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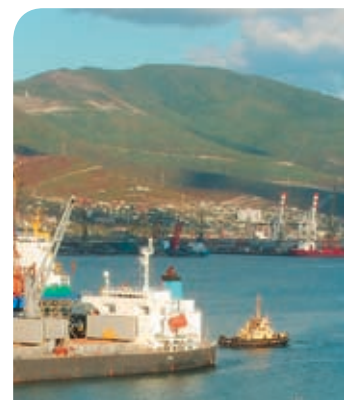
A HARBOR FOR SUCCESSFUL BUSINESS

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FOR SUCCESSFUL  
BUSINESS**

**NCSP  
GROUP**



**ANNUAL  
REPORT 2007**



**NOVOROSSIYSK–MOSCOW**

NCSP GROUP

**NOVOROSSIYSK–MOSCOW**

## ANNUAL REPORT 2007

# NCSP GROUP

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NOVOROSSIYSK

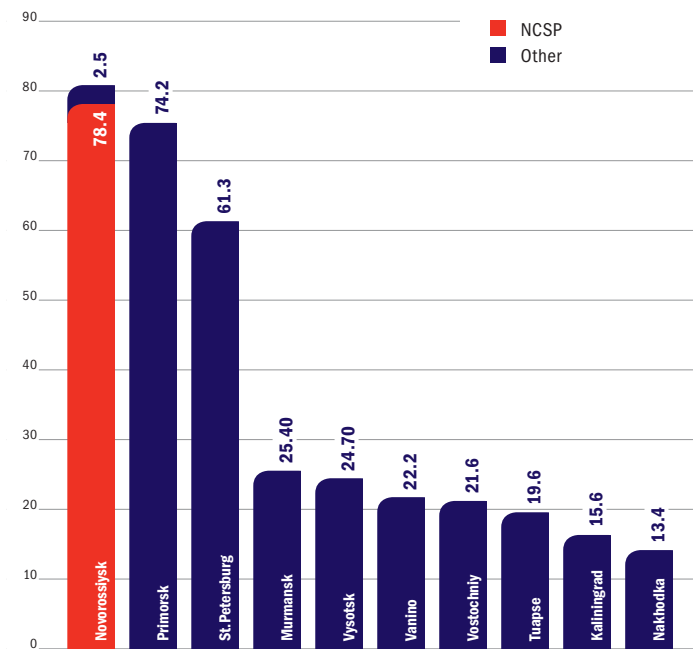
**NCSP GROUP** was formed as a result of the consolidation of stevedoring companies by the largest operator at Novorossiysk Port, PJSC NCSP, in 2006. The Group now unites 6 stevedoring companies working in the Black Sea and the Baltic Sea, including: PJSC Novorossiysk Commercial Sea Port, OJSC Novoroslesexport, OJSC IPP, PJSC Novorossiysk Grain Terminal, OJSC Novorossiysk Ship Repair Yard and LLC Baltic Stevedore Company as well as the service company PJSC NCSP Fleet, which provides towing and bunkering<sup>1</sup> services.

**IN THE TEXT** of this Annual Report, PJSC NCSP, together with its subsidiary companies, is referred to as "NCSP Group" or "the Group" or NCSP. PJSC NCSP, as the head company of the group, is referred to as PJSC NCSP or "the Company".

**NCSP** is the largest port operator in Russia that maintains the key channel for the flow of Russia's foreign-trade cargo through Novorossiysk Port, the Southern Sea Gates of the country. In 2007, the Group's share accounted for around 18%<sup>2</sup> of all import and export cargo handling carried out through Russia's sea ports.

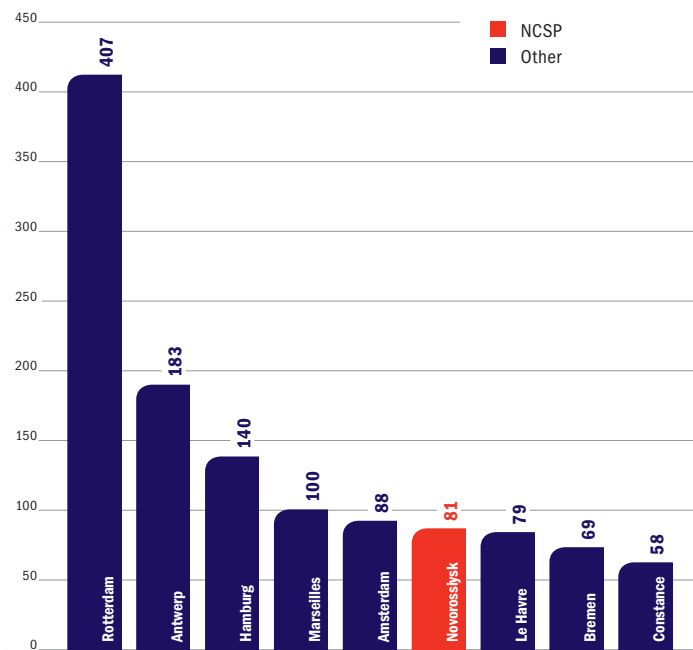
**THE PRIMARY OPERATIONS OF NCSP** are concentrated in the port of Novorossiysk. The port is located in the northeast part of the Black Sea and occupies sixth place in terms of cargo traffic among European ports<sup>3</sup>. It is the single multimodal, ice-free deepwater port in Russia's Southern basin allowing year-round navigation.

Diagram 1. Largest Russian seaports by cargo turnover in 2007, mln. tons



Source: NCSP Group data

Diagram 2. Largest European seaports by cargo turnover in 2007, mln. tons



Source: NCSP Group data

<sup>1</sup> The term "bunkering" covers the combination of technological operations connected with providing vessels coming into the port with fuel, water, oil and so forth.  
<sup>2</sup> Source: Russian Maritime Ports Association 2007 report.  
<sup>3</sup> Source: NCSP and Rotterdam Sea Port estimates.

NCSP IS RUSSIA'S LARGEST PORT OPERATOR MAINTAINING KEY FOREIGN-TRADE CARGO CHANNEL



19.4%

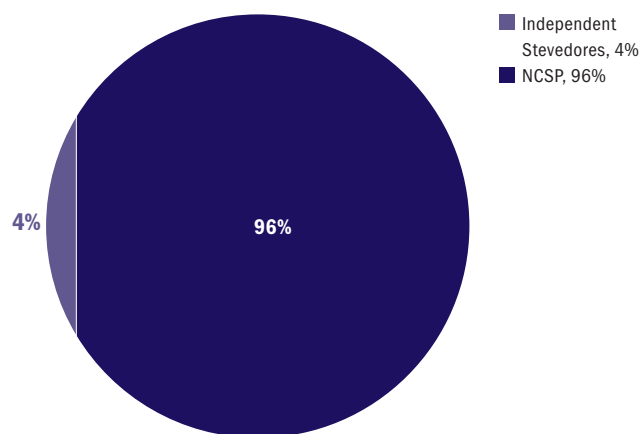
of NCSP shares were offered to investors through an IPO in 2007.

**NOVOROSSIYSK** is located at the intersection of global transportation routes connecting Russia with the Mediterranean, the Middle East, Africa, South and Southeast Asia and North and South America. The developed railroad, auto-transport and pipeline infrastructure of Novorossiysk allows NCSP to efficiently exploit the potential of the growing market for export and import cargo handling.

**A GROUP** of multimodal port terminals permits NCSP to service all of the main types of cargo conveyed by sea, including liquid, bulk, general and container loads. In 2007, the cargo turnover of the NCSP Group amounted to 79.4 million tons<sup>1</sup> and its share of the total cargo turnover of Novorossiysk Port amounted to 96%.

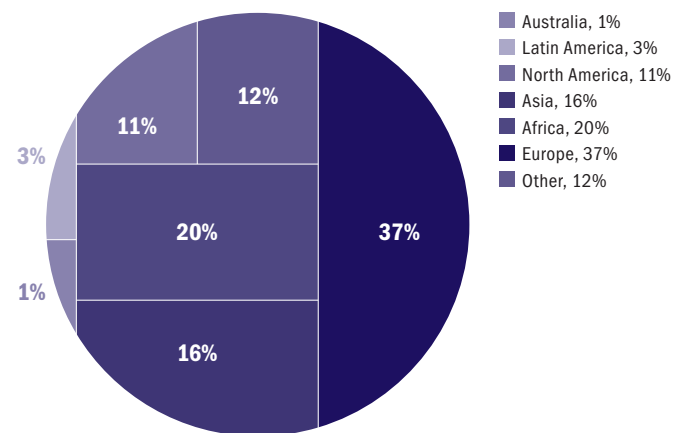
**IN 2007**, NCSP conducted an initial public offering (IPO) of 19.4% of its shares on the London Stock Exchange (LSE) in the form of global depository receipts (GDRs) as well, as on the RTS stock exchange in Russia. NCSP's GDRs are listed on the LSE under NCSP symbol. Ordinary shares are traded on MICEX and RTS exchanges in Russia under NMTP symbol.

**Diagram 3. Port of Novorossiysk cargo turnover by stevedoring companies, 2007, %**



Source: NCSP Group data

**Diagram 4. NCSP cargo traffic by regions, 2007, %**



Source: NCSP Group data

**NOVOROSSIYSK IN THE GLOBAL TRANSPORTATION NETWORK**

**NOVOROSSIYSK ACCUMULATES CARGO TRAFFIC FROM THE LARGEST RUSSIAN EXPORTERS**

**RELATIVE PROXIMITY** of Novorossiysk Port to the world's primary centers of trade makes it a very convenient point for the handling of cargo flowing to and from central Russian regions, including the Urals and the Volga as well as Central Asia.

**PORT OF NOVOROSSIYSK** accumulates cargo traffic from the largest Russian exporters, including: LUKOIL, Tatneft, Sibneft, NLMK, OEMK, Severstal, EvrazHolding, Mechel, RUSAL, TNK-BP, TMK, Mit-

tal Steel Temirtau, Cargill, SUCDEN (Suces & Denrees), WJ Grain, Glencore, Kazakhmys, Kazzinc and many others.

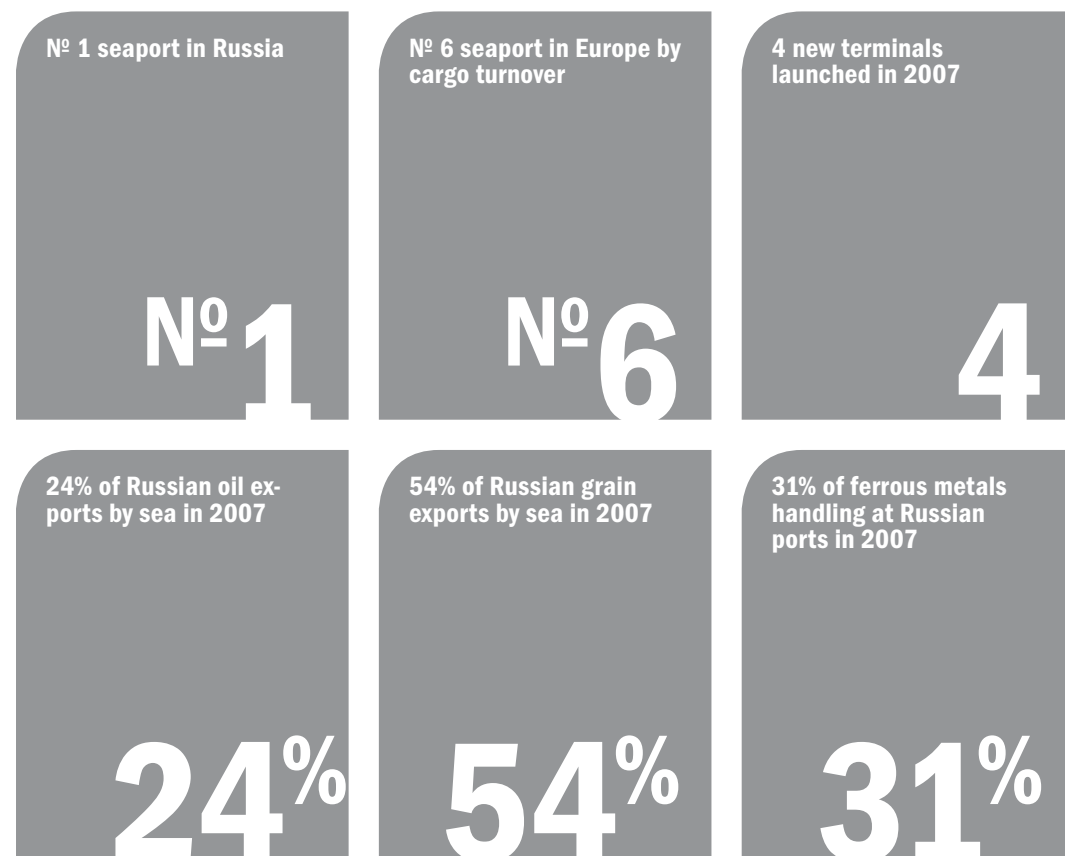
**NCSP CONTAINER TERMINALS** are well connected with leading international container lines like Mediterranean Shipping Company S.A. (MSC), CMA CGM, Evergreen, Hapag-Lloyd, ZIM, ADMIRAL Container lines Inc. and others.

**THE DELIVERY OF CONTAINERS FROM SOUTHEAST ASIA TO MOSCOW AND OTHER CENTRAL RUSSIAN CITIES THROUGH NOVOROSSIYSK TAKES EIGHT DAYS LESS THAN BY ALTERNATIVE ROUTES THROUGH THE PORTS OF ROTTERDAM/HAMBURG AND ST PETERSBURG.**



<sup>1</sup> Here and elsewhere, conversion from cubic meters to tons is based on the ratio of 0.55 tons to 1m<sup>3</sup>, and for containers on the ratio of 14 tons to 1 TEU. These ratios are used by NCSP as indicative numbers and based on assumptions that the Group believes to be well-founded. Any lack of accordance between the data and the factual weight of cargo does not have a significant influence on the indicators for revenue and EBITDA, as the calculation of tariff rates and according collections carried out on the relevant cargo is carried out on the basis of 1m<sup>3</sup> and 1 TEU, and not by weight.

NCSP'S NET PROFIT GREW BY 112.5% IN 2007



KEY EVENTS OF 2007:

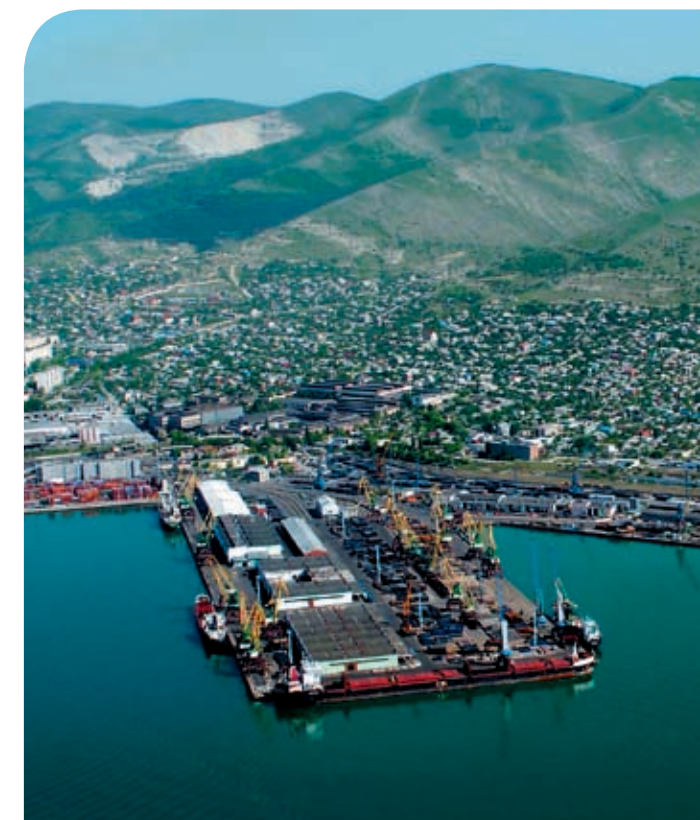
- Successful IPO on the London Stock Exchange and Russian exchanges MICEX and RTS.
- Eurobond issue for US\$ 300 million.
- Assignment of long-term BB+ credit rating and ruAA+ national rating by Standard & Poor's and Ba1 credit rating by Moody's.
- New specialized Novorossiysk grain terminal with a capacity of 4 million tons per annum launched into operation by PJSC NGT.
- Expanded timber and container terminals launched into operation by OJSC Novorosiesexport .
- New liquid cargo and bunkering fuel terminal launched into operation by PJSC NCSP.
- Reconstruction of Sheskhari's oil terminal's main pipeline.

Table 1. Summary of 2007 results

Revenue, US\$ mln	483.4	▲ 74.3%
EBITDA, US\$ mln	227.9	▲ 91.4%
EBITDA Margin, %	47.1	
Net profit, US\$ mln	93.7	▲ 112.5%
Cargo turnover <sup>1</sup> , mln tons	79.4	▼ 1.7%

<sup>1</sup> According to pro-forma

Source: Audited Consolidated Financial Statements of NCSP according to International Accounting Standards



18%

of total cargo traffic through Russian seaports is handled by NCSP Group.



**ALEXANDER PONOMARENKO**  
CHAIRMAN OF THE BOARD  
OF DIRECTORS



**IGOR VILINOV**  
GENERAL DIRECTOR

## DEAR SHAREHOLDERS, PARTNERS AND COLLEAGUES,

**IT IS WITH PARTICULAR PRIDE THAT THE MANAGEMENT OF NCSP** presents the consolidated annual report of the Group for 2007. Without exaggeration, it was the most successful year in the entire history of Novorossiysk Port. We were able not only to achieve the operational goals, but also deliver an outstanding financial result. All of this is a testimony to the effectiveness of the implementation of NCSP's strategy directed at growing shareholder value and meeting the growing demand from Russia's foreign trade.

**WITHOUT INCREASING** the volume of cargo handling compared to last year, the consolidated revenue of NCSP GROUP increased by 74.3% during the year to US\$ 483.4 million. EBITDA grew by 91.4% to reach US\$ 227.9 million and net profit reached US\$ 93.674 million, representing growth of 112%.

**IT IS PARTICULARLY PLEASING** to state that these results justify the great faith placed in the strategy and future prospects of Novorossiysk Commercial Seaport by the Russian and foreign investors, who had previously been its shareholders and who became shareholders in the Company during the IPO.

**THE TACTIC FOR THE DEVELOPMENT** of the Group's business is based on the strategic goal of ensuring long-term growth in the efficiency of its operations. The key task in 2007 was to capitalize on the benefits of consolidation carried out during the previous year. Last year, NCSP's management concentrated on the restructuring of the business and the optimization of operational activities of its subsidiaries with a focus on increasing their level of specialization and growing the share of high-margin cargo in the total cargo turnover.

## NCSP DOES NOT INTEND TO STOP WITH WHAT HAS BEEN ACHIEVED AND SEES GREAT POTENTIAL IN THE REGIONAL DIVERSIFICATION OF THE BUSINESS

The consolidation of assets also allowed us to optimize our pricing policy, eliminate previously existing tariff discounts, and move to the active implementation of our investment program aimed at expanding throughput capacity and modernization of the handling capacity of Novorossiysk Port.

**IN 2007** we have completed 4 new modern terminals: a wheat terminal at PJSC NGT, container and timber terminals at OJSC Novoroslesexport and a bunkering complex at OJSC IPP. A technical upgrade program was implemented at PJSC NCSP and OJSC Novorossiysk Ship Repair Yard terminals. Container handling for the year increased to 261 thousand TEU (up 55% compared to 2006) and grain handling reached a record level of 5,808 thousand tons (up 42% compared to 2006).

**THE SUCCESSFUL IMPLEMENTATION** of all tactical goals by year end allowed NCSP to increase its revenues by US\$ 206.4 million as compared to last year. At the same time, work on cost reduction and increasing control over expenditures was reflected by a more than two-fold increase in net profit for the year.

**TODAY, ONE OF THE GROUP'S PRIORITIES** is effective interaction with the Russian government in order to achieve seamless integration of NCSP investment program and the Novorossiysk Transport Hub state development project. To do so NCSP has entered the tender to develop a feasibility study for this large-scale project, which includes road-transport, railroad, and logistics infrastructure.

**NCSP** does not intend to stop with what has been achieved to date and sees great potential for further development through regional diversification. Along with the evident advantages for NCSP itself, the expansion of the Group to other regional markets will also bring significant benefits for our clients, who will be able to obtain a wide range of high-quality services in various markets from a single operator. The results of 2007 convince us that the experience of building an effective business in Novorossiysk can be successfully applied in other regions. This in turn will translate into shareholder value growth in the long term, and increase the efficiency of our clients export-import operations. It will also make a significant contribution to regional economy, and benefit Russia as a whole.

**WE WOULD** like to take the opportunity to thank our shareholders, investors and partners for constructive

and fruitful cooperation which has enabled the successful development of NCSP. We are convinced that the experience which we have gained in the course of integrating assets and increasing the efficiency of our business, in combination with the further successful implementation of our investment plans, will be capitalized upon in the form of even better results in the future.

Yours sincerely,

**Alexander Ponomarenko**,  
Chairman of the Board  
of Directors

**IGOR VILINOV**,  
GENERAL DIRECTOR

## NCSP'S STRATEGIC DEVELOPMENT PLANS ENVISION CONTINUING MARKET EXPANSION AND REGIONAL DIVERSIFICATION

**EXPECTED FOREIGN** trade growth multiplied by the status of Russia's largest strategic transport hub, and continuing investment boom in the Russian economy create very favorable conditions for NCSP's further growth and business development.

**THE LARGE-SCALE INVESTMENT PROGRAM** of the Group aims to upgrade and expand cargo handling capacity of Novorossiysk Port and to lay a strong foundation for rapid growth in the future.

**INVESTMENT PROGRAM FOR 2006 TO 2011** is estimated at US\$ 700 million. Its implementation will allow Novorossiysk Port to concentrate on the handling mostly high-margin cargo.

**TODAY**, four investment projects for a total of US\$ 203.6 million have been completed:

- The reconstruction of a container terminal at NLE with a capacity of 350 thousand TEU;
- The reconstruction of the timber terminal at NLE with a capacity of three million cubic meters;

- The construction of a grain terminal at NGT with a capacity of four million tons;
- The construction of a terminal for the transshipment of bunkering fuel at IPP with a capacity of 648 thousand tons;
- The acquisition of modern equipment is increasing the speed at which cargo is being processed while reducing operational costs.

**THE FOLLOWING INVESTMENT** projects, worth a total of US\$ 255 million, are now under way:

- The construction of a complex for the handling of gasoline with a capacity of one million tons;
- The reconstruction of the Sheskhari's oil terminal to increase its capacity by 15 million tons;
- The construction of a container terminal at BSC with a capacity of 300 thousand TEU;
- Capacity expansion of NLE container terminal to 500 thousand TEU.

**IN ADDITION**, projects in the planning stage include facilities for

transshipment of fuel oil (4 million tons), bulk cargos (4 million tons), and NCSP container terminal, which capacity may be increased to one million TEU.

**ALONGSIDE HANDLING CAPACITY** expansion, another key area of development for NCSP is geographical diversification of its business.

The first step in this direction was made in 2006, when NCSP successfully entered the high-value Russian Northwest market by acquiring the Baltic Stevedore Company.

**NCSP'S STRATEGIC DEVELOPMENT PLANS** envision continuing market expansion and regional diversification. To this end the Group will continue to consolidate port facilities and will consider opportunities of growth through acquisitions.

