

IMPORTANT NOTICE

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This electronic transmission does not constitute an offer of securities for sale in any jurisdiction where it is unlawful to do so. The securities have not been and will not be registered under the US Securities Act of 1933 (the “Securities Act”) or with any securities regulatory authority of any state of the United States or other jurisdiction and may not be offered, sold, pledged or otherwise transferred except (1) in accordance with Rule 144A under the Securities Act (“Rule 144A”) to a person that the holder and any person acting on its behalf reasonably believes is a qualified institutional buyer within the meaning of Rule 144A (a “QIB”), or (2) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

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The information contained in the document is directed solely at persons (1) outside the United Kingdom, (2) within the United Kingdom having professional experience in matters relating to investments or to persons of a kind described in Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”) or (3) in member states of the European Economic Area (a “Member State”) who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC). Persons who are not relevant persons or qualified investors must not rely on or act upon the information contained in the document should not be acted upon or relied upon (i) in the United Kingdom, by persons who are not relevant persons, or (ii) in any Member State other than the United Kingdom, by persons who are not qualified investors.

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PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT

(organised as an open joint stock company under the laws of the Russian Federation)

Offering of 3,375,156,114 Shares in the form of Shares and Global Depositary Receipts Offer Price: US\$0.256 per Share and US\$19.20 per Global Depositary Receipt

This prospectus relates to an offering (the “Offering”) of ordinary shares of Public Joint Stock Company Novorossiysk Commercial Sea Port (“NCSP”) and its subsidiaries (collectively, the “Group”) with a nominal value of 0.01 roubles each (“Ordinary Shares”) and global depositary receipts (“GDRs”) representing interests in Ordinary Shares, with one GDR representing an interest in 75 Ordinary Shares, by Kadina Limited (the “Selling Shareholder”), one of the principal shareholders of NCSP. Ordinary Shares being offered pursuant to the Offering are referred to herein as “Shares.” The Shares have been registered by the Federal Commission for Securities Market of the Russian Federation, under registration number 1-01-30251-E. A statutory Russian prospectus relating to the Shares was registered by the Federal Service for Financial Markets (“FSFM”) on 24 August 2007.

The GDRs are being offered in the United States to certain qualified institutional buyers (“QIBs”), as defined in, and in reliance on, Rule 144A (“Rule 144A”) under the US Securities Act of 1933, as amended (the “Securities Act”), and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”). The Shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. See “Plan of Distribution.”

The Selling Shareholder has granted to the Joint Global Coordinators an option (the “Over-allotment Option”), exercisable within 30 days after announcement of the offer price, to purchase up to an additional 356,717,250 Ordinary Shares in the form of GDRs at the Offer Price, solely to cover over-allotments, if any, and/or short positions relating to stabilisation activities. See “Plan of Distribution.”

NCSP’s existing Ordinary Shares have been admitted to list “V” on the Russian Trading System Stock Exchange (“RTS”) and included in list “V” on the MICEX Stock Exchange (“MICEX”). Prior to the Offering described herein there has been no market for the GDRs.

This document, upon approval by the UK Financial Services Authority (the “FSA”), comprises a prospectus relating to NCSP prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the Financial Services and Markets Act 2000 (the “FSMA”). Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA for a listing of 52,129,900 GDRs, consisting of up to 31,708,204 GDRs to be issued on or about 8 November 2007 (the “Closing Date”), and up to 20,421,696 additional GDRs to be issued from time to time against the deposit of Ordinary Shares (to the extent permitted by law) with JPMorgan Chase Bank, N.A. as depositary (the “Depositary”), to be admitted to the official list of the FSA (the “Official List”) and (2) to the London Stock Exchange plc (the “London Stock Exchange”), for such GDRs to be admitted to trading on the London Stock Exchange’s main regulated market for listed securities (the “Main Market”) (together, “Admission”). Conditional trading in the GDRs through the International Order Book of the London Stock Exchange (the “IOB”) is expected to commence on an if-and-when-issued basis on or about 2 November 2007. Admission to the Official List and to trading on the Main Market, and the commencement of unconditional dealings in the GDRs through the IOB, is expected to take place on or about 8 November 2007. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** Application will be made to have the Rule 144A GDRs designated eligible for trading in The PORTAL Market of the Nasdaq Stock Market, Inc. (“PORTAL”).

An investment in the Shares or the GDRs involves a high degree of risk. See “Risk Factors” beginning on page 8 for a discussion of certain risk factors that should be considered in connection with an investment in the Shares or GDRs. The Shares and GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. **The Shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or in another transaction exempt from, or not subject to the registration requirement of the Securities Act, or outside the United States in offshore transactions in reliance on Regulation S.** Prospective purchasers are hereby notified that sellers of the Shares and the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the Shares and the GDRs, see “Terms and Conditions of the Global Depositary Receipts” and “Plan of Distribution.”

The Shares and the GDRs are offered by the Joint Global Coordinators when, as and if delivered to and accepted by the Joint Global Coordinators and subject to their right to reject orders in whole or in part. The GDRs will be evidenced by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate registered in the name of Cede & Co., as nominee for The Depositary Trust Company (“DTC”). It is expected that delivery of the GDRs will be made against payment therefor in US dollars in same day funds through the facilities of DTC on or about 8 November 2007. It is expected that delivery of, and payment for, the Shares will commence on or about 8 November 2007. See “Settlement and Delivery.”

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

MORGAN STANLEY

TROIKA DIALOG

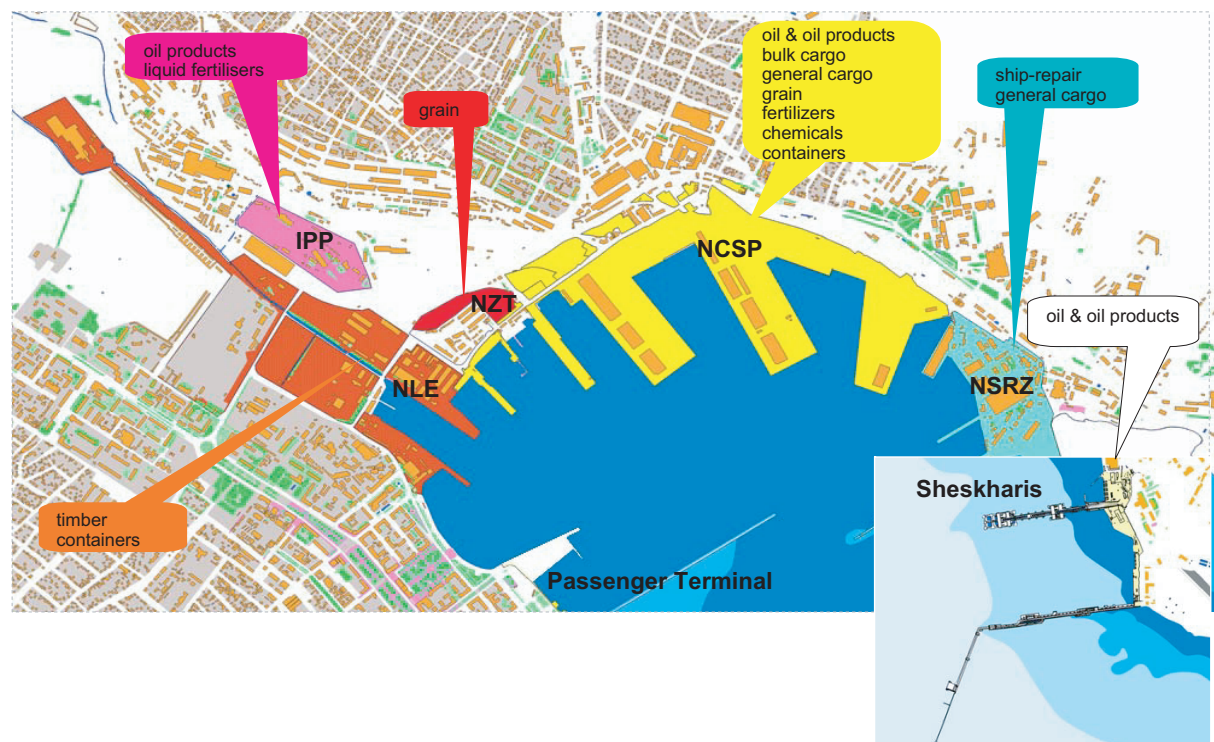
PROSPECTUS DATED 2 NOVEMBER 2007.

Location of the Port of Novorossiysk



This map is indicative only and not to scale.

Our facilities at the Port of Novorossiysk



This map is indicative only and not to scale.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

By accepting delivery of this prospectus, you agree to the following. This prospectus is being furnished solely for the purpose of enabling a prospective investor to consider the purchase of the Shares and GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares and GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Joint Global Coordinators makes any representation, express or implied, or accepts any responsibility, in respect of the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of NCSP, the Selling Shareholder or the Joint Global Coordinators that any recipient of this prospectus should subscribe for or purchase the Shares or GDRs. Each potential subscriber or purchaser of Shares or GDRs should determine for itself the relevance of the information contained in this prospectus and its subscription or purchase of Shares or GDRs should be based upon such investigation as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules of the FSA, which comply with the provisions of Directive 2003/71/EC ("Prospectus Directive"), for the purpose of giving information with regard to us, the Shares and GDRs.

NCSP accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of NCSP's knowledge, in accordance with the facts and contains no omissions likely to affect its import.

NCSP confirms that to the best of its knowledge and belief all information contained in this prospectus is true and accurate and not misleading, that all statements of opinion, intention or expectation contained herein (including without limitation forecasts, estimates and projections) are truly and honestly held, have been made after due and careful consideration of all relevant circumstances and have been based on reasonable assumptions, and that to the best of their knowledge and belief no other fact or matter has been omitted from this prospectus (i) which is necessary to enable prospective investors and their professional advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of NCSP, its subsidiaries and other persons controlled by NCSP and of the rights attaching to the Shares or the GDRs, (ii) the omission of which made or makes any statement herein misleading, or (iii) which in the context of the issue and offering of the Shares and the GDRs is material for disclosure herein, and proper enquiries have been made by NCSP to ascertain or verify the foregoing.

In making an investment decision regarding the Shares and GDRs, you must rely on your own examination of NCSP and the terms of the Offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. None of NCSP, the Selling Shareholder or the Joint Global Coordinators has authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate only as of its date, and our business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other professional advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and GDRs. None of NCSP, the Selling Shareholder or the Joint Global Coordinators makes any representation to any offeree or purchaser of the Shares or GDRs regarding the legality of an investment in the Shares or GDRs by such offeree or purchaser under appropriate investment or similar laws.

The Joint Global Coordinators are acting exclusively for NCSP and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In connection with the Offering, the Joint Global Coordinators and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Shares and GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of NCSP or other related investments in connection with the Offering or otherwise. Accordingly, references in this prospectus to the Shares and GDRs being offered, placed or otherwise dealt with should be read as including any offer or placing to, or dealing by, the Joint Global Coordinators or any of them and any of their affiliates acting as an investor for its or their own account(s). The Joint Global Coordinators do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, the Joint Global Coordinators may enter into financing agreements with investors, such as share swap arrangements or lending arrangements, that could result in the Joint Global Coordinators acquiring Shares or GDRs.

The Offering may be withdrawn at any time, and the Selling Shareholder and the Joint Global Coordinators reserve the right to reject any offer to purchase the Shares and GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the Shares and GDRs sought by such investor. The Joint Global Coordinators and certain related entities may acquire a portion of the Shares or GDRs for their own accounts.

The distribution of this prospectus and the offer and sale of the Shares and GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See “Terms and Conditions of the Global Depositary Receipts” and “Plan of Distribution” elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Shares and GDRs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the Shares and GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of NCSP, the Selling Shareholder or the Joint Global Coordinators is making an offer to sell the Shares and GDRs or a solicitation of an offer to buy any of the Shares and GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

NOTICE TO UNITED STATES INVESTORS

THE SHARES AND GDRS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SHARES AND GDRS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE IN RESPECT OF CERTAIN UNITED STATES TAX MATTERS

Notwithstanding anything herein to the contrary, each recipient, including its employees, representatives, and agents, may disclose to any and all other persons, without limitation of any kind, the tax treatment and tax structure of the transactions discussed in this prospectus and all materials of any kind (including opinions or other tax analyses) that are provided to the recipients relating to such tax treatment and tax structure. However, any such information relating to the tax treatment or tax structure is required to be kept confidential to the extent reasonably necessary to comply with applicable laws. For purposes of this paragraph, the terms “tax treatment” and “tax structure” have the meaning given to such terms under Treasury Regulation Section 1.6011-4(c).

The United States federal tax advice contained herein is written in connection with the promotion or marketing of the Shares and GDRs, and is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding US tax penalties. Prospective investors should consult their own tax advisors with respect to their particular circumstances concerning the US federal, state, local and non-US tax consequences of owning the Shares or GDRs.

AVAILABLE INFORMATION

For so long as any Shares or Rule 144A GDRs (as defined in “Terms and Conditions of the Global Depositary Receipts”) or the Shares represented thereby, are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or to any prospective purchaser of such restricted Shares or Rule 144A GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO UK AND EEA INVESTORS

This prospectus and the Offering are only addressed to and directed at persons in member states (each, a “Member State”) of the European Economic Area (“EEA”), who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (“Qualified Investors”). In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or high net worth entities falling within Article 49(2)(a) to (d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). The Shares and the GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (i) in the United Kingdom, relevant persons and (ii) in any Member State other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (a) in the United Kingdom, by persons who are not relevant persons or (b) in any Member State other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of Shares and GDRs, other than the offers of GDRs contemplated in this prospectus in the United Kingdom once it has been approved by the FSA and published in accordance with the Prospectus Rules, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the Member States of the EEA, from the requirement to produce a prospectus for offers of Shares and GDRs. Accordingly any person making or intending to make any offer within the EEA of Shares or GDRs should only do so in circumstances in which no obligation arises for NCSP, the Selling Shareholder or any of the Joint Global Coordinators to produce a prospectus for such offer. None of NCSP, the Selling Shareholder or the Joint Global Coordinators has authorised nor do they authorise the making of any offer of Shares or GDRs through any financial intermediary, other than offers made by the Joint Global Coordinators which constitute the final placement of Shares and GDRs contemplated in this prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, a “Relevant Member State”) who receives any communication in respect of, or who acquires any Shares or GDRs to whom any offer is made under the Offering will be deemed to have represented, acknowledged and agreed that it is a Qualified Investor; and in the case of any Shares or GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares or GDRs acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than Qualified Investors, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or where Shares or GDRs have been acquired by it on behalf of persons in any Relevant Member State other than Qualified Investors, the offer of those Shares or GDRs to it is not treated under the Prospective Directive as having been made to such persons. NCSP, the Selling Shareholder, the Joint Global Coordinators and their respective affiliates and others will rely (and NCSP and the Selling Shareholder acknowledge that the Joint Global Coordinators and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators, be permitted to purchase Shares or GDRs.

The Joint Global Coordinators may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an “offer of Shares or GDRs to the public” in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Shares or the GDRs to be offered so as to enable an investor to decide to purchase or otherwise acquire the Shares or the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO RUSSIAN INVESTORS

The GDRs have not been registered under the law of the Russian Federation “On the Securities Market” dated 22 April 1996, as amended, and are not being offered, sold or delivered directly in the Russian Federation or to any Russian residents except as may be permitted by Russian law.

STABILISATION

In connection with the offering, Morgan Stanley & Co. International plc (or any agent or other person acting for Morgan Stanley & Co. International plc), as stabilising manager, may over-allot or effect transactions intended to enable it to satisfy any over-allotments or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, neither Morgan Stanley & Co. International plc nor any such agents have any obligation to do so. Such stabilisation, if commenced, may begin on the date of announcement of the offer price and may be discontinued at any time, but in no event later than 30 calendar days thereafter. Such transactions may be effected on the London Stock Exchange and any other securities market, over the counter market, stock exchange or otherwise. There is no assurance that such transactions will be undertaken and, except as required by law, Morgan Stanley & Co. International plc does not intend to disclose the extent of allotments and/or stabilisation transactions under the Offering.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information set forth in this prospectus as at and for the years ended 31 December 2006 and 2005 has been extracted without material adjustment or derived from the audited annual consolidated financial statements of the Group (the “IFRS Annual Accounts”) prepared in accordance with International Financial Reporting Standards (“IFRS”), which includes standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards and interpretations issued by the International Financial Reporting Interpretations Committee. The financial information set forth in this prospectus as at 30 June 2007 and for the six months ended 30 June 2007 and 2006 has been extracted without material adjustment or derived from the unaudited condensed consolidated interim financial statements of the Group prepared in accordance with IFRS (the “IFRS Interim Accounts,” and together with the IFRS Annual Accounts, the “IFRS Accounts”) and on the same basis as the IFRS Annual Accounts and, in the opinion of management, include all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of interim results. These interim results are not necessarily indicative of results to be expected for the full year. The IFRS Annual Accounts and the IFRS Interim Accounts are included in this prospectus. The IFRS Annual Accounts have been audited by ZAO Deloitte & Touche CIS (“Deloitte”) as stated in their report appearing herein (which report expresses a unqualified opinion and includes an explanatory paragraph relating to the restatement of the financial statements, with respect to the accounting treatment for retirement benefit obligations that were accounted for as defined contribution plans prior to the restatement. See note 35 to the IFRS Annual Accounts).

The Group has not prepared financial statements in accordance with IFRS up to any date or for any period prior to 1 January 2005, which was its transition date for purposes of applying the first time adoption rules of IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. The financial information set forth in this prospectus as at and for the year ended 31 December 2004 has been extracted without material adjustment or derived from the audited annual consolidated financial statements of the Group (the “US GAAP Annual Accounts”) prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”). The US GAAP Annual Accounts have been audited by Deloitte, as stated in their report appearing herein (which report expresses a qualified opinion relating to the accounting of investments in common stock and includes an explanatory paragraph relating to a restatement of the financial statements, as discussed in note 22 to the US GAAP Annual Accounts).

The presentation of financial and other information should be read in conjunction with “Summary Historical Consolidated Financial and Other Information,” “Selected Historical Consolidated Financial and Other Information,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Non-GAAP Measures

This prospectus includes certain non-GAAP measures, including EBITDA.

We present “EBITDA,” which represents profit for the period of the Group before finance costs, income tax and depreciation and amortisation. Depreciation and amortisation are components of both cost of services and selling, general and administrative expenses in the IFRS Accounts. EBITDA is not a measure of financial performance recognised under IFRS or US GAAP. Accordingly, it should not be considered as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations and an indicator of our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

See “Selected Historical Consolidated Financial and Other Information” for a reconciliation of these measures to profit for the period.

Limitations on Comparability of our Historical Financial Information and Inherent Limitations of the US GAAP Annual Accounts

We underwent a substantial restructuring in June 2006, as part of which we acquired controlling interests in IPP, NCSP Fleet and NLE Timber & Container Terminal (in which NCSP had held interests up to that date), controlling interests in NZT Grain Terminal and NSRZ Ship Repair Yard, and a controlling interest in Baltic Stevedore Co., and restructured the way we operate our business, as further discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Significant Acquisitions and Restructuring”. As a result of the restructuring, the results of operations of these entities are consolidated into NCSP’s consolidated results of operations from 14 June 2006, the date of acquisition. As a result of these acquisitions, the period-on-period comparisons, analysis, discussions of trends and presentations of financial information included in this prospectus do not present a fully like-for-like comparison of our results of operations, financial position, changes in equity or cash flows as at or for the year ended 31 December 2006 as compared to our results of operations, financial position, changes in equity or cash flows as at or for the year ended 31 December 2005, or of our results of operations, financial position, changes in equity or cash flows for the six months ended 30 June 2007 as compared to our results of operations, financial position, changes in equity or cash flows for the six months ended 30 June 2006. As the acquired entities did not prepare financial information in accordance with US GAAP or IFRS for the periods prior to acquisition, it is not possible to present historical financial information in accordance with US GAAP or IFRS for these entities or pro forma financial information for the Group that reflects these acquisitions.

Each member of the Group incorporated in Russia prepares unconsolidated financial information in accordance with Russian Accounting Standards (“Russian GAAP”) for statutory and certain external reporting purposes. Prior to 1 January 2005, the Group transformed this Russian GAAP financial information to US GAAP for internal and other reporting purposes. From 1 January 2005, the Group transforms this Russian GAAP financial information to IFRS, and no longer produces US GAAP financial information. The US GAAP Annual Accounts are not comparable to the IFRS Accounts. US GAAP permits or requires different treatment of certain items than IFRS does, and application of the rules under one standard could yield materially different results in respect of a particular item than application of the other standard’s rules.

