Management Report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, and the information given therein is consistent with the financial statements.
- In our opinion and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the consolidated Management Report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the consolidated Management Report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.



Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Tasos Nolas.

A handwritten signature in black ink, appearing to read "T. Nolas", written over a horizontal line.

Tasos Nolas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

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Limassol, 16 March 2017