## NCSP WILL GROW THE SHARE OF HIGH-PROFIT CARGO IN TOTAL TURNOVER

**ONE OF THE RECENT** trends in the Russian economy is consolidation of business on the large scale. For companies in the transportation sector this is the key to securing a competitive position in the market. In 2006, NCSP consolidated a number of stevedoring companies at Novorossiysk Port into a single diversified holding company. This allowed NCSP to become the largest port operator in Russia and to unlock significant potential for further development.

**THE SYNERGIES** of consolidation provided NCSP with all of the advantages of economies of scale and allowed it to develop and implement an integral strategy to build a business that can be extremely flexible in a changing marketplace and has the capacity to operate efficiently in all segments of the market. This gave an opportunity to gain the maximum possible reduction in costs and risks as well as to increase labor efficiency and boost port operations in general through unification of business processes.

**WITH THE INCREASE** in the scale and volume of services offered, NCSP carried out an integrated restructuring program. The primary goal at the first stage was to increase specialization of stevedores who had previously competed as independent multimodal port operators with frequently overlapping services. Having concentrated management functions, NCSP optimized subsidiaries' operations, eliminated internal competition, and introduced common standards of work and client service. Thanks to these efforts, the port was able to increase significantly the quality and efficiency of its services. Yet another significant achievement was the expansion of the specialization of NCSP and the ability to provide full range of sea-port services, including towing and bunkering.

**THE SUCCESSFUL** implementation of the first stage of the strategy allowed NCSP to concentrate on achieving tasks aimed at increasing the share of high-margin cargo in the overall cargo turnover, such as containers, petroleum products, grain, timber and metals. An important role in this process is played by increasing specialization of subsidiaries in handling particular types of cargo, as well as by the launch new handling facilities which increase throughput capacity and quality of service at the port. On the other hand, NCSP used the opportunity to eliminate previously existing tariff discounts, which helped to consolidate cargo flows at Novorossiysk Port.

**AS A RESULT OF INCREASING** the share of high-margin cargo in the total turnover, review of pricing policies, and reduction of operational costs the Group's EBITDA margin grew to 47.2% in 2007.

**THE INTRODUCTION** of new and improvement of existing cargo handling technology together with certain staff reductions in 2007 led to an 89% increase in revenue per employee as compared to last year.

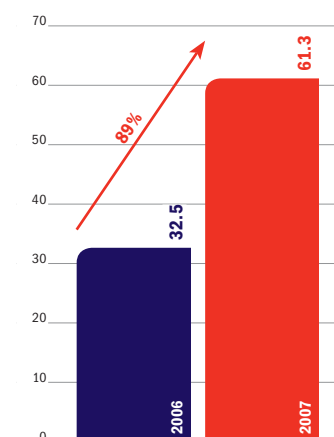
Table 2. Review of investment projects

CARGO	NCSP GROUP COMPANY	INVESTMENT, US\$ MLN	CAPACITY AFTER EXPANSION
<b>Completed Projects:</b>			
Grain	NGT	82.6	4,000,000 tons
Containers	NLE	86.4	350,000 TEU
Timber	NLE	14.8	3 mln. m <sup>3</sup>
Bunkering	IPP	19.8	648,000 tons
<b>Projects Under Implementation:</b>			
Containers	BSC	69.2	300,000 TEU
Containers	NLE	20	500,000 TEU
Petroleum products	IPP	35.7	1,000,000 tons
Crude oil	NCSP (Sheskhari's)	130.1	15,000,000 tons <sup>1</sup>

<sup>1</sup> In addition to capacity in operation.

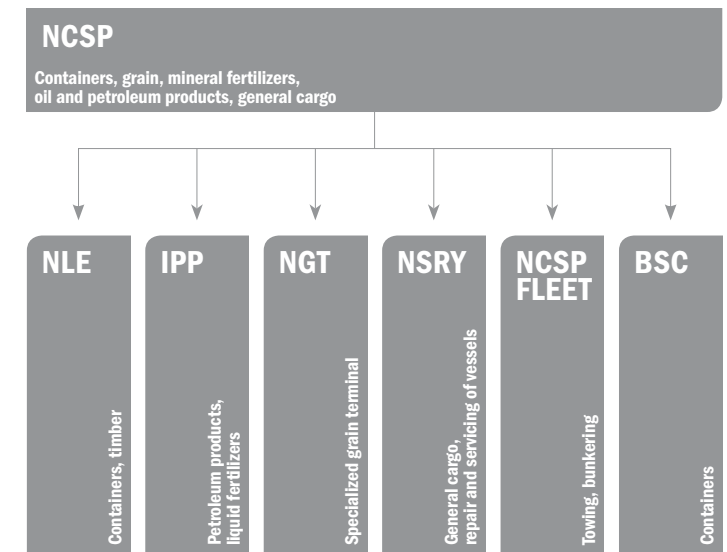
Source: NCSP Group data

Diagram 5. Growth in revenue per employee, 2006-2007, US\$ ths



Source: NCSP Group Data

Chart 1. Specialization of companies in the NCSP Group



## IN 2007 THE CARGO TURNOVER OF NCSP GROUP AMOUNTED TO 79.4 MILLION TONS

**THIS SECTION CONTAINS** a short overview of the operational results of PJSC NCSP and its subsidiaries in the Port of Novorossiysk and Port of Baltiysk.

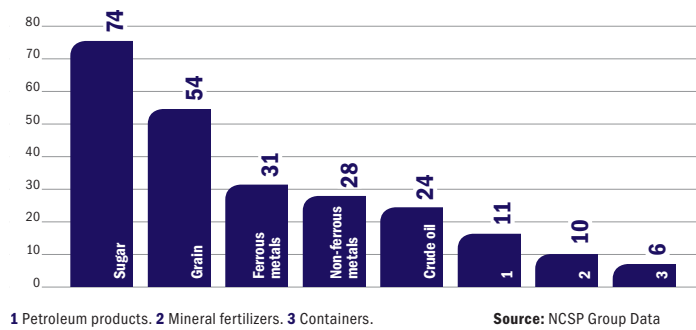
**THE TOTAL VOLUME** of cargo passing through Novorossiysk Port is a reflection of the growth in Russia's international trade. According to Global Insight Inc. Russia's foreign trade will grow by an average annual rate of 16.3% through 2011. NCSP works with a diversified range of cargo that for the most part replicates the structure of Russian exports. At the same time, in line with the strategy of improving operational efficiency, the Group aims to attract new volumes of high-margin cargo, such as containers, petroleum products, and grain.

**DESPITE HUGE VOLUMES** of capacity expansion and renovation works in 2007, NCSP's total cargo turnover remained virtually unaffected. The volume of cargo handled by the Group in 2007 amounted to 79.4 million tons, accounting for some 18% of all export-import transshipment in Russian maritime ports. The Group handled 96% of all cargo at the Port of Novorossiysk. In terms of 2007 cargo turnover, Novorossiysk Port confirmed its leading position in Russia and maintained its status as one of the largest ports in Europe.

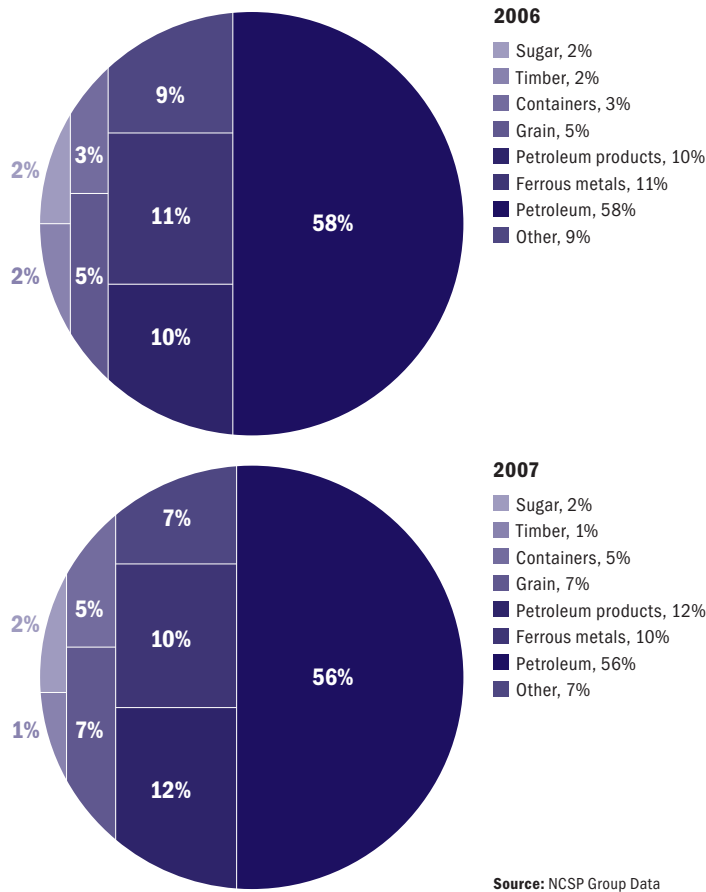
**IN 2007**, NCSP accounted for a significant share of the total volume of different cargoes transhipped at Russian seaports, including:

- More than 50% of grain and sugar transshipment in Russian ports;
- 31% and 28% of ferrous and non-ferrous metals transshipment;
- 24% of crude oil and 11% of petroleum products export.

**Diagram 6. NCSP in the total volume of cargoes transhipped at Russian seaports, 2007, %**



**Diagram 7-8. Dynamic of the structure of cargo turnover 2006-2007, %**



## CONTAINER BUSINESS SHOWED STRONGEST GROWTH AS VOLUMES INCREASED BY 55% IN 2007

**NCSP IS ACTIVELY** developing its throughput capacity and specialized stevedoring facilities for processing high-margin cargo. In 2007, NCSP launched four new, highly efficient terminals in the framework of its technical refitting capacity expansion program.

**THE STRONGEST GROWTH** was shown by NCSP's container business, where the growth in volumes amounted to 55%. In absolute terms, the handling of containers reached 261 thousand TEU.

**THE HANDLING** of grain reached the record level of 5,808 thousand tons, representing growth of more than 42% compared to 2006. Grain accounted for 7.3% of NCSP's total cargo turnover in 2007. A large portion of grain transshipment was carried out by existing NCSP's capacity. The launch of a new high-speed grain terminal at PJSC NGT at the end of 2007 will allow NCSP to strengthen its leading position in handling Russian grain export.

**THE VOLUME** of petroleum products handling, including diesel fuel and fuel oil, reached 9.24 million tons, which represented approximately 11.6% of the cargo turnover of the Group in 2007. Further growth will be achieved through the capacity of the new IPP terminal for the transshipment of bunkering fuel with a capacity of 648 thousand tons per year and petroleum product handling capacity of 1 million tons.

**TIMBER CARGO AMOUNTED** to 1.4% of the cargo turnover and brought 6% of Group revenues for the year. Despite reconstruction and expansion works going on at NLE timber terminal, volumes of timber handled in 2007 were not reduced. The launch of the new terminal will

allow the Group to increase future volumes of timber to 3 million m<sup>3</sup> per year.

**THE VOLUME OF HANDLING** ferrous metals in 2007 reached 8.07 million tons and accounted for 10.2% of the total cargo handling of NCSP.

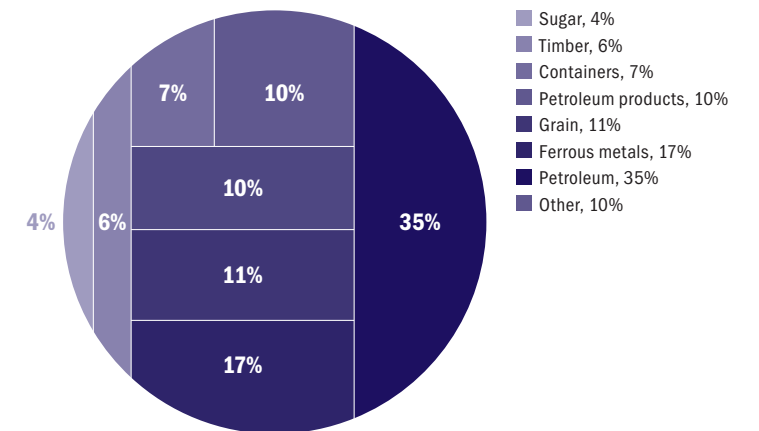
**LAST YEAR**, NCSP also began handling new type of cargo, cement in Big Bags. In 2007 some 185.7 thousand tons of this cargo were handled as a test load.

**THESE CHANGES REFLECT** continuing diversification on the Group's cargo mix and, subsequently, of its revenue structure. In 2007 crude oil amounted to 56% of total NCSP cargo turnover compared to 58% in previous year.

**GROWING SHARE OF HIGH-MARGIN** cargo has been reflected in the changing structure of NCSP revenues. In 2007 crude oil accounted for 35% of the Group's revenues, while the other 65% were earned by handling different types of cargo and sales of additional services. This is a clear evidence that NCSP revenue structure has become more balanced, and the Group will continually pursue this goal in the future.

**GROUP'S DEVELOPMENT** plans strategically target further improvement of client service and capacity expansion to keep up with growing cargo flows. The mid-term plans of NCSP envision the launch of new container terminals, including one in the Northwest region, operated by the LLC Baltic Stevedore Company (BSC), and further expansion of container capacity at NLE in Novorossiysk.

**Diagram 9. Breakdown of revenue by type of cargo, 2006-2007, %**



**Table 3. Volume of cargo processed by the NCSP Group in 2007<sup>1</sup>, thousand tons**

TOTAL CARGO TURNOVER, Including:	79,398
<b>Liquid cargoes</b>	54,689
Crude oil	44,289
Petroleum products	9237
Liquid fertilizer	797
Seed oils	366
<b>Dry cargoes</b>	10,271
Grain	5808
Mineral fertilizers and other chemical cargo	1356
Raw sugar	1901
Iron ore and iron-ore concentrate	569
Scrap metals	199
Cement	438
<b>General cargoes</b>	10,782
Ferrous metals	8073
Timber (weight) <sup>2</sup> (cubic meters)	1101
Non-ferrous metals	2,002
Cast iron in ingots	984
Perishable cargoes	152
Other	62
<b>Containers</b>	410
Containers (weight) <sup>3</sup> (TEU thousands)	3656
	261

Source: NCSP Group Data

<sup>1</sup> In calculating this figure, internal cargo flows between NCSP and its subsidiary enterprises was excluded.  
<sup>2</sup> The volume of cargo in tons is presented for informational purposes. For the purposes of this table, translation of cubic meters of timber cargo is carried out based on a ratio of 0.55 tons per 1 cubic meter, at the same time this relationship is used by us as an indicative one and based on assumptions that the Group believes are well founded. Any lack of accordance between the accompanying data and the factual weight of timber cargo does not have a significant influence on the indicators for revenue and EBITDA, as the calculation of tariff rates and according collections are carried out by cubic meter, not weight.  
<sup>3</sup> The volume of cargo in tons is presented for informational purposes. For the purposes of this table, translation of TEU is carried out based on a ratio of 14 tons per 1 TEU, at the same time this relationship is used by us as an indicative one and based on assumptions that the Group believes are well founded. Any lack of accordance between the accompanying data and the factual weight of timber cargo does not have a significant influence on the indicators for revenue and EBITDA, as the calculation of tariff rates and according collections are carried out by TEU, not weight.

# NOVOROSIYSK SEA PORT

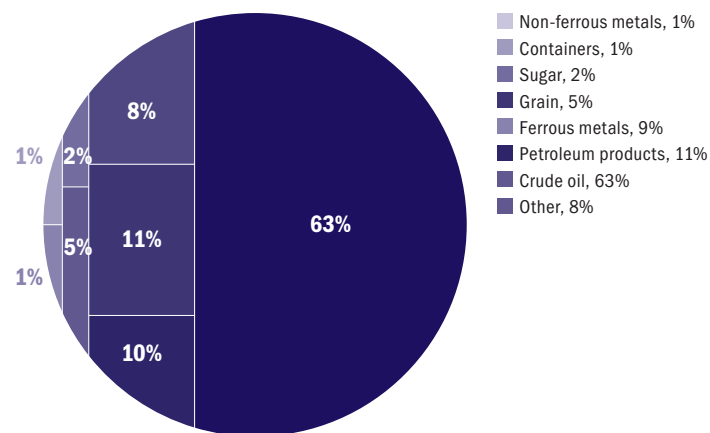


<b>NCSP</b> — containers — grain — mineral fertilizers — oil and petroleum products — general cargo <b>1</b>	<b>NLE</b> — containers — timber <b>2</b>
<b>IPP</b> — petroleum products — liquid fertilizers <b>3</b>	<b>NGT</b> — specialized grain terminal <b>4</b>
<b>NSRY</b> — general cargo — repair and servicing of vessels <b>5</b>	<b>FLEET NCSP</b> — towing — bunkering <b>6</b>
<b>BSC</b> — containers <b>7</b>	

# PJSC NOVOROSIYSK COMMERCIAL SEA PORT

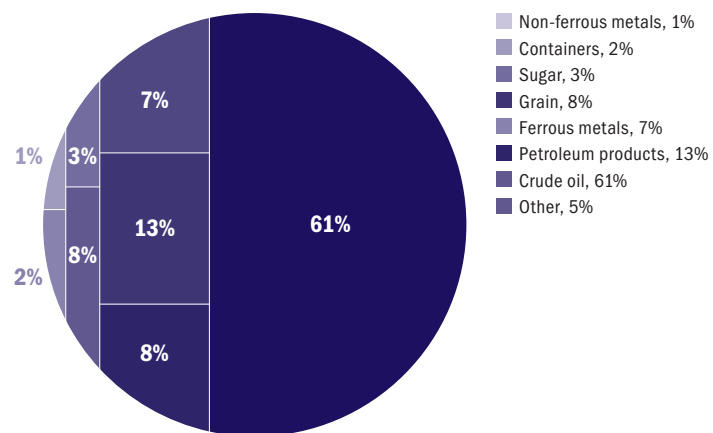
TERRITORY OF THE PORT: 87.4 HECTARES. 42 BERTHS TOTAL EXTENDING FOR 8.44KM. 27 BERTHS FOR DRY CARGO, TOTAL LENGTH 5.09KM, MAXIMUM DEPTH 13.5M. 11 BERTHS FOR LIQUID CARGO, TOTAL LENGTH 2.85KM, MAXIMUM DEPTH 24.2M

Diagram 10. NCSP cargo mix, 2006



Source: NCSP Group Data

Diagram 11. NCSP cargo mix, 2007



Source: NCSP Group Data

**PJSC NCSP** is the largest stevedore in Novorossiysk Port and the head company of the NCSP Group. The Company's infrastructure is the largest in Novorossiysk Port. It includes terminals for oil and petroleum products, container terminals, liquid and general cargo terminals.

**THE CARGO TURNOVER** of PJSC NCSP in 2007 amounted to 72,405 thousand tons; including . 17,716 thousand tons of dry cargo, 44,289 thousand tons of crude oil, 10,034 thousand tons of chemical cargo and liquid petroleum products, and 365 thousand tons of other liquid cargo. The strongest year, on year growth, was demonstrated by containers (+50% compared to 2006) and grain (+42% by 2006).

**DURING THE YEAR**, PJSC NCSP continued to master new technologies to processing vessels and railway wagons. The Company developed and introduced new technologies for soft containers handling, transshipment of liquid viniculture products, and transshipment of oils with on the new equipment installed on the

East Pier. In addition, PJSC NCSP improved its transshipment and storage processes for heavy-tonnage containers.

**SOME 1,980 VESSELS** and more than 211 thousand wagons with export and import cargo were processed at the dry-cargo, terminals of the company. The average daily export cargo unloading rate in 2007, was 469.5 wagons per day, while average daily loading speed was 109.6 wagons per day. The average time for processing one wagon<sup>1</sup> in 2007 was reduced by 6.1%.

**IN 2007 PJSC NCSP** continued consolidation stevedoring and service assets at the Port of Novorossiysk Sea Port, and the Baltic Sea as well. By the end of 2007 PJSC NCSP owned 85.68% of PJSC NCSP Fleet, 91.38% of OJSC Novoroslesexport, 65.18% of Novorossiysk Ship Repair Yard, 99.99% of Novorossiysk Grain Terminal, 72.65% of OJSC IPP, and a 50% share of LLC Baltic Stevedore Company.

**IN 2007 PJSC NCSP** concentrated on restructuring the Group's business and was

consistently implementing its investment program with a view to expand its own throughput capacity, and the capacity of its subsidiaries.

**OVER THE COURSE** of the year PJSC NCSP was working on the reconstruction of Sheskhari's oil terminal, where investments totaled US\$ 130.1 million. The project covers reconstruction of the oil terminal, equipment upgrade, as well as safety and efficiency improvements. The implementation of the project will increase the throughput capacity of the Sheskhari's terminal by 15 million tons per year. The works include renovation of the operating berth and construction of a second berth, which will be able to accept tankers with a deadweight of 90,000-110,000 tons. All construction works carried out on the facility have no effect on current operations or cargo turnover of PJSC NCSP.

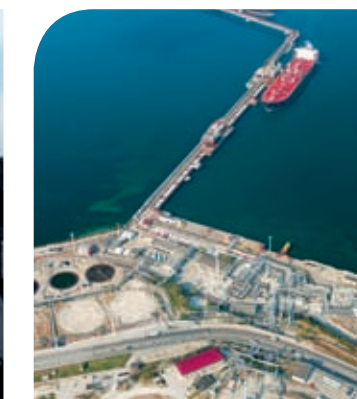
**AS PART OF NCSP** container terminal expansion project in 2007 a buffer parking and a weight bridge for container trucks were constructed together with a new service center for container handling. PJSC NCSP

continued to update its fleet of transshipment and lift-and-carry machines in favor of more powerful and efficient equipment. These measures already increased handling speeds twofold (up to 450 containers per day), and lead to breakthrough in container volumes.

Also in 2007 a CCTV monitoring system was installed in port area and on the berths. This has significantly improved safety and security of the port.

**TO TAKE THE ADVANTAGE** of future container market growth the company is considering a project to increase the throughput capacity of its container terminal from current 150 thousand TEU to some 1 million TEU.

NCSP IS THE LARGEST STEVEDORE IN NOVOROSIYSK PORT AND THE HEAD COMPANY OF NCSP GROUP



**1980**

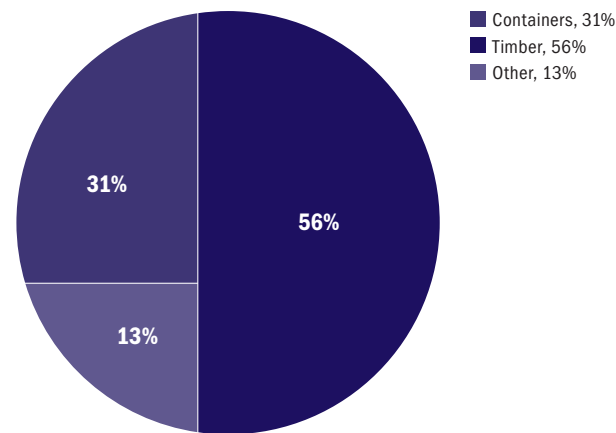
**vessels** handled at NCSP's berths in 2007.

<sup>1</sup> Average time for the unloading of a standard wagon.

# OJSC NOVOROSLEEXPORT

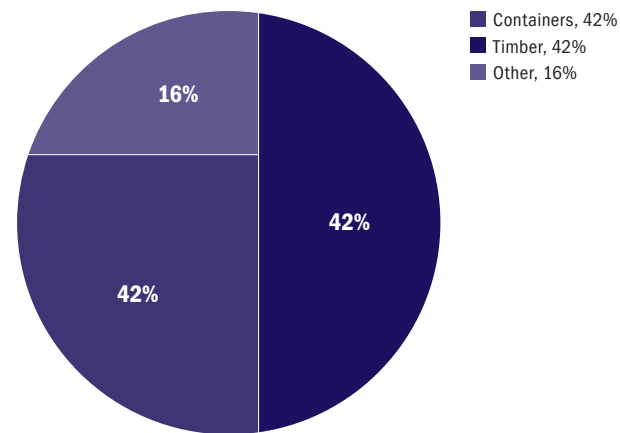
TERRITORY OF THE PORT: 65 HECTARES. 11 BERTHS WITH A TOTAL LENGTH 1.42 KM. BERTH DEPTHS FROM 5.6M TO 13.9M. MAX. VESSEL TONNAGE: 58,000 TONS.