The US GAAP Annual Accounts also contain a significant departure from US GAAP. The Group carried its equity investments in its two associates held during the year ended 31 December 2004 based on its share in the fair value of the net assets of the companies at the balance sheet date, rather than using the equity method, as US GAAP requires, because the information necessary to apply the equity method and quantify and make any required adjustments could not reasonably be determined from the accounts kept by these associates under Russian GAAP, which were the only accounts kept by these associates for that period. As a result of this departure from US GAAP, Deloitte expressed a qualified opinion on the US GAAP Annual Accounts, as stated in their report appearing herein.

For the reasons set forth above, the US GAAP Annual Accounts are not comparable to the IFRS Accounts. Investors should not rely on the US GAAP Annual Accounts, or comparisons thereof with the IFRS Accounts, in determining whether to make an investment in the Shares or GDRs. The US GAAP Annual Accounts have been included herein solely for the purpose of satisfying the requirements of the FSA under the Prospectus Rules.

See “Risk Factors—Risks Relating to Our Financial Condition—Non-comparability of the US GAAP Annual Accounts with the IFRS Accounts, and its acquisition of controlling stakes in several operating subsidiaries in 2006, limit the comparability of NCSP’s financial information and its usefulness for identifying long-term trends in NCSP’s business and evaluating its prospects.”

Rounding Information

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

CERTAIN REFERENCES

References to the Group and its Members

Unless the context otherwise requires, all references in this prospectus to “NCSP” are to Public Joint Stock Company Novorossiysk Commercial Sea Port and all references in this prospectus to “we,” “our,” “us” and the “Group” refer collectively to NCSP and its consolidated subsidiaries. In this prospectus, all references to:

- “Baltic Stevedore Co.” are to Limited Liability Company Baltic Stevedore Company;
- “IPP” are to Open Joint Stock Company IPP;
- “Kuban Security” are to Limited Liability Company Kuban Security Services;
- “NCSP Fleet” are to Public Joint Stock Company Fleet of Novorossiysk Commercial Sea Port;
- “NLE Timber & Container Terminal” are to Open Joint Stock Company Novoroslesexport;
- “NR Air” are to NR Air Ltd;
- “NSRZ Ship Repair Yard” are to Open Joint Stock Company Novorossiysk Ship Repair Yard;
- “NZT Grain Terminal” are to Public Joint Stock Company Novorossiysk Grain Terminal;
- “TPS” are to Public Joint Stock Company TPS Investment Company;
- “Zarubezhneft” are to Open Joint Stock Company Novorossiysk Port Complex Zarubezhneft.

References to Countries and Regions

In this prospectus, all references to “Russia” are to the Russian Federation, all references to “US” are to the United States of America, all references to “UK” are to the United Kingdom and all references to the “EU” are to the European Union and its member states as at the date of this prospectus. All references to “CIS” are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

References to Units of Measure

In this prospectus, all references to “tonnes” are to metric tonnes, and one metric tonne is equal to 1,000 kilograms, and all references to “TEU” are to the volume equivalent occupied by one international standard twenty-foot container. All references to the weight of containers assume that one container weighs 14 tonnes, and all references to the weight of timber and/or timber products assume that 1 m³ of timber and/or timber products weighs 0.55 tonnes.

PRESENTATION OF INDUSTRY AND MARKET DATA

Throughout this prospectus, we have reproduced industry and market data, such as statistics in respect of sales volumes and market share, extracted from official and industry sources and other third party sources we believe to be reliable. Such information, data and statistics may be approximations or estimates or use rounded numbers. Throughout this prospectus, we have also set forth certain statistics, including statistics in respect of cargo volumes and market share, from industry sources and other sources that we believe to be reliable. In particular, we have relied on industry and market data and analysis set forth in:

- “The Russian Maritime Sector”, a report dated 17 August 2007 and prepared for us by Global Insight Inc. (“Global Insight”), an industry consultancy firm, and the Institute of Shipping Economics and Logistics (“ISL”), an industry and consulting institute (the “Global Insight/ISL Report”); and
- the “Overview of Cargo Shipments through Russian, Baltic and Ukrainian Ports in 2006” and the “Overview of Cargo Shipments through Russian, Baltic and Ukrainian Ports in the first half of 2007”, prepared by the Association of Sea Ports, a Russian industry trade group (together, the “ASOP Overview”).

We confirm that this information has been accurately reproduced and that as far as we are aware and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Nevertheless, prospective investors are advised to consider third party information with caution. Third-party information included in this prospectus has not been independently verified nor has there been any investigation of the validity of the methodology of or the basis used by the third parties in producing such data or making estimates and forecasts. In particular, market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. See “Cautionary Note regarding Forward-Looking Statements.” Accordingly, there can be no assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

NCSP has included its own estimates, assessments, adjustments and judgements in preparing some market information, which has not been verified by an independent third party.

In addition, some of the information contained in this prospectus, including without limitation certain information sourced to third parties in “Industry Overview” and elsewhere in this prospectus, has been derived from the official data of Russian government agencies, such as the Central Bank of the Russian Federation (“CBR”) and the Federal State Statistics Service (“Rosstat”), and government agencies of Ukraine and other countries referred to in this prospectus. The official data published by Russian federal, regional and local governments, and the governments of such other countries, are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. As a result, any discussion of matters relating to Russia or such other countries in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, to the extent that information obtained from private third party sources, including without limitation certain information sourced to third parties in “Industry Overview” and elsewhere in this prospectus, is based on official data released by Russian federal, regional and local government agencies, or government agencies of such other countries, it will also be subject to the same uncertainty.

CURRENCIES AND EXCHANGE RATES

In this prospectus, references to “US dollars,” “USD” or “\$” are to the currency of the United States, references to “roubles” or “RUB” are to the currency of the Russian Federation and references to “Euro” are to the currency of the member states of the European Union participating in the European Monetary Union.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the rouble and the US dollar, based on the official exchange rate quoted by the CBR. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

<u>Years ended 31 December</u>	<u>Roubles per US dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Period end</u>
2002	31.86	30.14	31.36	31.78
2003	31.88	29.25	30.67	29.45
2004	29.45	27.75	28.81	27.75
2005	29.00	27.46	28.31	28.78
2006	28.48	26.18	27.14	26.33
<u>Periods in 2007</u>				
First Quarter	26.58	25.97	26.30	26.01
Second Quarter	26.05	25.69	25.86	25.82
Third Quarter	25.84	24.95	25.50	24.95
October	25.05	24.69	24.89	24.72

(1) The average of the exchange rates for each business day during the relevant period.

Unless otherwise indicated, certain US dollar amounts set forth in the prospectus have been converted from roubles at the rate of RUB25.82 per US\$1.00, which was the rate quoted by the CBR on 30 June 2007. The exchange rate between the rouble and the US dollar quoted by the CBR on 2 November 2007 was RUB24.68 per US\$1.00.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

The presence of NCSP and the Selling Shareholder outside the United States and the United Kingdom may limit investors' legal recourse against us. NCSP is incorporated under the laws of the Russian Federation and Kadina Limited, the sole corporate Selling Shareholder, was incorporated under the laws of the British Virgin Islands. The Selling Shareholder is registered outside the United States and the United Kingdom and has its principal office in the British Virgin Islands and all our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. Almost all our assets and the assets of the Selling Shareholder and our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation.

As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us, the Selling Shareholder or its or their respective directors and executive officers or to enforce US or UK court judgements obtained against us, the Selling Shareholder or our or their respective directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of US securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgements in civil cases exists between the Russian Federation and the country in which the judgement is rendered, or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgements.

There is no treaty between the United States or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgements in civil and commercial matters, and the Russian Federation has adopted no such federal law. However, we are aware of at least one instance in which Russian courts have recognised and enforced an English court judgment, on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may significantly delay the enforcement of such judgement. In addition, Russian courts have limited experience in the enforcement of foreign court judgements. Moreover, under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court, and the amounts in many instances depend on the amount of the relevant claim. These limitations may limit effective legal recourse for claims related to your investment in the Shares or the GDRs.

Under the terms of the Deed Poll and the Deposit Agreement (as defined in "Terms and Conditions of the Global Depositary Receipts"), owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreement or any transaction contemplated therein, the Shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the LCIA (formerly, the London Court of International Arbitration) in proceedings in London, England, as more fully described in the Deposit Agreement. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including (i) limited experience of Russian courts in international commercial transactions, (ii) official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, (iii) legal grounds (for example, the concept of "public order") and/or technical grounds (for example, the lack of capacity of the parties or the invalidity of an arbitration clause) and (iv) corruption and/or Russian courts' inability to enforce such orders.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are “forward-looking” within the meaning of Section 27A of the Securities Act and Section 21E of the US Securities Exchange Act of 1934 (the “Exchange Act”). Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “will,” “may,” “should” and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear in a number of places in this prospectus including, without limitation, “Risk Factors,” “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Industry Overview”, and include statements regarding:

- strategies, outlook and growth prospects;
- future plans, expectations, projections and potential for future growth;
- plans or intentions relating to acquisitions;
- future revenues and performance;
- integration of our businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for our services;
- economic outlook and industry trends;
- developments of our markets;
- the impact of regulatory initiatives;
- our competitive strengths and weaknesses; and
- the strengths of our competitors.

The forward-looking statements in this prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management’s examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and which are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in political, social, legal or economic conditions in Russia, including significant changes in Russia’s gross domestic product (“GDP”);
- changes in the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, government ministers and their offices and the Prosecutor General and his office;
- changes in the policies or leadership of the local and regional governments in the Russian cities and regions in which we operate;
- economic and political developments in regions such as North Africa and the Middle East which import grain, timber, metals and other products from Russia through the port of Novorossiysk (the “Port”);
- global business and economic conditions, and the impact of Russian accession to the World Trade Organisation;
- our ability to negotiate with the Federal Tariff Service (“FTS”) increases in the tariffs we charge our customers;
- increased rail or pipeline tariffs, truck shipping costs or other costs of transporting cargo by land to and from the Port;
- disruptions in services provided by, or deterioration of, Russia’s rail, road or pipeline infrastructure;

- disruptions in or restrictions on ships' passage through the Turkish Straits;
- the ability of members of the Organisation of Petroleum Exporting Countries ("OPEC") and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- other actions taken by major crude oil producing or consuming countries;
- increased interest rates and operating costs, including any increase in rental rates charged by the government for the land and hydrotechnical equipment we lease from the government, or in prices charged by third party providers of goods and services;
- adverse weather conditions on the Black Sea;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our ability to implement successfully any of our business strategies;
- our ability to obtain necessary regulatory approvals;
- changes in customer preferences;
- our ability to identify properties to acquire and successfully complete acquisitions and developments;
- changes in the regulation of our business and the environment;
- competition in the marketplace;
- changes in VAT or other tax rates;
- changes in accounting standards or practices;
- inflation, fluctuation in exchange rates and the availability of foreign currencies; and
- our success in identifying other risks relating to our business and managing the risks of the aforementioned factors.

The foregoing list is not exhaustive. Investors should carefully consider such factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Except to the extent required by law or any appropriate regulatory authority (including under the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules), neither we, nor any of our agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this prospectus.

Investors should not place undue reliance on forward-looking statements. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. All forward-looking statements attributable to NCSP, its management or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements and risk factors contained throughout this prospectus.

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY.....	1
RISK FACTORS	8
THE OFFERING.....	33
USE OF PROCEEDS	37
DIVIDEND POLICY	38
CAPITALISATION.....	39
SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER INFORMATION.	40
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	43
INDUSTRY OVERVIEW	66
BUSINESS.....	74
REGULATION	97
MANAGEMENT.....	103
RELATED PARTY TRANSACTIONS	110
PRINCIPAL AND SELLING SHAREHOLDERS	113
DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION	114
TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS.....	131
SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM .	149
TAXATION.....	151
PLAN OF DISTRIBUTION	163
SETTLEMENT AND DELIVERY	167
INFORMATION RELATING TO THE DEPOSITARY.....	170
LEGAL MATTERS.....	171
INDEPENDENT AUDITORS	171
GENERAL INFORMATION	172
INDEX TO FINANCIAL STATEMENTS.....	F-1

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SUMMARY

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our financial statements and the accompanying notes beginning on page F-1. Any decision to invest in the Shares or GDRs should be based on consideration of this prospectus as a whole, and not solely on this summarised information. Certain statements in this prospectus include forward-looking statements that also involve risks and uncertainties.

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

Overview

We are a multi-purpose Russian stevedoring and port services company and Russia's largest commercial sea port operator, according to the ASOP Overview. We are Russia's key Southern gateway for shipment of a wide range of Russian export and import cargoes, handling approximately 20% of Russia's export and import volume shipped via sea port during 2006, according to the ASOP Overview. Our multi-purpose facilities give us the capability to handle cargoes shipped by any of the four main modes for seaborne cargo transport—liquid, dry bulk, general cargo and containers—and sufficient flexibility to react rapidly to changes in the mix of cargoes we handle.

We operate primarily at the Port of Novorossiysk (the "Port"), a multi-purpose, year-round, deep-water port located on the Russian shore of the Black Sea which has a number of geographic, topographic and infrastructure advantages in comparison to ports, and potential port sites, in the Black Sea-Azov basin. The Group includes the six largest stevedore and port services companies at the Port, which together handled approximately 97% of the cargo volume shipped through the Port in 2006, according to the ASOP Overview. In addition, we have a stevedore operation specialising in container cargo at the port of Baltiysk, on the Baltic Sea in Russia's Kaliningrad Region.

The Port is Russia's largest sea port in terms of cargo volume according to the ASOP Overview, and in 2005 it was Europe's fifth largest commercial sea port by cargo volume, according to the Global Insight/ISL Report. The Port is one of the few Russian sea ports in the Southern Basin, formed by the Black Sea and Azov Sea. Together with the Northwest Basin of the Baltic Sea and White Sea, and the Far East Basin along Russia's Pacific coast, the Southern Basin is one of only three commercially viable gateways for passage by ship between Russia and the open seas.

The Port's relative proximity to the world's major foreign markets makes it an expedient outlet for shipment of cargoes from or to southern and central Russia, including the Urals and the Volga Region, as well as Central Asia. For example, the voyage from Southeast Asia to cargo destinations in southern and central Russia via Novorossiysk is approximately eight days shorter than the route via the Rotterdam/Hamburg-St. Petersburg corridor.

A developed transport hub in Novorossiysk connects our facilities at the Port to railroad and highway networks providing access to the major industrial, agricultural and population centres and other key cargo origins and destinations in southern and central Russia and Central Asia. Subject to congestion and capacity limitations, this transport infrastructure allows the shipment of high, stable volumes of export and import cargoes through our facilities at the Port.

The Tsemesskaya Bay, on which the Port is located, does not freeze in winter, which permits year-round navigation without the use of ice-breakers, allowing us to operate our Port facilities continuously. In addition, the Port's system of sea walls and breakwaters buffers its harbour sufficiently to allow our Port facilities to operate during all but the strongest storms each year.

Our consolidated revenue and profit amounted to US\$197.9 million and US\$28.5 million, respectively, for the six months ended 30 June 2007, and US\$277.3 million and US\$44.1 million, respectively for the year ended 31 December 2006. As at 30 June 2007 and as at 31 December 2006, we had total consolidated assets of US\$1,322.6 million and US\$1,296.9 million, respectively.

Our Restructuring

On 14 June 2006, we acquired controlling interests in IPP, NCSP Fleet and NLE Timber & Container Terminal (in which NCSP had held interests up to that date), and controlling interests in NZT Grain Terminal and NSRZ Ship Repair Yard, gaining a near monopoly over stevedoring operations at the Port. In the same year, NCSP also bought a controlling interest in Baltic Stevedore Co., a stevedore company at the Port of Baltiysk in the Kaliningrad region on the Baltic Sea. These interests were purchased from U.F.G.I.S. Structured Holdings Limited which, acting as principal, had acquired these interests from a number of private shareholders.

Our Business

We operate principally in the following areas:

- NCSP provides a full range of stevedoring services, including handling of oil and oil products, other liquid cargo, dry bulk cargo, general cargo and containers.
- IPP operates a high-speed complex for handling of liquid cargoes, including oil products and liquid fertiliser.
- NLE Timber & Container Terminal provides cargo handling and storage services for containers and timber products and other general cargo.
- NZT Grain Terminal operates a high-speed grain storage and handling terminal.
- NSRZ Ship Repair Yard handles ferrous and non-ferrous metal products, other general cargo and provides ship repair services to vessels calling at the Port, including vessels from the Russian Navy's Black Sea Fleet, and generates electricity for its own use and sale to third parties.
- NCSP Fleet provides tug, towing and mooring services, as well as bunkering services, and also provides emergency, hazardous materials response and waste management services at the Port.
- Baltic Stevedore Co. provides stevedoring services for container cargo at the port of Baltiysk on the Baltic Sea in Russia's Kaliningrad Region.

Competitive Strengths and Strategy

Competitive Strengths

- Our multi-purpose stevedoring facilities are capable of efficiently handling a broad mix of cargoes transported in Russian seaborne trade, and allows us to react sufficiently quickly to changes in this cargo mix, which makes us a vital link in the logistics chain for, and a reflection of, Russian imports and exports.
- We are the largest port operator in Russia in terms of cargo volume, according to the ASOP Overview, and our large-scale stevedoring operations, and our leading market position at the Port, give us significant economies of scale.
- Our facilities at the Port are situated in a geographically advantageous location in relation to many major cargo origins and destinations in Russia and the CIS, and in relation to many key markets for Russian and CIS imports and exports.
- Extensive rail, highway and pipeline links provide many key Russian and CIS exporters and importers with convenient access to our facilities at the Port.
- We have a strong competitive position in relation to other Russian ports, other ports on the Black Sea and other port operators in Novorossiysk.
- We have cooperative relationships with State-owned transport enterprises such as OAO Russian Railways ("Russian Railways"). In addition, over the past 15 years, we have benefited from what we consider to be a reasonable and balanced regulatory environment for natural monopolies (which include NCSP).
- Our management team has extensive experience in port operations, business management and corporate development, and provides us with strong strategic leadership.
- We hold long-term leases on many of the key assets (including berths and piers, which cannot be privatised under Russian law) we use in our operations, which give us secure tenure as an operator at the Port and supports our ability to plan for and invest in the long-term.

Strategy

A combination of rising Russian export and import volumes and relative underinvestment in Russian port and related ground transportation infrastructure has led to increasing congestion through Russian ports. We believe this development presents a growth opportunity for Russian port operators that can efficiently increase their capacity and operational efficiency. We intend to take advantage of this opportunity by investing in new and existing facilities, optimising our mix of cargo specialisations and services, and participating in initiatives to alleviate congestion in the ground transportation infrastructure leading into the Port.

- We will make capital investments to modernise, expand and enhance the efficiency of existing facilities and build new facilities in order to increase our capacities for, and our volumes of, profitable cargoes.
- In addition to our capital investment programme, we will seek to increase capacities and throughput volumes and reduce warehousing and demurrage time in ways that do not require significant capital expenditures.
- We intend to continue optimising our mix of cargo handling capabilities and the other services we offer based on competitive advantages arising from the quality of our facilities and our pricing power.
- We will seek to improve our throughput capacity by participating in a government initiative to modernise and expand the Novorossiysk transport hub in order to improve and ease congestion on the rail and highway infrastructure by which cargoes are transported to our facilities at the Port from key cargo origins and destinations.
- We will seek to reap further benefits flowing from our 2006 restructuring, including increased costs savings, elimination of duplicative services, improved efficiency of operating assets and greater specialisation of services we offer.
- We will continue to explore opportunities to expand through selective acquisition of other Black Sea and Russian stevedoring operators and further consolidation of our port operations business.
- We will seek to capitalise on opportunities which we identify as arising from external events which may affect our business.

