



## *Independent Auditor's Report*

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

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### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2018;
- the consolidated statement of financial position as at 31 December 2018;
- 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 significant accounting policies and other explanatory information.

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### *Basis for opinion*

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

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

### **Independence**

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



## Our audit approach

### Overview



Overall Group materiality: United States Dollars (“USD”) 27,000 thousand, which represents 5% of average consolidated profit before tax for years 2016-2018.

- We conducted audit work on all significant entities of the Group, which are located in Russia. Additionally we performed an audit in respect of the significant joint venture of the Group;
- Our audit scope addressed 99% of the Group’s revenues and 97% of the Group’s absolute value of underlying profit before tax.
- Compliance with debt covenants;
- Assessment of goodwill impairment.

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 management 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 also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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, if any, both individually and in aggregate on the consolidated financial statements as a whole.



<b>Overall Group materiality</b>	USD 27,000 thousand.
<b>How we determined it</b>	5% of average consolidated profit before tax for years 2016-2018.
<b>Rationale for the materiality benchmark applied</b>	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We used average consolidated profit before tax for three years – 2018, 2017 and 2016 in order to reduce influence of foreign currency exchange rates volatility on the consolidated profit before tax. We chose 5%, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

### Key audit matters

Key audit matters are those matters that, in our professional 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
<p><b>Compliance with debt covenants</b></p> <p><i>Refer to Note 22 to the consolidated financial statements.</i></p> <p>As at 31 December 2018, the Group's long-term debt amounts to USD 803,624 thousand.</p> <p>The relevant loan agreements contain financial and non-financial covenants that the Group must comply with. Breach of certain debt covenants would entitle the Group's lenders to demand early repayment of the borrowings. If one lender exercises its right to demand early repayment, it could trigger cross default clauses with certain other lenders.</p> <p>We focused on the matter because any non-compliance with the debt covenants may have a material impact on the Group's financial statements as a result of reclassification of long-term debt to short-term borrowings. Also any demand of early repayment of long-term borrowings may lead to other negative consequences including the risk of the Group not being able to continue as a going concern.</p>	<p>Our procedures for assessing the Group's compliance with the debts covenants included the following:</p> <ul style="list-style-type: none"> <li>- We analysed the borrowing agreements in terms of any covenants included therein, the breach of which may result in early repayment of the borrowings;</li> <li>- We verified the compliance with financial covenants by recalculation and comparison of the results with the threshold levels set in the debt agreements;</li> <li>- We verified compliance with non-financial covenants by referencing to the facts of the Group's operations and the results of other audit procedures performed.</li> </ul> <p>As a result of our procedures, we have noted no instances of non-compliance with the debt covenants, which may give rights to the creditors to request early repayment of the Group debts at the reporting date.</p> <p>We also assessed the information disclosed in the Note 22 to the consolidated financial statements of the Group for completeness and accuracy and compliance with the requirements of IAS 1 "Presentation of financial statements".</p>



### Key audit matter

### How our audit addressed the key audit matter

#### *Assessment of goodwill impairment*

*Refer to Note 14 and 4 of the consolidated financial statements.*

As at 31 December 2018, the carrying value of goodwill recognised in prior periods amounted to USD 511,682 thousand.

Goodwill is subject to annual impairment assessment under the requirements of IFRS.

Management identified a material error in the goodwill impairment for 2017 that was corrected retrospectively.

Although no goodwill impairment was identified as at 31 December 2018, we focused on this matter due to the materiality of the carrying value of the goodwill and due to the fact that impairment assessment performed by the management involves applying significant judgments and estimates.

Management's assessment is based on a number of key assumptions, including, revenue, capital expenditure (cost of maintenance of the fixed assets) and operating expenses forecasts, steady growth rate after the five-year forecast period and discount rate.

Management performed the goodwill impairment assessment and provided us with the results of this assessment. Together with our valuation specialists, we tested management's impairment testing model that is based on forecasts of future cash flows related to each cash generating unit (CGU). As part of our audit, the following procedures were performed:

- We assessed whether the determination of CGU adopted by the Group's management is compliant with the requirements of IAS 36 "Impairment of Assets";
- We checked the mathematical accuracy of the goodwill allocation to the CGUs;
- In respect of all CGUs we performed the following procedures over assumptions applied by management in its assessment:
  - We compared discount rate to the weighted average cost of capital of the Group recalculated by us;
  - We verified the appropriateness of financial budgets of CGUs for projected periods through inquiries with Group's management, corroborating management's explanations, examining supporting documentation;
  - We evaluated management's analysis of the sensitivity of the impairment test result and the adequacy of the sensitivity disclosure in respect of the assumptions with the greatest potential effect on the test result, e.g. those relating to revenue, capital expenditure (cost of maintenance of the fixed assets) and operating expenses forecasts exchange rates forecast, steady growth rate after the five-year forecast period and discount rate;
  - We verified that the methodology underlying future cash flow forecasts complies with IAS 36 "Impairment of Assets", including the fact that the recoverable amount was determined based on the value in use concept and some other aspects;
  - We compared forecast for sales prices growth rates with data from an independent analytical agency;



### Key audit matter

### How our audit addressed the key audit matter

- We performed independent calculation of steady growth rate after the five-year forecast period based on data from an independent analytical agency;
- We investigated the cause of the prior period error in the goodwill calculation and considered the appropriateness of the accounting for its correction.

We also assessed the information disclosed in Note 4 and 14 to the consolidated financial statements of the Group for completeness and accuracy and compliance with the requirements of IAS 36 “Impairment of Assets” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

As result of our work performed, we concluded that as at reporting date goodwill carrying amount does not require any material adjustments in the consolidated financial statements of the Group.

### How we tailored our Group audit scope

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

We defined PJSC Novorossiysk Commercial Sea Port, LLC Primorsk Trade Port, LLC Novorossiysk Grain Terminal, JSC Novoroslexport, LLC IPP, JSC Novorossiysk Shipyard, LLC Baltic Stevedore Company, JSC Fleet Novorossiysk Commercial Sea Port and JSC SoyuzFlot Port being financially significant components based on their contribution to Group’s consolidated financial statements and their inherent risk of material misstatement of the consolidated financial statements. Audit work was performed on each of the financially significant components. We also performed additional procedures in respect of other entities of the Group, which scope of activity would not have caused significant quantitative or qualitative effect on the consolidated financial statements.

### Other information

Management is responsible for the other information. The other information comprises *the Annual report and the Issuer’s Report for the 1 Quarter 2019* but does not include the consolidated financial statements and our auditor’s report thereon, which is expected to be made available to us after the date of the auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 when it becomes available 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.



When we read *the Annual Report and the Issuer's Report for the 1 Quarter 2019*, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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### *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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

*AO PricewaterhouseCoopers Audit*

28 March 2019  
Moscow, Russian Federation



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

Audited entity: Public Joint Stock Company Novorossiysk Commercial Sea Port

Record made in the Unified State Register of Legal Entities on 23.08.2002 under State Registration Number 1022302380638

Building 14, Portovaya street, Novorossiysk, Krasnodar Kray, Russian Federation, 353901

Independent auditor: AO PricewaterhouseCoopers Audit

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547