Diagram 12. Novoroslesexport cargo mix, 2006.



Source: NCSP Group Data

Diagram 13. Novoroslesexport cargo mix, 2007.



Source: NCSP Group Data

**THE CORE BUSINESS** of Novoroslesexport (NLE) is handling containers and processed wood, including plywood, packaged timber, and fiberboard. The company also handles ferrous and non-ferrous metals, and perishable cargos, and provides a range of additional services, including warehouse operations, transportation and expediting services.

**THE KEY TASKS FOR NLE** in 2007 were concentration of efforts and resources on implementing its investment projects in order to strengthen its competitive market position. Thus in 2007, container terminal capacity was upgraded to 350,000 TEU, while the timber terminal capacity was expanded to 3.0 million m<sup>3</sup>. Capital investments in these facilities totaled US\$ 101.2 million.

**AS PART OF CONTAINER** terminal upgrade at NLE, existing port infrastructure was renovated, including berths, storage area, and access roads. To increase maximum deadweight for incoming vessels certain hydraulic engineering and dredging works were performed. As a result, we expect NLE to accept Panamax class container ships

carrying up to 5,000 TEU beginning in the second quarter of 2008.

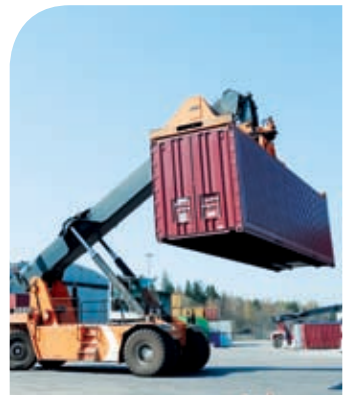
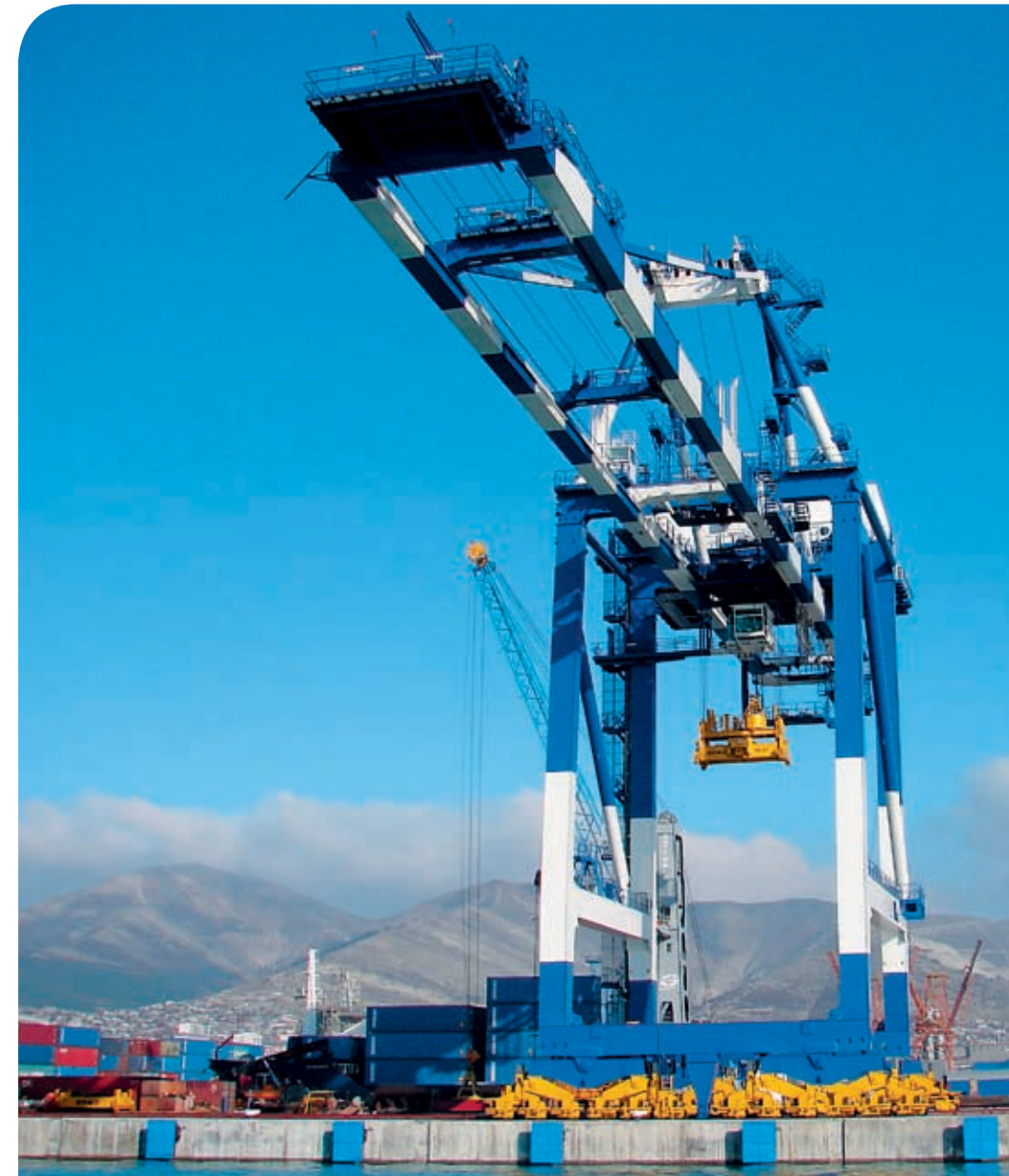
**LAST YEAR THE COMPANY** invested some 550 million rubles in new loading and unloading equipment:

- 2 ZMPC ship-to-shore (STS) container loaders, m/c 41 tons;
- 2 ZMPC rubber tyred gantry (RTG) cranes, m/c 41 tons;
- 1 ZMPC rail mounted gantry (RMG) double-cantilevered crane, m/c 41 tons;
- 5 Ferrari Reachstacker loaders, m/c 45 tons;
- 18 MAZ trucks;
- 6 Lemmens bridge cranes (Troitsky Crane Factory), m/c 20 tons.

**DESPITE MAJOR EXPANSION** works in 2007, cargo turnover was not reduced, and thanks to the new capacity launched, the volume of container handling increased. While total cargo turnover grew by 13.3% against 2006 and comprised 2,608 million tons, container handling increased by 50.1% and amounted to 90.1 thousand TEU as compared to 2006. This exceeded expectations by 5.1 thousand TEU. The handling of processed timber amounted to 2001.8 thousand m<sup>3</sup> in 2007.

**LARGE STORAGE AREA,** dedicated berths, railroad access, developed technical infrastructure, and experienced personnel guarantee fast cargo processing. NLE operates a developed transportation infrastructure: 7.5 km of on-site railroad tracks and 100 trucks per day road transport capacity. The timber terminal possesses five loading and unloading tracks with a total front unloading capacity of 69 gondola cars, which yields average daily timber handling volume of 12,000m<sup>3</sup>. The container terminal has four loading and unloading tracks with a total front unloading capacity of 66 container platforms. NLE's refrigerated warehouse space reaches 3,731m<sup>2</sup>.

## NOVOROSLEEXPORT SPECIALIZES IN HANDLING CONTAINERS AND PROCESSED TIMBER



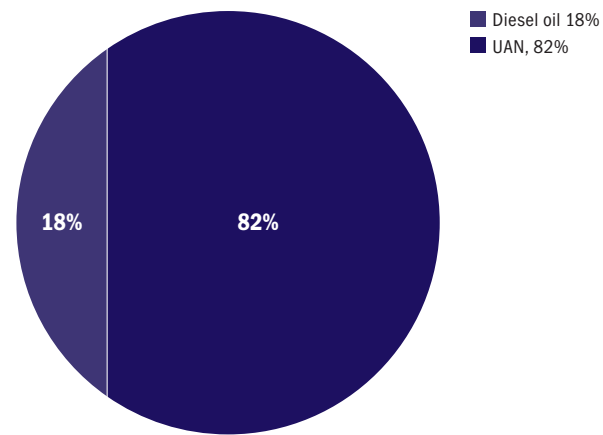
**350**  
thousand TEU  
per year

**throughput capacity** of the container terminal at OJSC NLE after the completion of its reconstruction in 2007.

# OJSC IPP

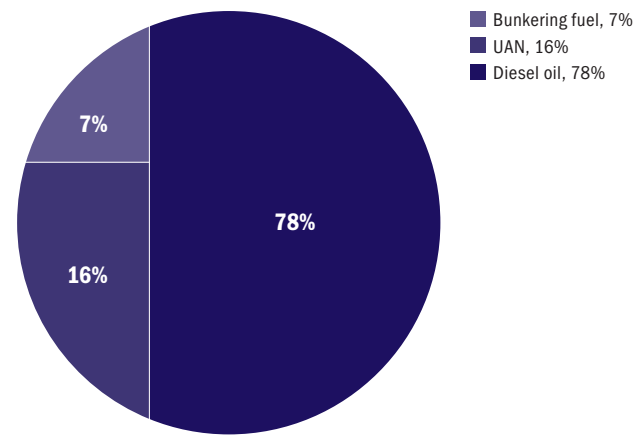
TERRITORY AREA: 9.9 HECTARES. MAX. VESSEL TONNAGE: 47,000 TONS.

Diagram 14. IPP cargo mix, 2006.



Source: NCSP Group Data

Diagram 15. IPP cargo mix, 2007.



Source: NCSP Group Data

IPP is a high technology complex for handling liquid cargo, including petroleum products and liquid fertilizers. Throughput capacity in use allows to handle up to 4.3 million tons of diesel fuel, up to 648,000 tons of bunkering fuel, and 850 thousand tons of UAN liquid fertilizer per year.

IPP FACILITIES are located in the immediate vicinity of the coast line, but have no berth of its own. Loading and unloading operations for IPP are provided by NCSP's berths accepting up to 47 thousand tons displacement vessels. Railroad tracks connected to Novorossiysk Railroad Hub can accumulate up to 100 wagons.

Current handling procedures allow to accumulate cargo in batches up to 107 thousand m<sup>3</sup>.

**THROUGH THE EXPANSION** of its production capacity in recent years, IPP has successfully grown its cargo turnover. Since 2002, the handling of petroleum products grew almost 6.5 times to 4.2 million tons, and liquid fertilizer volumes increased by 84% to 850 thousand tons. In August 2007, with the completion of new bunkering complex with direct railroad access, IPP began to provide bunkering services. Investments in this project amounted to US\$ 19.8 million. By end of 2006 Pip's volumes amounted to 309.13

thousand tons of bunkering fuel, 3,789.5 thousand tons of diesel fuel transshipment, and 796.58 thousand tons of UAN transshipment.

**FUTURE DEVELOPMENTS** at IPP include the construction of a petroleum products terminal and a fuel-oil terminal, which are now in design.

## IPP IS A MODERN TERMINAL FOR HANDLING OIL PRODUCTS AND LIQUID FERTILIZERS



**19.8**  
million US\$

**investment** in the construction of a new bunkering complex with a railroad link completed in 2007.

# PJSC NOVOROSIYSK GRAIN TERMINAL

TERRITORY AREA: 7.2 HECTARES. MAX. VESSEL TONNAGE: 70,000 TONS  
MAX. VESSEL DIMENSIONS: LENGTH 256 M., BEAM 40 M., LOADED DRAFT 13.2 M.

**ONE OF THE MOST IMPORTANT** results of 2007 for NCSP was the completion of a specialized grain terminal by PJSC Novorossiysk Grain Terminal (NGT) with a capacity of four million tons per year. The total volume of investment in this project amounted to US\$ 82.6 million. By the end of 2007, Novorossiysk Grain Terminal has been put into test operation.

**THE NEW DEEPWATER TERMINAL** can accept vessels with displacement up to 70 thousand tons. The high-speed grain handling equipment installed at the terminal can load a Panamax-class vessel in 72 hours. Today NGT is the fastest complex for grain handling in Russia.

**IT IS DESIGNED TO RECEIVE GRAIN** and oil-bearing crops by railroad and trucks, clean grain in batches, and load it on ships. The new terminal includes a grain storage facility consisting of 10 steel reservoirs with a total capacity of 120 thousand tons, loading and weighting equipment, grain elevator towers with bucket conveyors, surface galleries, and aspiration units.

**A CONVENIENT LOCATION** for shippers specializing in grain export through the Black Sea and superb technological characteristics of the new terminal, allow us to expect maximum use of the complex in the future.

Diagram 16. Novorossiysk Grain Terminal Project Schedule

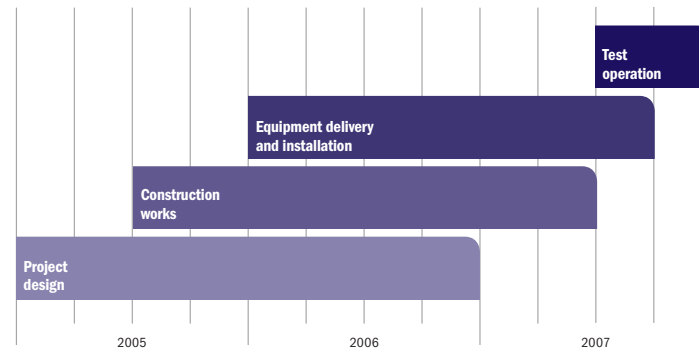


Diagram 17. Contracted NGT capacity for 2008.

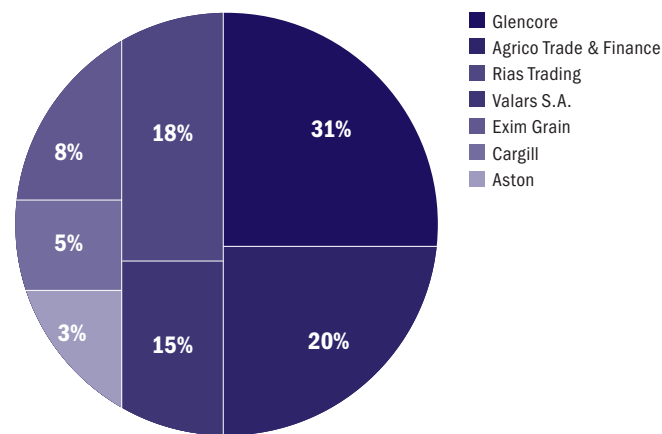


Table 4. NGT technical features

Design capacity	4 mln. tons per annum
Storage capacity	120,000 tons
Maximum throughput	550,000 tons per month
Vessel loading speed	20,000 tons per day
Railroad discharge	180 wagons per day
Trucks discharge	230 trucks per day

COMPLETION OF SPECIALIZED GRAIN TERMINAL WITH 4 MILLION TONS PER YEAR CAPACITY IS AMONG OUR KEY ACHIEVEMENTS IN 2007



**72**  
hours

**standard loading time** for Panamax class vessel at the new high-speed grain terminal.

# OJSC NOVOROSSIYSK SHIP REPAIR YARD

TERRITORY AREA: OVER 28 HECTARES. TOTAL LENGTH OF BERTHING SEAWALL: MORE THAN 1.7KM. TRANSSHIPMENT BERTH DEPTH: FROM 7.3M TO 13.3M  
SHIP REPAIR BERTH DEPTH: FROM 4.5M TO 8.5M. MAX. VESSEL TONNAGE FOR TRANSSHIPMENT: 50,000 TONS. MAX. VESSEL TONNAGE FOR SHIP REPAIRS: 160,000 TONS.

**NOVOROSSIYSK SHIP REPAIR YARD (NSRY)** is a large multimodal port capable of year-round cargo handling. It is also the largest ship repair company in the south of Russia, offering a range of services including ship repair, ship building, and maintenance.

**THE TRANSSHIPMENT COMPLEX OF NSRY** includes several specially equipped berths with depth ranging from 7.3 to 11.7 meters and some 899 m of berthing seawall; 13 railroad tracks and a locomotive. Available capacity allows NSRY to load 12 thousand tons per day on ships, while unloading between 100 and 190 wagons, depending on the type of cargo. Its covered and open storage space totals 73,000m, which houses up to 450 thousand tons of cargo.

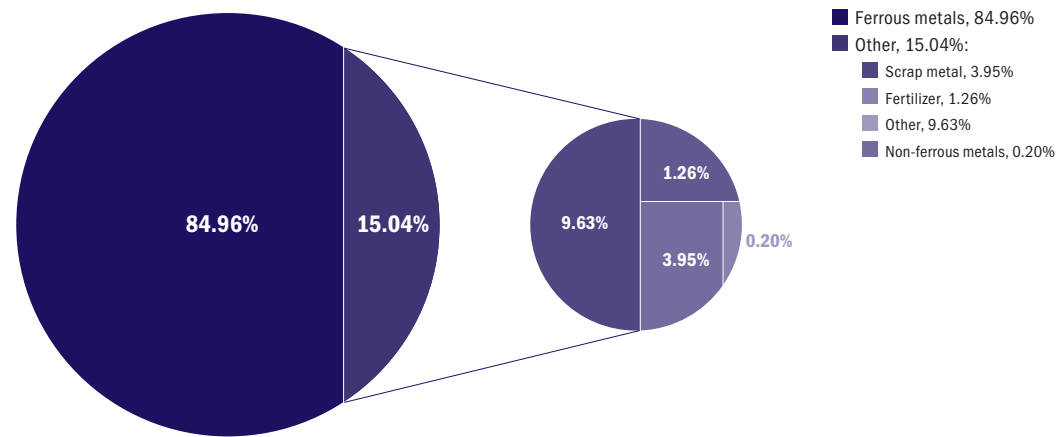
**NSRY'S CARGO TURNOVER IN 2007** increased by 3.3% reaching 3,036.4 thousand tons. In the framework of increasing stevedores' specialization, in 2007 NSRY concentrated on handling of metals, as its most profitable type of operations. NSRY ceased handling bulk cargo and brought metals to 94.07% of its total cargo turnover.

**IN 2007, NSRY** began handling cement in soft containers. For the year, the total volume of cement in its import operations amounted to 68.4% or 93 thousand tons.

**DURING THE REPORTING PERIOD,** 25 vessels were repaired by NSRY, eight of these were under contracts with NCSP Fleet. In 2007, the NSRY continued to work with the Ministry of Defense of the Russian Federation, and provided ship repair services for the Navy.

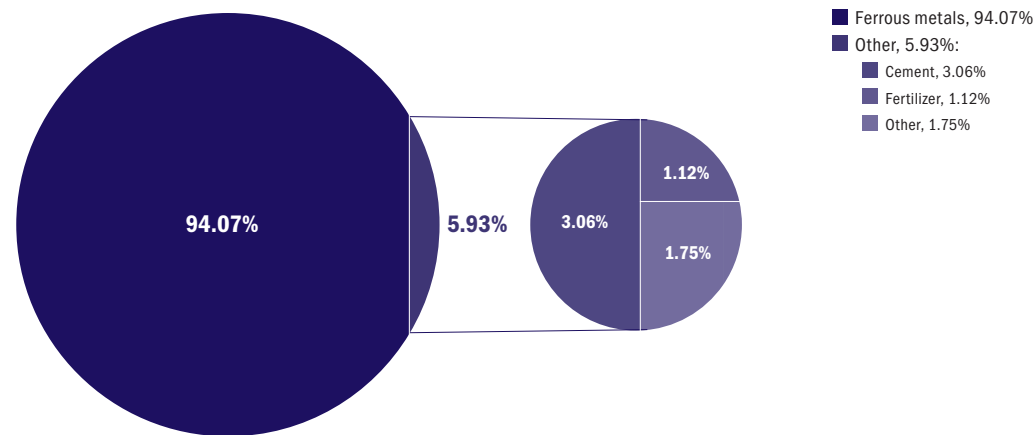
**NSRY'S POWER REQUIREMENTS** are fully met by its own generation capacity, and some excess power is distributed to other members the Group.

Diagram 18. NSRY cargo mix, 2006.



Source: NCSP Group Data

Diagram 19. NSRY cargo mix, 2007.



Source: NCSP Group Data

## NOVOROSSIYSK SHIP REPAIR YARD IS A UNIVERSAL PORT OFFERING YEAR-ROUND CARGO HANDLING SERVICES



**3036**  
thousand tons

**cargo turnover** of NSRY in 2007.

# PJSC NCSP FLEET

LARGEST TOWING FLEET IN RUSSIA, INCLUDING:  
23 TUGBOATS OFFERING CAPACITY FROM 225 TO 5,000 HP. SPECIALIZED FIRE-FIGHTING VESSEL.  
7 BUNKERING BOATS WITH A CAPACITY OF 250 TO 3,000 TONS.

**Table 5. Indicators of primary types of activities of NCSP Fleet, 2006-2007**

TYPE OF SERVICES	2006	2007
Towing, m <sup>3</sup> million	487.5	466.9
Fire-fighting services, m <sup>3</sup> million	133.5	129.3
Bunkering fuel, tons thousands	148.2	160.4
Drinking water, tons thousands	27.5	22.5
Waste removal, including:		
Liquid waste, thousand m <sup>3</sup>	12.4	12.3
Solid waster, thousand m <sup>3</sup>	3.3	2.9

Source: NCSP Group Data

**NCSP FLEET** is one of the largest towage companies operating in Russian ports, which provides towing services and supplies vessels with fuel, oil and water. NCSP Fleet is the only independent service company in the Port of Novorossiysk providing full range of towing and other port services. Besides bunkering and towing, NCSP Fleet transports passengers and supplies, performs loading and unloading works, provides fire safety supervision, and environmental services.

**IN 2007, NCSP FLEET** operated 60 vessels. The core of the fleet consists of modern maneuverable tugboats, with a capacity ranging from 225 to 5,000 hp, nine of which were built in 2002-2003. These vessels are equipped with azimuthal helical steering, which allows them to perform canting operations in crowded

conditions of the port's waterway, and provide assistance in any weather conditions. The tugboats are equipped with full range of fire-fighting equipment, which gives them ability to provide fire-protection for oil handling operations. NCSP also operates bunkering ships, harbor boats, oil and waste collectors, and waste-water collectors. All vessels are maintained in proper technical condition and prepared to work any time in any weather conditions.

**MOST DEMANDED SERVICES** in 2007, were towing and bunkering of vessels with fuel and water. Today, NCSP Fleet provides approximately 19% of bunkering services at the Port of Novorossiysk. Some 22,468 tons of water was delivered to ships in 2007. The volume of bunkering services amounted to 160,370 tons.

**THE BUNKERING FLEET** is the largest in Novorossiysk Port, with seven self-propelled bunkering ships, including 2 vessels with a capacity of 3 thousand tons, 3 vessels with a capacity of 1.5 thousand tons, and two oil carriers with a capacity of 650 and 250 tons. Such a strong material base allowed NCSP Fleet to become the leader among bunkering companies in Novorossiysk.

**NCSP FLEET** also provides emergency services, cleans up oil and other spills; handles hazardous cargo, and offers waste management services at the port and its immediate surroundings. In 2007, the total volume of ship waste removed amounted to 15,296 m<sup>3</sup>, including 12,407 m<sup>3</sup> of liquid waste, and 2,899m<sup>3</sup> of solid waste (food waste, dry waste, plastics and oil rags).

**EXISTING CAPACITY ALLOWS** NCSP Fleet to secure long-term leadership in towing and bunkering services not only in Novorossiysk, but on the Black and Azov seas in general.