Risk Factors

An investment in the Shares and GDRs is subject to risks relating to our business and industry, economic, political, social and legal risks relating to the Russian Federation and risks arising from the nature of the Shares and the GDRs and the markets upon which they are expected to be traded, including the following:

- our profitability depends primarily upon the maximum tariff rates that the Russian federal government allows us to charge for our regulated services, as well as our ability to obtain permission to increase the maximum tariff rates in response to increased demand or increased costs;
- most of our stevedoring facilities are operating at or near capacity, and any inability to conduct the operation of these facilities may result in the loss of customers or we may incur costs that we are not able to pass on to customers, which would adversely affect our profitability and prospects;
- we may be unable to maintain or increase the capacity of our facilities to the extent or on the timetable contemplated by our investment programme if cash flows from operating activities are substantially lower than anticipated or if we are unable to raise additional cash through our financing activities;
- the deterioration of Russia's rail, road and pipeline infrastructure servicing our facilities could lead to disruptions in cargo volumes to and from our facilities;
- NCSP is effectively controlled by its principal shareholders, who will continue to have a significant interest in NCSP after the Offering, and whose interests may conflict with those of the holders of Shares or GDRs;
- our ability to realise our strategy to increase the volume of bulk cargoes and containers we handle is dependent upon the expansion of rail and road links into Novorossiysk, which in turn depends upon the timely development of the Novorossiysk transport hub, continued federal and regional government support for that project and the cooperation of Russian Railways, the Russian railway monopoly;

- our ability to raise equity capital may be significantly constrained insofar as a new issuance of shares can not dilute the holdings of the Russian Federal Agency for the Management of Federal Property (“FAMFP”), which owns 20% of our shares, and may be limited by contractual obligations under our loan agreements;
- our lack of a fully integrated information system for the preparation of IFRS financial statements, and the reliance on an outside consultant for the preparation of our IFRS consolidated financial statements, may adversely impact our ability to prepare accurate financial information;
- we may be subject to liability for back taxes and related interest and penalties;
- limitations of voting rights in respect of the Shares represented by the GDRs by the terms of the Deposit Agreement and the Deed Poll for the GDRs and relevant requirements of Russian law;
- absence of a prior active public trading market for the Shares or GDRs, as a result of which the Offering may not result in an active or liquid market for the Shares and GDRs, and so their price may be highly volatile; and
- holders of Shares may be unable to deposit such Shares in the GDR programme in order to receive GDRs.

The foregoing is not a comprehensive list of the risks and uncertainties to which NCSP is subject.

Securities Offered

The Selling Shareholder is offering 3,375,156,114 Ordinary Shares of NCSP in the form of Shares and GDRs. The Selling Shareholder has also granted to the Joint Global Coordinators the Over-allotment option, exercisable within 30 days of the announcement at the Offer Price, to purchase up to an additional 356,717,250 Ordinary Shares in the form of GDRs at the Offer Price, solely to cover over-allotments, if any, and/or short positions relating to stabilisation activities. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The Shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

Use of Proceeds

We will not receive any of the proceeds from the sale of the Shares and the GDRs offered by the Selling Shareholder. The Selling Shareholder will receive all of the net proceeds from the Offering, which, after deducting the underwriting commissions and estimated fees and expenses of approximately US\$5.1 million incurred in connection with the Offering, are expected to be approximately US\$824.4 million assuming no exercise of the Over-allotment Option, or approximately US\$912.0 million assuming that the Over-allotment Option is exercised in full.

Summary Historical Consolidated Financial and Other Information

The summary consolidated financial information as at 30 June 2007 and for the six months ended 30 June 2007 and 30 June 2006 and as at and for the years ended 31 December 2006 and 2005 presented below has been extracted without material adjustment or derived from, and should be read in conjunction with, the audited IFRS Annual Accounts and the unaudited IFRS Interim Accounts, including elsewhere in this prospectus.

The summary consolidated financial information as at and for the year ended 31 December 2004 presented below has been extracted without material adjustment or derived from, and should be read in conjunction with, the audited US GAAP Annual Accounts including elsewhere in this prospectus.

The audited US GAAP Annual Accounts contains a qualified opinion relating to the accounting of investments in common stock, as discussed in note 22 to the US GAAP Annual Accounts.

The IFRS financial information set forth in this prospectus as at 30 June 2007 and for the six months ended 30 June 2007 and 2006 and as at and for the years ended 31 December 2006 and 2005, is not comparable with the US GAAP financial information as at and for the year ended 31 December 2004.

	For the six months ended 30 June (unaudited)		For the year ended 31 December	
	2007	2006	2006	2005
	('000s of US dollars)			
<i>IFRS Consolidated Income Statement Data</i>				
Revenue	197,932	98,032	277,277	189,246
Cost of services	(111,595)	(52,934)	(172,897)	(101,997)
Gross profit	86,337	45,098	104,380	87,249
Selling, general and administrative expenses	(30,565)	(11,362)	(33,979)	(20,540)
Operating profit.	55,772	33,736	70,401	66,709
Share of profit of associates	—	3,011	3,065	2,500
Investment income	432	3,015	4,542	6,906
Finance costs	(24,313)	(1,699)	(22,703)	—
Other income/(expenses), net	6,311	(9,416)	1,813	2,099
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	2,890	607	618	—
Profit before income tax	41,092	29,254	57,736	78,214
Income tax	(12,549)	(6,915)	(13,647)	(20,935)
Profit for the period	28,543	22,339	44,089	57,279
Attributable to:				
Equity shareholders	28,133	22,339	44,469	57,279
Minority interest	410	—	(380)	—
	As at 30 June (unaudited)		As at 31 December	
	2007	2006	2006	2005
	('000s of US dollars)			
<i>IFRS Consolidated Balance Sheet Data</i>				
Property, plant and equipment.	693,634	664,166	334,343	
Goodwill.	465,969	456,856	—	
Cash and cash equivalents.	50,619	37,037	43,915	
Total assets.	1,322,602	1,296,878	589,495	
Long-term debt.	516,920	482,297	500	
Short-term debt.	16,498	60,400	284	

	For the six months ended 30 June (unaudited)		For the year ended 31 December	
	2007	2006	2006	2005
	('000s of US dollars)			
<i>IFRS Consolidated Statement of Cash Flows Data</i>				
Net cash generated by operating activities	59,029	35,248	82,856	78,398
Net cash used in investing activities	(38,802)	(429,991)	(539,931)	(97,322)
Net cash (used in)/generated by financing activities . . .	(1,658)	428,578	446,456	(9,995)

	For the year ended 31 December 2004 (‘000s of US dollars)
<i>US GAAP Consolidated Statement of Operations Data</i>	
Revenue	166,812
Cost of services (exclusive of depreciation shown separately below)	(55,335)
General and administrative expenses	(26,874)
Depreciation.....	<u>(21,345)</u>
Operating income	63,258
Interest income	2,534
Other expenses, net	(1,332)
Foreign currency transactions losses	<u>(4,202)</u>
Income before income tax.....	60,258
Income tax expense	(18,265)
Income from equity method investees.....	<u>3,393</u>
Net income.....	45,386

	As at 31 December 2004 (('000s of US dollars)
<i>US GAAP Consolidated Balance Sheet Data</i>	
Property, plant and equipment, net	225,527
Cash and cash equivalents	75,519
Total assets	422,501
Long-term loans from related parties	411
Short-term loans from related parties	360

	For the year ended 31 December 2004 (('000s of US dollars)
<i>US GAAP Consolidated Statement of Cash Flows Data</i>	
Net cash provided by operating activities	71,770
Net cash used in investing activities	(27,140)
Net cash used in financing activities	(9,638)

	For the six months ended 30 June		For the year ended 31 December	
	2007	2006	2006	2005
<i>Summary Operating and Other Information</i>				
Total cargo volume ('000s of tonnes)	39,051	40,001	80,928	80,131
EBITDA ('000s of US dollars) ⁽¹⁾	89,892	44,418	119,075	105,357

- (1) EBITDA represents profit for the period before finance costs, income tax and depreciation and amortisation. Depreciation and amortisation are components of both cost of services and selling, general and administrative expenses in the IFRS Accounts. EBITDA is not a measure of financial performance under IFRS or US GAAP. You should not consider EBITDA as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations and an indicator of our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Reconciliation of EBITDA to profit for the periods indicated is as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2007	2006	2006	2005
	('000s of US dollars)			
Profit for the period	28,543	22,339	44,089	57,279
Income tax	12,549	6,915	13,647	20,935
Finance costs	24,313	1,699	22,703	—
Depreciation and amortisation	<u>24,487</u>	<u>13,465</u>	<u>38,636</u>	<u>27,143</u>
EBITDA	89,892	44,418	119,075	105,357

RISK FACTORS

An investment in our Shares or GDRs involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this prospectus before making a decision to invest in the Shares or GDRs. Any of the following risks, individually or together, could adversely affect our business, financial condition and results of operations, in which case the trading price of our Shares and GDRs could decline and you could lose all or part of your investment.

We have described the risks and uncertainties that we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties of which we are currently not aware or which we deem immaterial may also have an adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Business

Our profitability depends upon the maximum tariff rates that the Russian federal government allows us to charge for our regulated services, as well as our ability to obtain permission to increase the maximum tariff rates in response to increased demand or increased costs.

Tariffs from the provision of stevedore services generate the bulk of our revenue. The FTS regulates the maximum and minimum tariff rates that each member of the Group can charge for cargo handling and certain related services, including certain warehousing and other storage services. Although the FTS has the power to review maximum tariff rates on its own initiative, as a matter of practice it does not do so, and has not done for several years. Instead, the FTS considers adjusting maximum tariff rates upon application by the relevant member of the Group. There is no limit on the frequency with which the members of the Group may apply for adjustments in their maximum tariff rates. Applications must set out the factors and calculations justifying the requested increase and provide certain supporting documentation, however, there is no mandatory formula for determining the amount of the proposed maximum tariff rate, and the FTS may deny, challenge or adjust our requested maximum tariff rate if the FTS deems the rate too high. See “Regulation—Tariff Regulation.”

In the first half of 2007, we significantly reduced all material tariff discounts, and we now charge the maximum permitted tariff rate for our stevedoring and related services. Accordingly, in order to increase the tariffs for any of our cargoes, we would have to apply to the FTS for an increase in our maximum tariffs. If we were to experience a rapid and/or unanticipated increase in our costs, our profitability may be adversely affected unless and until increased maximum tariffs are approved. Similarly, we would not be able to take advantage of our leading market position at the Port by increasing our maximum tariff rates in response to increased demand without FTS approval. There can be no assurance that the FTS will respond promptly to any request we may make to increase our maximum tariff rates, or at all. Moreover, the FTS may pursue policy objectives which are inconsistent with our requests for increased rates, and accordingly there can be no assurance that the FTS will grant any request we may make, in whole or in part. In case of any such delay in or refusal to grant our request for increased maximum tariffs, the profitability of and operating cash flows from our stevedoring businesses may be adversely affected.

Most of our stevedore facilities are operating at or near capacity, and any inability to conduct the operation of these facilities may result in the loss of customers or may incur costs that we are not able to pass on to customers, which would adversely affect our profitability and prospects.

Handling export cargoes requires us to unload cargoes from rail cars, trucks, and other means of ground transportation, transport them to storage (if required), transport them to dockside stevedoring facilities and load them onto vessels. This logistics chain applies in reverse to imported cargoes. Most of our stevedoring facilities are operating at or near their capacity for such operations and we expect that global demand for Russian and other CIS exports, and Russian demand for imports, will continue to increase. Any difficulties operating our logistics chain smoothly may result in an inability to accommodate our cargo volumes without significantly increasing costs or delays. For example, in September 2007 Russian Railways imposed short-term bans on ferrous metal shipment to NCSP and certain of its subsidiaries due to unloading delays in the port. Among other things, we may have to move excess cargo volumes into storage facilities, and if the capacity of such facilities is exhausted, excess cargo volumes may have to remain on board vessels or ground transportation until storage space becomes available. Congestion in our logistics chain may thus also lead to increased rail demurrage and/or vessel berthing times.

We have historically been able to exercise bargaining power with expeditors and shippers so that we do not bear storage, demurrage and other similar costs. However, increased costs or delays in shipping through our facilities could cause some expeditors and shippers to transport their goods through other ports, which could adversely affect our results of operations and our growth prospects. Also, to the extent that we are or become unable to pass along storage, demurrage or other such costs to our counterparties, our profitability may be adversely affected.

We may be unable to maintain or increase the capacity of our facilities to the extent or on the timetable contemplated by our investment programme.

In order to achieve our objective of increasing our capacity to 112 million tonnes of cargo per annum by 2011, we expect to have to make significant capital expenditures to maintain our facilities and expand our capacity, both through expansion of existing facilities as well as through construction of new facilities. We have begun implementing a US\$700.0 million investment programme, of which approximately US\$362.5 million had been budgeted for specific projects and US\$182.5 million had been invested as at 30 June 2007. See “Business—Capital Investment Programme.” Successful completion of these projects is subject to a variety of uncertainties, including changes in economic conditions, delays in completion, cost overruns and defects in design or construction.

There can be no assurance that any of our projects will be completed on schedule or that our expected operational improvements will be fully realised as currently envisioned. We believe that our technological improvements are a key competitive advantage and a significant contributor to our profitability, and they are essential to the continued increase of our overall capacity to handle cargo. Any deferral or interruption in our capital investment projects could have a material adverse impact on our sales and results of operations. In addition, we may have to delay or abandon all or a portion of the remaining phases of one or more of our projects, and we may be unable to recover capital expenditures made in respect of such projects. The materialisation of any of the foregoing risks could have a material adverse effect on our financial condition, results of operations and prospects, or the trading price of the Shares and the GDRs.

We may be unable to fund our capital investment programme to completion if cash flows from operating activities are substantially lower than anticipated or if we are unable to raise additional cash through our financing activities.

Our ability to fund our capital investment programme will depend on our ability to generate cash inflows and to attract external financing, including debt financing. Our ability to generate cash inflows from operations is subject to the tariff risks discussed above, capacity constraints and other cargo volume risks discussed below, and general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond our control.

Our ability to arrange for equity or debt financing on commercially acceptable terms, or at all, and the costs of such capital is dependent on numerous factors, including general economic and capital market conditions, the availability of bank credit, rating agency ratings, investor confidence, the continued success of current projects and provisions of tax and securities laws which are conducive to raising capital in this manner. As of 30 June 2007, our non-current and current loans and borrowings were US\$533.4 million. Our ability to service, repay and refinance our indebtedness and to increase our level of indebtedness if necessary to finance our investment programme will depend on our ability to generate operating cash inflows in the future.

Our ability to obtain equity financing, in the international capital markets or otherwise, is subject to significant constraints in addition to general economic and market conditions. In particular, NCSP's ability to undertake any transaction which would effect a change in control or dilute the 20% shareholding of the Russian Federation in NCSP's share capital is restricted under the loan agreement dated 14 May 2007 between NCSP and Novorossiysk Port Capital S.A. in connection with the issue of US\$300.0 million Loan Participation Notes in May 2007. In addition, we are unable to sell shares or otherwise dilute the 20% shareholding of the Russian Federation because we are deemed to be a strategic enterprise by the State. In addition, our FSFM permit limits our ability to raise additional equity financing through GDRs. See “—Risks Relating to the GDRs, the Shares and the trading market—Following the Offering you may not be able to deposit the Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs”. Accordingly, any

failure to generate sufficient operating cash inflows or obtain adequate debt financing on commercially acceptable terms, may result in the delay or abandonment of all or a portion of the remaining phases of our investment programme, which could have a material adverse effect on our financial condition, results of operations and prospects, or the trading price of the Shares and the GDRs.

Deterioration of Russia's rail, road and pipeline infrastructure servicing our facilities could lead to disruptions in cargo volumes, which may adversely affect our financial condition, results of operations and prospects.

We depend on Russia's rail, road and pipeline infrastructure to deliver a substantial majority of our customers' products to and from our stevedoring facilities. Most of the oil we handle is delivered to our Sheskhari oil terminal via a pipeline owned and operated by the Russian state-owned pipeline company, JSC Transneft ("Transneft"). Transneft's pipeline system is reported to have high levels of leakage and poor maintenance. We also depend on the rail freight network operated by the Russian state-owned railway monopoly, Russian Railways, to transport cargoes between our facilities and Russian and other CIS exporters and importers. The Russian railway system is subject to acute risks of disruption as a result of the declining physical condition of its rail tracks and facilities, a shortage of rolling stock, the poor maintenance and propensity for breakdowns of such rolling stock and temporary brown-outs of electric current to rail lines, and may, potentially, be subject to disruptions due to train collisions. Similarly, we depend on Russia's highway system for the transport of cargoes to and from our facilities by road. The Russian highway system is likewise subject to risks of disruption as a result of its deteriorating physical condition as a result of increasingly heavy use, adverse weather conditions and poor quality and insufficient maintenance.

We won a tender to prepare, and have recently submitted, a feasibility study for the regional government programme to modernise and expand infrastructure of the Novorossiysk transport hub, including highways, railways and logistics automation. We believe that successful completion of the modernisation programme would improve the transport infrastructure leading into our facilities at the Port, easing congestion and improving our throughput capacity.

However, there can be no assurance that the Russian government will implement this infrastructure programme at all, or on the basis that we recommend. Any failure of Transneft to upgrade and expand its pipeline facilities, of Russian Railways to upgrade its rolling stock and expand its rail lines, or of the federal, regional and local governments to carry out necessary road repair, maintenance and expansion, could limit our growth opportunities or result in a constriction of cargo volumes that are or can be delivered to or from our facilities. If any of these circumstances arise, they could have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the Shares and GDRs.

Increased congestion or other disruptions in the Turkish Straits could adversely affect our business.

We rely on shipping lines to transport our customers' products 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. In addition, the Turkish Straits, and Istanbul and nearby population centres, have a history of maritime accidents, and are vulnerable to catastrophic events. Turkish authorities have expressed a concern that tankers carrying oil through the Turkish Straits could cause disruptive oil spills and environmental damage. Under the Montreux Convention of 1936, Turkish maritime authorities can check ships for sanitary conditions and safety and can charge tolls, but cannot stop their passage. Nevertheless, Turkey has sought to impose restrictions on commercial vessels, particularly those carrying cargoes deemed hazardous, including oil. In particular, Turkey requires that certain vessels maintain a certain distance from each other while in the Turkish Straits, and may prohibit more than one oil tanker passing through the Turkish Straits in either direction at a given time. Accordingly, it is possible that Turkish authorities could act to limit passage through the Turkish Straits or restrict the size or volumes of tankers passing through them. The imposition of such restrictions, or continued severe congestion, any maritime or environmental accident, oil spill or other catastrophic event, could adversely affect our financial condition, results of operations and prospects.

Although intergovernmental cooperation agreements have been signed or are under negotiation that would facilitate the construction of one or more oil pipelines from the Bulgarian Black Sea port of Bourgas to either the Aegean Sea or the Adriatic Sea, thereby alleviating the pressure on oil shipments

via the Turkish Straits, these projects are highly speculative and depend upon continued intergovernmental cooperation in a relatively volatile geopolitical region of the world, as well as the financial means and political will to finance and construct such pipelines. Furthermore, it remains unclear at this stage whether the new pipelines would operate in addition to or as a replacement for the volumes currently passing through the Turkish Straits. Moreover, our ability to increase oil handling volumes in response to any additional throughput capacity provided by such pipelines would depend upon Transneft (to the partial or entire exclusion of a viable alternative, such as the Caspian Pipeline Consortium) obtaining the right to supply Russian oil to be transported through the new pipeline. In addition, we would not be able to materially increase the capacity utilisation of the terminal unless Transneft increases the volumes it currently delivers to our terminal for shipment, which may require an increase in Transneft's pipeline capacity to the Port. We do not know and cannot determine the capacity of Transneft's pipeline to the terminal, and accordingly cannot assess whether an increase in Transneft's capacity would require construction of additional pipeline capacity to the Port, or expansion of Transneft's oil storage and pipeline facilities near the Port, or both.

Adverse weather conditions on the Black Sea could delay shipping operations and cause backlogs in the Port.

We must cease our vessel loading and unloading operations at the Port 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 from November through February. Such adverse weather conditions can delay our loading and unloading operations for vessels berthed at the Port, although during such periods we continue to unload cargo that arrives by rail or truck for storage in our warehouses. A protracted period of adverse weather conditions could result in backlogs, a shortage of available warehouse space and a lack of available cargo vessels, which could delay or disrupt our operations or affect our financial condition.

The volumes of oil, petroleum products and other commodities we handle are linked to global demand for such commodities, and a decrease in such demand could materially adversely affect our business, financial condition and results of operations.

We generate a significant part of our revenues from the shipment of certain commodities, including oil, petroleum products and other commodities, which are among the highest-volume cargoes exported from Russia and the CIS and exports of which, and demand for which, are particularly sensitive to changes in general economic conditions, both globally and in important export markets for such goods. As a result, if economic conditions deteriorate, the demand for such commodities may decrease, thus driving down export volume and, consequently, our shipment volumes of such commodities.

Although recent years have seen a significant rise in the value of Russian foreign trade, this primarily reflects higher commodity prices, and only secondarily an increase in physical trade volumes. Accordingly, whilst our cargo volumes and revenues may be affected by global and Russian economic growth and changes in prices for cargoes, particularly commodities, their sensitivity to these factors is limited. However, significant decreases in demand for Russian and CIS export commodities, and any related decline in domestic demand for imports in significant volumes, could lead to a reduction in cargo shipment volumes through our facilities at the Port, and by extension, a reduction in our revenues, and accordingly could have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the Shares and GDRs.

NCSP is effectively controlled by members of the families of Mr. Ponomarenko and Mr. Skorobogatko, who will continue to have a significant interest in NCSP after the Offering. These interests could conflict with those of the holders of Shares or GDRs.