**NCSP FLEET IS THE ONLY COMPANY IN NOVOROSIYSK OFFERING FULL RANGE OF TOWING, BUNKERING AND OTHER PORT SERVICES**



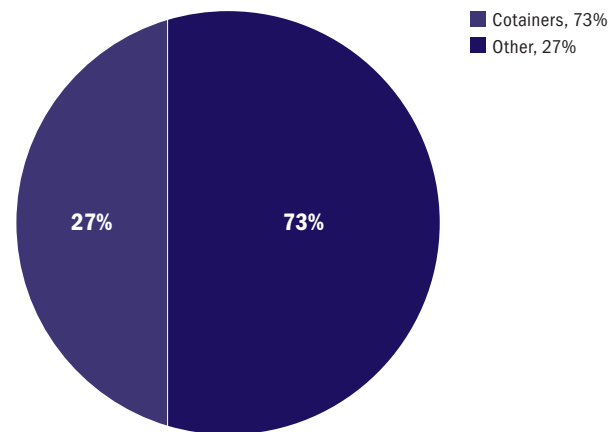
**19%**

**of bunkering** at Port of Novorossiysk in 2007 was handled by NCSP Fleet.

# LLC BALTIC STEVEDORE COMPANY

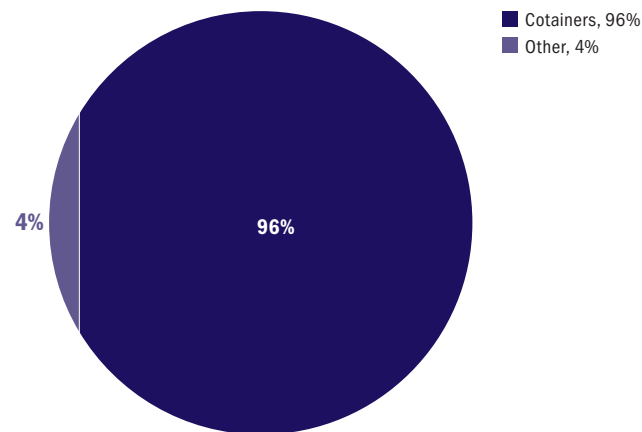
TERRITORY AREA: 12.5 HECTARES. 2 BERTHS, TOTAL LENGTH 465M. BERTH DEPTH UP TO 10.5M. MAX. VESSEL TONNAGE: 20,000 TONS.

Diagram 20. BSC cargo mix, 2006.



Source: NCSP Group Data

Diagram 21. BSC cargo mix, 2007.



Source: NCSP Group Data

NCSP acquired a 50% share of Baltic Stevedore Company (BSC) in 2006. The rationale behind this acquisition is to diversify Group's business into other regions, and to enter the attractive container market of Kaliningrad Region, which is a free-trade zone. Taking into consideration rapid growth of BSC's business, as well as its huge expansion potential, NCSP consolidated its share in BSC to 100% after the reporting period, in February 2008.

**THE BALTIC STEVEDORE COMPANY** specializes in container handling at the port of Baltiysk. The container terminal of the company was put into operation in April 2006. As of today it offers the capacity to process 85 thousand TEU annually. In 2003-2006 BSC was operating an auto and passenger ferry terminal and handled roll-on cargos, including oversized, heavyweight, automobiles, trailers and containers.

**BSC'S EXPANSION IN CONTAINER** business was a logical continuation of its success in the Northwest Region. This was conditioned, on one hand, by growing container shipments, and on

the other hand, by a host of competitive advantages, which set BSC apart from its closest rivals. One of the most important of these is extremely convenient location at the very entrance of the Kaliningrad Sea Channel in the ice-free part of the Baltic Sea, which allows year-round operation, and saves the time of passing the channel all the way up to Kaliningrad.

**IN 2007** BSC's container turnover totaled 61 thousand TEU. Passenger traffic comprised 50,000 people. A total of 303 vessels called at the port.

**BESIDES CONTAINER HANDLING,** BSC offers mooring services, cargo storage, and receives passenger ships from Germany, Lithuania, Sweden, Poland and other countries. There is a direct railroad branch accepting 10 wagons simultaneously, and a covered 1,440 m<sup>2</sup> warehouse for general cargo. Customs and border guard offices are located at the terminal, along with sanitary and veterinary inspections, as well as agent and expediting firms to ensure the timely handling of formalities and delivery of cargo, which creates the most favorable conditions for shippers.

**WITH THE VIEW TO TAP GREAT** opportunities offered by the growing containers market of the Northwest region, NCSP is now implementing a project to upgrade the throughput capacity of BSC container terminal to 300 thousand TEU per year. By the end of 2007, development stage of the project was completed. Construction works will begin in 2008. Total investments are estimated at US\$ 69.2 million.

## BALTIC STEVEDORE COMPANY IS THE FIRST REGIONAL DIVERCIFICATION PROJECT OF NCSP GROUP



**300**  
thousand TEU  
per year

**the throughput capacity** of the container terminal at LLC BSC after the implementation of the expansion project.

NCSP'S REVENUES INCREASED BY 74% IN 2007

**FINANCIAL RESULTS OF 2007** were the most successful in the history of NCSP Group. They testify to the progress we made and back up our strategy of creating market value by boosting capacity and performance, focusing on high-margin cargo, and deriving synergies from consolidation.

**WHILE 2007** cargo turnover did not increase against last year, consolidated revenue of the Group grew by 74.33%, gross profit by 118.12%, and operating profit by 119.6%. At the same time, EBITDA increased by 91.4% and EBITDA margin reached 47%.

**NCSP'S REVENUE IN 2007** grew by 74.3% from US\$ 277.3 million to US\$ 483.4 million. Of these recently consolidated subsidiary companies accounted for US\$ 87.6 million in 2H 2007. Another US\$ 63.3 million was contributed by new terminals launched under the Group's expansion and investment program. Some US\$ 55.5 million of the total revenue growth in 2007 accounts for increased tariff rates for certain cargos, as well as for

increased share of high-margin cargo in the total cargo turnover of the Group.

**WHILE REVENUES** were growing, the Group optimized its operations and managed to reduce staff by 7%. As a result revenue per employee increased by 89% and reached US\$ 61.3 thousand by the end of 2007.

**COST OF SERVICES** grew at a much slower pace than revenues. It increased by 47.9% from US\$ 172.9 million to US\$ 255.7 million. Cost growth was primarily driven by consolidation of subsidiaries in June 2006 (which added around US\$ 60 million in costs) and the launch of the new bunkering terminal in 2007 that conditioned subsequent purchase of fuel for resale (approximately US\$ 47 million). Therefore, the cost of services in 2007, without the effect of consolidation and expenditure on fuel for resale, fell by approximately 15% as a result of a targeted program costs reduction implemented by NCSP. Effective implementation of the risk-management program in 2007 allowed to reduce insurance costs.

**AGAINST THIS BACKGROUND GROUP'S EBITDA** in 2007 increased by 91.4% from US\$ 119.1 million to US\$ 227.9 million. Adjusted EBITDA, which more accurately reflects the operational results of the company in 2007, amounted to US\$ 247.3 million. The increase of US\$ 19.4 million results from changes in non-capitalized expenditures linked to the implementation of the major investment program aimed at modernization and expansion of port's capacity. EBITDA margin increased to 47% in 2007.

**NCSP'S NET PROFIT** increased by 112.5% from US\$ 44.1 million to US\$ 93.7 million.

**IN 2007 NCSP'S** capital expenditures fell by 29.5% in comparison with 2006 and stood at US\$ 82.8 million. In 2007 the highest growth was demonstrated by container segment, which is one of the most profitable types of cargo. Group's consultants predict further growth in container handling at the port, which calls for adequate capacity expansion.

Table 6. Dynamic of main financial indicators in 2007.<sup>1</sup>

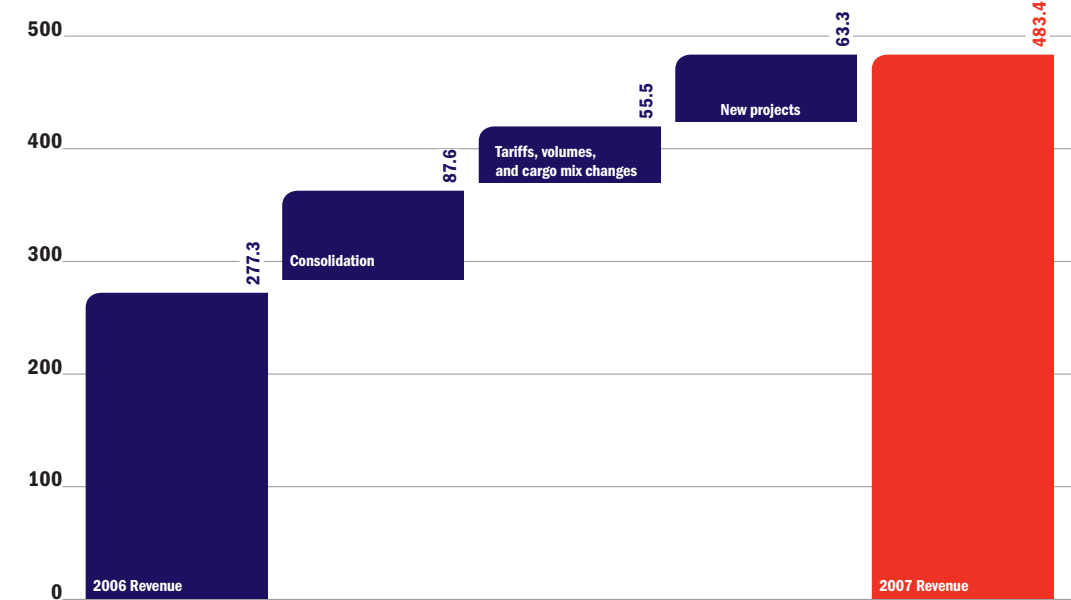
US\$ MLN	2006	2007	CHANGE	CHANGE, %
Revenue	277.3	483.4	206.1	74.3%
EBITDA	119.1	227.9	108.8	91.4%
EBITDA Margin	43%	47%		
EBITDA Adjusted <sup>2</sup>		247.3		
Cost of services	172.9	255.7	82.8	47.9%
Net profit	44.1	93.7	49.6	112.5%
Net debt	505.6	470.6	(35.0)	(6.9%)
Capital expenditure in investment projects	117.4	82.8	(34.6)	(29.5%)
Net debt/EBITDA	4.2	2.1		

<sup>1</sup> In analysing the financial indicators for 2006-2007, it is important to take into account that the results of the work of the consolidated stevedore companies began to be reflected in financial reporting of NCSP from the 2H 2006.  
<sup>2</sup> A US\$ 19.4 million increase in EBITDA was the result of a correction in non-capitalized expenses connected with implementation of the large-scale investment plan directed at the modernization and expansion of port's capacity.

Source: Audited Consolidated Financial Statements of NCSP for 2007 according to International Accounting Standards.

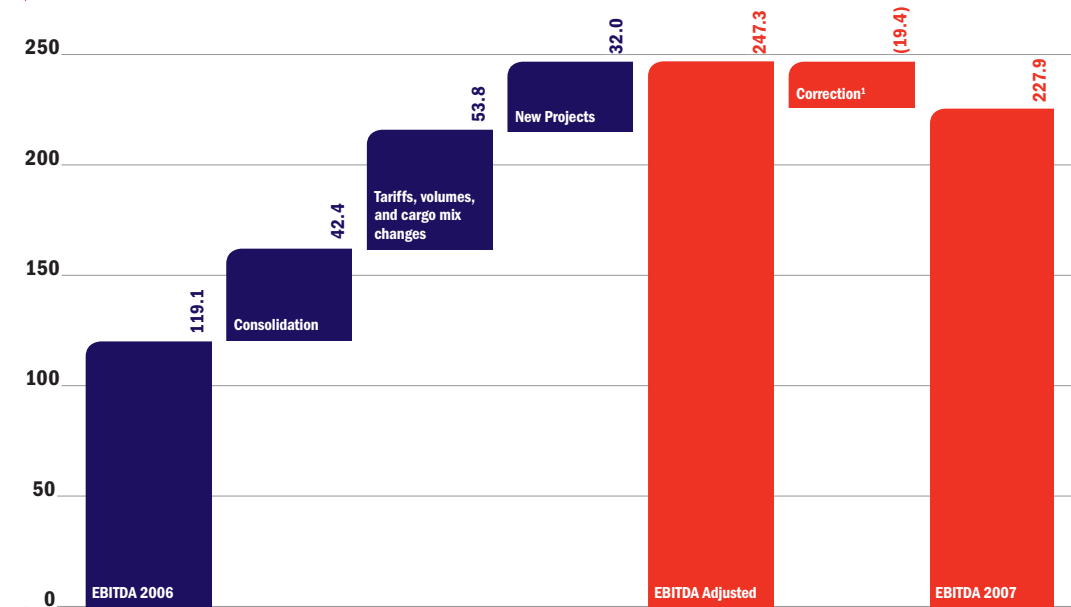
THE FINANCIAL RESULTS FOR 2007 WERE THE BEST IN THE HISTORY OF THE GROUP

Diagram 22. 2006-2007 revenue bridge, US\$ mln



Source: NCSP Group data, accounts according to Russian Accounting Standards for 2007.

Diagram 23. 2006-2007 EBITDA bridge, US\$ mln



Source: NCSP Group data, accounts according to Russian Accounting Standards for 2007.

This brought about a redistribution of expenditure within NCSP's major investment program. Certain projects were delayed until 2009-2011, while container projects passed leaped forward through design stage in 2007 to implementation in 2008-2009.

**NCSP'S NET DEBT** was reduced by 6.9% from US\$ 505.6 million in 2006 to US\$ 470.6 million. At the same time, its quality significantly improved. NCSP increased the share of long-term debt with the help of five year Eurobonds issue, a three-year syndicated credit from UniCredit bank, and reduction of interest rates on Sberbank credits from 9.25% to 8.18%. The share of unsecured debt in the total debt of the Group grew from 4.3% as of January 1, 2007 to 87% as of January 1, 2008. In 2007 Moody's ratings agency upgraded NCSP's Eurobonds rating from Ba2 to Ba1.

**IN 2007,** NCSP obtained ratings from the leading international ratings agencies. Standard&Poor's assigned a long-term credit rating of BB+ and a Russian national scale rating of RuAA+. Moody's assigned a long-term credit rating of Ba1. The assignment of ratings allowed the company to reduce the cost of borrowing and reduce the average calculated interest-rate on its credit portfolio from 8.52% on January 1, 2007 to 7.18% on January 1, 2008.

IN 2007 EBDITDA INCREASED BY 91%

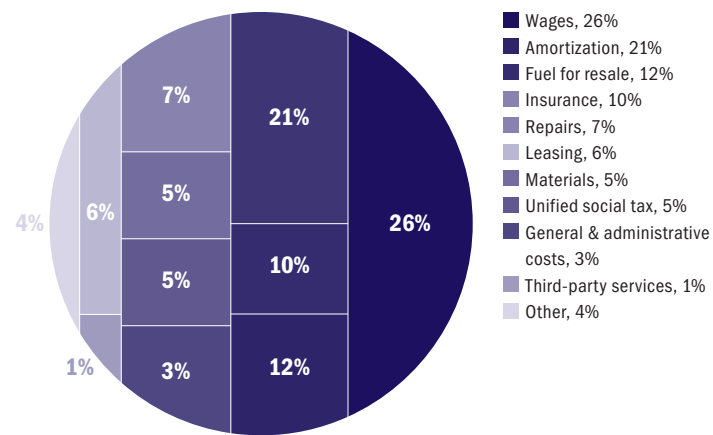
Table 7. Changes in tariffs in 2007.

TERMINAL	CARGO	TARIFF, US\$/TONS		
		01.01.2007	31.12.2007	DATE OF TARIFF CHANGE
NCSP	Cement export	1	1.2	07.03.2007
NCSP	Petroleum products	2.3	2.7	07.03.2007
NCSP	Crude oil	2	2.6	07.03.2007
NCSP	Non-ferrous metals, raw materials, including: • pipes loose, rolled flat non-packed	0	10.5	07.03.2007
IPP	Diesel fuel	3.5	7.8	03.08.2007
IPP	UAN liquid fertilizer	4.3	5.3	03.08.2007
NCSP/NLE	20-foot containers incl. moving within port <sup>1</sup> :			
	• laden	124/135	210	10.12.2007/27.12.2007
	• laden with dangerous cargo	161.2/149	270	10.12.2007/27.12.2007
NCSP/NLE	40-foot containers incl. moving within port <sup>1</sup> :			
	• empty	74/65	115	10.12.2007/27.12.2007
	• laden	160/165	210	10.12.2007/27.12.2007
NLE	• laden with dangerous cargo	208/181.5	270	10.12.2007/27.12.2007
	• empty	108/85	115	10.12.2007/27.12.2007
NLE	Packaged timber materials <sup>2</sup>	9	10	27.12.2007
NLE	Fiberboard, chipboard, plywood <sup>2</sup>	8.2	9.5	27.12.2007

<sup>1</sup> Tariff US\$ per container.  
<sup>2</sup> Tariff US\$ per cubic meter.

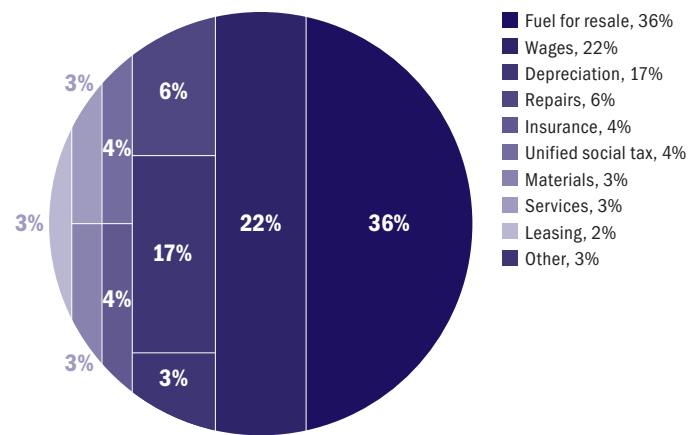
Source: Federal Tariff Service Data

Diagram 24. Cost of services breakdown, 2006.



Source: NCSP Group Data

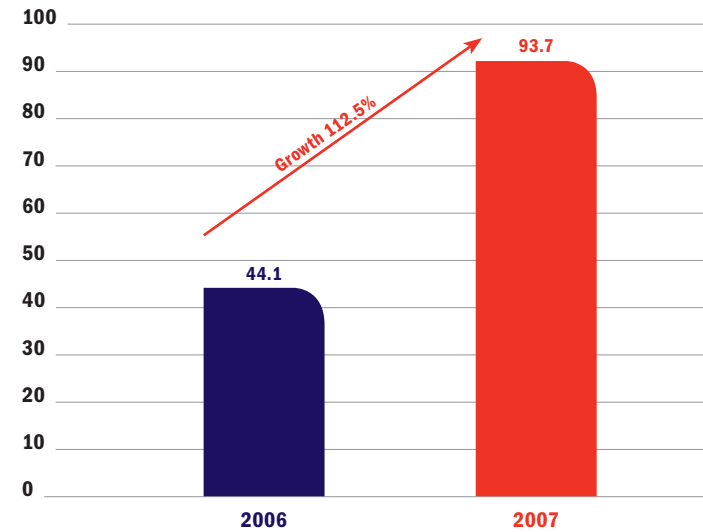
Diagram 25. Cost of services breakdown, 2007.



Source: NCSP Group Data

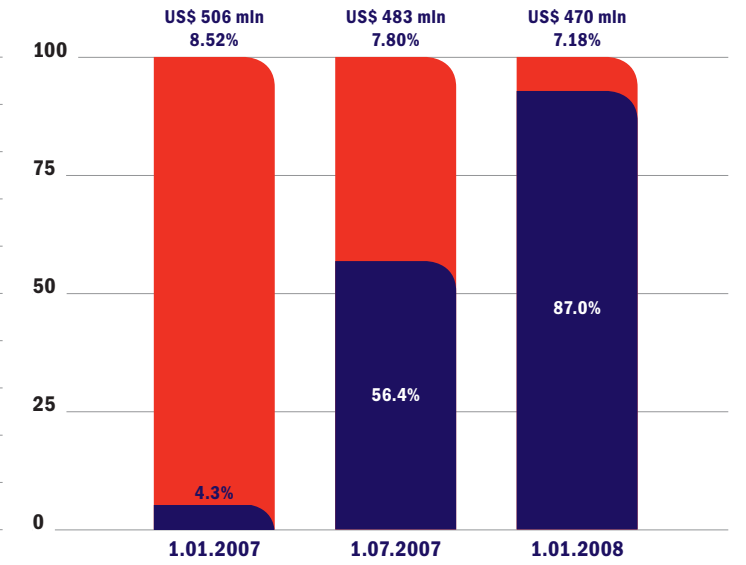
IN 2007 NCSP WAS ASSIGNED BB+ LONG-TERM CREDIT RATING BY STARDARD & POOR'S AND BA1 RATING BY MOODY'S

Diagram 26. Net profit trend, 2006-2007, US\$ mln



Source: Audited Consolidated Financial Statements of NCSP according to International Accounting Standards.

Diagram 27. Dynamic of net debt and interest rates, 2006-2007, %



Source: Audited Consolidated Financial Statements of NCSP according to International Accounting Standards.

**IPO**

IN NOVEMBER 2007, NCSP became the first Russian stevedoring company to conduct an initial public offering (IPO) of its shares on the London Stock Exchange (LSE) and the RTS stock exchange in Russia. Investors were offered 19.4% of the ordinary shares by the shareholders of the Company. NCSP securities were offered in the form of global depository receipts (GDRs), as well in the form of ordinary shares. Offering price was US\$ 19.2 for one GDR and US\$ 0.256 for one share. As result of the public offering, 14.199% of the charter capital was sold in the form of GDRs and 5.177% in the form of ordinary shares. NCSP's global depository receipts obtained a listing on the London Stock Exchange. The organizers of the placement were Troika-Dialog and Morgan Stanley.

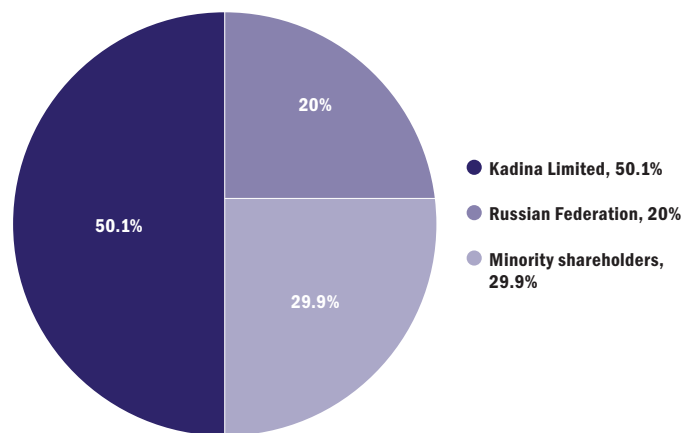
**SHAREHOLDER CAPITAL**

**THE SIZE OF THE CHARTER CAPITAL** of the Company did not change and as of December 31, 2007. In accordance with International Financial Reporting Standards it amounted to US\$ 10.471 million. The charter capital of NCSP is fully paid up and divided into 19,259,815,400 ordinary shares with a nominal value of RUR 0.01 each.

**SHARE PRICE PERFORMANCE**

**SOME 19.4%** of NCSP shares are traded on LSE and on Russian exchanges. Global depository receipts (GDRs) of the Company are traded on the London Stock Exchange under "NCSP" ticker, and ordinary shares are traded on the RTS and MICEX stock exchanges under "NMTP" ticker. GDRs offered during the IPO were certified by the Regulation S and Rule 144A Master Certificates issued under depository agreement between PJSC NCSP and JP Morgan Chase Bank, N.A.

**Diagram 28. Structure of shareholder capital**



Source: NCSP Group Data

**TRADING OF GDRS ON THE LSE**

commenced on November 2, 2007. First day closing price was US\$ 20.8 per GDR, 8.3% higher than the offering price. By the end of 2007, the price of one GDR was US\$ 20.

**AVERAGE NUMBER OF NCSP**

shares in circulation in 2007 amounted to 19,196,480,589 shares. Thus base and diluted profit per share amounted to US\$ 0.0049 (US\$ 0.0023 in 2006).

**DIVIDEND POLICY**

**THE DIVIDEND POLICY OF NCSP**

is built upon the principle of observing the balance between the interests of shareholders in receiving profit on invested capital, and the need to reinvest earnings in further development in order to ensure long-term shareholder value growth.

**THE COMPANY** has a history of paying some US\$ 10 million in dividends annually. In view of a large-scale expansion and investments program that is now under way, NCSP

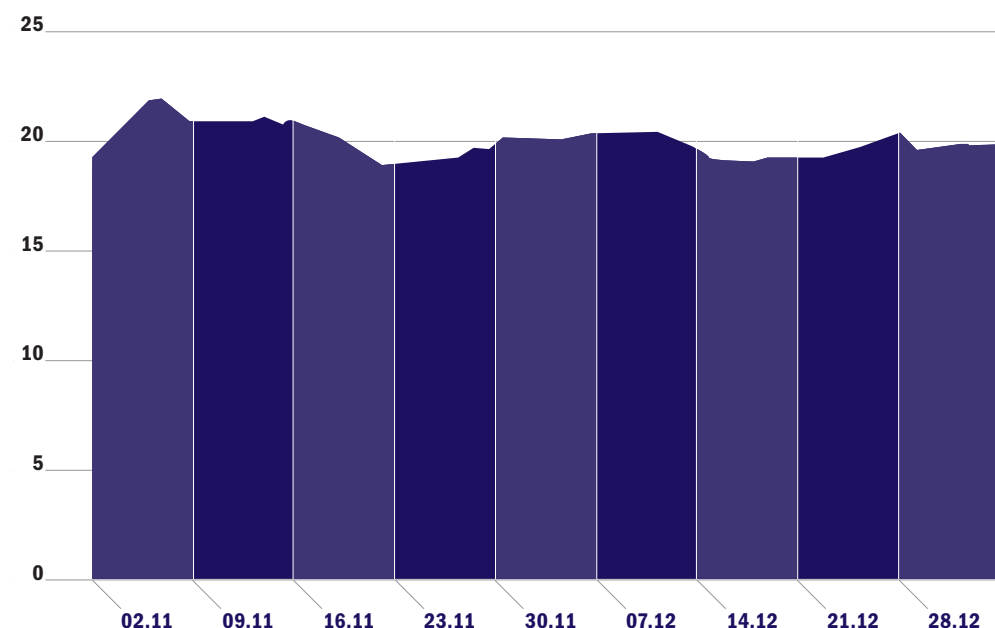
expects future dividend payments to stay in the same range, while a significant portion of company's profits will be reinvested in business development. New projects undertaken by the Group in the framework of its investment program imply a minimum IRR of 20%.

**DIVIDENDS PAID** to shareholders are defined by the Board of Directors and approved by the Annual General Meeting of Shareholders. The payment of dividends is made in Russian rubles and takes place no later than 60 days after they are announced.

**A RESOLUTION PASSED** by the General Meeting of Shareholders of NCSP, which took place on June 12th, 2008, approved the proposal by the Board of Directors for the allocation of 356,306,583.9 rubles for dividend payments for 2007. The payment of dividends will take place from September 1, 2008, in the amount of RUR 0.0185 per share.

**NCSP WAS THE FIRST RUSSIAN STEVEDORE COMPANY TO CONDUCT AN IPO ON LONDON STOCK EXCHANGE IN NOVEMBER 2007**

**Diagram 29. GDR price on LSE in 2007, US\$**



Source: London Stock Exchange data

**RISKS**

**LIKE ANY BUSINESS NCSP**

inevitably faces external and internal risks which have an impact on its operations and financial situation. Group's management makes every possible effort to prevent unexpected negative situations and mitigate their impact.

**TO IMPROVE RISK-MANAGEMENT**

practices, in 2007 NCSP developed its corporate governance system by expanding the authority of governance and executive bodies, and strengthening control over key aspects of risk management. Unified standards of management reporting were introduced leading to higher transparency. In addition advanced methods of risk analysis were accepted.

**ONGOING IMPROVEMENTS** in risk management allow NCSP to analyze

full spectrum of risks, measure, evaluate, and monitor them while taking measures to reduce their impact on the business. Effective risk management, in turn, helps reduce various costs, including insurance premiums.

**Export demand volatility**

A significant part of Group's revenues is generated by handling of certain commodities, which exports and demand are sensitive to changes in general economic conditions, both globally and in key export markets. As a result, if economic conditions deteriorate, the demand for these commodities may decrease, driving down export and, consequently, NCSP's handling volumes.

Although recent years have seen a significant rise in the value of Russian foreign trade, this is more due to higher commodity prices, and not to an

increase in actual commodity volumes. A deterioration in economic conditions may, first and foremost, negatively affect export commodity prices, while change in volumes will be less substantial. As NCSP tariff rates are based on physical volumes this will only have a limited impact on the operations of the Group.

**Exchange rate volatility**

Our tariffs for stevedore services are determined in US dollars, although we provide invoices in rubles at the Central Bank of Russia rate for our Russian customers and in US dollars for international customers. The majority of our direct costs, including labour and transportation costs, are incurred in rubles, while other costs, including interest expense, are incurred in US dollars, or the rouble equivalent at the CBR rate. The mix of our revenues and costs is such that appreciation in real terms

of the rouble against the US dollar tends to result in an increase in our costs relative to our revenues while depreciation of the rouble against the US dollar in real terms tends to result in a decrease in our costs relative to our revenues upon translation to the presentation currency. Accordingly, our financial results would be adversely impacted by a significant appreciation of the rouble against the US dollar and positively impacted by a significant depreciation of the rouble against the US dollar.

**Tariff regulation**

NCSP profits depend on maximum tariff rates that the Federal Tariff Service allows to charge for regulated services, as well as on the group's ability to approve higher rates with FTS to compensate for increased demand or costs. FTS may review tariff rates on its own initiative, but as a rule it does so upon request. NCSP cannot guarantee that FTS will always promptly approve applications for tariff increase or will not adjust proposed rates. In the first half of 2007, we reduced most material tariff discounts, and now charge the maximum permitted rates for stevedoring and related services. Also in 2007 new tariff rates were approved for a number of cargoes, including containers, timber, metals, UAN liquid fertilizer, and crude oil.

**Poor transportation infrastructure**

A continuing deterioration of Russia's transportation infrastructure could potentially lead to disruption in cargo volumes which would negatively impact NCSP's financial condition, its results and future business prospects. Most of crude oil handled by the port is supplied by a state owned Transneft pipeline, which is substantially worn down. Russian railroad system is subject to disruptions in service due to physical deterioration. The Group has developed a feasibility study for modernization and expansion of Novorossiysk Transportation Hub, that has been proposed to the government. The project covers roads, railway system, and automatic transport management.



#### *Increased congestion in the Turkish Straits*

NCSP business depends on shipping lines to transport our customers' cargo to and from the Port, most of which pass through the Bosphorus, the Sea of Marmara, and the Dardanelles (together, the "Turkish Straits"). The Turkish Straits are narrow and severely congested, and in cases of bad weather or backlogs, ships can be delayed significantly in passing through them to the Port. Imposition of new restrictions on ships' passage, or severance of existing ones, or continued severe congestion, any maritime or environmental accident, oil spill or other catastrophic event, could adversely affect Group's financial condition, results of operations and prospects.

#### *Adverse weather conditions on the Black Sea*

The port may suspend vessel loading and unloading operations from time to time, generally for a few days each year, due to adverse weather conditions on the Black Sea, which is subject to stormy weather and strong storm surges typically from November through February. Such

adverse weather conditions can delay our loading and unloading operations for vessels berthed at the Port. An extended period of adverse weather conditions could result in backlogs, shortage of available warehouse space or cargo vessels, which could delay or disrupt NCSP operations or affect Group's financial condition.

In 2007, in order to reduce this risk, and, as part of a program for capital investments in existing assets, NCSP completed the construction of a roofed crane gallery at Novorossiysk Ship Repair Yard which enables unloading of wagons in high winds. As part of Novorossiysk export timber terminal expansion in 2007, another roofed crane gallery was put into operation for the unloading of timber brought in by railroad.

#### *Stricter environmental regulations*

Russian port operators, including NCSP, are regulated by various federal and regional environmental regulations and legislation. As of today, the Group fully complies with all applicable regulations. However, NCSP cannot exclude the possibility of stricter environmental regulations applied in the future, as well as potential legal

action initiated by the government or third parties. Such events may result in additional costs associated with extra compliance measures, resolution of violations, as well as fines and compensation payments for environmental or material damage.

#### *Spills and other accidents*

A serious accident or oil spill at the Port or within our facilities could disrupt NCSP's business and operations during the repair or remediation period, which could negatively impact Group's financial results. In order to prevent any such accidents and remediate their consequences, NCSP maintains a fleet of vessels, which provide a number of emergency services at the Port, such as transferring vessels to shelter zones and cleaning and containing services for oil or other liquid spills in and around the Port. However, NCSP cannot guaranty that we will be able to resolve such incidents without damage to our facilities, contamination of the Port or other environmental damage.

## CORPORATE GOVERNANCE

### PRINCIPLES OF CORPORATE GOVERNANCE

#### AS A LARGE PUBLIC COMPANY

operating an international transportation hub on the Black Sea, NCSP takes on the responsibility to live by high standards of corporate governance. The Group aims to apply the best business practices at all levels of management while observing applicable legal requirements in Russia and on international markets. Strong commitment to protecting the rights and legal interests of its shareholders, maintaining information transparency, coupled with effective business management enable NCSP to lay a strong foundation for maximizing shareholder value in the future.

**IN 2007, THE GROUP'S** corporate governance system complied with Russian legislation on public companies, as well as London Stock Exchange and other UK applicable regulations, which have been reflected in NCSP's core documents, including the charter, and internal regulations.

**STRIVING TO IMPROVE** its corporate governance the Group focused on establishing an efficient dialogue with shareholders and investors. Regulations on Insider Information and a Corporate Governance Code were adopted by NCSP Board of Directors consolidating key management principles introduced over the last few years.

**THE PRACTICE** of corporate governance applied by the Group assumes a carefully delineated system of interaction between departments based on the division of authority, full transparency and regular preparation of internal corporate reporting. The key corporate governance bodies at NCSP are the General Meeting of Shareholders, Board of Directors, Executive Board and General Director. In 2007, NCSP created two Committees on the Board of Directors: The Audit Committee and HR & Remuneration

Committee each headed by an independent director. To enhance control over the Group's business and financial activity Internal Control Department and internal Audit Commission were established.

### GENERAL MEETING OF SHAREHOLDERS

#### THE HIGHEST GOVERNANCE

body of NCSP is the General Meeting of Shareholders, which resolves fundamental issues in relation to the Company, such as introducing changes and additions to the Charter, an in-crease/decrease in the charter capital, the reorganization of the Company, the distribution of profit and payment of dividends. In addition, the General Meeting of Shareholders also elects the Board of Directors and the Audit Commission, appoints General Director and the Independent auditor, and approves financial accounts of the Company.

**MEETINGS** held in addition to the Annual General Meeting of Shareholders are Extraordinary General Meetings. In 2007 six Extraordinary General Meetings of Shareholders were conducted in the form of absentee voting. The main issues on the agenda of the Extraordinary Meetings were approving changes and amendments to the Charter and internal regulations as the company prepared for IPO, approving listing documents and related party transactions.

### BOARD OF DIRECTORS

**THE BOARD OF DIRECTORS** carries out the general management activity of NCSP in the periods between the General Meetings of Shareholders. The responsibilities of the Board include formulating the development strategy of the Company, control over its financial activity and oversight of the work of executive bodies. An important function of the Board of Directors is to ensure

the consistent observance of the rights and interests of NCSP shareholders.

**MEMBERS OF THE BOARD OF DIRECTORS** are elected by the General Meeting of Shareholders for a term lasting until the next Annual General Meeting of Shareholders. The Chairman of the Board of Directors is elected at the first board meeting after the Annual General Meeting of Shareholders by majority vote. NCSP Board of Directors consists of seven seats, five of which belong to independent directors according to Russian legislation. At present the Board of Directors has two advisory committees: the Audit Committee and HR & Remuneration Committee.

**NCSP BOARD OF DIRECTORS** remained unchanged through the year, and as of December 31, 2007 it included the following persons: (see p. 38).

## 5 OF THE 7 MEMBERS OF THE BOARD OF DIRECTORS ARE INDEPENDENT

**ALEXANDER A. PONOMARENKO***Chairman of the Board of Directors*

Mr. Ponomarenko joined the Board of Directors in 2003 and has been its Chairman since 2006. Since 2004, he has also been President of TPS Investment Company. Mr. Ponomarenko also acts as Chairman of the Board of Director for member companies of NCSP Group. From 2000 to 2004 he was the Vice President of the International Institute of Corporations research institution. Mr. Ponomarenko holds Ph.D. in economics from the State Academy of Management certified by Supreme Commission on Academic Degrees and Titles of the Education Ministry of Education of the Russian Federation.

**ALEXANDER A. DAVYDENKO***Member of the Board of Directors*

Mr. Davydenko joined the Board of Directors in 2006. Since 2005, he has been the Head of the Russian Federal Agency for Marine and River Transportation. In 2005, Mr. Davydenko worked at the Transportation Ministry of the Russian Federation as Head of the State Policy Department for Marine and River Transportation. Prior to this, in 2004-2005, he served as an advisor to the Ministry of Transportation. From 1997 to 2004, he was the General director of Mortsentr-TEK research body. Mr. Davydenko graduated from the Admiral Nevelsky Maritime Engineering Academy in the Far-East with a degree in marine transport maintenance.

**VLADIMIR G. ULIYANOV***Member of the Board of Directors*

Mr. Uliyanov has served both as a Member of the Board of Directors and as head of the Internal Control Service of NCSP since 2006. From 1997 to 2002, he worked as the First Deputy General Prosecutor in the city of Sochi and from November 2002 to September 2005, as the General Prosecutor of Krasnodar Region. Mr. Uliyanov graduated from Kuban State University and holds Doctor of Law degree. At present, he also lectures at the Moscow State Law Academy.

**VLADIMIR B. VOROBIEV***Member of the Board of Directors*

Mr. Vorobiev has joined the Board of Directors in 2006 when he was also appointed Vice President of Russian Railways OJSC. Between 1992 and 2006 he held various management positions at Russian Railways OJSC including Head of the North Caucasus Railways and was a member of its Management Board. He graduated from the Moscow Institute of Railway Transport with a degree in railway engineering.

**ALEXANDER O. CHUBARYAN***Member of the Board of Directors*

Mr. Chubaryan joined NCSP's the Board of Directors in 2006. Since 2007 he has been the President of the State University of Humanities. In 1973, he was elected Vice President of Modern European History Association, in 1988 he became a member of the

General History Institute of the Russian Academy of Sciences and, in 1996, a foreign member of the Norwegian Academy of Sciences. Since 1990, Mr. Chubaryan has been a member of the International Committee for Historical Sciences. At present, he occupies the post of Deputy Chairman of the National Committee of Historians of Russia. Mr. Chubaryan holds Ph. D. in history from the Moscow State University.

**ALEXANDER A. REMEZKOV***Member of the Board of Directors*

Mr. Remezkov joined NCSP's Board of Directors in 2006. He also serves as the First Deputy Head of the Krasnodar region Administration, where he occupied various positions since 2001. Mr. Remezkov graduated from Kuban State Agriculture University, and holds a Ph. D in economics.

**YURI V. PARFENOV***Member of the Board of Directors*

Mr. Parfenov was appointed General Director of Rosmorport, a state port management authority, in 2006. Since 2003 he served as Acting General Director of Rosmorport and Deputy Head of Novorossiysk Port Authority. Mr. Parfenov graduated from the Moscow State University of International Relations and the Moscow University for Consumer Cooperatives.

**COMMITTEES ON THE BOARD OF DIRECTORS**

**THE AUDIT COMMITTEE** has been established in September 2007. It is tasked with increasing control over the financial activity of the Company. Three members of NCSP Board of Directors serve on the Committee:

- Mr. Chubaryan – Chairman of the Committee;
- Mr. Parfenov – Member of the Committee;
- Mr. Remezkov – Member of the Committee.

**THE AUDIT COMMITTEE** is an advisory body to the Board of Directors. It prepares recommendations on selection of the independent auditor, reviews financial accounts of the Company, and develops guidelines for improving financial reporting procedures. Besides that the Audit Committee assists the Board of Directors in enforcing financial control over executive bodies. The Audit Committee meets whenever necessary, at least once every quarter.

**HR & REMUNERATION COMMITTEE** was also formed in September 2007 to develop motivation schemes for the Board of Directors and management to help them pursue the goal of maximizing company's market value and shareholder earnings. The Committee includes three members of NCSP Board of Directors:

- Mr. Chubaryan Chairman of the Committee;
- Mr. Vorobiev – Member of the Committee;
- Mr. Remezkov – Member of the Committee.

**EXECUTIVE BOARD**

**NCSP EXECUTIVE BOARD** is a collective executive body which performs the functions of operational management. Regulations on the Executive Board were adopted by an Extraordinary General Meeting of Shareholders on September 3, 2007.

**EXECUTIVE BOARD** is chaired by the General Director (CEO) of NCSP, who fulfills the role of a single executive body according to the Russian law "On Public Companies", the charter, and the Regulations on the General Director. The General Director is appointed for a term of five years and can be reappointed on an unlimited basis. The current term of the General Director expires in 2010.

**EXECUTIVE BOARD MEMBERS** are appointed by the Board of Directors on the basis of recommendations from the General Director. Executive Board executes resolutions passed by the General Meeting of Shareholders and the Board of Directors, monitors operational programs and budget execution, develops and implements business procedures, and coordinates of various departments within the company. Executive Board reports to the General Meeting of Shareholders and the Board of Directors.

**IGOR E. VILINOV***General Director*

Mr. Vilinov has been with NCSP since 1996, in 2005 he was appointed General Director of the Company. From 1996 to 1999, he worked as Director of Economics then, from 1999 to 2005, as the First Deputy General Director and Director for Economics. At present, Mr. Vilinov also serves as General Director of Portinvest OOO, the Chairman of the Board of Directors of PJSC NCSP Fleet, and a member of the Board of Directors of OJSC IPP.

Mr. Vilinov holds a Ph.D. in economics. He graduated with honors from the Odessa Institute of Marine Transport Engineers with a degree in marine transport maintenance, and also from the State Research Institute for Maritime Transport with a degree in management and economics.

**DMITRY A. BOLOTOV***First Deputy General Director*

Mr. Bolotov has served as Deputy General Director of NCSP since May 2007. Between 2000 and 2004, Mr. Bolotov was the Chief Engineer of OJSC IPP, then, from 2004 to 2007, he served as the General Director of OJSC IPP. In 1997 he graduated from the Novorossiysk Marine State Academy with a degree in electrical systems maintenance, and in 2006 he received a degree in economics from the All-Russian Financial and Economics Institute.

**GERMAN I. KACHAN***Chief Accountant*

Mr. Kachan has served as Chief Accountant of NCSP since 2005. From 1999 until 2004 he worked as NCSP's Accountant and then was First Deputy of the Chief Accountant in 2004-2005. Mr. Kachan graduated from the Minsk Radio Technical Institute with a degree in semi-conductors and dielectrics and from Kabardino-Balkarsky State University with degree in accounting and auditing.

## MANAGEMENT OF NCSP GROUP



**EDUARD V. BOROVOK**  
Director of Business Support

Mr. Borovok has served as Director of Business Support of NCSP since April 2007. Prior to this appointment, since June 2003, he was Director of the Legal Department of NCSP. Between 1997 and 2002, Mr. Borovok served as a judge in the Federal Arbitration Court for the North Caucasus Region, then, from 2002 to 2003 he worked as the Head of the Legal Department at Novorossiysk Marine Shipping. Mr. Borovok received a diploma in law at Kuban State University in 1986 and from the Moscow State Institute of International Relations in 1992.



**VLADIMIR A. KAYASHEV**  
Vice President for Strategy

Mr. Kayashev has served as Vice President for Strategy of NCSP since 2005. In 2007 he was also appointed Director of NCSP representative office in Moscow. Prior to this he was Chairman of the Executive Board of Russian General Bank from 2003 to 2005, and First Deputy Chairman since 1996. Mr. Kayashev graduated from the Moscow Economic and Statistics Institute in 1985 and holds a Ph.D. in economics.



**TATIANA P. CHIBINYAEVA**  
Vice President for Finance

Ms. Chibinyeva has served as Vice President for Finance of NCSP since August 2005. In 2004, she worked as the financial director of RGB Commercial Bank. In 2003 she headed the Economic Analysis and Planning Service at RUSAL Management Company. Ms. Chibinyeva graduated from the Moscow Engineering Physics Institute in 1992 with a degree in applied mathematics. In 2005 she received MBA from the Academy of National Economy of the Government of the Russian Federation.



**PAVEL P. OLEYNIK**  
Vice President for Investments

Mr. Oleynik has served as Vice President for Investments of NCSP since August 2004. Prior to this he served as Vice President of TPS Investment Company. Mr. Oleynik graduated from the Simferopol State University with a degree in applied mathematics in 1996 and the Plekhanov Russian Economics Academy with a diploma in economics in 1997.

## MANAGEMENT OF NCSP GROUP



**GEORGY A. ANTONIYAN**  
General Director of OJSC Novoroslesexport

Mr. Antoniyani has served as General Director of OJSC Novoroslesexport since January 2004. From 1997 to 2004 he was General Director of Importpishcheprom OJSC, and General Director of Rostrans LLC expediting agency. He graduated from the Novorossiysk Maritime Engineering Academy in 1985 with a diploma in power machine maintenance. In 2004, Mr. Antoniyani was named 'Man of the Year' in the 'Best Manager' nomination in a regional TV contest for public recognition.



**SERGEY N. YARYSHEV**  
General Director of OJSC IPP

Mr. Yaryshev has served as General Director of OJSC IPP since April 2007. Since 2003, he worked at PJSC Novorossiysk Commercial Sea Port, first as Security Director and then as First Deputy General Director. In 2002, he served as General Director at Novorossiysk Bakery Plant. Mr. Yaryshev graduated from the Law faculty of the Kuban State University in 2001, and holds Doctor of Law degree. He is the Vice President of the Football Federation of Novorossiysk. Mr. Yaryshev was awarded medals for 'Distinguished Service in the KGB-FSB' and '300 Years of the Russian Navy'.



**MIKHAIL V. PETRENKO**  
General Director of PJSC Novorossiysk Grain Terminal

Mr. Petrenko has served as General Director of PJSC Novorossiysk Grain Terminal since January 2004. In 2002-2004 he served as First Deputy General Director of Importpishcheprom OJSC. From 1997 to 2002 he was the Vice President of Novoship OJSC. Mr. Petrenko graduated from the Novorossiysk Maritime Engineering Academy with a diploma in power machine maintenance. In 2006 he received Doctor Engineering degree.