The Group is ultimately controlled by members of the families of Mr. Ponomarenko and Mr. Skorobogatko. As a result of their controlling interests, the Group's principal shareholders have the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the Group's authorised share capital, the election of directors, declaration of dividends, the appointment of management and other policy decisions. Prior to the Offering, the principal shareholders beneficially owned 69.48% of the outstanding Ordinary Shares. Following the Offering, assuming no exercise of the Over-allotment Option, the principal shareholders will beneficially own 51.95% of the outstanding Ordinary Shares, or 50.10% assuming that the Over-allotment Option is exercised in full. The principal shareholders have granted Russian Railways a proxy to vote 16% of the Ordinary Shares, and therefore prior to the Offering control 53.48% of the voting rights of NCSP, and

following the Offering, assuming full exercise of the Over-allotment Option, will only have a 34.10% voting interest in NCSP. See also “Principal and Selling Shareholders”. The continued significant shareholdings of the principal shareholders in the Group may have the effect of making certain transactions more difficult or impossible without their support and may have the effect of delaying or preventing an acquisition or other change in control of us.

The interests of the controlling beneficial owners may also differ from the interests of other shareholders. For example, the Group’s subsidiaries have engaged in and continue to engage in transactions with related parties, including parties which are also ultimately controlled by these principal shareholders. See “Related Party Transactions.” Although we have adopted procedures for entering into transactions with related parties and generally comply with Russian corporate law requirements with regard to “interested party transactions”, conflicts of interest may arise between members of the Group, our affiliates and NCSP’s principal shareholders or their affiliates, resulting in the conclusion of transactions on terms that may not be in the best interests of investors.

Our success depends on our senior management team and other key personnel, as well as on highly skilled employees that may be difficult to hire and retain.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the services of our senior management team and other key personnel. Competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals. As a result, we may not be able to retain and attract qualified personnel to fill key positions. The loss or decline in the services of members of our senior management team or an inability to attract, retain and motivate qualified key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success also depends in large part on our ability to attract, train, motivate and retain highly skilled port operations professionals. We may be unable to continue to attract and retain the skilled employees we require and any inability to do so could adversely impact our ability to manage and complete our existing projects. The failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations. In addition, the resources required to attract and retain such personnel may adversely affect our operating margins.

We have recently undergone a restructuring in order to consolidate NCSP’s interests in its principal subsidiaries and continue to explore additional acquisition opportunities, and any failure to successfully integrate our operations could materially adversely affect our business, financial condition and results of operations.

In June 2006, NCSP acquired controlling interests in what are now its principal subsidiaries as part of a general restructuring of the Port’s six largest stevedoring operators. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Significant Acquisitions and Restructuring.” As a result, the Group has a limited history of operating as a consolidated business. Additionally, our strategy is to continue to explore opportunities to expand through selective acquisitions of other Black Sea and Russia stevedoring operators. The integration of newly acquired businesses may be difficult for a variety of reasons, including differing management styles and difficulty in establishing immediate control over cash flows. Inefficient integration of the assets and operations of the other Group companies under common control poses a risk to our operations. Any failure to successfully integrate the operations of Group companies could adversely affect our business, financial condition and results of operations.

We lease the land, berths, piers and other immovable property that we use in our operations from Russian federal and local governmental agencies, and any revision or alteration of the terms, or any termination or suspension, of these leases could materially adversely affect our business, financial condition or results of operations.

We have entered into lease agreements with the FAMFP and the local and municipal governmental agencies for the land plots, berths, piers and certain other immovable property that we use in our operations at the Port, as further discussed under “Business—Principal Lease Agreements.” We hold mainly long-term leases with terms up to forty-nine years expiring between June 2009 and December 2055, which we expect we will be able to renew on expiry, as well as a few one-year to five-year leases with unlimited renewal provisions.

We generally enjoy good relations with the relevant governmental authorities with respect to the leases, and we are not in default under any of these lease agreements. However, if any of the lease agreements

were to be revoked, suspended, amended or not renewed upon expiration of their terms, our operations and financial position and prospects may be adversely affected.

Accidents and oil spills at the Port could disrupt our business and operations.

A serious accident or oil spill at the Port or within our facilities could disrupt our business and operations during the repair or remediation period, which could negatively impact our financial results. In order to prevent any such accident or oil spill and to enhance our ability to mitigate and remediate any such accident or oil spill, we maintain 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, there can be no assurance that we will be able to resolve such incidents without damage to our facilities, contamination of the Port or other environmental damage, and any failure to avoid, mitigate or resolve such incidents successfully or any such damages or contamination could adversely affect our business, financial condition and results of operations.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our results of operations and we may be subject to environmental liabilities in connection with properties owned and/or leased by us.

Port operators in Russia, including us, are subject to various federal, regional and local environmental laws, ordinances and regulations which establish (1) requirements for obtaining specific permits and administrative approvals, (2) certain restrictions and encumbrances on the properties held and/or developed, and (3) liabilities for violations of environmental legislation, as well as for damage caused to the environment, including site contamination.

We believe that our current legal and regulatory compliance programmes adequately address these concerns and that we are in substantial compliance with applicable environmental laws and regulations. However, if our compliance with current and future environmental laws and regulations is challenged or we are deemed to have violated these requirements, remedying these violations could require material expenditures by us, which could materially adversely affect our business, financial condition and results of operations.

In addition, we may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a property owned or leased by us. In addition to these costs, which may be substantial, our ability to sell or lease the contaminated property or to borrow using such property as security may be substantially hindered. According to Russian law, we may be obligated to pay a government or State entity or third party for property damage and for the investigation and clean-up costs incurred by such parties in connection with the contamination. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site.

Any of these requirements, restrictions and liabilities could materially adversely affect our business, financial condition and results of operations.

We maintain the insurance coverage required by Russian law, which may be insufficient to cover our actual losses.

The insurance industry in Russia is not yet well developed, and many forms of insurance protection common in more economically developed countries are not yet available in Russia on comparable terms. For example, industrial companies in Russia must maintain mandatory liability insurance for damages caused as a result of exploitation of dangerous industrial objects and certain other similar types of insurance. We believe that we maintain adequate insurance policies with reputable insurance companies to cover our assets against natural perils and certain operational risks, although we do not have insurance policies covering damage to our vehicles, third-party liability insurance (except for the compulsory automobile liability insurance), or hazardous material accident insurance, to the extent such insurance is not required by Russian law. If our insurance coverage proves to be inadequate in covering our actual losses, our financial position and results of operations could be adversely affected.

We may be liable for damage or destruction of cargoes.

Although our contracts generally provide that we are liable for damage to or loss of cargo we handle, our liability is limited to the cargo value stated on the applicable customs declaration. Our contractual liability

for export cargo handling begins when the rail car or truck enters our territory at the Port and ends when the consignment is issued after having loaded the cargo onboard the vessel, and vice versa for import cargo handling. Our insurance against such liabilities is limited to third party liability insurance against damage to or destruction of the cargo up to its replacement value.

We are a major employer and taxpayer in Krasnodar Region, particularly so in Novorossiysk, which imposes substantial social obligations on us and may limit our ability to make rapid or significant reductions in the number of our employees.

As one of the largest private employers and taxpayers in Krasnodar Region, and by far the largest in Novorossiysk, we have been responsible for maintaining a portion of the social and physical infrastructure in and around the City of Novorossiysk. We estimate that our payments to the City accounted for a significant proportion of the City's total budget for the year ended 31 December 2006. We expect that the City of Novorossiysk will continue to rely on us for a substantial portion of its budget and that we will continue to maintain our current commitments in respect of social, employment and welfare infrastructure in the Novorossiysk area. In addition, many of our employees belong to trade unions, and in February 2007, NCSP signed a new collective bargaining agreement with all the trade unions to which our employees belong. See "Business—Employees." As a result, our ability to change the number of our employees may be subject to political and social considerations, as well as legal and contractual factors.

This substantial commitment of resources and inability to make rapid or significant reductions in the number of our employees reduces our ability to adjust our operations to respond to changes in market conditions. Our limited flexibility in terms of personnel and significant level of additional fixed resource commitments could have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the Shares or GDRs, or both.

The agreements that govern our debt instruments contain certain restrictions limiting our flexibility in operating our business.

The agreements that govern our debt instruments contain certain restrictions that limit or may limit our ability to, for example:

- borrow money;
- sell assets;
- make investments;
- engage in mergers or consolidations;
- enter into new lines of business;
- enter into transactions with affiliates other than on arm's-length terms; and
- pay dividends or make other distributions.

These restrictions could hinder our ability to carry out our business strategy and to make payments.

In addition, a breach of the terms of one or more of our debt instruments could cause a default under the terms of our other financing arrangements, causing all debt under those financing arrangements to become due. We cannot assure you that if the indebtedness were to be accelerated, our assets would be sufficient to generate the funds necessary to repay and service the indebtedness in full in satisfaction of our obligations thereunder. See "Risks relating to Our Business—We may be unable to fund our capital investment programme to completion if cash flows from operating activities are substantially lower than anticipated or if we are unable to raise additional cash through our financing activities".

Risks Relating to our Financial Condition

Non-comparability of the US GAAP Annual Accounts with the IFRS Accounts, and our acquisition of controlling stakes in several operating subsidiaries in 2006, limit the comparability of our financial information and its usefulness for identifying long-term trends in our business and evaluating our prospects.

Prior to 1 January 2005, the Group reported in Russian Accounting Standards ("Russian GAAP") for statutory and certain external reporting purposes and the Group converted these Russian GAAP financial statements to US GAAP for internal and other reporting purposes. From 1 January 2005, the Group

converts these Russian GAAP financial statements to IFRS, and no longer produces US GAAP financial statements. Russian GAAP financial statements continue to be produced for statutory purposes. US GAAP permits or requires different treatment of certain items than IFRS does, and application of the rules under one standard could yield materially different results in respect of a particular item than application of the other standard's rules.

The US GAAP Annual Accounts are not comparable to the IFRS Accounts. Investors should not rely on the US GAAP Annual Accounts, or comparisons thereof with the IFRS Accounts, in determining whether to make an investment in the Shares or GDRs. The US GAAP Annual Accounts have been included herein solely for the purpose of satisfying the requirements of the FSA under the Prospectus Rules.

In addition, on 14 June 2006, the Group grew substantially in size and scope due to NCSP's acquisition of a number of significant subsidiaries (NCSP Fleet, IPP, NLE Timber & Container Terminal (in which NCSP had held interests up to that date), NSRZ Ship Repair Yard, NZT Grain Terminal and Baltic Stevedore Co.). As at and for the period ended 31 December 2006, we had total assets of US\$1,296.9 million (an increase of 120.0% over 2005), revenues of US\$277.3 million (an increase of 46.5% over 2005) and net income of US\$44.1 million (a decrease of 23.0% from 2005). The purchased subsidiaries contributed US\$85.1 million to our revenue (or 30.7%) and US\$4.8 million to our profit before tax (or 8.3%) for the period from the date of acquisition to 31 December 2006. As these entities did not prepare financial information accordance with US GAAP or IFRS for the periods prior to acquisition, it is not possible to present historical financial information in accordance with US GAAP or IFRS for these entities or pro forma financial information for the Group that reflects these acquisitions.

The diversification and growth brought about by the acquisitions and restructuring have transformed our financial position, results of operations and prospects, as well as its business and strategic plan, in such a manner that the Group after the 2006 acquisitions and restructuring is no longer comparable to the Group as it existed in prior periods. Accordingly, it may not be possible to identify long-term trends and developments in NCSP's business from the financial information included in this prospectus, and the financial information contained in this prospectus may not be indicative of NCSP's financial condition or results of operations in the future, which increases the risk associated with an investment in the Shares. In evaluating NCSP's future prospects, investors should consider the risks, expenses, uncertainties and obstacles that it may face in implementing its strategy and in conducting its current and planned business.

Our accounting systems and internal controls may be inadequate to ensure accurate consolidated financial reporting, which could have a material adverse effect on our results of operations.

Our system of internal control over financial reporting is not yet designed for the preparation of consolidated IFRS financial statements. For example, we do not have integrated information systems; instead, NCSP and each of its principal subsidiaries has its own accounting platform, maintains its own accounting records and prepares separate financial statements under Russian GAAP for statutory purposes.

The preparation of IFRS consolidated financial statements is a manual process that involves the transformation of the statutory financial statements of NCSP and its subsidiaries into IFRS financial statements through accounting adjustments and a consolidation of the IFRS financial statements of each of NCSP and its subsidiaries. This process is complicated and difficult, and requires significant focus from our senior accounting personnel. We also place substantial reliance on an outside consultant to transform the Russian GAAP financial information of each of the Group Companies into IFRS and to prepare our IFRS consolidated financial statements. We have taken, and continue to take, steps to improve our accounting systems and internal controls, including the development and documentation of control procedures over the financial statements closing process. However, the foregoing factors may impair our ability to identify and rectify significant deficiencies or material weaknesses in our controls environment or errors resulting therefrom, and any failure to do so may have a material adverse effect on our financial condition, results of operations and prospects and on the value of the Shares and GDRs.

We are seeking to hire additional IFRS-experienced accounting staff and other personnel qualified in the area of financial reporting. However, there is an increasing demand for the small number of IFRS-experienced accounting personnel as more Russian companies begin to prepare financial statements on the basis of IFRS or other international standards. Such competition combined with the fact that most of our accounting functions are located near our facilities in Novorossiysk, a relatively small population centre in comparison to Russia's largest cities, may hinder our efforts to hire and retain key staff.

A lack of qualified accounting staff would substantially increase the difficulty in preparing our consolidated IFRS financial statements, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the value of the Shares or GDRs, or both.

Notwithstanding the above, we believe that our financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

Fluctuations in the value of the rouble against the US dollar may adversely affect our results of operation and financial condition.

The functional currency of the Group is the rouble whereas our presentation currency is the US dollar. Our tariffs for stevedore services are determined in US dollars, although we provide invoices in roubles at the CBR rate for our Russian customers and in US dollars for international customers. Sixty-five per cent. of our revenues for fiscal year 2006 were denominated in or linked to US dollars. The majority of our direct costs, including labour and transportation costs, are incurred in roubles, 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. The rouble appreciated in real terms against the US dollar by 11.8% in the first six months of 2007 over the corresponding period of 2006, by 10.7% in the full year 2006 over the corresponding full year 2005 and by 10.8% in the full year 2005, over the corresponding full year 2004, according to the CBR. In recent years the effect of the real appreciation of the rouble against the US dollar has been more than offset by increased prices for our services and the volume of cargo handled. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years Ended 31 December 2006 and 31 December 2005" and "—Results of Operations for the Six Months Ended 30 June 2007 and 30 June 2006". However, further real appreciation of the rouble against the US dollar may affect our results of operations.

Risks Relating to the Russian Federation

Political Risks

Political and governmental instability in Russia could materially adversely affect our business, financial condition and results of operations and the value of our Shares and GDRs.

Since 1991, Russia has sought to transform itself from a one party state with a centrally planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. In light of these conditions, the Russian public has largely supported increased centralised authority and renationalisation and governmental control of key industries. In addition, a failure of salaries and benefits to keep pace with the rapidly increasing cost of living or changes in government-funded benefits or perceived unfairness in the distribution of wealth could lead to social unrest in the future. Low birth rates and life expectancies in Russia are expected to result in significant declines in the population over the next few decades. These declines, combined with increasing immigration, could pose significant risks to political and social stability in Russia.

Current and future changes in the government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. In addition, the Russian presidential elections scheduled for 2008 could bring more volatility to the market. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition and results of operations and the value of our Shares and GDRs.

Conflict between federal and regional authorities and other domestic political conflicts could create an uncertain operating environment that would hinder our long-term planning ability and could adversely affect the value of investments in Russia.

The Russian Federation is a federation of 86 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in certain cases, military conflict and terrorist attacks in various regions of Russia. If such tensions escalate, significant political consequences could arise, such as the imposition of a state of emergency in some or all regions of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and could have a material adverse effect on our business, results of operations, financial condition and prospects.

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of Russia are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and you should consult with your own legal and financial advisors before making an investment in the Shares and GDRs.

Economic instability in Russia could adversely affect our business and investment plans.

Russia has recently experienced relatively sustained growth in its gross domestic product (“GDP”), improved success in tax collection and stability of the rouble, all of which have provided a certain degree of economic soundness. However, the sustainability of such trends cannot be assured, and if a downturn occurs, it may adversely impact our profitability. Any of the following risks, which the Russian economy has experienced at various times, may seriously change the investment climate in Russia and in turn burden our business operations with unforeseen costs:

- significant declines in GDP;
- hyperinflation;
- instability in the local currency market;
- high government debt relative to GDP;
- sudden price declines in the natural resource sector;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;

- widespread tax evasion;
- growth of “black” and “grey” market economies;
- pervasive capital flight;
- high level of corruption and extensive penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- high poverty levels among the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies, and resulted in the loss of bank deposits in some cases.

Recently, the Russian economy has experienced positive trends, such as increase in GDP, a relatively stable national currency, strong domestic demand, rising real wages and a reduced rate of inflation. However, there can be no assurance that these trends in the Russian economy will continue or will not be abruptly reversed. In addition, we tend to experience inflation-driven increases in certain of our costs, such as salaries, that are linked to the general price level in Russia. Moreover, any reductions in international oil and natural gas prices, the strengthening of the rouble in real terms relative to the US dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia’s economy and our business in the future.

Although economic conditions in the Russian Federation have been improving since 1999, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented or, if implemented, will be successful, that the Russian Federation will remain receptive to foreign investment, or that the economy of the Russian Federation will continue to improve. Any failure or reversal of the current policies of economic reform and stabilisation could have a material adverse effect on our business, results of operations, financial condition and prospects.

Fluctuations in the global economy could materially adversely affect the Russian economy and our business.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and businesses could face severe liquidity constraints, further materially adversely affecting these economies. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the rouble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets. If any of these events were to occur, it could severely limit our access to capital and could adversely affect the purchasing power of our customers and thus our business.

In particular, recent military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity prices. Any future military conflicts, acts of terrorism or natural disasters of sizeable magnitude could have an adverse effect on the international financial and commodities markets and the global economy.

Russia’s physical infrastructure is not in optimal condition, which could delay or disrupt our normal business activities.

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail, road and pipeline

networks, on which we are dependent for delivery of all of our customers' products to and from our facilities, as discussed more fully at "—Risks Relating to our Business—Deterioration of Russia's rail, road and pipeline infrastructure servicing our facilities could lead to a disruption in cargo volumes, which may adversely affect our financial condition, results of operations and prospects." Russia's power generation and transmission systems, communication systems and building stock are likewise affected. For instance, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted the ground electric transport, including the metro system, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted. In the winter of 2006, extremely low temperatures led to increased power usage, which posed a significant risk of overloading power grids and exceeded existing generation capacity. As a result, power usage by industrial and commercial consumers, including construction sites, was restricted to avoid power failures.

Although the government is actively considering plans to reorganise the nation's rail, electricity and telephone systems, any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in the Russian Federation and interrupt business operations, any of which could have a material adverse effect on our business, results of operations, financial condition and prospects.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated in comparison with other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. In addition, in 2004, the CBR revoked the licences of some Russian banks, which resulted in market rumours about additional bank closures and many depositors withdrawing their savings. Several privately owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

In recent years, Russian banks have significantly increased their lending operations, which many believe has been accompanied by a deterioration in the average quality of loan portfolios. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate rouble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There is currently a limited number of sufficiently creditworthy Russian banks. We hold the bulk of our excess rouble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

Social Risks

Crime and corruption could disrupt our ability to conduct our business and could materially adversely affect our financial condition and results of operations.

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Organised criminal activity has reportedly increased significantly since the dissolution of the Soviet Union, particularly in large metropolitan centres and with respect to a substantial increase in property crime in large cities. In addition, the Russian and international press have reported high levels of official corruption in Russia and the CIS, including the bribing of officials for the purpose of initiating investigations by state agencies. Press reports also have described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Our business could be adversely affected by illegal activities, corruption or by claims implicating us in illegal activities.

Social instability could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect our ability to conduct our business effectively.

The failure of the state and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing costs of living have led in the past, and could lead in the future, to labour and social unrest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes that included blocking major railroads. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, with restrictions on foreign involvement in the economy of Russia, and increased violence. Any of these could restrict our operations and lead to a loss of revenue, materially adversely affecting our business.

Risks Relating to the Russian Legal System and Russian Legislation

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our Shares and GDRs.

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system, many of which do not exist in countries with more developed market economies, create uncertainty with respect to the legal and business decisions that we make:

- inconsistencies between and among the Russian Constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- lack of an independent judiciary;
- corruption within the judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licences; and
- poorly developed bankruptcy procedures that are subject to abuse.