**SERGEY T. BAIRAMOV**  
General Director of OJSC Novorossiysk Ship Repair Yard

Mr. Bairamov has been General Director of Novorossiysk Ship Repair Yard since 1998. He first joined the company in 1982. From 1994 to 1998 served as Deputy General Director. Mr. Bairamov graduated from the Novorossiysk Maritime Engineering Academy with a diploma in power machine maintenance. Holds number of state honorary awards, including Honorary Marine Flee Worker, 300 years of the Russian Navy, Honorary Transportation Worker. In 2007 Mr. Bairamov was honored with the Golden Star public order.



**SULTAN H. BATOV**  
General Director of LLC Baltic Stevedore Company

Mr. Batov has served as General Director of LLC Baltic Stevedore Company since December 2002. From 1997-2002 he worked as Representative Director for RAO UES trading agency in Kabardino-Balkarsky Republic, served as Head of Consumer Market Department of Nalchik city administration. Previously Mr. Batov at various times worked as a Representative Director for Baltgazstroikomplekt, Gazkomplektimpeks and RAO Gazprom in the North Caucasus. In 1980, he graduated from the Kabardino-Balkarsky State University with a degree in engineering and construction.



**IGOR S. FAYDYSH**  
General Director of PJSC NCSP Fleet

Mr. Faydysh was appointed General Director of PJSC NCSP Fleet in 1997, and has joined the Board of Directors of PJSC NCSP Fleet in 2002. In 1994, he graduated from the Novorossiysk State Marine Academy, in 2000 received a degree in finance from British Open University for Finance and Economics. Mr. Faydysh holds a degree of Doctor of economics.

**INTERNAL CONTROL AND AUDIT**

**THE FUNCTIONS OF INTERNAL control and audit at NCSP are fulfilled by the Audit Commission and Internal Control Service. Both these departments are regulated by the charter and relevant internal documents. They are supervised by the Board of Directors and executive bodies of the company.**

**THE AUDIT COMMISSION** executes the function of internal control over the financial activity of the Group and its members. The authority of the Audit Commission is defined by the law "On Public Companies", the charter, and the Regulations on the Audit Commission approved in September 2007.

**THE AUDIT COMMISSION** is elected annually by the General Meeting of Shareholders and consists of five members. Members of the Audit Commission cannot be members of the Board of Directors or hold positions in other executive bodies.

**AS OF THE END OF 2007** the Audit Commission of NCSP consisted of five members:

- Roman N. Zinovyev, Head of Investment Administration at United Industrial Corporation CJSC;
- Tatiana S. Vnukova, Head Specialist of the Marine Representative Office of NCSP, Head of the Budget and Planning Department of TPS;
- Nadezhda E. Krasivicheva, Deputy Head of the Department

of Financing and Accounting of the Federal Agency for Marine and River Transport under the Ministry of Transport of the Russian Federation;

- Tatiana P. Chibinyeva, Vice President for Finance and Deputy Director of the Moscow Representative Office of NCSP; Vice President and Financial Director TPS;
- Natalya A. Zavoloka, Head of the Budgeting Department of NCSP.

**INTERNAL CONTROL SERVICE** was created by a resolution of the Board of Directors and is an independent body within NCSP, which reports directly to General Director and the Audit Committee of the Board of Directors. Its key task is to monitor the process of financial accounts preparations in the Group and its subsidiaries, and to control the integrity of these accounts both under Russian Accounting Standards (RAS) and International Financial Reporting Standards (IFRS).

**INDEPENDENT AUDITOR**

In order to ensure the maximum objectivity and reliability of its financial reporting, NCSP engages a qualified independent auditor to verify its annual accounts. The auditor is appointed by the General Meeting of Shareholders on the basis of recommendations from the Board of Directors. At present the Company's auditor is Deloitte and Touche CIS CJSC.

**SOCIAL RESPONSIBILITY**

**THE GROUP'S RESPONSIBILITY IS TO CONTRIBUTE TO THE SOCIAL AND ECONOMIC DEVELOPMENT OF THE REGION WHILE ENSURING A POSITIVE BUSINESS CLIMATE AND THE WELFARE OF THE POPULATION AS A WHOLE**

**NCSP BELIEVES** that corporate social responsibility is a key principle underlying any business developments. The Group sees this responsibility as facilitating social and economic development of the region by fostering favorable business climate and supporting the well-being of both its employees and residents of the region. In the framework of responsible business conduct the Group applies international standards of quality, environmental protection, professional safety and worker protection, including ISO 9001:2000, ISO 14001:2000 and OHSAS 18001:1999. All NCSP subsidiaries are obliged to comply with these standards.

**PERSONNEL**

**AT THE END OF 2007** Group's average number of employees stood at round 7,882 people. NCSP believes that developing the potential of its personnel and ensuring proper working conditions for everyone is crucial, since highly professional workforce guarantees intensive business development and quality services. NCSP undertakes a number of efforts to maintain proper wage levels, provide professional training, improve human resource management, and develop employee potential.

**COLLECTIVE AGREEMENTS** have been signed and put into effect at every NCSP subsidiary. Collective agreement is a fundamental document which regulates social and labor relations and guarantees employees' rights. The collective agreement guarantees proper and safe working conditions, provision of social benefits, education and re-training, as well as a range of bonuses and other material incentives.

**NCSP ATTRACTS HIGHLY** professional employees and expects them to develop their skills and knowledge to keep up with modern technology. In turn, we take on the responsibility to provide training and development opportunities for every employee.

**NCSP RUNS AN IN-HOUSE PROFESSIONAL** training school to provide courses for most professions required by the port, as well as training for managers, and special courses in hazardous cargo handling. Ongoing training of managers, specialists and workers is a long-term priority for NCSP.

**NCSP** takes special care of pensioners and company veterans, who devoted many years for work to the port. NCSP's social benefits program includes corporate pensions, long-term social benefits, and regular bonus payments for current and retired workers. As of December 31, 2007, the program covers more than 6,500 workers and more than 2,500 retirees participants who either receive pension benefits or are entitled to them.

**ENVIRONMENTAL PROTECTION**

**NCSP** has a long record in the field of environmental protection. One of the first environmental services in the Port of Novorossiysk was organized back in 1976. Since 2006 this service has been part of the Group. Its activity covers elimination of oil spills, waste collection and utilization, treatment facility management, and a range of other environmental measures.

**THE GROUP** devotes much effort to maintaining environmental safety of its business and preventing potential negative impact on environment. NCSP has developed an integral system for environmental safety and monitoring. Key areas of environmental action include:

- **SAFE WASTE** handling and monitoring of waste storage, removal and utilization procedures;
- **AIR QUALITY PROTECTION**, including emissions monitoring and reduction;
- **WATER QUALITY PROTECTION**, including storm waters treatment, sea water protection and regular bay cleaning;

- **MONITORING ENVIRONMENTAL** impact from port operations on the sanitary protection zone.

**ENVIRONMENTAL DEPARTMENTS OF NCSP'S** subsidiaries conduct continuous qualitative and quantitative environmental measurements: monitor waste buildup, air emissions, water discharge, and noise levels. They also monitor the quality air, sea water, and sewage water at the port and at bordering residential areas. Measurements and monitoring is performed by both in-house labs and third parties.

**AN ENVIRONMENTAL** monitoring program is developed for every port facility or new project. Such program indicates sapling frequency and locations, pollution sources, test substances types of tests. Test results are then programmed into a database to analyze and develop additional measures or take immediate action. Environmental specialists also help develop renovation and expansion projects to ensure environmental compliance.

**MODERNIZATION** of handling facilities to reduce adverse impact on the environment is a part of the Group's environmental policy. New projects are designed to comply with the latest global standards of environmental protection. In 2007 NCSP implemented a series of facility upgrades to improve environmental protection. For instance, the boiler plant was converted from fuel oil to gas, new water treatment facility was put into operation, and a research laboratory begun to monitor radiation levels on petroleum products. The new grain terminal was equipped with Russia's first system for suppressing grain dust by white mineral oil application, a super effective air filtering and aspiration system, and two new water treatment facilities.

**AS PART OF ITS TECHNICAL** upgrade program NCSP begun monitoring the collection, storage and

THE GROUP'S INVESTMENT PROJECTS ARE DEVELOPED WHILE TAKING INTO ACCOUNT ALL POSSIBLE ECOLOGICAL RISKS AND THE IMPACT ON THE ENVIRONMENT



and performing regular checks of dust removal facilities and other environmental equipment.

NCSP's environmental program is developed and implemented in close partnership with the relevant state authorities and agencies in charge of work safety, environmental protection, and accident prevention and response. NCSP conducts regular joint exercise with Novorossiysk Emergency Rescue Department and Novorossiysk Port Authority to develop emergency action plans and train rescue staff in life-like situations.

#### CHARITABLE ACTIVITIES AND SPONSORSHIP

NCSP CONSISTENTLY maintains high standards of corporate social responsibility as it is one of the key principles of the Group's strategy. Developing sponsorship and charity programs, we expect them to facilitate improvements both in business and social environment, to foster a dialogue between business and local community in Novorossiysk and Krasnodar Region as a whole.

**THE GROUP'S** sponsorship and charity programs focus on helping the younger generation and improving life standards for city's residents. These include support to socially disadvantaged groups, educational and medical institutions and public organizations.

**HEALTH AND SOCIAL** engagement of the younger generation are central to our sponsorship and charitable projects. NCSP supports a numbers of programs promoting sports and cultural activities for children and teenagers. Regular aid is provided to Children Sports Development Center, the Orthodox Children's Center, the Disabled Children Orphanage, the Skipper Sailing School, and Sporting Dance Club. NCSP is a regular contributor to the annual regional charitable TV marathon 'Save and Protect' collecting funds for orphanages and youth facilities.

**EDUCATION IS ANOTHER** priority for the Group. NCSP entered partnerships with a number of professional schools and colleges, including the State Marine Academy, a vocational school, and a Civil engineering college.

The college runs a joint program with NCSP to preparation workers and specialists for high-tech port operations. The Group willingly recruits graduates from supported institutions.

**NCSP** also supports some medical institutions in the city. These include City Hospital No.1, Children's Hospital No.1 and Novorossiysk Maternity House. The Group may sponsor procurement of medical equipment and supplies, and helps these institutions with repair and maintenance works and the buildings and adjacent territory. Thus capital renovation of Novorossiysk Maternity House was funded entirely by NCSP.

**AS PART OF ITS SOCIAL** aid program for the city, NCSP supports Novorossiysk Social Security Department and funds repairs and upgrade works on the city's infrastructure. In particular, NCSP renovated the city's main embankment, which has since become a local attraction.

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK  
COMMERCIAL SEA PORT  
AND SUBSIDIARIES

## Independent Auditors' Report

### Consolidated Financial Statements For the Year Ended 31 December 2007

# Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

## Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2007 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS has been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to insure that the consolidated financial statements of the Group comply with IFRS;
- Taking such steps to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were approved and authorised for issue on 21 April 2008 by:

I.E. Vilinov  
Chief Executive Officer



G.I. Kachan  
Chief Accountant



## Independent Auditors' Report

### To the Shareholders of Public Joint Stock Company Novorossiysk Commercial Sea Port:

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. 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.

### Auditor's responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material aspects, the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries as at 31 December 2007, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

21 April 2008  
Moscow, Russia

# Consolidated Income Statement for The Year Ended 31 December 2007

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
<i>in thousands of US Dollars, except earnings per share</i>			
Revenue	6	483,380	277,277
Cost of services	7	(255,709)	(172,897)
<b>Gross profit</b>		<b>227,671</b>	<b>104,380</b>
Selling, general and administrative expenses	8	(73,098)	(33,979)
<b>Operating Profit</b>		<b>154,573</b>	<b>70,401</b>
Share of profit of associates		-	3,065
Investment income	9	1,061	4,542
Finance costs	10	(44,793)	(22,703)
Foreign exchange gain		34,776	5,391
Other expenses, net	11	(15,165)	(3,578)
Excess of Group's interest in net assets acquired over consideration paid on acquisition of subsidiaries		2,956	618
<b>Profit Before Income Tax</b>		<b>133,408</b>	<b>57,736</b>
Income Tax	12	(39,734)	(13,647)
<b>Profit For The Year</b>		<b>93,674</b>	<b>44,089</b>
Attributable to:			
Equity shareholders		93,713	44,469
Minority interest		(39)	(380)
		93,674	44,089
<b>Earnings per share</b>			
Weighted average number of ordinary shares in issue during the year		19,196,480,589	19,124,483,167
Basic and diluted earnings per share (US Dollars)		0.0049	0.0023

I.E. Vilinov  
Chief Executive Officer



G.I. Kachan  
Chief Accountant



The notes on pages 8 to 52 form an integral part of these consolidated financial statements.

# Consolidated Balance Sheet at 31 December 2007

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
<i>in thousands of US Dollars</i>			
<b>Assets</b>			
<b>Non-Current Assets:</b>			
Property, plant and equipment	15	755,451	664,166
Goodwill	16	490,077	456,856
Mooring rights and other intangible assets	17	14,836	14,195
Investments in securities and other financial assets	18	15,863	12,903
Non-current VAT recoverable		998	11,095
Spare parts		6,585	4,840
Deferred tax assets	12	3,078	4,079
		<b>1,286,888</b>	<b>1,168,134</b>
<b>Current Assets:</b>			
Inventories	19	7,875	6,581
Trade and other receivables	20	71,184	65,155
Investments in securities and other financial assets	18	3,999	23,470
Cash and cash equivalents	21	66,660	37,037
		<b>149,718</b>	<b>132,243</b>
<b>Total Assets</b>		<b>1,436,606</b>	<b>1,300,377</b>
<b>Equity And Liabilities</b>			
<b>Equity:</b>			
Share capital	22	10,471	10,366
Share premium		10,063	-
Foreign currency translation reserve		80,045	32,533
Retained earnings		630,650	569,024
<b>Equity Attributable to Shareholders of the Parent</b>		<b>731,229</b>	<b>611,923</b>
<b>Minority Interest</b>		<b>38,883</b>	<b>41,734</b>
<b>Total Equity</b>		<b>770,112</b>	<b>653,657</b>
<b>Non-Current Liabilities:</b>			
Long-term debt	23	508,189	482,297
Retirement benefit obligation	24	8,181	6,451
Deferred tax liabilities	12	77,304	71,751
		<b>593,674</b>	<b>560,499</b>
<b>Current Liabilities:</b>			
Short-term debt	23	30,426	60,400
Trade payables	25	17,481	7,086
Other payables and accruals	26	24,913	18,735
		72,820	86,221
<b>Total Equity And Liabilities</b>		<b>1,436,606</b>	<b>1,300,377</b>

The notes on pages 8 to 52 form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity for the Year Ended 31 December 2007

Note	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Attributable to shareholders of the parent	Minority interest	Total
<i>in thousands of US Dollars</i>							
	10,464	-	(18,200)	543,884	536,148	-	536,148
Balance at 1 January 2006							
Effect of translation into presentation currency	-	-	50,733	-	50,733	1,321	52,054
Net income recognised directly in equity	-	-	50,733	-	50,733	1,321	52,054
Profit for the year	-	-	-	44,469	44,469	(380)	44,089
Total recognized income and expense	-	-	-	44,469	95,202	941	96,143
Dividends	-	-	-	(10,624)	(10,624)	-	(10,624)
Minority interest of subsidiaries acquired	-	-	-	-	-	40,793	40,793
Buy-back of ordinary shares	(98)	-	-	(8,705)	(8,803)	-	(8,803)
Balance at 31 December 2006	10,366	-	32,533	569,024	611,923	41,734	653,657
Effect of translation into presentation currency	-	-	47,512	-	47,512	2,850	50,362
Net income recognised directly in equity	-	-	47,512	-	47,512	2,850	50,362
Profit for the year	-	-	-	93,713	93,713	(39)	93,674
Total recognized income and expense	-	-	-	93,713	141,225	2,811	144,036
Dividends	13	-	-	(11,295)	(11,295)	-	(11,295)
Other distributions to shareholders	13	-	-	(489)	(489)	-	(489)
Increase of ownership in subsidiaries	-	-	-	(19,495)	(19,495)	(5,636)	(25,131)
Disposal of subsidiaries	-	-	-	-	-	(26)	(26)
Buy-back of ordinary shares	(10)	-	-	(808)	(818)	-	(818)
Issue form treasury stock		115	10,063	-	10,178	-	10,178
Balance at 31 December 2007	10,471	10,063	80,045	630,650	731,229	38,883	770,112

The notes on pages 8 to 52 form an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement for The Year Ended 31 December 2007

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
<i>in thousands of US Dollars</i>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	228,713	123,178
Income tax paid		(49,987)	(18,770)
Interest paid		(40,413)	(21,316)
Employee benefits paid		(525)	(236)
<b>Net cash generated by operating activities</b>		<b>137,788</b>	<b>82,856</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		5,742	1,715
Payments for property, plant and equipment		(93,992)	(99,812)
Proceeds from disposal of securities and other financial assets		24,494	34,593
Payments for securities and other financial assets		(5,669)	-
Acquisitions of subsidiaries, net of cash acquired		(6,663)	(537,610)
Acquisitions of minority interest in existing subsidiaries		(25,130)	-
Proceeds from disposal of subsidiaries, net of cash disposed		(260)	-
Proceeds from disposal of short-term investments		-	61,183
Loans given to employees		(779)	-
Interest received		1,689	-
Purchases of long-term deposits		(1,368)	-
<b>Net cash used in investing activities</b>		<b>(101,936)</b>	<b>(539,931)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		423,261	521,007
Repayments of long-term borrowings		(430,443)	(60,318)
Dividends paid		(11,584)	(10,205)
Buy back of ordinary shares		(818)	(3,507)
Proceeds from sale of treasury shares		10,178	-
Distribution to shareholders		(489)	-
Repayments of obligations under finance leases		-	(521)
<b>Net cash (used in)/from financing activities</b>		<b>(9,895)</b>	<b>446,456</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>25,957</b>	<b>(10,619)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>37,037</b>	<b>43,915</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>3,666</b>	<b>3,741</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>66,660</b>	<b>37,037</b>

The notes on pages 8 to 52 form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements for the Years Ended 31 December 2007 and 2006

(In Thousands Of Us Dollars)

## 1. GENERAL INFORMATION

Public Joint Stock Company Novorossiysk Commercial Sea Port ("NCSP") was founded in 1845. NCSP was transformed from a state-owned enterprise to an open joint stock company in December 1992. NCSP's principal activities include liquid and bulk cargo transshipping services, storage, sea vessel servicing and passenger transit. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. On 14 June 2006, NCSP purchased controlling stakes in subsidiaries in which it previously had minority interests. The principal activities and the significant entities of the Group as of 31 December 2007 were as follows (Note 35):

SUBSIDIARIES BY COUNTRY OF INCORPORATION	Nature of business
<b>Russian Federation</b> OJSC IPP PJSC Fleet of Novorossiysk Commercial Sea Port OJSC Novorossiysk Shipyard OJSC Novoroslesexport PJSC Novorossiysk Grain Terminal LLC Baltic stevedores company OJSC NPK Zarubezhneft shipping terminals	Stevedoring and storage services Tug and towing services Stevedoring and marine vessels repair services Stevedoring and storage services Stevedoring and storage services Stevedoring and storage services Owns land for future construction of transshipping terminals
<b>Cayman Islands</b> NR Air Ltd.	Transportation services

Novorossiysk Port Capital S.A. ("Novorossiysk Capital") was created as a special purpose entity during financial year 2007 and was used as a vehicle for the issuance of loan participation notes. Russian companies of the Group (except for LLC Baltic stevedores company) are located in the Eastern sector of the Black Sea in Tsemesskaya bay. NCSP is the largest stevedore of the Group and the holding company. It has three cargo-loading districts (Western, Central and Eastern), the Sheskhari oil terminal, the technical support base and the passenger terminal in Novorossiysk. NCSP has six significant subsidiaries, the primary activities of which are as follows:

### Open Joint Stock Company IPP ("IPP")

IPP is a liquid-cargo processing enterprise. Starting from 2007 IPP also provides bunkering services.

### Public Joint Stock Company Fleet of NCSP ("Fleet")

Fleet is a maritime tug and towing company. It provides most of the tug and towing and other services for ships and other maritime vessels at and around the Novorossiysky Port (the "Port").

In addition, it provides emergency services such as transferring vessels to shelter zones during emergencies, provides cleaning and containment services for oil or other liquid spills in and around the Port and provides hazardous material response and waste management services pursuant to its agreement on water use with Kubanskoye Basin Department of Krasnodar Krai under the Russian Ministry of Natural Resources.

### Open Joint Stock Company Novorossiysk Shipyard ("Shipyard")

Shipyard performs cargo transshipment. The Shipyard also operates large ship repair facilities in the Black Sea. It is able to operate all year-round and is one of the few facilities in the Black Sea available to service the Russian naval fleet.

### Open Joint Stock Company Novoroslesexport ("Timber Export")

Timber Export provides cargo handling, shipping and storage services for the export of the timber, containerised cargo and non-ferrous metals.

### Public Joint Stock Company Novorossiysk Grain Terminal ("Grain Terminal")

Grain Terminal was established for the construction and operation of a new grain storage and shipment terminal in the western part of the Tsemesskaya bay.

### Limited Liability Company Baltic Stevedores Company ("Baltic Stevedore")

Baltic Stevedore is a stevedoring company operating the car-ferry, cargo and passenger terminal of the Baltiysk port in Kaliningrad Region.

## 2. BASIS OF PRESENTATION

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

In preparing these consolidated financial statements, management complied with existing standards and interpretations that are effective or available for early adoption at the Group's IFRS annual reporting date, 31 December 2007.

### Standards and interpretations effective in current period

In the current year, the Group has adopted all new International Financial Reporting Standards and interpretations issued by International Financial Reporting Interpretation Committee that are

mandatory for adoption in the annual periods beginning on or after 1 January 2007. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group; however give rise to additional disclosures.

The principles effects of these changes are as follows:

#### **IAS 1 Presentation of Financial Statements (amendment)**

This amendment requires the Group to provide new disclosures to enable users of the financial statements to evaluate the Group's principle objectives; policies and procedures for managing capital (Note 33).

#### **IFRS 7 Financial Instruments: Disclosures**

This standard introduces new disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new or expanded disclosures are included in the consolidated financial statements.

The following interpretations issued by IFRIC are also effective for the current period IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the financial statements.

#### **Early adoption of Standards and Interpretations**

In addition, the Group has elected to adopt the following standards in advance of its effective date:

- IAS 23 (Revised) Borrowing Costs (effective for accounting periods on or after 1 January 2009); and
- IFRS 8 Operating Segments (effective for accounting periods on or after 1 January 2009).

The revisions to IAS 23 have had no impact on the Group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, has no impact on these consolidated financial statements because it has always been the Group's accounting policy to capitalise the borrowing costs incurred on qualifying assets.

IFRS 8 is a disclosure Standard which has resulted in a designation of the Group's reportable segments (see Note 5), but has had no impact on the reported results or financial position of the Group.