The laws in Russia regulating ownership, bankruptcy control and corporate governance of Russian companies are relatively new, and, by and large, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available, and antifraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to several fundamental Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much

Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, may result in ambiguities, inconsistencies and anomalies, the enactment of laws and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. For example, although the bankruptcy law establishes a procedure to declare an entity bankrupt and liquidate its assets, relatively few entities have been declared bankrupt in Russia, and many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors. All of these weaknesses could affect NCSP's ability to enforce its rights or to defend itself against claims by others.

Further, no assurance can be given that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not have a material adverse effect on foreign investors. These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of NCSP, potentially without adequate compensation, would have a material adverse effect on NCSP.

In addition, the State Duma has recently approved a Federal Law on Sea Ports in the Russian Federation and a Federal Law on Amendments to the Federal Law on Special Economic Zones and Certain Other Laws of the Russian Federation (together, the "New Laws"). See "Regulation—New Legislation on Sea Ports". The New Laws, which would come into effect if approved by the Federation Council and signed by the President, would establish a more unified regulatory framework for commercial sea ports in Russia and their commercial activities, and may significantly alter the existing regulatory regime. If approved in the present form, or any other form, the New Laws are likely to affect our business, and certain provisions of the New Laws may affect our business in ways which may be material, adverse, or both.

Many Russian laws are structured in a way that provides for significant administrative discretion in interpretation, application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and are not usually updated or catalogued. As a result, the applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications, for which there is limited judicial and administrative guidance. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the violation committed. Such factors could have a material adverse effect on NCSP's business, financial condition, prospects or the market price of the Shares and GDRs.

Inexperience and lack of independence of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent us or investors from obtaining effective redress in a court proceeding, including in respect of expropriation or nationalisation.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia is a civil law jurisdiction and, therefore, judicial precedents have no binding effect on subsequent decisions. In addition, most court decisions are not readily available to the public. The judicial systems can be slow. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies.

In addition, Russia is not a party to any multilateral or bilateral treaties with most western jurisdictions, including the United Kingdom, for the mutual enforcement of court judgments. Consequently, should a

judgment be obtained from a court in a western jurisdiction, it is highly unlikely to be given direct effect in the courts of Russia. However, Russia (as successor to the Soviet Union) is party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”). A foreign arbitral award obtained in a state that is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy). There is also a risk that Russian procedural legislation will be changed by way of introducing further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation. Such factors could have a material adverse effect on NCSP’s business, financial condition, prospects or the market price of the Shares and GDRs.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations.

Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licences, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor’s, a provider of independent credit ratings, has expressed concerns that “Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups”. In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, recently, the Russian tax authorities have aggressively brought tax evasion claims against certain Russian companies for their use of tax optimisation schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition and results of operations.

In the event that the privatisation of any Group company is successfully challenged, NCSP or NCSP’s shareholders may lose their ownership interests in such company or its assets.

Most of the Group companies, including NCSP, were privatised in the 1990s. Privatisation legislation in Russia generally is considered to be vague, internally inconsistent and in conflict with other elements of Russian legislation. As a result, many privatisations in Russia are arguably deficient and may be subject to challenge, at least on technical grounds, including through selective action by governmental authorities motivated by political or other extra-legal considerations. In July 2005, however, the statute of limitations for challenging transactions entered into in the course of a privatisation was reduced from 10 years to three years, and the statute of limitations has technically passed with respect to the privatisations of all the privatised Group companies. While we believe that the relevant Group companies were privatised in accordance with applicable legislation, if any privatisations were challenged as having been improperly conducted, and we were unable successfully to defend the legitimacy of such privatisations, NCSP or NCSP’s shareholders may lose their ownership interests, in whole or in part, which could adversely affect our business and results of operations.

We have engaged in transactions that could be challenged on the basis of non-compliance with applicable legal requirements, and any successful challenge could result in the invalidation of such transactions, loss of property, the imposition of other liabilities, fines, penalties or other sanctions or liquidation of members of the Group that engaged in such transactions.

We and certain members of the Group, or their predecessors in interest, have taken a variety of actions relating to, among other things, acquisition of property, share issuances, share disposals and acquisitions,

interested-party transactions, major transactions and other corporate matters. Under Russian law, transactions may be invalidated on many grounds, including for example a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. Defects in earlier transactions may cause our interest arising from such transactions to be subject to challenge. If any transactions were successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties to such transactions, shareholders of the relevant Group members or their predecessors in interest or by any other interested party, it could result in the invalidation of such transactions, loss of property or the imposition of other liabilities and could have a material adverse effect on our business, financial condition, results of operations and the price of the Shares and GDRs.

Russian legal entities may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. Some Russian courts, in deciding whether to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an adequate sanction for such violations. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, i.e., their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets.

The amount of net assets of some of our subsidiaries is below the minimum legal requirements, and we are currently taking steps to remedy this. As these subsidiaries continue to meet all of their obligations to creditors, we believe that the risk of their liquidation is limited. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then we may be forced to reorganise the operations we currently conduct through the affected subsidiaries. Any such liquidation could lead to additional costs, which could materially adversely affect our business, financial condition and results of operations.

Corporate governance standards in Russia are not of the same standard as those in Western Europe and the United States, and there is little minority shareholder protection in Russia.

Corporate governance standards in Russia are not of the same standard as corporate governance standards in Western European countries or in the United States and may provide less protection for investors. In particular, corporate governance practices in Russia have suffered from lack of transparency and information disclosure, both to the public and to shareholders; lack of independence of directors; and insufficient regulatory oversight and protection of shareholders' rights. Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have on occasion suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices.

Minority shareholder protection under Russian law principally derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital" for a more detailed description of some of these protections. In practice, enforcement of these

protections has been poor. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of the Shares and GDRs.

While the Federal Law on Joint Stock Companies No. 208-FZ, dated 26 December 1995, as amended ("Joint Stock Companies Law") provides that shareholders owning not less than 1% of the company's stock may bring an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits. Russian law does not contemplate class action litigation. Accordingly, investors' ability to pursue legal redress against us may be limited, reducing the protections available to them as holders of the Shares and GDRs.

Lack of developed corporate and securities laws and regulations in Russia may limit NCSP's ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;
- the Federal Anti-Monopoly Service (the "FAS");
- the CBR; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always coordinated and may be contradictory. In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect the Group's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Group. As a result, the Group may be subject to fines or other enforcement measures despite its best efforts at compliance. Such factors could have a material adverse effect on NCSP's business, financial condition, prospects or the market price of the Shares and GDRs.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is deemed an "effective parent." The company whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint Stock Companies Law, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. This liability could have a material adverse effect on our business, financial condition and results of operations.

Some transactions between us and interested parties or affiliated companies require the approval of disinterested directors or shareholders and our failure to obtain approvals could cause our business to suffer.

Russian law requires a company that enters into transactions with certain types of its affiliates that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" includes (i) members of the board of directors or the collegial executive body of the company; (ii) the general director (CEO) of the company (including a managing organisation or manager); (iii) any person that owns, together with that person's affiliates, at least 20% of the company's voting shares; or (iv) a person who has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative and/or affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner (separately or together with other "interested party(-ies)" or their close relatives and/or affiliates) of at least 20% of the equity interest in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction; or
- a member of the board of directors or the collegial executive body or the CEO of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction, or an officer of the managing organisation of such company.

Transactions between members of a consolidated corporate group may be considered to be interested party transactions in certain circumstances, even when the companies involved are wholly-owned by the parent company.

To the extent applicable under Russian law, interested party transactions are to be approved by a majority of the disinterested independent members of the board of directors of the company. Where all the directors are interested, or are not independent, or if the subject matter of the transaction exceeds 2% of the book value of the assets of the company determined under Russian accounting principles (with certain exceptions for share placements), a majority vote of the disinterested shareholders of the company is required. The consequence of not having obtained the appropriate approval is that the transaction in question may be declared invalid upon a claim by the company or any of its shareholders.

In certain circumstances, such as when an interested party transaction is entered into between companies within the Group, the transaction will not always be submitted to the boards of directors of the respective companies for advance approval because, under Russian law, the lack of advance approval makes such a transaction voidable, but not void.

The Joint Stock Companies Law has contained a requirement with respect to the approval of interested party transactions since it became effective in 1996.

Following the revisions to the Joint Stock Companies Law that came into effect on 1 January 2002 and which explicitly require an advance approval of interested party transactions, the judicial practice in this regard has also changed. In November 2003, the High Arbitrage Court of the Russian Federation ruled that an interested party transaction must be approved before it is entered into. Any successful challenge to our interested party transactions could result in the invalidation of transactions that are important to our business.

Shareholder rights provisions under Russian law could impose significant additional obligations on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganisation;
- the approval by shareholders of a “major transaction,” which, in general terms, is a transaction involving property worth more than 50% of the gross book value of a company’s assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of its charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries’) obligation to purchase shares in these circumstances, which is limited to 10% of the company’s net assets calculated in accordance with Russian GAAP at the time the matter at issue is voted upon, could have a material adverse effect on our results of operations and financial condition.

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs.

Generally, taxes payable by Russian companies include, among others:

- income tax or profits tax;
- value added tax (“VAT”);
- unified social tax; and
- property and land taxes.

Laws related to these taxes have been in force for a short period relative to tax laws in more developed market economies. Over the past decade there have been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (“Tax Code”), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate profits tax, VAT and property tax with new chapters of the Tax Code. In some instances, new tax regulations have been given retroactive effect.

Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax returns, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, which may impose penalties and interest charges. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments.

Generally, taxpayers are subject to tax audit for a period of three calendar years which immediately preceded the year in which the decision to carry out tax audit is taken. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorises upper level tax inspectorates to reaudit taxpayers which were audited by subordinate tax inspectorates. If the taxpayer resubmits an adjusted tax return based on which the amount of tax is decreased, the respective tax period covered by such a return may also be reaudited.

Under the recent changes to the Tax Code the statute of limitations in relation to claims for tax sanctions on underpaid amounts of tax should be interrupted in case the taxpayer actively puts obstacles upon conducting of tax audits. Prior to these changes similar positions were supported by the Constitutional Court of the Russian Federation. These changes as well as the position of the Constitutional Court of the Russian Federation potentially grant considerable discretion to the Russian tax authorities to disregard the statute of limitations in their tax investigations.

Financial results of Russian companies belonging to the same group cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are generally subject to a withholding tax of 9% (beginning 1 January 2008 this rate may be reduced to 0% if certain conditions are met. See “Taxation—Russian Federation Tax Considerations—Recent

Amendments to Russian Tax Laws”), if being distributed by Russian companies to Russian companies, and 15%, if being distributed by Russian companies to foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 15% (beginning 1 January 2008 this rate will be reduced to 9% and may also be reduced to 0% if certain conditions are met, see “Taxation—Russian Federation Tax Considerations—Recent Amendments to Russian Tax Laws”) against which it may be possible to offset taxes withheld from the dividends in countries with which Russia has an applicable double tax treaty if this treaty provides for a possibility of such offset. If the receiving Russian company itself pays a dividend, it may offset tax previously withheld on dividends received against its own withholding liability with respect to the onward dividend although not against any withholding made upon a distribution to a foreign resident.

Uncertainties and inconsistent enforcement of tax regulations and the assertive positions of the tax authorities in interpreting legislation may result in our tax compliance being challenged. In particular, we have entered into transactions with various suppliers in which we did not hold any direct or indirect equity interest. These entities are fully responsible for their own tax and accounting compliance. However, due to existing Russian tax practice, if the tax compliance of such entities is challenged, we may become liable for additional tax payments. We do not believe it is practicable to estimate the financial effect of potential tax liabilities that ultimately could be imposed on us due to transactions with suppliers, and we have not provided any amounts in respect of such obligations in our consolidated financial statements. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also “—Risks Relating to the Russian Federation—Risks Relating to the Russian Legal System and Russian Legislation—Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations.”

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may impact NCSP's business and results of operations.

Russian transfer pricing rules entered into force in 1999, giving the Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of certain categories of transactions (referred to as “controlled transactions”), provided that the transaction price differs from the market price by more than 20%. Controlled transactions include domestic and international transactions between related entities and certain other types of transactions between unrelated parties, such as barter transactions, foreign trade transactions or transactions with significant (greater than 20%) price fluctuations. Under current law, the onus of proof rests with the tax authorities, i.e. they must satisfy the courts that prices applied in controlled transactions are not market prices if the court is to support any adjustment to taxable income or deductible expense. Transfer pricing rules also apply to transactions involving securities and derivatives. There has been no formal guidance as to how these rules will be applied in practice, though court practice exists. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on our business, results of operations, financial condition and prospects.

The government is considering amendments to the current transfer pricing rules. It is likely that such changes will bring transfer pricing practice in Russia closer to OECD norms. The proposed changes may, among other things, shift the burden of proof from the tax authorities to the taxpayer, provide an increase in the powers of the tax authorities to enforce transfer pricing legislation, cancel the existing permitted 20% deviation threshold and introduce specific documentation requirements for proving market prices.

Recent amendments to Russian thin capitalisation rules could affect NCSP's ability to deduct interest on certain borrowings.

Russian thin capitalisation rules limit the amount of interest that can be deducted by a Russian company on debts payable to non-resident shareholders. Until 1 January 2006, these rules applied only to loans issued to a Russian company by a foreign shareholder owning directly or indirectly more than 20% of the share capital of the Russian company. However, recent amendments to thin capitalisation rules that came into effect on 1 January 2006 extend application of the rules to loans issued to a Russian company by

another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. It is not yet clear how the new version of the rules will be applied in practice by the Russian tax authorities, particularly in relation to guarantees issued with respect to loans impacted by the rules.

NCSP may be affected by the new version of the rules if at any time it receives a loan from or is the beneficiary of a loan guaranteed by a foreign shareholder owning directly or indirectly over 20% of the Shares in NCSP or from a Russian affiliated company of such a foreign shareholder. In this event, the portion of interest payments made by NCSP under such loans may be treated as dividend payments, which are not deductible for corporate income tax purposes and are subject to withholding income tax at the rates applicable to dividends.

Risks Relating to the GDRs, the Shares and the trading market

Following the Offering you may not be able to deposit the Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs.

Russian securities regulations provide that no more than 35% of any class of a Russian company's issued shares may be circulated abroad through depositary receipt programmes or otherwise. We have received permission from the FSFM for up to 3,909,742,526, or 20.3%, of our Ordinary Shares to be circulated abroad through depositary receipt programmes. Upon the completion of the Offering and assuming all Shares offered hereby (including pursuant to the Over-allotment Option) are deposited into the GDR programme, approximately 19.38% of our Ordinary Shares will be circulated in the form of GDRs. There can be no assurance that we will be able to obtain approval for a deposit of a greater number of Ordinary Shares in the GDR programme than we currently have approval for, and any remaining capacity may be used by our other existing shareholders. As a result, following the Offering, your ability to deposit Shares in the GDR programme in order to receive GDRs may be limited.

In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a mandatory tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "Description of Share Capital and Certain Requirements of Russian Legislation—Share Acquisition Above Certain Thresholds and Anti-takeover Protection." Under Russian law, the Depositary may be considered the owner of the Shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules. See "—Because the Depositary may be considered the owner of the Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary."

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount, involving companies with a combined value of the assets under Russian accounting standards that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See "Description of Share Capital and Certain Requirements of Russian Legislation—Approval of the Russian Anti-Monopoly Authorities."

As a result, it may not be possible to deposit Ordinary Shares into our GDR programme in order to receive GDRs, and under certain circumstances you may be required to withdraw Shares from the GDR programme, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that changes by the authorities will not adversely affect the legality and or size of our depositary receipt programs, which could adversely affect the value of the Shares or the GDRs.

Because the Depositary may be considered the owner of the Shares underlying the GDRs, these Shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Many jurisdictions, such as the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, shares held by a depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the shares.

Russian law may not, however, recognise a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying GDRs and, accordingly, may not recognise GDR holders' beneficial ownership in such shares.

Thus, in proceedings brought against a depositary, whether or not related to Shares underlying GDRs, Russian courts may treat those underlying Shares as the assets of the depositary, open to seizure or arrest.

In the past, a lawsuit was filed against a depositary other than the Depositary seeking the seizure of various Russian companies' shares represented by global depositary receipts issued by that other depositary. In May 2007, the Federal Customs Service of Russia filed a new lawsuit against that other depositary, based on allegations of fact common to the prior lawsuit. In the event that a lawsuit seeking the seizure or arrest of the Shares underlying our GDRs were to be successfully initiated in the future against the Depositary, and the Shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying Shares and all of the money invested in them.

Voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreement and the Deed Poll for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll relating to the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law requires us to notify shareholders not less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors and to pass upon certain other matters. Our shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreement, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no US, UK or Russian legal prohibitions (including, without limitation, the Listing Rules and Prospectus Rules of the FSA and the admission and disclosure standards of the London Stock Exchange or the rules of any Russian stock exchange on which the Shares are listed) to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and such votes may either be rejected by NCSP or the Custodian or held to be invalid by the Russian courts. GDR holders may thus have significant difficulty in exercising voting rights with respect to the Shares underlying the GDRs. We cannot assure you that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Terms and Conditions of the Global Depositary Receipts—Voting Rights" for a description of the voting rights of holders of GDRs.

The Depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the Shares represented by their GDRs on a cumulative basis if such votes are split and split votes are rejected by NCSP or the Custodian or held to be invalid by the Russian courts, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our Board of Directors or our review commission. If GDR holders wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the Shares and thus become the owner of the Shares on our share register.

Because there has been no prior active public trading market for the Shares or GDRs, the Offering may not result in an active or liquid market for the Shares and GDRs, and their price may be highly volatile.

Before the Offering, there has been only inactive public trading in our Ordinary Shares and no public trading in our GDRs. Although application has been made for the GDRs to be admitted to trading on the London Stock Exchange, and the Ordinary Shares have been listed on RTS and MICEX, an active public market may not develop or be sustained after the Offering. Furthermore, a significant portion of the Shares may be offered in the Offering within the Russian Federation. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Shares and GDRs does not develop, the price of the Shares and GDRs may become more volatile and it may be more difficult to complete a buy or sell order for such Shares and GDRs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the Shares underlying the GDRs from the Depositary, there is currently only a limited trading market for our Ordinary Shares and there may only be a very limited public free float in the future. In addition, any inability to convert the Shares into GDRs due to the restrictions on deposits of shares into our GDR programme may have an adverse effect on the development of a liquid trading market for the Shares and GDRs. See "Risk Factors—Risks Relating to the GDRs, the Shares and the trading market—Following the Offering you may not be able to deposit the Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs."

Furthermore, low trading volumes or the low amount of shares publicly held by unrelated parties may result in a delisting of the Shares and the imposition of other liabilities, which would have a material adverse effect on the liquidity of the Shares and GDRs.

The trading prices of the Shares and GDRs may be subject to wide fluctuations in response to a number of factors. Our results, for example, may also fall below our expectations and the expectations of securities analysts and investors. In addition, the Russian stock market has experienced extreme price and volume fluctuations. Moreover, the market price of the Shares and GDRs may decline below the offer price, which will be determined by negotiation between us, the Selling Shareholder and representatives of the Joint Global Coordinators.

You may be unable to repatriate distributions made on the Ordinary Shares.

We intend to pay dividends, if any, on the Shares in roubles. The Depositary will also receive dividends in respect of the Shares underlying the GDRs in roubles. The ability to convert roubles into US dollars is subject to the availability of US dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of roubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of roubles into foreign currencies outside of Russia and no liquid market in which to hedge rouble and rouble-denominated investments.

Future sales of Ordinary Shares or GDRs may affect the market price of the Shares and GDRs.

Sales, or the possibility of sales, of substantial numbers of Ordinary Shares or GDRs in the public markets, including the Russian stock market, following the Offering could have an adverse effect on the market trading prices of the Shares and GDRs. Subsequent equity offerings may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the Shares.

The ability of the Russian state to reduce its interest in NCSP may be limited. See "Certain Regulatory Matters—Strategic Entity Status."

GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid via the Depositary.

Under Russian law, dividends paid to a non-resident holder of the Shares generally will be subject to Russian withholding tax at a rate of 15% for organisations and at a rate of 30% for individuals (the latter rate will be reduced to 15% beginning 1 January 2008). Russian tax rules applicable to the holders of the GDRs are characterised by significant uncertainties and, until recently, by an absence of interpretive guidance. From 2005 to 2007, the Ministry of Finance of the Russian Federation expressed its opinion that holders of GDRs should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the GDRs is duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

Unless we receive adequate clarification from the Russian competent authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends we pay to the Depositary at a rate lower than the domestic rate applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the Shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant double tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. Although under the relevant double tax treaty non-resident GDR holders may apply to the Russian tax authorities for a refund of the respective amount of tax so withheld by us, we cannot make any assurances that the Russian tax authorities will grant any refunds. See “Taxation—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders.”

Non-resident investors may be subject to Russian tax withheld at source on transactions in the Shares or GDRs through or to certain Russian payers.

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders which are legal persons, of Russian securities, such as the Shares, as well as financial instruments derived from such securities, such as the GDRs, may be subject to Russian income tax to be withheld at source by the Russian payer of the income if immovable property located in Russia constitutes more than 50% of NCSP's assets.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a tax registered presence in Russia. Gains arising from a sale of the foregoing types of securities on foreign stock exchanges (where these securities are listed) by non-resident holders that are organisations are not treated as income from Russian source, hence are not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a foreign stock exchange, gains arising from a sale of the GDRs on that foreign stock exchange by non-resident organisations should not be subject to taxation in Russia.

Capital gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by foreign holders of Shares and GDRs who are individuals not resident in Russia for tax purposes will not be considered as Russian source income and will not be taxable in Russia. Gains arising from disposition of the foregoing types of securities and derivatives in Russia by foreign holders of Shares and GDRs who are individuals not resident in Russia for tax purposes may be subject to personal income tax. See “Taxation” for further details.

We may be classified as a passive foreign investment company in the future, if our business operations change, which could result in adverse US federal income tax consequences to US investors.

If NCSP is characterised as a “passive foreign investment company” or “PFIC,” a US Person (as defined in “Certain United States Tax Considerations”) holding Shares or GDRs directly or indirectly could be subject to a penalty tax at the time of the sale or other disposition at a gain of, or receipt of an “excess distribution” with respect to, its Shares or GDRs. NCSP believes that it should not be characterised as a PFIC for its taxable year ending 31 December 2007, however, as this is a factual determination made on an annual basis, if our business operations change, we may be characterised as a PFIC for 2007 or future years. See “Taxation—United States Federal Income Tax Considerations—Taxation of US Persons Holding Shares or GDRs—Passive Foreign Investment Companies.”

The Shares may be de-listed from MICEX or RTS, the FSFM permission for the GDR programme may be revoked, and the GDR facilities may have to be terminated.

Maintenance of our “V” listing on MICEX and RTS and, upon expiration of the six-month term of the “V” listing, either the “A” or “B” listing, will require us to meet relevant listing requirements, including, among others, to comply with securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements as well as minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company such as ours, either by express de-listing, or denial of transition to the “A” or “B” listing upon expiration of the “V” listing term.

While we are not aware of any other Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked, this gap in the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of our Shares and the GDRs.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our Shares, including the Shares underlying the GDRs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia.

Share registers currently are maintained by such companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company’s shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreement, will not be liable for the unavailability of Shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the Shares. See “Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Registration and Transfer of Shares” and “Terms and Conditions of the Global Depositary Receipts” for a further discussion of the share registration system and registrars in the Russian Federation.

THE OFFERING

NCSP	Public Joint Stock Company Novorossiysk Commercial Sea Port, an open joint stock company registered under the laws of the Russian Federation.
The Selling Shareholder	Kadina Limited, a BVI business company registered under the laws of the British Virgin Islands.
The Offering	<p>The Selling Shareholder is offering 3,375,156,114 Shares for sale in this Offering, including Shares in the form of GDRs.</p> <p>The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S. The Shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.</p>
Offer Price	US\$0.256 per Share and US\$19.20 per GDR.
Closing Date	Expected to be on or about 8 November 2007.
Over-allotment Option	The Selling Shareholder has granted to the Joint Global Coordinators an option exercisable within 30 days after the announcement of the Offer Price to purchase up to an additional 356,717,250 Ordinary Shares in the form of GDRs at the offer price, solely to cover over-allotments, if any, and/or short positions relating to stabilisation activities.
Lock-up	We and the Selling Shareholder have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the Shares or GDRs pursuant to the Offering. See “Plan of Distribution.”

Listing and Market for the Shares and

GDRs

Our existing Ordinary Shares have been admitted to list “V” on the RTS under the symbol “NMTP,” and have been included in list “V” on MICEX.

Application has been made to (1) the FSA for a block listing of 52,129,900 GDRs, consisting of up to 31,708,204 GDRs to be issued on or about the Closing Date, and up to 20,421,696 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (2) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities. Conditional trading in the GDRs through the International Order Book of the London Stock Exchange is expected to commence on a when and if issued basis on or about 2 November 2007. Admission to the Official List and to trading on the London Stock Exchange’s regulated market for listed securities is expected to take place, and unconditional dealings through the International Order Book are expected to commence, on or about 8 November 2007.

The GDRs will trade on the London Stock Exchange under the symbol “NCSP.” Application has also been made to have the Rule 144A GDRs designated eligible for trading in PORTAL.

In connection with the Over-allotment Option and otherwise, Shares may be deposited, subject to the provisions set forth under “Terms and Conditions of the Global Depositary Receipts” and in the Deposit Agreement, with the Custodian against which deposit the Depositary shall deliver GDRs representing such Shares (to the extent permitted by law) up to a maximum aggregate number of 52,129,900 GDRs. See also “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the Offering you may not be able to deposit Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy in respect of the placement and circulation of the Ordinary Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Ordinary Shares and GDRs offered in the Offering.”

The GDRs

One GDR will represent 75 Ordinary Shares on deposit with Sberbank (Joint Stock Commercial Savings Bank of the Russian Federation (open joint stock company)), as Custodian for the Depositary. The GDRs will be issued pursuant to a deposit agreement relating to the Rule 144A GDRs and the Regulation S GDRs between us and the Depositary (the “Deposit Agreement”). The GDRs will be evidenced initially by a Master Regulation S GDR Certificate and a Master Rule 144A GDR Certificate, each to be issued pursuant to the Deposit Agreement. The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreement, the Shares represented by the GDRs will be held in Russia by the Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs.

Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See “Terms and Conditions of the Global Depositary Receipts,” “Settlement and Delivery—The Clearing Systems—Registration and Form” and “Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading.”

Share Capital Our share capital consists of 19,259,815,400 Ordinary Shares, each with a nominal value of 0.01 roubles, which are fully paid and issued. In addition, we are authorised by our charter to issue an additional 8,261,326,000 Ordinary Shares. Our shares have the rights described under “Description of Share Capital and Certain Requirements of Russian Legislation.” No new Shares will be issued in connection with the Offering.

Transfer Restrictions. The Shares and GDRs are subject to certain restrictions on transfer as described under “Terms and Conditions of the Global Depositary Receipts,” “Plan of Distribution” and “Settlement and Delivery.”

Settlement Procedures Payment for the GDRs is expected to be made in US dollars in same-day funds through the facilities of DTC on or about the Closing Date. The Underwriters and the Depositary will apply to DTC to have the Regulation S GDRs and the Rule 144A GDRs accepted into DTC’s book-entry settlement system. The Master Rule 144A GDR and the Master Regulation S GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, whether directly or through DTC participants including Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) or Clearstream Banking, société anonyme (“Clearstream”). Transfers within and between DTC, Euroclear and Clearstream will be in accordance with their usual rules and operating procedures. See “Settlement and Delivery.”

Each purchaser of the Shares in the Offering is required to pay for any such Shares in US dollars or roubles. In order to take delivery of the Shares, an investor should either have a direct account with our share registrar, Registrar NIKoil Company (JSC), or a deposit account with CJSC Depositary Clearing Company (“DCC”), or any other depositary that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar. However, directly-held Shares are ineligible for trading on RTS. Only if the Shares are deposited with DCC (or through another depositary having an account at DCC) can they be traded on RTS and only if the Shares are deposited with the Not-for-Profit Partnership “The National Depositary Center”

(“NDC”) (or through another depositary having an account in NDC) can they be traded on MICEX. See “Settlement and Delivery—Global Clearing and Settlement Procedures.”

Voting If you hold Shares, you are generally entitled to one vote per Ordinary Share at a shareholders’ meeting. See “Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders.” Under the Deposit Agreement and the Deed Poll, one GDR carries the right to vote 75 Shares, subject to the provisions of the Deposit Agreement and the Deed Poll and applicable Russian law. See “Terms and Conditions of the Global Depositary Receipts.”

General Information..... It is expected that the GDRs will be accepted for clearance through the facilities of DTC. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP: 67011U208 ISIN: US67011U2087 Common Code: 032417710 Sedol: B283BT0
Rule 144A GDRs:	CUSIP: 67011U109 ISIN: US67011U1097 Common Code: 032418384 Sedol: B283BZ6
ISIN for Shares:	RU0009084446
London Stock Exchange	
GDR trading symbol:	NCSP
RTS trading symbol:	NMTP
PORTAL symbol for GDRs:	P67011U109

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the Shares and the GDRs offered by the Selling Shareholder. The Selling Shareholder will receive all of the net proceeds from the Offering, which, after deducting the underwriting commissions (including an incentive fee payable to the Joint Global Coordinators at the sole discretion of the Selling Shareholder) and estimated fees and expenses of approximately US\$5.1 million incurred in connection with the Offering, are expected to be approximately US\$824.4 million, assuming no exercise of the Over-allotment Option, or approximately US\$912.0 million, assuming that the Over-allotment Option is exercised in full. The Offering is being conducted in order to allow the Selling Shareholder to dispose of a portion of its shareholding, while providing increased trading liquidity in our Ordinary Shares and raising our profile with the international investment community.

DIVIDEND POLICY

In recent years, we have paid annual dividends of approximately US\$10 million. For so long as we continue to carry out our capital investment programme, we intend to pay dividends in annual amounts not greater than US\$10 million, and to reinvest substantially all of our operating cash flows into our business. See “Business—Capital Investment Programme”.

As a Russian open joint-stock company, our ability to pay dividends is subject to the requirements of the Russian joint-stock company law. See “Description of Share Capital and Applicable Russian Legislation”. Our ability to pay dividends also depends in part upon receipt of dividends and distributions from our subsidiaries. The payment of dividends by our subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and their ability to make dividend payments to us in accordance with Russian joint-stock company law and other relevant legislation.

We anticipate that dividends, if any, will be paid in roubles. To the extent that we declare and pay dividends, owners of our Ordinary Shares and GDRs on the relevant respective record dates will be entitled to receive dividends payable in respect of our Ordinary Shares or, as the case may be, our Ordinary Shares underlying the GDRs, subject to the terms of the Deposit Agreement. The Depositary as our shareholder will receive roubles and convert the roubles into US dollars for distribution to GDR holders. Accordingly, the value of dividends received by GDR holders will be subject to fluctuations in the exchange rate between the rouble and the US dollar. Under the Deposit Agreement, the Depositary may charge fees and expenses in respect of distributions of dividends to GDR holders. See “Terms and Conditions of the Global Depositary Receipts”. In addition, our dividend payments to the Depositary will be subject to applicable Russian withholding taxes. See “Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary” and “Taxation—Russian Federation Tax Considerations—Taxation of Dividends”.

CAPITALISATION

The following table sets forth our cash and cash equivalents, short-term debt and total capitalisation as at 30 June 2007 on a historical basis. You should read this table together with the sections entitled “Selected Historical Consolidated Financial and Other Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included elsewhere in this prospectus.

	As at 30 June 2007 (’000s of US dollars)
Cash and cash equivalents.....	50,619
Short-term debt (including current portion of long-term debt)	16,498
Long-term Debt:	
Loan Participation Notes.....	296,014
Bank Loans (non-current portion)	220,867
Other.....	39
Total long-term debt (net of current portion)	516,920
Shareholders’ equity:	
Share capital	10,469
Share premium	9,867
Foreign currency translation reserves	44,810
Retained earnings	566,172
Minority interest	37,399
Total equity	668,717
Total capitalisation ⁽¹⁾	1,185,637

Note:

(1) Sum of long-term debt (net of current portion) and total equity.

On 17 July 2007, the Group entered into an agreement for a US\$118.0 million loan facility which was fully drawn down on 19 July 2007.

Except as described above, there has been no material change in our consolidated total capitalisation since 30 June 2007.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected historical consolidated financial information as at 30 June 2007 and for the six months ended 30 June 2007 and 2006, and for the years ended 31 December 2006 and 2005, presented below has been extracted without material adjustment or derived from, and should be read in conjunction with, the IFRS Interim Accounts, and the IFRS Annual Accounts, included elsewhere in this prospectus. The IFRS Interim Accounts have been prepared using the same accounting principles and on the same basis as the IFRS Annual Accounts and include all adjusting entries, consisting only of normal recurring adjustments necessary to present fairly the information set forth herein. Prospective investors should not regard the results of operations for the six months ended 30 June 2007 as indicative of the results that may be expected for the entire year.

The selected historical consolidated financial information as at and for the year ended 31 December 2004 presented below has been extracted without material adjustment or derived from, and should be read in conjunction with, the US GAAP Annual Accounts included elsewhere in this prospectus.

The audited US GAAP Annual Accounts contains a qualified opinion relating to the accounting of investments in common stock, as discussed in note 22 to the US GAAP Annual Accounts.

The IFRS financial information set forth in this prospectus as at 30 June 2007 and for the six months ended 30 June 2007 and 2006, and as at and for the years ended 31 December 2006 and 2005, is not comparable with the US GAAP financial information set forth in this prospectus as at and for the year ended 31 December 2004.

The selected historical consolidated financial and other information below should be read in conjunction with “Summary Historical Consolidated Financial and Other Information”, “Presentation of Financial and Other Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors—Risks Relating to Our Financial Condition—Non-comparability of the US GAAP Annual Accounts with the IFRS Accounts, and our acquisition of controlling stakes in several operating subsidiaries in 2006, limit the comparability of our financial information and its usefulness for identifying long-term trends in our business and evaluating our prospects”.

	For the six months ended 30 June (unaudited)		For the year ended 31 December	
	2007 ⁽¹⁾	2006	2006 ⁽¹⁾	2005
	('000s of US dollars)			
<i>IFRS Consolidated Income Statement Data</i>				
Revenue	197,932	98,032	277,277	189,246
Cost of services	(111,595)	(52,934)	(172,897)	(101,997)
Gross profit	86,337	45,098	104,380	87,249
Selling, general and administrative expenses	(30,565)	(11,362)	(33,979)	(20,540)
Operating profit	55,772	33,736	70,401	66,709
Share of profit of associates	—	3,011	3,065	2,500
Investment income	432	3,015	4,542	6,906
Finance costs	(24,313)	(1,699)	(22,703)	—
Other income/(expenses), net	6,311	(9,416)	1,813	2,099
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	2,890	607	618	—
Profit before income tax	41,092	29,254	57,736	78,214
Income tax	(12,549)	(6,915)	(13,647)	(20,935)
Profit for the period	28,543	22,339	44,089	57,279
Attributable to:				
Equity shareholders	28,133	22,339	44,469	57,279
Minority interest	410	—	(380)	—

	As at 30 June (unaudited)	As at 31 December	
	2007 ⁽²⁾	2006 ⁽²⁾	2005
	(‘000s of US dollars)		
<i>IFRS Consolidated Balance Sheet Data</i>			
Property, plant and equipment	693,634	664,166	334,343
Goodwill	465,969	456,856	—
Cash and cash equivalents	50,619	37,037	43,915
Total assets	1,322,602	1,296,878	589,495
Long-term debt	516,920	482,297	500
Short-term debt	16,498	60,400	284
	Six months ended 30 June (unaudited)	Year ended 31 December	
	2007 ⁽¹⁾	2006	2006 ⁽¹⁾
			2005
	(‘000s of US dollars)		

IFRS Consolidated Statement of Cash Flows Data

Net cash generated by operating activities	59,029	35,248	82,856	78,398
Net cash used in investing activities	(38,802)	(429,991)	(539,931)	(97,322)
Net cash (used in)/generated by financing activities ...	(1,658)	428,578	446,456	(9,995)

	<div>Year ended 31 December 2004</div> <div>(‘000s of US dollars)</div>
<i>US GAAP Consolidated Statement of Operations Data</i>	
Revenue.....	166,812
Cost of services (exclusive of depreciation shown separately below).....	(55,335)
General and administrative expenses.....	(26,874)
Depreciation.....	<u>(21,345)</u>
Operating income.....	63,258
Interest income.....	2,534
Other expenses, net.....	(1,332)
Foreign currency transactions losses.....	<u>(4,202)</u>
Income before income tax.....	60,258
Income tax expense.....	(18,265)
Income from equity method investees.....	<u>3,393</u>
Net income.....	45,386

	As at 31 December 2004 ('000s of US dollars)
<i>US GAAP Consolidated Balance Sheet Data</i>	
Property, plant and equipment, net	225,527
Cash and cash equivalents	75,519
Total assets	422,501
Long-term loans from related parties	411
Short-term loans from related parties	360

	Year ended 31 December 2004 ('000s of US dollars)
<i>US GAAP Consolidated Statement of Cash Flows Data</i>	
Net cash provided by operating activities	71,770
Net cash used in investing activities	(27,140)
Net cash used in financing activities	(9,638)

	For the six months ended 30 June		For the year ended 31 December	
	2007	2006	2006	2005
<i>Summary Operating and Other Information</i>				
Total cargo volume ('000s of tonnes)	39,051	40,001	80,928	80,131
EBITDA ('000s of US dollars) ⁽³⁾	89,892	44,418	119,075	105,357

- (1) The six months ended 30 June 2007 and the year ended 31 December 2006 includes the results of operations and cash flows from entities acquired as part of the restructuring from the date of acquisition, 14 June 2006. As a result, consolidated income statement and cash flow data for the six months ended 30 June 2007 and the year ended 31 December 2006, is not comparable to consolidated income statement and cash flow data for the six months ended 30 June 2006 and 31 December 2005, respectively.
- (2) The consolidated balance sheet data as of 30 June 2007 and 31 December 2006 includes the impact of the entities acquired as part of the restructuring and is therefore not comparable to the consolidated balance sheet data as of 31 December 2005.
- (3) EBITDA represents profit for the period before finance costs, income tax and depreciation and amortisation. Depreciation and amortisation are components of both cost of services and selling, general and administrative expenses in the IFRS Accounts. EBITDA is not a measure of financial performance under IFRS or US GAAP. You should not consider EBITDA as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. We believe that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations and an indicator of our ability to fund discretionary spending such as capital expenditures, acquisitions of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods.

Reconciliation of EBITDA to profit for the periods indicated as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2007	2006	2006	2005
	(‘000s of US dollars)			
Profit for the period	28,543	22,339	44,089	57,279
Income tax.	12,549	6,915	13,647	20,935
Finance costs	24,313	1,699	22,703	—
Depreciation and amortisation	24,487	13,465	38,636	27,143
EBITDA	89,892	44,418	119,075	105,357

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The historical consolidated financial information presented in the following discussion as at and for the years ended 31 December 2006 and 2005, respectively, has been extracted without material adjustment or derived from the IFRS Annual Accounts. The historical unaudited condensed consolidated interim financial information as at 30 June 2007 and for the six months ended 30 June 2007 and 2006 has been extracted without material adjustment or derived from the IFRS Interim Accounts and on the same basis as the IFRS Annual Accounts and, in the opinion of management, include all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of interim results. These interim results are not necessarily indicative of results to be expected for the full year. The following discussion should be read in conjunction with the IFRS Accounts and other information included elsewhere in this prospectus. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

As a multi-purpose Russian stevedoring and port services company, we are Russia's largest commercial sea port operator in terms of cargo volume, according to the ASOP Overview. We are Russia's key southern gateway for shipment of a wide range of Russian import and export cargoes, handling approximately 20% of the cargo volumes shipped through sea ports in Russian foreign trade in 2006, according to the ASOP Overview. We operate primarily at the Port, a multi-purpose, year-round, deep-water port located on the Russian shore of the Black Sea which has a number of geographic, topographic and infrastructure advantages in comparison to other ports, and potential port sites, in the Black Sea-Azov basin. The Group includes the six largest stevedore and port services companies at the Port, which together handled approximately 97% of the cargo volumes shipped through the Port in 2006. In addition, we have a stevedore operation specialising in container cargo at the port of Baltiysk, on the Baltic Sea in Russia's Kaliningrad Region.

Non-Comparability of 2004 Historical Financial Information

Prior to 1 January 2005 the Group reported in US GAAP for internal and other reporting purposes. From 1 January 2005, the Group reports in IFRS and no longer produces US GAAP financial statements. The US GAAP Annual Accounts are not comparable to the IFRS Accounts, and we make no comparison of our financial condition or results of operations in 2005 against those in 2004. Investors should therefore not rely on the US GAAP Annual Accounts, or comparisons thereof with the IFRS Accounts, in making their investment decision. The US GAAP Annual Accounts have been included herein solely for the purpose of satisfying the requirements of the FSA under the Prospectus Rules.