#### **Standards and interpretations in issue but not yet adopted**

At the date of authorisation of these consolidated financial statements, other than the Standards adopted by the Group in advance of their effective dates (as described above) the following Interpretations were in issue but not yet effective:

<b>STANDARDS AND INTERPRETATIONS</b>	<b>Effective for annual periods beginning on or after</b>
<b>IAS 1</b> Presentation of Financial Statements (amendment)	1 January 2009
<b>IAS 27</b> Consolidated and Separate Financial Statements (amendment due to revision of IFRS 3)	1 July 2009
<b>IAS 28</b> Investments in Associates (amendments due to revision of IFRS 3)	1 July 2009
<b>IAS 31</b> Investments in Joint Ventures (amendments due to revision of IFRS 3)	1 July 2009
<b>IAS 32</b> Financial Instruments: Presentation (amendment)	1 January 2009
<b>IFRS 2</b> Share-based Payment (amendment)	1 January 2009
<b>IFRS 3</b> Business Combinations (revised on applying the acquisition method)	1 July 2009
<b>IFRIC 11</b> Group and Treasury Share Transactions	1 March 2007
<b>IFRIC 12</b> Service Concession Arrangements	1 January 2008
<b>IFRIC 13</b> Customer Loyalty Programmes	1 July 2008
<b>IFRIC 14 IAS 19</b> The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management; however no material effect on the Group's accounting policies is anticipated.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and its subsidiaries (Note 35), from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Special purpose entities ("SPE") are those entities created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with activities of the SPE. SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

The assets and liabilities of all subsidiaries are measured at their fair values at the date of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Any differences arising from acquisition of additional non-controlling interests in subsidiaries between carrying values of net assets attributable to acquired interests and consideration paid are either added to additional paid-in-capital, if positive, or charged to retained earnings, if negative.

#### Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Profit and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

#### Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary exceeds the cost of the acquisition the difference is recognised immediately in profit or loss.

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

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

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

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### Functional and presentation currency

The functional currency of NCSP and each of its subsidiaries, except for NR Air Ltd, is the Russian Rouble ("RUR"). The functional currency of NR Air Ltd is the US Dollar ("USD" or "US Dollar").

The presentation currency of the consolidated financial statements is the US Dollar. Management consider that the USD is a more relevant presentation currency for international users of the consolidated financial statements of the Group.

The translation from RUR (functional currency of the Group) into USD (presentation currency) is performed in accordance with the requirements of IAS 21 The Effect of Changes in Foreign Exchange Rates, as described below:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;
- All income and expenses in each consolidated income statement are translated at the average exchange rates for the years presented;
- All resulting exchange differences are included in equity and presented separately as an effect of translation into presentation currency; and
- In the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates.

Equity balances were converted to USD at the rate in effect on 1 January 2005, the date of transition to IFRS.

### Rates of exchange

The exchange rates used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2007	31 December 2006
<b>Year-end rates</b>		
RUR / 1 US Dollar	24.5462	26.3311
<b>Average rates for the year ended</b>		
RUR / 1 US Dollar	25.5770	27.1920

### Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non monetary items carried at historical cost are translated at the exchange rate prevailing on the date of the transaction.

Exchange differences are recognised in profit or loss in the period in which they arise as a component of other income or expense except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings.

### Revenue recognition

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

The Group's revenue is derived as follows:

- Liquid, dry bulk cargo, general cargo and containers transshipment services include loading and unloading of oil and oil products, grain, mineral fertilizes, chemicals, containers, timber and timber products, metal products (slabs, tubing, rolled metal and others), sugar, and other cargo;
- Fleet services include tag, towing and other fleet services;
- Ship repair services mostly represent all types of vessel repairs and maintenance in docks;
- Other services include passenger transit, vessel rent and other services provided at the Port.

Revenue is recognised when the cargo-transshipment services are accepted by the customers (which is typically after the loading or unloading of cargo, as defined by the sales terms), or when the services are provided to the customer.

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

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

The Group's recognises revenues net of Value Added Tax ("VAT").

### Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on

the remaining balance of the liability. Finance charges are charged to finance costs, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Operating lease payments are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Transaction costs associated with the issuance of a debt instrument are recorded as a reduction of the debt liability, and are amortised to interest expense over the term of the related debt. In any period in which the debt is redeemed, the unamortised costs relating to the debt being redeemed are expensed. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Employee benefits

#### Defined contribution plans

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund.

The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to income statement in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund, where the rate of contributions to that fund vary from 20% to 2%, depending on the annual gross remuneration of each employee. Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service.

#### Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Amount of actuarial gains and losses are recognised in total amount in the period in which they occur. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets, if any. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries. Under the plans,

the employees are entitled to one-time retirement benefits of 10% of final salary for every year worked for the eligible companies of the Group on attainment of a retirement age of 55 for women and 65 for men. Also post-retirement benefits are provided to these employees amounting to RUR 500 (USD 0.02) per month depending on the employee's actual years of services and qualifications.

### Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### Current tax

Current tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

#### Deferred tax

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

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

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

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

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

Current and deferred taxes are recognised as an expense or income in the consolidated income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or they arise from the initial accounting for a business combination.

In case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost.

### Property, plant and equipment

The Group has adopted IFRS for the first time effective 1 January 2005. The Group has elected to utilise exemptions available for first-time adopters under IFRS 1 and has recorded property, plant and equipment at fair value (deemed cost). The valuations were performed by an independent appraiser as of 1 January 2005. After that date the property, plant and equipment are stated at deemed cost less accumulated depreciation and impairment losses.

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

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

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

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

	Number of years
Buildings and constructions	15-50 years
Machinery and equipment	8-20 years
Marine vessels	4-20 years
Aircraft	15 years
Vehicles	5 years
Office and other equipment	3 years

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation. Construction in progress comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in con-

struction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

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

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

### Mooring rights and other intangible assets

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

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

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

Amortisation of mooring rights and other intangible assets is charged to profit or loss. Amortisation is charged on a straight-line basis over the estimated useful lives of these assets (approximately 20 years). The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

### Inventories

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

### Financial assets

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

Financial assets are classified into the following specified categories:

- Financial assets as at fair value through profit or loss ("FVTPL");
- Held-to-maturity investments;
- Available-for-sale ("AFS") financial assets; and
- Loans and receivables.

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

### Effective interest method

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

### Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 32.

### Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

### AFS financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value of AFS is determined as follows:

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

Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

### Loans and receivables

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

**Cash and cash equivalents**

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

**Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

**Derecognition of financial assets**

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

**Financial liabilities and equity instruments issued by the Group****Classification as debt or equity**

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

**Equity instruments**

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

**Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

**Financial liabilities**

Financial liabilities are classified into the following specified categories:

- Financial liabilities at FVTPL; and
- Other financial liabilities.

**Financial liabilities at FVTPL**

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 32.

**Other financial liabilities**

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

**Effective interest method**

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

**Derecognition of financial liabilities**

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

**Provisions**

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

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

**Dividends declared**

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

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

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

**Taxation**

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

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods of the revision affects both current and future periods.

**Key sources of estimation uncertainty**

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

**Allowance for trade and other receivables**

The allowance for trade and other receivables is based on management's evaluation of the volume of the receivables outstanding, past experience and general economic conditions.

**Useful lives of assets**

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

**Impairment of goodwill**

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

**Income tax**

The Group is subject to income taxes in different jurisdictions on the territory of the Russian Federation and abroad. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

#### Allowance for slow-moving inventory

Allowances for slow-moving inventories are made to reduce excess inventories to their estimated net realizable values, as necessary. A change in customer demand for inventory is the primary indicator for reductions in inventory carrying values. The Group records inventory allowances based on historical experiences with customers, the ability to utilise inventory in other programs, the ability to redistribute inventory back to the suppliers and current and forecasted demand for the inventory.

## 5. SEGMENT INFORMATION

The Group has adopted IFRS 8 Operating Segments in advance of its effective date, with effect from 1 January 2007. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments have been identified and presented.

#### Services from which reportable segments derive their revenues

In prior years, segment information reported externally was analysed on the basis of the types of services provided by the Group's operating divisions. The Group operated in a single operating segment, which is composed of the stevedoring services and other related services. The revenues from the transshipping services constitute substantially all revenues. All significant assets, production and management and administrative facilities are located in the city of Novorossiysk, the Russian Federation.

However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focussed on the category of stevedoring services provided.

The Group's reportable segments under IFRS 8 are therefore as follows:

- Stevedoring services (liquid and bulk cargo transshipping services, including bunkering and storage services);
- Fleet services; and
- Ship repair services.

Other Group operations mainly comprise passenger transit, other services provided at the Port and resale of energy and utilities to external customers. Neither of these services constitutes a separate business segment. Information regarding the Group's reportable segments as at 31 December 2007 and for the year then ended is presented below. Comparative information as at 31 December 2006 and for the year then ended could not be reliably produced by the management of the Group.

	Stevedoring	Fleet	Ship repair	Other	Adjustments and eliminations	Consolidated
Segment revenue						
Third parties	418,011	46,102	4,024	15,243	-	483,380
<b>Inter-segments</b>	<b>19,775</b>	<b>103</b>	<b>335</b>	<b>12,361</b>	<b>(32,574)</b>	<b>-</b>
<b>Total revenue</b>	<b>437,786</b>	<b>46,205</b>	<b>4,359</b>	<b>27,604</b>	<b>(32,574)</b>	<b>483,380</b>
<b>Segment results</b>						
Operating profit/(loss)	178,144	8,974	(2,640)	(28,920)	(985)	154,573
Unallocated						
Investment income						1,061
Finance costs						(44,793)
Foreign exchange gain						34,776
Other expenses, net						(15,165)
Excess of Group's interest in net assets acquired over consideration paid on acquisition of subsidiaries						2,956
<b>Profit before tax</b>						<b>133,408</b>
<b>Income tax expense</b>						<b>(39,734)</b>
<b>Profit for the year</b>						<b>93,674</b>
<b>Segment assets</b>						
Inter-segment assets	32,900	20,088	2	2,832	(55,822)	-
Other segment assets	1,573,162	21,147	10,488	30,941	(199,132)	1,436,606
<b>Total assets</b>	<b>1,606,062</b>	<b>41,235</b>	<b>10,490</b>	<b>33,773</b>	<b>(254,954)</b>	<b>1,436,606</b>
<b>Segment liabilities</b>						
Inter-segment liabilities	52,819	227	1,108	1,668	(55,822)	-
Other segment liabilities	648,878	2,204	4,061	2,394	8,957	666,494
<b>Total liabilities</b>	<b>701,697</b>	<b>2,431</b>	<b>5,169</b>	<b>4,062</b>	<b>(46,865)</b>	<b>666,494</b>
<b>Other segment information</b>						
Depreciation and amortisation	46,325	554	891	1,944	-	49,714
Capital expenditures	115,259	787	552	216	-	116,814

### Geographical information

The most of the Group entities operate in one principal geographical area - the Eastern sector of the Black Sea in Tsemesskaya bay. The Novorossiysk Capital and NR Air, registered on the territory of the Luxemburg and Cayman Islands respectively, do not constitute separate segments due to insignificant amount of operations. The Group's revenue from external customers (location of the external customers) by geographical location is detailed below:

	Year ended 31 December 2007
<b>Revenue</b>	
Export	344,833
Russian Federation	138,547
<b>Total</b>	<b>483,380</b>

## 6. REVENUE

	Year ended 31 December 2007	Year ended 31 December 2006
Stevedoring services	418,011	244,746
Fleet services	46,102	22,369
Ship repair services	4,024	4,032
Vessel rent	-	2,742
<b>Other</b>	<b>15,243</b>	<b>3,388</b>
<b>Total</b>	<b>483,380</b>	<b>277,277</b>

## 7. COST OF SERVICES

	Year ended 31 December 2007	Year ended 31 December 2006
Fuel	90,390	20,857
Payroll	56,383	42,406
Depreciation and amortisation	44,058	36,590
Repairs and maintenance	14,669	12,566
Unified social tax	10,845	7,917
Insurance	10,549	18,093
Raw materials	7,994	9,142
Subcontractors	7,758	2,467
Rent	5,535	10,027
Energy and utilities	1,124	5,725
<b>Other</b>	<b>6,404</b>	<b>7,107</b>
<b>Total</b>	<b>255,709</b>	<b>172,897</b>

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2007	Year ended 31 December 2006
Payroll	25,846	10,491
Depreciation and amortisation	5,656	2,046
Taxes other than income tax	7,466	6,752
Professional services	5,979	2,379
Charity	4,375	3,374
Unified social tax	2,826	1,066
Rent	2,276	261
Security services	2,166	1,657
Bank charges	2,140	990
Repairs and maintenance	1,775	358
Raw materials	1,657	94
Travel and representation expenses	1,586	461
Change in allowance for slow-moving inventory and doubtful receivables	1,420	413
Communication expenses	782	88
<b>Other</b>	<b>7,148</b>	<b>3,549</b>
<b>Total</b>	<b>73,098</b>	<b>33,979</b>

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 9. INVESTMENT INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income on deposits	1,025	4,117
Discount of long-term debt	-	371
Coupon income	27	54
<b>Other</b>	<b>9</b>	<b>-</b>
<b>Total</b>	<b>1,061</b>	<b>4,542</b>

## 10. FINANCE COSTS

	Year ended 31 December 2007	Year ended 31 December 2006
Interest on borrowings	36,532	22,666
Loss on early extinguishment of debts	6,025	-
<b>Other</b>	<b>2,236</b>	<b>37</b>
<b>Total</b>	<b>44,793</b>	<b>22,703</b>

## 11. OTHER EXPENSES, NET

	Year ended 31 December 2007	Year ended 31 December 2006
Loss on disposal of property, plant and equipment	13,471	3,931
Gain on disposal of shares of Investsberbank and PFS	-	(740)
<b>Other</b>	<b>1,694</b>	<b>387</b>
<b>Total</b>	<b>15,165</b>	<b>3,578</b>

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 12. INCOME TAX

	Year ended 31 December 2007	Year ended 31 December 2006
Current tax expense	41,962	18,712
Deferred tax benefit	(2,228)	(5,065)
<b>Total</b>	<b>39,734</b>	<b>13,647</b>

Russian income tax is calculated at 24% of the estimated assessable profit for the year based on stand alone accounts.

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before tax	133,408	57,736
Tax at the statutory rate of 24%	32,018	13,857
Charity	1,050	810
Loss on disposals of property, plant and equipment	1,052	-
Compensations to employees	792	719
Effect of other expenses that are not deductible in determining taxable profit	4,822	2,592
Release of deferred tax on subsidiary acquisitions	-	(4,331)
<b>Total</b>	<b>39,734</b>	<b>13,647</b>

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

	Year ended 31 December 2007	Year ended 31 December 2006
Net deferred tax liability	67,672	41,274
Deferred tax benefit	(2,228)	(5,065)
Deferred tax liability acquired on acquisition of subsidiaries	2,905	26,905
Deferred tax asset disposed of sale of subsidiaries	860	-
Effect of translation into presentation currency	5,017	4,558
<b>Net deferred tax liability</b>	<b>74,226</b>	<b>67,672</b>

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	Year ended 31 December 2007	Year ended 31 December 2006
<b>Deferred tax assets</b>		
Allowance for doubtful receivables	577	27
Allowance for slow-moving inventories	975	351
Investment valuation	831	1,674
Vacation accruals	695	715
Loss carry forward	-	1,312
<b>Total</b>	<b>3,078</b>	<b>4,079</b>
<b>Deferred tax liabilities</b>		
Difference in depreciable value of property, plant and equipment	72,655	66,226
Mooring rights	3,254	3,260
Long-term debt	199	1,174
Other adjustments	1,196	316
Less: valuation allowance	-	775
<b>Total</b>	<b>77,304</b>	<b>71,751</b>
<b>Net deferred tax liability</b>	<b>74,226</b>	<b>67,672</b>

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 13. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2007 and 2006 were 11,295 and 10,624, respectively. The total amounts of dividends paid during 2007 and 2006 were 11,584 and 10,205, respectively. Also, in 2007 the Company has paid for certain expenses of shareholders. This was recorded as a distribution to shareholders in amount of 489.

## 14. EARNINGS PER SHARE

Basic and diluted earnings per share for 2007 and 2006 have been calculated on the basis of the net profit for the year and the weighted average number of common shares in issue during the year, which excludes treasury stock.

The calculation of basic and fully diluted earnings per share is based on the following information:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit attributed to shareholders of the parent company	93,713	44,469
Weighted average number of shares during the year	19,196,480,589	19,124,483,167
<b>Basic and diluted earnings per share (US Dollars)</b>	<b>0.0049</b>	<b>0.0023</b>

## 15. PROPERTY, PLANT AND EQUIPMENT

COST	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
<b>1 January 2006</b>	-	<b>146,311</b>	<b>119,591</b>	<b>66,765</b>	-	<b>3,882</b>	<b>18,442</b>	<b>6,044</b>	<b>361,035</b>
Acquisition of subsidiaries	8,411	72,907	47,017	3,786	24,418	3,950	16,676	56,203	233,368
Additions	21	17,422	14,112	876	409	614	28,843	48,237	110,534
Disposals	-	(1,929)	(2,343)	(1,079)	-	(418)	(1,196)	-	(6,965)
Effect of translation into presentation currency	-	13,558	11,059	6,180	-	348	1,678	563	33,386
<b>31 December 2006</b>	<b>8,432</b>	<b>248,269</b>	<b>189,436</b>	<b>76,528</b>	<b>24,827</b>	<b>8,376</b>	<b>64,443</b>	<b>111,047</b>	<b>731,358</b>
Reclassification	(1,835)	(23,315)	26,448	(146)	-	7,452	(8,604)	-	-
<b>Reclassified at 31 December 2006</b>	<b>6,597</b>	<b>224,954</b>	<b>215,884</b>	<b>76,382</b>	<b>24,827</b>	<b>15,828</b>	<b>55,839</b>	<b>111,047</b>	<b>731,358</b>
Additions	-	4,394	7,997	-	-	3,959	2,368	98,096	116,814
Acquired on acquisition of subsidiaries	13,139	-	-	-	-	6	3	506	13,654
Transfer	-	30,214	7,085	-	-	465	446	(38,210)	-
Disposals	-	(10,189)	(1,362)	(3,282)	-	(771)	(542)	(26,020)	(42,166)
Disposal of subsidiary	-	-	-	-	-	-	(735)	-	(735)
Effect of translation into presentation currency	1,034	17,384	16,277	5,416	1,805	1,306	4,186	9,022	56,430
<b>31 December 2007</b>	<b>20,770</b>	<b>266,757</b>	<b>245,881</b>	<b>78,516</b>	<b>26,632</b>	<b>20,793</b>	<b>61,565</b>	<b>154,441</b>	<b>875,355</b>

## 15. PROPERTY, PLANT AND EQUIPMENT

ACCUMULATED DEPRECIATION	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
<b>1 January 2006</b>	-	(4,029)	(16,012)	(4,176)	-	(415)	(2,060)	-	(26,692)
Depreciation charge	-	(7,847)	(19,357)	(4,807)	(801)	(765)	(4,551)	-	(38,128)
Disposals	-	75	482	348	-	91	323	-	1,319
Effect of translation into presentation currency	-	(629)	(2,108)	(535)	(27)	(61)	(331)	-	(3,691)
<b>31 December 2006</b>	-	(12,430)	(36,995)	(9,170)	(828)	(1,150)	(6,619)	-	(67,192)
Reclassification	-	1,493	(449)	47	-	(1,213)	122	-	-
<b>Reclassified at 31 December 2006</b>	-	(10,937)	(37,444)	(9,123)	(828)	(2,363)	(6,497)	-	(67,192)
Charge for the year	-	(12,237)	(21,723)	(4,975)	(1,704)	(2,689)	(5,186)	-	(48,514)
Disposals	-	489	582	818	-	89	108	-	2,086
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	-	-	-	-	247	-	247
Effect of translation into presentation currency	-	(1,291)	(3,227)	(839)	(131)	(281)	(762)	-	(6,531)
<b>At 31 December 2007</b>	-	(23,976)	(61,812)	(14,119)	(2,663)	(5,244)	(12,090)	-	(119,904)
<b>Carrying value</b>									
<b>At 31 December 2006</b>	6,597	214,017	178,440	67,259	23,999	13,465	49,342	111,047	664,166
<b>At 31 December 2007</b>	20,770	242,781	184,069	64,397	23,969	15,549	49,475	154,441	755,451

As of 31 December 2007 construction in progress included 18,834 (2006: 28,981) of advances paid for property, plant and equipment. Property, plant and equipment with carrying value of 35,111 (2006: 120,932) were pledged to secure bank overdrafts and loans granted to the Group (Note 23). The carrying value of machinery and equipment under a finance lease at 31 December 2007 and 2006 amounted to 1,567 and 998, respectively. The total amount of capitalised interest expenses for the year ended 31 December 2007 and 2006 amounted to 6,211 and 2,118, respectively.

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 16. GOODWILL

## COST

<b>At 1 January 2006</b>	-
Additional amounts recognised from business combinations	442,393
Effect of translation into presentation currency	14,463
<b>At 31 December 2006</b>	<b>456,856</b>
Effect of translation into presentation currency	33,221
<b>At 31 December 2007</b>	<b>490,077</b>
<b>Carrying amount</b>	
<b>31 December 2006</b>	<b>456,856</b>
<b>31 December 2007</b>	<b>490,077</b>

Allocation of goodwill on cash generating units as of 31 December 2007 was as follows:

Grain Terminal	193,448
Timber Export	156,114
Fleet	88,150
IPP	33,649
Shipyard	15,234
Baltic Stevedore	3,482
<b>Total</b>	<b>490,077</b>

## 17. MOORING RIGHTS AND OTHER INTANGIBLE ASSETS

## COST

<b>Balance as of 1 January 2006</b>	<b>857</b>
Amounts of mooring rights recognised from business combinations:	
Fleet	664
Shipyard	5,252
Timber Export	7,591
Software and other additions	232
Effect of translation into foreign currency	529
<b>Balance as of 31 December 2006</b>	<b>15,125</b>
Software and other additions	787
Effect of translation into foreign currency	1,325
<b>Balance as of 31 December 2007</b>	<b>17,237</b>

<b>Accumulated amortisation and impairment</b>	
<b>Balance as of 1 January 2006</b>	<b>(368)</b>
Amortisation charge	(508)
Effect of translation into foreign currency	(54)
<b>Balance as of 31 December 2006</b>	<b>(930)</b>
Amortisation charge	(1,200)
Effect of translation into foreign currency	(271)
<b>Balance as of 31 December 2007</b>	<b>(2,401)</b>
<b>Carrying value as of 31 December 2006</b>	<b>14,195</b>
<b>Carrying value as of 31 December 2007</b>	<b>14,836</b>

Mooring rights represent mainly the rights under long-term leases from the State of hydrotechnical infrastructure (e.g. berths and piers).

## 18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December 2007	31 December 2006
<b>Current</b>		
<b>Financial assets carried at amortised cost</b>		
Promissory notes	3,259	380
Investenergo loan (Note 29)	-	21,285
Vnesheconombank bonds ("Min-fin bonds" or "OVGVZ")	-	1,805
Other	740	-
<b>Total current</b>	<b>3,999</b>	<b>23,470</b>
<b>Non-current</b>		
<b>Available-for-sale investments (unquoted)</b>		
Office centre Pokrovsky	8,250	7,691
City Park	5,500	5,129
<b>Financial assets carried at amortised cost</b>		
Deposits	1,426	-
Loans issued	687	83
<b>Total non-current</b>	<b>15,863</b>	<b>12,903</b>

During the year ended 31 December 2007 Investenergo extinguished two non-interest bearing short-term loans amounting 21,285.

Promissory notes consist of Sberbank promissory notes amounted to 3,259 with maturity on demand and interest rate 7.5%.

The fair value of investments in shares of unlisted companies OJSC City Park and OJSC Office Centre Pokrovsky cannot be measured reliably. Management believes that based on internal analysis there were no indicators of impairment loss and the cost of these investments is the most appropriate basis to carry those assets at the balance sheet date.

All shares of OJSC City Park owned by the Group which are carried at cost (amounting to 5,500 as of 31 December 2007) are pledged as security for obligations under loan agreement between OJSC City Park and OTP Bank Plc.

Term deposits consist of Sberbank deposit amounted to 1,426 with maturity 29 December 2009 and interest rate 6.5%.