The relative lack of comparative historical financial information may provide prospective investors with less information on which to evaluate an investment in the Shares and the GDRs than is available in respect of securities of companies with such data, which increases the risks associated with an investment in our Shares or GDRs. See "Presentation of Financial and Other Information" and "Risk Factors—Risks Relating to Our Financial Condition—Non-comparability of the US GAAP Annual Accounts with the IFRS Accounts, and our acquisition of controlling stakes in several operating subsidiaries in 2006, limit the comparability of our financial information and its usefulness for identifying long-term trends in our business and evaluating our prospects".

Restatement of the IFRS Annual Accounts

The financial statements as at and for the years ended 31 December 2006 and 2005 have been restated from those previously published with respect to the accounting treatment for retirement benefit obligations that were accounted for as defined contribution plans prior to the restatement. For additional information see note 35 to the IFRS Annual Accounts.

Significant Acquisitions and Restructuring

On 14 June 2006, NCSP acquired controlling interests in IPP, NCSP Fleet and NLE Timber & Container Terminal (in which NCSP had held interests up to that date), and controlling interests in NZT Grain Terminal and NSRZ Ship Repair Yard, as a result of which NCSP consolidated controlling interests in

each of these companies and gained a near monopoly over stevedoring operations at the Port. On the same date, NCSP also bought a controlling interest in Baltic Stevedore Co., a stevedore company at the Port of Baltiysk in the Kaliningrad region on the Baltic Sea. These interests were purchased from U.F.G.I.S. Structured Holdings Limited which, acting as principal, had acquired these interest from a number of private shareholders. For further details of the acquisitions and the restructuring, see “Business—Overview—Our Restructuring”.

NCSP paid US\$530.0 million (as calculated at the date of the acquisition) net of cash acquired to acquire these interests, of which US\$442.4 million was recorded as goodwill at the date of acquisition. Goodwill arose because the acquisition price included a control premium for each of the acquired companies, and took into consideration the economic benefits expected to accrue to us from synergies, revenue growth, development of the markets we operate in, the combined workforce and future investment projects as a result of the acquisitions. We have already been able to realise a number of the anticipated economic benefits of these acquisitions, such as centralised strategic and management control over our subsidiaries, and enhanced operational efficiency through more effective planning, operational controls and resource allocation. The effective elimination of competition at the Port has also given us the commercial flexibility to increase our prices by significantly reducing discounts from maximum tariff rates for our services by June 2007, and by applying to the FTS for, and obtaining, increases in maximum tariff rates and setting our prices at the level of such maximum tariff rates. In addition, the enhanced scale of the Group has enabled us to reduce our cost of capital. See “—Recent Developments—Renegotiation of Sberbank Secured Loans”. Since NCSP and its subsidiaries still function as independent profit centres, and their operations are not yet fully integrated and mutually supporting, we expect to realise additional administrative and operating efficiencies as we continue the post-acquisition restructuring and integration process.

NCSP financed the cost of acquiring these interests with US\$80.0 million of its own funds and a US\$450.0 million loan to NCSP from Sberbank (see “—Liquidity and Capital Resources—Sberbank Loan Agreement”). In May 2007, we repaid US\$300.0 million of the outstanding loan from Sberbank with the proceeds of the issuance of the US\$300.0 million 7% Loan Participation Notes due 2012 (see “—Liquidity and Capital Resources—Loan Participation Notes”). We made an additional repayment in July 2007 under the Sberbank loan using the net proceeds of a US\$118.0 million syndicated term loan facility underwritten and arranged by Bank Austria Creditanstalt AG and CJSC International Moscow Bank (see “—Recent Developments—Syndicated Term Loan Facility”). We repaid the remaining amounts outstanding under the Sberbank loan with our own funds in accordance with the repayment schedule under the loan agreement.

On 14 June 2006, we began consolidating the results of the companies acquired in the restructuring and, accordingly, all financial information in this prospectus as at or after, and for periods ended after, that date, including the IFRS Annual Accounts and the IFRS Interim Accounts, is not directly comparable to financial information relating to periods ending prior to that date. Prior to that date, we held interests in IPP, NCSP Fleet and NLE Timber & Container Terminal. As a result, the period-on-period comparisons, analysis, discussions of trends and presentations of financial information included in this prospectus do not present a fully like-for-like comparison of our results of operations, financial position, changes in equity or cash flows in 2006 versus those in 2005, or our results of operations, financial position, changes in equity or cash flows in the first half of 2007 versus those in the first half of 2006. See “Presentation of Financial and Other Information” and “Risk Factors—Risks Relating to Our Financial Condition—Non-comparability of the US GAAP Annual Accounts with the IFRS Accounts, and our acquisition of controlling stakes in several operating subsidiaries in 2006, limit the comparability of our financial information and its usefulness for identifying long term trends in our business and evaluating our prospects”.

Other Significant Factors Affecting Our Results of Operations

Our revenues are principally derived from the prices we can charge for stevedoring services, which are driven mainly by the maximum tariff rates set by the FTS and the volume of cargoes shipped through our stevedoring facilities. Cargo volumes are driven by global demand for Russian exports and Russian demand for imports, and affected by the capacity of our facilities and local ground transport networks, and our ability to maximise capacity utilisation. Our costs are driven principally by the efficiency of our stevedoring facilities. We therefore seek to maximise our profitability principally by constructing and maintaining high capacity stevedoring facilities, including specialised facilities focused on higher margin cargoes, which collectively are flexible enough to accommodate nearly all kinds of cargo, increasing the

prices we charge for our stevedoring services to the maximum tariff rates, and applying for approval of increases in such maximum tariff rates. We also seek to maximise operational efficiency through improving logistics management, including through automation, centralised management of logistics within our facilities and co-ordination with Russian Railways on logistics between our facilities and the local rail network.

Tariff Rates for Our Services

The FTS regulates the maximum and minimum tariff rates that each member of the Group can charge for cargo handling and certain related services, including certain warehousing and other storage services. Although the FTS has the power to review maximum tariff rates on its own initiative, as a matter of practice it does not do so, and has not done for several years. Instead, the FTS considers adjusting maximum tariff rates upon application by the relevant member of the Group. There is no limit on the frequency with which the members of the Group may apply for adjustments in their maximum tariff rates. Applications must set out the factors and calculations justifying the requested increase and provide certain supporting documentation. Proposed rates may include a target profit margin in excess of our fixed costs, anticipated capital expenditures and variable costs. There is no mandatory formula for determining the target profit margin. However, the FTS has discretion to deny, challenge or adjust our requested maximum tariff rate if the FTS deems the rate too high. Once the FTS sets the maximum tariff rate for a particular service, the minimum tariff rate for the same service is automatically fixed at 35% less than the maximum tariff rate.

Regulation of maximum tariff rates for new cargoes is *ex-post*. Stevedores enjoy a regulatory tariff “holiday” of up to six months after completion of the project. During this period, we can set our own tariffs based on market conditions. This allows us to establish a “market based” tariff level that we can then submit to the FTS for approval as our regulated maximum tariff rate. Our practice is to calculate proposed maximum tariff rates in US dollars, and to request that the FTS set such maximum tariff rates in US dollars, primarily because most of our indebtedness, as well as prices for expeditors’ services, for freight rates and other cargo shipment services, and frequently for cargoes themselves, are denominated in US dollars. See “—Liquidity and Capital Resources—Currency Risk—Cash flow mismatches”. Tariffs set in US dollars are generally paid by non-Russian residents in US dollars, but are paid by Russian residents in Russian roubles at the exchange rate of the CBR in force on the date of actual payment. See “Regulation—Tariff Regulation”.

We monitor our variable costs, anticipated capital expenditures and industry pricing norms for cargo handling and related services, and from time to time evaluate whether our maximum tariff rates for those services remain appropriate. Factors that may lead us to seek adjustments in maximum tariff rates include significant changes in variable costs (such as wages or social obligations), significant anticipated increases in fixed costs or capital expenditures, and/or significant unindexed changes in macroeconomic indicators which may affect our results of operations.

The effective elimination of competition at the Port has given us greater commercial flexibility to apply for and receive increased maximum tariff rates. We intend to make annual applications for maximum tariff rate increases in order to adjust our prices upward to compensate for the effects of inflation. We will not necessarily seek such increase for each cargo every year. However, we intend to seek increases in maximum tariff rates, and to increase the tariffs we charge, such that in the aggregate, the increases in our prices offset inflation across our tariff portfolio. In addition, the Russian Minister of Transport, Igor Levitin, recently announced that the Ministry may abolish the tariff regulation regime for ports. There can be no assurance that such an announcement will translate into regulatory action by the Ministry in this respect, but in the event the tariff regime is abolished, we expect to have greater flexibility to use our pricing power to increase our tariffs and our revenues and, by extension, our profitability.

We determine the rates for our services that are not subject to price regulation by reference to current market rates, which we review periodically, but at least once per year.

Price Increases through Higher Tariffs

With the effective elimination of competition at the Port following the June 2006 restructuring, we have been able to increase our prices both by significantly reducing discounts from maximum tariff rates, and by applying for and obtaining increases such maximum tariff rates and setting our prices at the level of such maximum tariff rates.

Significant Reduction of Discounts from Maximum Tariff Rates

Prior to the June 2006 restructuring, NCSP and the companies that are now its principal subsidiaries competed against each other, including by offering significant discounts to certain maximum tariff rates established by the FTS. The restructuring, together with improvements in the technology we use and specialisation of our terminals, gave the members of the Group the pricing power to significantly reduce their discounts. See “—Other Significant Factors Affecting Our Results of Operations—Tariff Rates for Our Services”. In January 2007, we began significantly reducing discounts, and since 1 June 2007 all material tariff rates charged by the members of the Group have been set at their respective maximum levels. This significant reduction of tariff discounts therefore began to positively affect our revenues in the first half of 2007, but we expect the full impact of such reductions to be reflected in our revenues for the second half of 2007.

Increases in Maximum Tariff Rates

Since March 2007, we have applied for and obtained increases in the maximum tariff rates we are permitted to charge for handling a number of different cargoes, and have set our prices at the level of such maximum tariff rates. These increases are summarised in the table below:

<u>Month</u>	<u>Company</u>	<u>Cargo</u>	<u>Old Maximum Tariff Rate</u>	<u>New Maximum Tariff Rate</u>
March 2007	NCSP	Oil	\$2.00	\$2.60
March 2007	NCSP	Diesel	\$2.30	\$2.70
March 2007	NCSP	Fuel oil	\$2.30	\$2.70
March 2007	NCSP	Cement	\$1.00	\$1.20
August 2007	IPP	UAN liquid fertiliser	\$2.80	\$5.00
August 2007	IPP	Diesel	\$2.50	\$6.30

Global and Domestic Demand for Cargo Shipment through the Port

We handle a diversified mix of cargoes that largely reflects the composition of Russian exports. Because the Port is a major export gateway and an increasingly important import gateway for Russia, the demand for shipment of cargo volumes through our facilities at the Port, and by extension our revenues, can be significantly influenced by trends and factors influencing international trade.

In recent years, strong global economic growth has contributed to an increase in demand for the kinds of Russian export cargoes that are routinely shipped through our facilities. Strong revenues for Russian exporters have, in turn, sustained strong Russian GDP growth and increased the real disposable incomes of Russian consumers, which has driven increased Russian demand for imports and the shipment thereof through our container and other facilities. The resulting increase in the demand for our services has contributed to high capacity utilisation rates at our facilities, but has also provided growth in our operating cash flows which we intend to draw upon to finance our investment programme to increase the capacity of our facilities.

However, the aggregate volume of import and export cargoes shipped through our facilities does not depend solely, or even significantly, on Russian and global economic growth rates or on the market price of the cargoes we handle. Instead, our volumes depend more significantly on the tonnage or physical volume (and not the monetary value) of cargoes shipped in Russian foreign trade, principally because our tariffs are priced based on tonnage for most cargoes, on cubic metres for timber and on TEU for containers. Although recent years have seen a significant rise in the value of Russian foreign trade, this primarily reflects higher commodity prices, and only secondarily an increase in physical trade volumes. Accordingly, whilst our cargo volumes and revenues may be affected by global and Russian economic growth and changes in prices for cargoes, particularly commodities, their sensitivity to these factors is limited. In addition, our tariffs represent a small portion of the total shipping cost for cargoes, with costs of land and sea transport, i.e., rail, trucks, pipeline and ship, constituting the bulk of the cost of cargo shipment, which itself represents only a portion of the market price of cargoes. As a result, we believe that prices for cargoes themselves, and changes therein, do not significantly influence our ability to set or increase the prices we charge to handle such cargoes.

Nevertheless, global economic growth and the increased value of Russian foreign trade has contributed in part to increases in physical cargo volumes we handle. We believe that the current market reflects an excess of demand for our services created by rising physical volumes of Russian exports and imports over the present capacity of our terminals, based on the technology and equipment currently in use and the mix of cargoes we currently handle, combined with external logistics constraints, as discussed below in “—Capacity of Our Facilities and Local Transport Infrastructure”.

It is, however, possible that, in the event of significant adverse changes in macroeconomic trends in the Russian or global business cycle, demand for the cargoes we handle may decrease in terms of physical volume, and may cause a decline in demand for stevedoring services to handle such cargoes. In the event that we are unable to replace such lost cargo volumes with other cargoes to handle, or to replace the foregone revenue associated with such lost volumes, we are likely to experience a decrease in our overall cargo volumes, or in our revenues, or both.

Capacity of Our Facilities and Local Transport Infrastructure

Our ability to increase our revenues in response to the macroeconomic factors currently driving demand for our cargo handling services is constrained by the capacity of our facilities, the scarcity of available waterfront and adjacent land at the Port, the capacity of berths for vessels calling at the Port and the capacity of local rail and road transport infrastructure. At present, our overall capacity to handle cargo may be constrained by the capacity of our terminals, in view of the existing methods, and technology that they use and the current mix of cargoes they handle. For example, many of our dry bulk, general cargo and container facilities are currently operating at or near capacity. Our Sheskhari oil terminal is operating significantly below its maximum theoretical capacity, but absent an increase in Transneft's deliveries of oil to the terminal, which may require an increase in its capacity, we would not be able to materially increase the capacity utilisation of the terminal. We do not know and cannot determine the capacity of Transneft's pipeline to the terminal, and accordingly cannot assess whether an increase in Transneft's capacity would require construction of additional pipeline capacity to the Port, or expansion of Transneft's oil storage and pipeline facilities near the Port, or both. Accordingly, our cargo volumes are currently constrained at approximately 81 million tonnes of cargo per annum, using existing methods and technology and based on the current mix of cargoes handled.

Tonnage of actual throughput capacity of our stevedoring facilities is difficult to determine or forecast, because actual capacity of a facility depends on the mix of cargoes being handled at the relevant time and the technology being used to handle each given cargo type.

We are taking a number of measures to alleviate such capacity constraints. We are currently implementing an investment programme designed to increase our capacity to at least 112 million tonnes of cargo per annum by 2011. See below “—Key Trends—Investment and Capital Expenditure Programme”. Capitalising on our selection to conduct the feasibility study for development of the Novorossiysk transport hub, we also intend to participate in augmenting the local road and rail transport infrastructure so that it can handle the delivery of such increased cargo volumes to and from our facilities at the Port. See below, “—Key Trends—Novorossiysk Transport Hub”. Although these projects require substantial current cash outlays, we believe that the alleviation of such capacity constraints is crucial for our future growth. In addition to these measures, we also seek to increase capacity without significant capital expenditures, such as through the use of new technology and equipment to increase the efficiency of existing facilities.

Multi-Purpose Scope and Flexibility of Our Facilities

We are a multi-purpose port operator with flexible stevedoring facilities capable of handling virtually all kinds of cargoes exported from or imported to Russia. Apart from our Sheskhari oil terminal and our container facilities, our specialised stevedoring facilities for dry bulk, general cargo, granular and liquid cargoes are sufficiently flexible to handle different kinds of cargoes for both export and import with minimal, if any, downtime and expense for retooling. Such flexibility insulates us from seasonal fluctuations in the volumes of certain cargoes we handle, as well as unexpected changes in customer preferences, all of which helps us to maintain high capacity utilisation while limiting bottlenecks. Moreover, even if one of our stevedoring facilities were to experience downtime due to retooling or a drop in demand for the various kinds of cargoes it can handle, the multi-purpose scope of our facilities provides diversification which helps mitigate the impact of such factors on the Group as a whole.

Operational Efficiency of Our Facilities and Optimisation of Cargo Mix

We have increased, and seek to continue to increase, cargo volumes and control costs through technological improvements to our stevedoring facilities and logistics management. Specialised stevedoring equipment in particular is important to increasing efficiency. For example, the newly completed grain terminal employs a high speed conveyor which can load a Panamax class vessel in 72 hours, which permits NZT Grain Terminal to increase its cargo volumes, reduce storage and freight costs to our customers and their clients, and to charge higher prices for its services. Improvements in logistics management can also

increase cargo volumes and reduce freight costs by reducing loading times. Accordingly we are continuing to upgrade our logistics management through such measures as implementing an integrated information management system, more efficiently batching cargoes, and building more all-weather covered facilities for loading and unloading cargoes on or off rail cars.

In addition, we have sought and continue to seek to diversify and optimise the profitability of our cargo mix by increasing the share of high margin cargoes, such as containers, alumina, timber, oil products, grain and other cargoes, handled by our stevedore companies.

Recent Developments

We expect the recent developments described below to affect our financial condition and results of operations in the second half of 2007, and to have a continuing impact on our financial condition and results of operations for the foreseeable future.

Price Increases through Higher Tariffs

We expect that increases in our prices through the significant reduction of discounts and the increase in maximum tariff rates effected in the first half of 2007 will begin to have a materially positive impact on our revenues in the second half of 2007. See “Other Significant Factors Affecting Our Results of Operations—Tariff Rates for Our Services”. We have also recently filed applications for increases in maximum tariff rates for handling certain other cargoes which, if granted and upon our raising prices in line with any increase, would be expected to further contribute to revenue growth in the second half of 2007.

Completion of Grain Terminal

In August 2007, a new state-of-the-art grain terminal at NZT Grain Terminal commenced grain handling in trial operations. All of the terminal’s capacity has been contracted for the upcoming season. The total cost of construction of the grain terminal was approximately US\$82.0 million. The new special-purpose grain terminal, which has the capacity to handle up to approximately 4.0 million tonnes of grain per year (constituting approximately 40% of Russia’s annual grain exports), has been designed to accept grain delivered to the Port by rail or truck for export. In addition, the grain terminal provides services for drying, oiling, filtering and storing grain. We expect the grain terminal to begin contributing to our revenues and profit in the second half of 2007.

Completion of Bunkerage Complex

In May 2007, we completed the construction of a new fuel bunkerage complex for fuel oil and diesel fuel with a direct railroad connection that will facilitate the storage and unloading of up to approximately 600,000 tonnes of fuel oil and 48,000 tonnes of diesel fuel per year. Bunkerage volumes of NCSP Fleet have been growing steadily during the past three years. We believe that the successful completion of this project will position us to significantly increase our market share for bunkerage sales at the Port. We expect the new fuel bunkerage complex to begin contributing to our revenues and profit in the second half of 2007.

Syndicated Term Loan Facility

On 17 July 2007, NCSP entered into an agreement for a US\$118.0 million syndicated term loan facility underwritten and arranged by Bank Austria Creditanstalt AG and CJSC International Moscow Bank (the “Facility”). NCSP 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 Agreement (as defined in “—Liquidity and Capital Resources—Capital Resources—Sberbank Loan Agreement”).

The Facility is unsecured. The outstanding principal amount must be repaid in full at final maturity, which falls 36 months after the signing date of the Facility agreement, and may be prepaid in whole or in part on 10 business days’ notice in US\$5.0 million increments above a minimum prepayment of US\$10.0 million. 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 NCSP 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 Facility is subject to customary representations and warranties, covenants, undertakings and events of default, including change of control, negative pledge and cross-default provisions. The Group does not know of any breach, violation or default of or under such provisions and does not know of any breach,

violation or default that will occur or arise by virtue of the consummation of the Offering as contemplated hereby. In addition, the Group is subject to certain financial covenants measured by reference to the Group's IFRS audited consolidated financial statements, including: (i) from and after 31 December 2006, the ratio of consolidated indebtedness to EBITDA (as defined in the Facility agreement) may not exceed 3.5; (ii) NCSP's tangible net worth ratio must be at least 20%; and (iii) the minimum credit rating attributed to NCSP by Moody's must not be lower than Ba3.