## 19. INVENTORIES

	31 December 2007	31 December 2006
Raw materials and low value items	9,451	7,088
Fuel	877	1,084
Goods for resale	1,257	913
Other	143	151
<b>Less: allowance for slow-moving inventories</b>	<b>(3,853)</b>	<b>(2,655)</b>
<b>Total</b>	<b>7,875</b>	<b>6,581</b>

## 20. TRADE AND OTHER RECEIVABLES

	31 December 2007	31 December 2006
VAT recoverable	26,997	24,480
Trade accounts receivable (RUR)	12,068	6,484
Trade accounts receivable (USD)	11,197	13,348
Other taxes receivable	9,983	13,320
Advances to suppliers	3,468	4,555
Other receivables and prepayments	10,075	5,504
<b>Less: allowance for doubtful receivables</b>	<b>(2,604)</b>	<b>(2,536)</b>
<b>Total</b>	<b>71,184</b>	<b>65,155</b>

The average credit period for the Group's customers is 25 days. During this period no interest is charged on the outstanding balances. Thereafter, interest may be charged at 3% rate per month on the outstanding balance. The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable. Trade receivables and other receivables between 25 and 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing as of each reporting date.

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality. Of the trade receivables balance at the end of the year, the Group's five largest customers (individually exceed 3% of the total balance) represent 77% (2006: 49%) from the outstanding balance.

The summary below shows the outstanding balances of top five counterparties at the respective balance sheet dates:

	Customer location	31 December 2007	31 December 2006
Axial Marine Services LTD	Limassol, Cyprus	9,287	8,240
OOO Chernomorskaya Buksirnaya Company	Novorossiysk, Russia	5,486	-
OOO Morservis group	Novorossiysk, Russia	1,623	1,086
OOO Trans Oil Service	Novorossiysk, Russia	744	-
OOO Ruskon	Novorossiysk, Russia	703	403
<b>Total</b>		<b>17,843</b>	<b>9,729</b>

Included in the Group's receivable balance are debtors with a carrying amount of 6,451 (2006: 5,499) which are past due at the respective reporting date and which the Group still considers recoverable (i.e. but not impaired). The Group does not hold any collateral over these outstanding balances. The weighted average age of these receivables is less than 45 days (2006: 45 days). No credit limits are set for the customers.

Movement in allowance for doubtful trade and other receivables:

	31 December 2007	31 December 2006
<b>Balance at the beginning of the year</b>	<b>2,536</b>	<b>1,074</b>
Acquisitions through business combinations	-	1,321
Recognised in the income statement	2,797	1,155
Amounts written-off as uncollected	(968)	(9)
Amount recovered during the year	(1,974)	(1,148)
Effect of translation into presentation currency	213	143
<b>Balance at the end of the year</b>	<b>2,604</b>	<b>2,536</b>

Included in the allowance for doubtful debt are individually impaired receivables with outstanding balances of 2,051 (2006: 1,048) which have been placed under liquidation. The Group does not hold any collateral over these outstanding balances.

Ageing of impaired trade and other receivables:

	31 December 2007	31 December 2006
less than 45 days	62	397
45-90 days	6	-
90-180 days	481	172
180-360 days	4	919
<b>Thereafter</b>	<b>2,051</b>	<b>1,048</b>
<b>Total</b>	<b>2,604</b>	<b>2,536</b>

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 21. CASH AND CASH EQUIVALENTS

	31 December 2007	31 December 2006
Current accounts in RUR	20,032	21,264
Current accounts in USD	2,836	14,739
Bank deposits	43,790	1,029
Cash in hand	2	5
<b>Total</b>	<b>66,660</b>	<b>37,037</b>

Bank deposits at 31 December 2007 mainly represent deposits with Investsberbank and Vneshtorgbank with 5% - 7% interest that mature before 31 March 2008.

Current accounts in USD as of 31 December 2007 and 31 December 2006 included 1,160 and 5,800 of cash to guarantee a letter of credit respectively. The letter of credit is opened with Open Joint Stock Company Commercial Savings Bank of the Russian Federation ("Sberbank"), a related party, according to the agreement dated 30 June 2006 with Shanghai Zenhua Port Machinery Co. Ltd for purchase and construction of transshipment equipment. The letter of credit matures on 31 January 2008.

## 22. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 shares authorised, issued and outstanding with a par value of 0.000375 USD. Authorised share capital at par is 7,846.

At 31 December 2007, the outstanding share capital of the Group was 10,471 (2006: 10,366).

During 2007, the Group repurchased its own shares at nominal value of 10.

On 8 November 2007, the Group was admitted to the listing on LSE with the Offering of 3,375,156,114 Ordinary Shares of NCSP in form of Shares and Global Depository Receipts.

## 23. DEBT

	Interest Rate	Maturity Date	31 December 2007	31 December 2006
<b>Long-term</b>				
<b>Unsecured bank loans (USD)</b>				
Loan participation notes	7%	May 2012	294,741	-
IMB + Bank Austria Creditanstalt	LIBOR + 1.6%	July 2010	117,219	-
<b>Secured bank loans</b>				
Sberbank (USD)	8.2%	August 2011	40,335	21,903
Sberbank (USD)	8.2%	November 2010	17,804	17,400
Sberbank (USD)	8.2%	June 2010	9,268	13,924
Sberbank (USD)	8.2%	September 2011	7,800	2,076
Sberbank (USD)	8.0%	March 2010	6,350	-
Sberbank (USD)	8.2%	December 2011	3,624	4,300
Sberbank (USD)	8.2%	July 2011	3,043	7,173
Sberbank (USD)	8.0%	December 2009	2,520	5,040
IMB (USD)	8.95%	September 2011	2,365	3,025
Sberbank (USD)	8.2%	August 2011	1,700	1,700
Sberbank (USD)	8.2%	December 2011	1,420	1,685
Sberbank (USD)	8.8%	June 2009	-	388,000
Loans from related parties	0.1%-6%	2008-2012	-	14,146
Other			-	1,925
<b>Total long-term</b>			<b>508,189</b>	<b>482,297</b>
<b>Short-term</b>				
Current portion of long-term loans			29,650	57,551
Loans from related parties			-	2,094
Other			-	227
Current portion of finance lease liability			776	528
<b>Total short-term</b>			<b>30,426</b>	<b>60,400</b>
<b>Total debt</b>			<b>538,615</b>	<b>542,697</b>

On 17 May 2007, the Group, through a newly formed consolidated special purpose entity, Novorossiysk Port Capital S.A., issued 7% loan participation notes due 2012 (the "Loan Participation Notes") in an aggregate principal amount of USD 300 million. The Group applied the proceeds of the Loan Participation Notes to repay a portion of the outstanding principal amount of the Sberbank loan.

Interest on the Loan Participation Notes is payable semi-annually on 17 November and 17 May of each year, commencing on 17 May 2012. The Loan Participation Notes are subject to provisions, including representations and warranties, covenants, undertakings and events of default, including change of control, negative pledge and cross-default provisions. Violation of the change of control provisions can result in the Group being required to repay the Loan Participation Notes at 101% of par value.

In July 2007, the Group entered into an agreement for a 118,000 syndicated term loan facility (the "Facility") provided by CJSC International Moscow Bank and Bank Austria Creditanstalt AG. The Group drew down the Facility in full on 19 July 2007, and used the proceeds to repay a portion of the outstanding principal amount of the loan under the Sberbank loan.

The Facility is unsecured. The outstanding principal amount must be repaid in full at final maturity, 17 July 2010, and may be prepaid in whole or in part on 10 business days' notice in 5.0 thousand increments above a minimum prepayment of 10.0 thousand. Amounts prepaid or repaid under the Facility may not be reborrowed. The Facility bears interest at a rate of one month US dollar LIBOR plus 1.60% (declining to 1.40%, if the Group obtains a rating of Baa3 (or the equivalent) by Moody's (or an equivalent rating agency), and principal repayments and accrued interest are payable monthly.

The Group is subject to certain financial covenants measured which are to be computed as defined in the Facility agreement with amounts in the Group's IFRS audited consolidated financial statements, including:

- (i) The ratio of consolidated indebtedness to EBITDA may not exceed 3.5;
- (ii) The Group's tangible net worth ratio must be at least 20%; and
- (iii) The minimum credit rating attributed to the Group by Moody's must not be lower than Ba3.

The Sberbank Loan was repaid in full from the proceeds of the Loan Participation Notes and Facility, the proceeds of the Facility and our own funds, and the loan agreement was terminated in July 2007.

The part of Group's debt is secured by property, plant and equipment. At 31 December 2007 and 31 December 2006, property, plant and equipment with a carrying value of 35,111 and 120,932, respectively, were pledged to secure bank overdrafts and loans granted to the Group.

The Group borrowings are repayable as follows:

	31 December 2007	31 December 2006
Due within three months	11,600	7,869
Due from three to six months	8,740	14,082
Due from six months to twelve months	10,086	38,449
	<b>30,426</b>	<b>60,400</b>
Due in 2009 and 2010 years	213,835	445,522
<b>Due in 2011 and 2013 years</b>	<b>294,354</b>	<b>36,775</b>
<b>Total</b>	<b>538,615</b>	<b>542,697</b>

As of 31 December 2007, the average effective borrowing rate was 7.26%. Most of interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 24. EMPLOYEE BENEFITS

### Unfunded defined benefit plan

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2007. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

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

Valuation at	31 December 2007	31 December 2006
Discount rate	8.65%	7.62%
Expected annual rate of salary increase	6%	5%
Employees turnover per annum	7%	7%
Average residual period of work	8 years	8 years

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

	Year ended 31 December 2007	Year ended 31 December 2006
Current service cost	238	86
Interest on obligation	634	342
Actuarial losses/(gains) recognised during the year	580	(145)
<b>Past service cost</b>	<b>284</b>	<b>267</b>
<b>Total</b>	<b>1,736</b>	<b>550</b>

The charge for the year has been included in cost of sales.

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

	31 December 2007	31 December 2006
Present value of defined benefit obligation	9,658	8,103
Past service cost not yet recognised	(1,477)	(1,652)
<b>Net liability arising from defined benefit obligation</b>	<b>8,181</b>	<b>6,451</b>

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

	Year ended 31 December 2007	Year ended 31 December 2006
Balance as of 1 January	6,451	2,508
Current service cost	238	86
Interest on obligation	634	342
Actuarial losses/(gains) recognised during the year	580	(145)
Past service cost	283	267
Liabilities assumed in a business combination	-	3,278
Benefits paid	(525)	(236)
<b>Effect of translation to presentation currency</b>	<b>520</b>	<b>351</b>
<b>Balance as of 31 December</b>	<b>8,181</b>	<b>6,451</b>

#### Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to 13,671 and 8,983 for the year ended 31 December 2007 and 2006, respectively.

## 25. TRADE PAYABLES

	31 December 2007	31 December 2006
Trade payables (RUR)	16,604	7,086
Trade payables (USD)	877	-
<b>Total</b>	<b>17,481</b>	<b>7,086</b>

The average credit period on purchase of majority of inventories (e.g. fuel) and substantial portion of services (e.g. utility) on the territory of the Russian Federation is 17 days. No interest charge on the outstanding balance for trade and other payables during credit period. Thereafter, interest may be charged at 9% per month on the unsettled balance.

The table below summarises the maturity profile of the Group's trade payables and payables for property, plant and equipment as at 31 December 2007 and 2006 based on contractual undiscounted payments:

	Year ended 31 December 2007	Year ended 31 December 2006
Past due	4,974	1,905
Due within three months	10,510	4,534
Due from three to six months	1,968	197
Due from six months to twelve months	149	29
<b>Due in next financial year</b>	<b>2,500</b>	<b>428</b>
<b>Total</b>	<b>20,101</b>	<b>7,093</b>

## 26. OTHER PAYABLES AND ACCRUALS

	31 December 2007	31 December 2006
Advances received from customers	9,053	3,293
Payroll accruals	6,324	5,966
Taxes payable	5,240	3,725
Payables for property, plant and equipment	2,620	523
Dividends payable	402	644
<b>Other accounts payable and accruals</b>	<b>1,274</b>	<b>4,584</b>
<b>Total</b>	<b>24,913</b>	<b>18,735</b>

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 27. CASH FLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 2007	Year ended 31 December 2006
<b>Profit for the year</b>	<b>93,674</b>	<b>44,089</b>
Adjustments for:		
Depreciation and amortisation	49,714	38,636
Interest expense	36,532	22,666
Excess of Group's interest in net assets acquired over consideration paid on acquisition of subsidiaries	(2,956)	(618)
Discount amortisation	1,595	(371)
Change in allowance for doubtful receivables	823	7
Change in allowance for slow-moving inventories	597	406
Loss on disposal of property, plant and equipment	13,471	3,931
Share of profit of associates	-	(3,065)
Gain on disposal of shares	-	(740)
Finance lease charge	293	37
Income tax	39,734	13,647
Foreign exchange gain	(34,776)	(5,391)
Change in retirement benefit obligation	1,736	550
Interest income	(1,689)	-
Loss on early extinguishment of debts	6,025	-
Working capital changes:		
(Increase)/ decrease in inventories	(2,825)	252
(Increase)/ decrease in trade and other receivables	(6,638)	12,563
Decrease in long-term VAT receivables	10,464	(702)
<b>Increase/(decrease) in trade and other payables and accruals</b>	<b>22,939</b>	<b>(2,719)</b>
<b>Cash flow from operating activities</b>	<b>228,713</b>	<b>123,178</b>

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

## 28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

On 28 June 2007, the Group acquired 100% of the share capital of OJSC NPK Zarubezhneft ("Zarubezhneft"). Details of acquisition are below:

	Fair value of net assets of the subsidiary acquired
Property, plant and equipment	13,654
Trade and other receivables	184
Inventory	370
Cash and cash equivalents	2
Debt	(1,395)
Other payables and accruals	(289)
Deferred tax	(2,905)
Net assets	9,621
<b>Excess of Group's interest in net assets acquired over consideration paid on acquisition of subsidiaries</b>	<b>(2,956)</b>
<b>Purchase price</b>	<b>6,665</b>
Settled in cash	(6,665)
<b>Cash acquired with the net assets of subsidiaries</b>	<b>2</b>
<b>Net cash outflow on acquisition</b>	<b>(6,663)</b>

The net assets of the purchased subsidiary were subject to an independent appraisers' valuation. Adjustments were made for the differences between the carrying amount and the fair value of assets, liabilities and contingent liabilities of the acquired subsidiary.

Prior to acquisition, the acquired entity did not prepare financial statements in accordance with IFRS. Hence it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and such information is not presented in the consolidated financial statements of the Group.

During May 2007, the Group acquired additional 15.04% of interest in Shipyard and 0.01% of interest in Grain Terminal for a cash consideration of 25,131, increasing its ownership to 65.07% and 100%, respectively. The carrying value of Shipyard and Grain Terminal net assets in the consolidated financial statements on the date of acquisition of additional interests was 37,710. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 5,636. Excess of consideration paid over the Group's share in net assets acquired in the amount of 19,495 was recognised in the statement of changes in equity as a decrease of retained earnings.

During 2007, the Group sold its 59.98% of PJSC TPS and 50% of LLC Kuban Security Service for 115. Management of the Group considers net assets disposed in this transaction as not significant for a separate disclosure in the consolidated financial statements of the Group.

## 29. RELATED PARTY TRANSACTIONS

Related parties are considered to include the ultimate controlling parties, affiliates and entities under common ownership and control with the Group. The Company, its subsidiaries and associates, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties. Details of transactions between the Group and other related parties are disclosed below.

As of the date of approval of these consolidated financial statements of the Group the ultimate beneficiaries of the Group were members of the families of Mr. Ponomarenko and Mr. Scorobogatko. A 20% share of the Group is owned by the Federal Agency on Federal Property Management as of the date of approval of these consolidated financial statements.

Significant balances and transactions with state-controlled entities are considered transactions with related parties and are disclosed below. The transactions with these state-controlled entities are primarily the purchase and sales of services.

Material balances with related parties were as follows:

	31 December 2007	31 December 2006
<b>Loans from related parties</b>		
Long-term		
Sberbank	123,019	463,201
Entities under common control <sup>(a)</sup>	-	4,702
Other related parties	-	9,444
	123,019	477,347
Short-term		
Entities under common control <sup>(a)</sup>	-	680
Sberbank	-	57,318
Other related parties	-	1,359
	-	59,357
<b>Short-term loans to related parties</b>		
Entities under common control <sup>(a)</sup>	-	21,285
Other related parties	274	-
<b>Promissory notes</b>		
Sberbank	3,259	-
<b>Short-term deposits</b>		
Sberbank	1,426	-
<b>Cash and cash equivalents</b>		
Sberbank	12,779	17,128

<sup>(a)</sup> Entities owned by the members of the families of Mr. Ponomarenko and Mr. Scorobogatko, who are ultimate beneficiaries of the Group.

Material transactions with related parties were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
<b>Sales</b>		
Military divisions	2,340	4,340
Russian Railways	868	416
<b>Transneft</b>	<b>3,800</b>	<b>7,542</b>
	<b>7,008</b>	<b>12,298</b>

Other related parties represent affiliates of the ultimate beneficiaries. Interest expense on loans from related parties during 2007 and 2006 amounted to 25,392 and 21,080, respectively.

### Compensation of key management personnel

For the year ended 31 December 2007 and 2006, the remuneration of the directors and other members of key management was 3,926 and 1,006, respectively.

The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market trends.

## 30. COMMITMENTS AND CONTINGENCIES

### Litigation

The Group has a large number of small claims and litigations relating to its operating activities. Management does not believe that any of these claims, individually or in aggregate, will have a material adverse impact on the Group.

On 24 November 2006, the Russian Federal Agency on Property management applied to the court to impose a penalty on Timber Export. The penalty includes rent payment of 699 and penalty fees of 503 for the period from 1 January 2006 through 21 November 2006. Timber Export considers the rent amount to be inappropriately high and applied to the court to oblige the Russian Federal Agency on Property management to recalculate rent payments. The court will hear the case upon definition of market value of rented land.

### Taxation contingencies in the Russian Federation

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

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

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that the tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant. Management estimates total unprovided amount of possible tax risks to be approximately 752.

### Environmental matters

The Group is subject to extensive federal and local environmental controls and regulations.

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

### Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

### Insurance

As of 31 December 2007, the Group has insurance coverage in respect of potential damage of its major facilities. The Group does not have any business interruption insurance or any third party liability insurance in respect of environmental damage. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### Operating lease arrangements

Operating lease arrangements relate to the lease of land and mooring installations from the Russian State. These arrangements have lease terms of between 5 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period. Non-cancellable operating leases with initial terms in excess of one year are as follows:

2008	3,657
2009	3,657
2010	3,362
2011	3,309
2012	3,309
Thereafter	75,758
<b>Total</b>	<b>93,052</b>

## 31. CAPITAL COMMITMENTS

As of 31 December 2007, the Group had the following commitments for the acquisition of property, plant and equipment and construction works:

	31 December 2007
OJSC IPP	23,170
NCSP	12,782
OJSC Novoroslesexport	6,175
PJSC Novorossiysk Grain Terminal	304
OJSC Novorossiysk Shipyard	45
<b>Total</b>	<b>42,476</b>

The above commitments were entered into to enhance of the Groups' transshipment capacities during the following 3-10 years.

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Management believes that the carrying values of financial assets (refer to Notes 18 and 20) and financial liabilities (refer to Notes 23 and 25) recorded at amortised cost in the financial statements approximates their fair values.

## 33. RISK MANAGEMENT

### Capital risk management

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

### Major categories of financial instruments

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

	31 December 2007	31 December 2006
Financial assets		
Cash and cash equivalents	66,660	37,037
Promissory notes	3,259	380
Loans given	740	-
Trade receivables	23,265	19,832
<b>Total financial assets</b>	<b>93,924</b>	<b>57,249</b>
Financial liabilities		
Loans and borrowings	537,839	542,169
Financial lease	776	528
Trade payables	17,481	7,086
Payables for property, plant and equipment	2,620	523
<b>Total financial liabilities</b>	<b>558,716</b>	<b>550,306</b>

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

### Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group is trying to mitigate such risk by managing monetary assets and liabilities in foreign currency at the same (more or less stable) level.

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

	31 December 2007	31 December 2006
<b>Assets</b>		
Trade and other receivables, net	11,627	13,348
Cash and cash equivalents	1,676	41,142
<b>Total assets</b>	<b>13,303</b>	<b>54,490</b>
<b>Liabilities</b>		
Long term and short term debt	(543,880)	(542,697)
Trade payables	(877)	(388)
<b>Total liabilities</b>	<b>(544,757)</b>	<b>(543,085)</b>
<b>Total net position</b>	<b>(531,454)</b>	<b>(488,595)</b>

The table below details the Group's sensitivity to strengthening of the Russian Rouble against US Dollar by 10%. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	31 December 2007	31 December 2006
Profit	48,327	47,967

### Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure, at the same time the majority of the Group's financial assets and liabilities are at fixed rates and thus risk is limited. The table below details the Group's sensitivity to increase or decrease of floating rate by 1%. The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

	31 December 2007	31 December 2006
Profit or Loss	1,180	-

### Credit risk

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

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

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

	Customer location	31 December 2007		31 December 2006	
		Turnover	Outstanding balance	Turnover	Outstanding balance
COMINCOM S.A.	Geneve, Switzerland	89,457	19	60,442	1,572
AXIAL MARINE SERVICE	Limassol, Cyprus	47,498	9,287	22,459	8,240
OOO "Chernomorskaya Buksimnaya Kompaniya"	Novorossiysk, Russia	23,062	5,489	4	-
MILESEATRANS LTD	Delaware, USA	22,175	-	18,672	1
INTER-LOGISTICS	Bremen, Germany	19,724	48	21,556	215
<b>Total</b>		<b>201,916</b>	<b>14,843</b>	<b>123,133</b>	<b>10,028</b>

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. The summaries of maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual payments are presented in Notes 23 and 25.

## 34. EVENTS AFTER THE BALANCE SHEET DATE

On 11 February 2008 the Group purchased additional 50% of LLC Baltic stevedores company ("BSK") for 10,750, increasing Group's interest to 100%.

## 35. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

### SUBSIDIARIES BY COUNTRY OF INCORPORATION

	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2007	Year ended 31 December 2006
	Ownership % held*		Voting rights	
<b>Russian Federation</b>				
OJSC IPP	72.65%	72.65%	72.65%	72.65%
RJSC Fleet of NCSP	85.68%	85.68%	85.68%	85.68%
OJSC Novorossiysk Shipyard	65.07%	50.03%	65.07%	50.03%
OJSC Novoroslesexport	91.38%	91.38%	91.38%	91.38%
RJSC Novorossiysk Grain Terminal	100.00%	99.99%	100.00%	99.99%
RJSC TPS	-	51.83%	-	59.98%
LLC Baltic stevedores company	50.00%	50.00%	50.00%	50.00%
LLC Kuban security services	-	25.91%	-	50.00%
OJSC NPK Zarubezhneft	100.00%	-	100.00%	-
<b>Cayman Islands</b>				
NR Air Ltd.	100.00%	100.00%	100.00%	100.00%

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

## 36. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2006, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2007.

The effect of the reclassifications is summarised below:

	2006 After Reclassifications	2006 Before Reclassifications	Difference
<b>CONSOLIDATED INCOME STATEMENT</b>			
Foreign exchange gain	5,391	-	5,391
Other expenses, net	(3,578)	-	(3,578)
Other income, net	-	1,813	(1,813)
			-
<b>CONSOLIDATED BALANCE SHEET</b>			
NON-CURRENT ASSETS			
Deferred tax assets	4,079	580	3,499
NON-CURRENT LIABILITIES			
Deferred tax liabilities	71,751	68,252	(3,499)
			-
<b>CONSOLIDATED CASH FLOW STATEMENT</b>			
Cash flow from operating activities			
Cash generated from operations	123,178	122,942	236
Employee benefits paid	(236)	-	(236)
			-

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