Renegotiation of Sberbank Loans

Our increased scale following the June 2006 restructuring has resulted in increased debt service capacity, which positioned us to renegotiate the terms of several US dollar denominated loans from Sberbank to NCSP and its subsidiaries, as well as the security packages for some of these loans. In particular, we were able to release property, plant and equipment with an aggregate carrying value of US\$26.0 million from pledges, and we significantly reduced our cost of capital by negotiating the following reduced interest rates:

<u>Maturity date</u>	<u>Principal outstanding on 30 June 2007</u> (<u>'000s of US dollars</u>)	<u>Interest rate at 30 June 2007</u>	<u>Interest rate after 1 July 2007</u>
03.08.2011	28,689	9.5%	8.2%
02.08.2011	1,700	9.5%	8.2%
09.09.2011	2,888	9.2%	8.2%
04.06.2010	13,924	8.8%	8.2%
09.11.2010	26,747	9.2%	8.2%
11.07.2011	6,268	9.2%	8.2%
23.12.2009	4,410	8.8%	8.0%
25.03.2010	6,350	8.8%	8.0%

Renegotiation of Insurance Policy

On 1 July 2007, we signed an addendum to our existing insurance agreement with OJSC Russia, a Russian insurance company. Based on the terms of this addendum, the 2007 annual insurance premium was decreased from US\$16.3 million to US\$8.6 million, thereby optimising the structure of our insurance risks. During the six months ended 30 June 2007, insurance premium was accrued based on the insurance agreement effective during the period.

Key Trends

We believe that, in addition to the significant factors and recent developments mentioned above, certain key trends are likely to affect our financial condition and results of operations in the coming years, including increasing demand to ship cargo volumes through our facilities, the progress of our investment and capital expenditure programme to increase our cargo handling capacity in line with the projected increase in demand, and the progress toward construction of additional ground transport capacity to and from the Port. We expect that the persistence or realisation of these trends would be conducive to a general strengthening of our financial condition and results of operations over the medium to long-term, while their discontinuation or failure to materialise could have a material adverse effect on our growth strategy and could lead to a deterioration of our financial condition and results of operations.

Investment and Capital Expenditure Programme

We believe that total annual cargo volumes shipped through our facilities at the Port will increase from approximately 81 million tonnes in 2006 to approximately 112 million tonnes by 2011. It is our objective to increase the capacity of our facilities to handle such additional cargo volume and capture the related additional revenues. Accordingly, we embarked upon an investment programme that began in 2005 and contemplated up to US\$700.0 million of capital expenditures over approximately six years. See "Business—Capital Investment Programme". As at 30 June 2007, approximately US\$362.5 million of that total had already been budgeted for projects approved by NCSP's Board of Directors, and approximately US\$182.5 million of the budgeted amount had already been invested. We expect to fund ongoing capital expenditures relating to this investment programme primarily out of operating cash flows and, if necessary, through debt issuances and bank loans. See below "—Liquidity and Capital Resources".

Novorossiysk Transport Hub

Over the past five years, total annual cargo volumes shipped by us and other operators through the Port have increased from approximately 50 million tonnes to approximately 86 million tonnes in 2006. Of those cargo volumes, approximately 35 million tonnes per annum are shipped via the local railway and highway network, which is working at or close to full capacity.

However, we expect that strong global demand for Russian exports and demand for imports by Russian consumers will increase the demand for cargoes handled through our facilities at the Port to approximately 112 million tonnes by 2011, and that the nature of the additional cargoes would require virtually all of them to be shipped to and from the Port by rail and highway. Local railway and highway capacity constraints therefore constitute a significant obstacle to achieving our objectives for growth in cargo volumes and capturing related revenues.

The Russian government has prioritised the improvement of Russia's transport system by establishing the Federal Target Programme "Modernisation of Russia's Transport System (2002-2010)", and its Sub-Programme "Development of Exports of Transport Services." Under the Sub-Programme, the Ministry of Transportation has established the Project "Complex Development of Novorossiysk Transport Hub", which contemplates, *inter alia*, the development and improvement of the transport infrastructure complex in and around Novorossiysk, including highways, railways and logistics automation. Because increasing the capacity of local ground transport infrastructure to and from the Port is essential for us to achieve our growth objectives, we have sought to play an active role in assisting the government in developing its modernisation programme. In that regard, we won a tender for a government contract to prepare a feasibility study for the Project "Complex Development of Novorossiysk Transport Hub." In December 2006, we entered into this contract with the Ministry of Transport of the Russian Federation and FGUP "Rostransmodernizatsiya," and in September 2007, we submitted our feasibility study to the government. As a result, we have positioned ourselves to be able to influence the nature and pace of the local ground transport infrastructure improvements needed to support our cargo handling capacities and transport requirements.

Oil Transport Infrastructure

The oil shipped through our facilities comes to the Sheskhari terminal via a Transneft trunk pipeline, and is loaded onto tankers that pass through the Turkish Straits on the way to their destinations. Restrictions on shipping through the Turkish Straits and the capacity limitations of the Transneft trunk pipeline constrain us from fully utilising the deep-water berths and loading capacity of the Sheskhari terminal, which, due to the restrictions in the Turkish Straits, currently services tankers of no more than 150,000 deadweight tonnes and handles no more than approximately 50 million tonnes of oil per annum. See "Industry Overview—Types of ships operating to and from the Black Sea".

Results of Operations for the Six Months Ended 30 June 2007 and 30 June 2006

The following table sets forth our results of operations for the six months ended 30 June 2007 and 2006:

	For the six months ended 30 June (unaudited)	
	2007	2006
	('000s of US dollars)	
Revenue	197,932	98,032
Cost of services	(111,595)	(52,934)
Gross profit	86,337	45,098
Selling, general and administrative expenses	(30,565)	(11,362)
Operating profit	55,772	33,736
Share of profit of associates	—	3,011
Investment income	432	3,015
Finance costs	(24,313)	(1,699)
Other income/(expenses), net	6,311	(9,416)
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	2,890	607
Profit before income tax	41,092	29,254
Income tax	(12,549)	(6,915)
Profit for the period	<u>28,543</u>	<u>22,339</u>
Attributable to:		
Equity shareholders	28,133	22,339
Minority interest	410	—

Depreciation is allocated between cost of services and selling, general and administrative expenses. We allocate payroll costs and unified social tax for employees involved in our operations, who represent a significant majority of all our overall work force, to cost of services. We allocate personnel expenses and unified social tax for administrative and management personnel to selling, general and administrative expenses.

Revenue

Our total revenue increased to US\$197.9 million in the first half of 2007, from US\$98.0 million in the first half of 2006. Revenues grew principally due to the inclusion of a full period of revenues of the subsidiaries we acquired in June 2006. To a lesser extent, the increase in our revenues in the first half of 2007 was also attributable to our increase in prices due to significant reduction of discounts from maximum tariff rates, the increase of maximum tariff rates for certain cargoes and setting our prices at the level of such maximum tariff rates, as well as an increase in the proportion of high margin cargoes in our total cargo mix.

The three main operational areas of our business are stevedore services (the handling and storage of liquid, dry bulk, container and general cargo, as well as bunkering), fleet services and ship repair services. Miscellaneous customer services also make a material contribution to our revenues. Prior to our acquisition of control over NCSP Fleet in June 2006, vessel rentals represented a larger portion of our consolidated revenues, as subsequent to the acquisition these revenues are eliminated in consolidation. The following table sets forth a breakdown of revenues across our operations:

Operational Area	For the six months ended 30 June (unaudited)			
	2007		2006	
	(‘000s of US dollars)	(% of revenues)	(‘000s of US dollars)	(% of revenues)
Stevedore services (includes bunkering).	165,708	83.72	91,505	93.34
Fleet services	23,295	11.77	—	—
Other	8,929	4.51	6,527	6.66
Total revenues	<u>197,932</u>	<u>100%</u>	<u>98,032</u>	<u>100%</u>

Cost of Services

Our cost of services increased to US\$111.6 million in the first half of 2007, from US\$52.9 million in the first half of 2006, principally due to the effects of the June 2006 restructuring. Cost of services consists mainly of the direct costs of providing our stevedore, fleet, ship repair and other services. The principal components of cost of services are discussed in detail below:

Our payroll costs increased to US\$30.6 million in the first half of 2007, from US\$14.4 million in the first half of 2006, primarily as a result of adding employees engaged in operating activities onto our consolidated payroll in connection with the June 2006 restructuring.

Our depreciation expenses increased to US\$22.4 million in the first half of 2007, from US\$13.2 million in the first half of 2006. The increase in depreciation expense was primarily attributable to the acquisition of property, plant and equipment in connection with the June 2006 restructuring.

Our fuel costs increased to US\$24.1 million in the first half of 2007, from US\$1.2 million in the first half of 2006. These costs primarily represent the cost of fuel purchased by NCSP Fleet for resale to clients when providing bunkering services (providing fuel, oil, water and other supplies to ships). The increase in fuel costs is therefore principally attributable to the fact that we consolidated NCSP Fleet’s results for the full first half of 2007, whereas we had accounted for our interest in NCSP Fleet under the equity method for most of the first half of 2006, until it came under our control on 14 June 2006.

Our insurance costs increased to US\$10.6 million in the first half of 2007, from US\$7.6 million in the first half of 2006, principally due to the acquisition of additional facilities and equipment and expanded operations as a result of the June 2006 restructuring.

Our unified social tax costs increased to US\$6.1 million in the first half of 2007, from US\$3.2 million in the first half of 2006, as a result of adding additional employees and related expenses after the June 2006 restructuring.

Our repair and maintenance costs increased to US\$5.5 million in the first half of 2007, from US\$2.6 million in the first half of 2006, primarily due to the addition, following the June 2006 restructuring, of repair and maintenance costs for NSRZ Ship Repair Yard, NCSP Fleet and NLE Timber & Container Terminal, the main fixed assets of which require regular repair and technical maintenance.

Our costs for raw materials (principally metal used in ship repair operations and binding and packaging materials used in cargo handling) costs increased to US\$4.0 million in the first half of 2007, from US\$2.8 million in the first half of 2006, due to the addition of costs of the entities newly consolidated in connection with the June 2006 restructuring.

Our rental costs for leasing berths and land from the government decreased to US\$ 2.7 million in the first half of 2007, from US\$ 3.5 million in the first half of 2006, primarily due to a decrease in rental rates.

Our energy and utilities costs increased to US\$2.3 million in the first half of 2007, from US\$0.8 million in the first half of 2006, due in part to the June 2006 restructuring and in part due to increased energy tariffs, both of which were partially offset by more efficient utilisation of energy following the restructuring.

Our subcontractor expense increased to US\$1.2 million in the first half of 2007, from US\$0.7 million in the first half of 2006, principally because most of our approximately 30 subcontractors work for NSRZ Ship Repair Yard providing vessel repair services, which was consolidated only from 14 June 2006, the date of acquisition.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased to US\$30.6 million in the first half of 2007, from US\$11.4 million in the first half of 2006, principally due to the effects of the June 2006 restructuring. Selling, general and administrative expenses consist mainly of our indirect service expenses, the principal components of which are discussed in detail below:

Our personnel expenses for management increased to US\$10.7 million in the first half of 2007, from US\$3.2 million in the first half of 2006, due to the addition of new employees after the June 2006 restructuring.

Our taxes other than income tax increased to US\$4.1 million in the first half of 2007, from US\$1.7 million in the first half of 2006 due to the additional tax expenses of our subsidiaries we acquired in the June 2006 restructuring.

Our charitable expenses increased to US\$2.1 million in the first half of 2007, from US\$1.0 million in the first half of 2006, as a result of adding the charitable giving programmes of our subsidiaries we acquired in the June 2006 restructuring.

Our depreciation and amortisation expenses increased to US\$2.1 million in the first half of 2007, from US\$0.2 million in the first half of 2006. The increase in depreciation and amortisation expenses was primarily attributable to the acquisition of additional management facilities of subsidiaries acquired in the June 2006 restructuring.

Our unified social tax costs increased to US\$1.5 million in the first half of 2007, from US\$0.3 million in the first half of 2006, as a result of adding additional employees and the consolidation of expenses after the June 2006 restructuring.

Share of Profit of Associates

We had no associates, and thus no share of profit of associates, in the first half of 2007, compared with US\$3.0 million in the first half of 2006. The amount for the first half of 2006 reflects the Group's share of profits of NCSP Fleet and IPP from 1 January to 13 June 2006 while they were still associates.

Investment Income

Our investment income decreased to US\$0.4 million in the first half of 2007, from US\$3.0 million in the first half of 2006. We received significantly less interest income on deposits in the first half of 2007, because we had significantly less cash for investment purposes following the June 2006 restructuring and increased capital expenditures relating to the implementation of our investment programme.

Finance Costs

Our finance costs increased to US\$24.3 million in the first half of 2007, from US\$1.7 million in the first half of 2006, principally due to interest expense arising from the US\$450.0 million loan we borrowed from

Sberbank to pay for the acquisition costs relating to the June 2006 restructuring. In addition, we incurred a US\$4.3 million loss on early repayment of debt in the first half of 2007.

Other Income/(Expenses), net

We had other income of US\$6.3 million in the first half of 2007, as compared with other expenses of US\$9.4 million in the first half of 2006. The change is principally due to the decline in the value of the US dollar against the rouble during both periods. In the first half of 2007, we had significant amounts of outstanding indebtedness under US dollar-denominated loans, and accordingly we incurred lower expenses in rouble terms when making payments in respect of such indebtedness. Conversely, the decline in the value of the US dollar against the rouble during the first half of 2006 resulted in significant other expenses in part because we held significant amounts of cash in US dollar-denominated accounts during that period.

Income Tax

Our income tax increased to US\$12.5 million in the first half of 2007, from US\$6.9 million in the first half of 2006. Russian income tax is calculated at 24% of a company's estimated assessable yearly profit based on its stand-alone Russian tax accounts. The increase was due to the corresponding increase in our profit before tax and the amount of profit assessable for tax purposes in the first half of 2007 as compared with the first half of 2006.

Results of Operations for the Years Ended 31 December 2006 and 31 December 2005

The following table sets forth our results of operations for the years ended 31 December 2006 and 31 December 2005.

	For the year ended 31 December	
	2006	2005
	('000s of US dollars)	
Revenue	277,277	189,246
Cost of services	(172,897)	(101,997)
Gross profit	104,380	87,249
Selling, general and administrative expenses	(33,979)	(20,540)
Operating profit	70,401	66,709
Share of profit of associates	3,065	2,500
Investment income	4,542	6,906
Finance costs	(22,703)	—
Other income, net	1,813	2,099
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	618	—
Profit before income tax	57,736	78,214
Income tax	(13,647)	(20,935)
Profit for the year	<u>44,089</u>	<u>57,279</u>
Attributable to:		
Equity shareholders	44,469	57,279
Minority interest	(380)	—

Depreciation is allocated between cost of services, and selling, general and administrative expenses. We allocate payroll costs and unified social tax for employees involved in our operations, who represent a significant majority of all our overall work force, to cost of services. We allocate personnel expenses and unified social tax for administrative and management personnel to selling, general and administrative expenses.

Revenue

Our total revenue increased to US\$277.3 million in fiscal year 2006 from US\$189.2 million in fiscal year 2005. The significant increase in revenue during fiscal year 2006 was attributable primarily to the inclusion of the revenue of our subsidiaries we acquired in the June 2006 restructuring when they were consolidated

for the first time in our financial results. Those subsidiaries contributed US\$85.1 million to our revenue from 14 June 2006 to 31 December 2006. The following table sets forth a breakdown of revenues across our business operations.

Operational Area	For the year ended 31 December			
	2006		2005	
	<i>(‘000s of US dollars)</i>	<i>(% of revenues)</i>	<i>(‘000s of US dollars)</i>	<i>(% of revenues)</i>
Stevedore services	244,746	88.27%	184,139	97.30%
Fleet services	22,369	8.07%	—	—
Ship repair services	4,032	1.45%	—	—
Vessel rental	2,742	0.99%	5,107	2.70%
Other services	3,388	1.22%	—	—
Total revenues	<u>277,277</u>	<u>100%</u>	<u>189,246</u>	<u>100%</u>

Cost of Services

Our cost of services increased to US\$172.9 million in fiscal year 2006 from US\$102.0 million in fiscal year 2005, principally due to the effects of the June 2006 restructuring. The principal components of cost of services are discussed in detail below:

Our payroll costs increased to US\$42.4 million in fiscal year 2006 from US\$29.3 million in fiscal year 2005 primarily as a result of adding employees engaged in operating activities onto our consolidated payroll in connection with the June 2006 restructuring.

Our depreciation expenses increased to US\$36.6 million in fiscal year 2006 from US\$26.8 million in fiscal year 2005. The increase in depreciation expense was primarily attributable to the acquisition of property, plant and equipment in connection with the June 2006 restructuring.

Our fuel costs were US\$20.9 million in fiscal year 2006, substantially all of which was attributable to NCSP Fleet, which incurred fuel costs in connection with the provision of its bunkering services. Prior to the June 2006 restructuring, the Group did not have significant fuel costs as NCSP Fleet was accounted for as an associate.

Our insurance costs increased to US\$18.1 million in fiscal year 2006 from US\$14.8 million in fiscal year 2005, principally due to the acquisition of additional facilities and equipment and expanded operations as a result of the June 2006 restructuring.

Our unified social tax costs increased to US\$7.9 million in fiscal year 2006 from US\$5.9 million in fiscal year 2005 as a result of adding additional employees and related expenses after the June 2006 restructuring.

Our repair and maintenance costs increased to US\$12.6 million in fiscal year 2006 from US\$8.6 million in fiscal year 2005 primarily due to the addition in fiscal year 2006 of repair and maintenance costs for NSRZ Ship Repair Yard, NCSP Fleet and NLE Timber & Container Terminal, the main fixed assets of which require regular repair and technical maintenance.

Our costs for raw materials (principally metal used in ship repair operations and binding and packaging materials used in cargo handling) increased to US\$9.1 million in fiscal year 2006 from US\$4.7 million in fiscal year 2005 due to the addition of costs of the entities newly consolidated in connection with the June 2006 restructuring.

Our rental costs (primarily for hydrotechnical infrastructure, such as piers and berths, and for land leased from the State) increased to US\$10.0 million in fiscal year 2006 from US\$5.7 million in fiscal year 2005 primarily as a result of the June 2006 restructuring.

Our energy and utilities costs increased to US\$5.7 million in fiscal year 2006 from US\$4.6 million in fiscal year 2005 in part due to the June 2006 restructuring and in part due to increased energy tariffs, both of which were partially offset by more efficient utilisation of energy following the restructuring.

Our subcontractor expense in fiscal year 2006 was US\$2.5 million. Most of our approximately 30 subcontractors work for the newly consolidated NSRZ Ship Repair Yard providing vessel repair services. Our subcontractor expenses in fiscal year 2005 were negligible.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased to US\$34.0 million in fiscal year 2006 from US\$20.5 million in fiscal year 2005, principally due to the effects of the June 2006 restructuring. The principal components of our selling, general and administrative expenses for the periods under review are discussed in detail below:

Our personnel expenses for administrative employees increased to US\$10.5 million in fiscal year 2006 from US\$4.0 million in fiscal year 2005 due to the addition of new employees after the June 2006 restructuring.

Our taxes other than income tax increased to US\$6.8 million in fiscal year 2006 from US\$3.1 million in fiscal year 2005 due to the additional tax expenses of our subsidiaries we acquired in the June 2006 restructuring.

Our professional services expenses, which include expenses for auditors, consultants, appraisers and legal services, decreased to US\$4.0 million in fiscal year 2006 from US\$4.2 million in fiscal year 2005. NCSP incurred consulting fees during fiscal year 2005 to develop its consolidation plan which was implemented through the June 2006 restructuring. The decrease in professional services during fiscal year 2006 reflects that upon completion of the restructuring mid-year, we had no ongoing projects requiring significant amounts of professional services, and accordingly incurred fewer expenditures therefor.

Our transport expenses increased slightly to US\$3.5 million in fiscal year 2006 from US\$3.3 million in fiscal year 2005. Transport expenses increased proportionally to our increased cargo volumes during fiscal year 2006, which in turn were primarily due to the June 2006 restructuring, the amount of which was offset by the acquisition of additional transport equipment in the June 2006 restructuring, which reduced our transport expenses.

Our charitable expenses increased to US\$3.4 million in fiscal year 2006 from US\$2.5 million in fiscal year 2005 as a result of adding the charitable giving programmes of our subsidiaries we acquired in the June 2006 restructuring.

Our depreciation and amortisation expenses increased to US\$2.0 million in fiscal year 2006, from US\$0.3 million in fiscal year 2005. The increase in depreciation and amortisation expenses was primarily attributable to the acquisition of additional management facilities of subsidiaries acquired in the June 2006 restructuring.

Our unified social tax costs increased to US\$1.1 million in fiscal year 2006, from US\$0.3 million in fiscal year 2005, as a result of adding additional employees and the consolidation of expenses after the June 2006 restructuring.

Share of Profit of Associates

Our share of profit of our associates increased to US\$3.1 million in fiscal year 2006 from US\$2.5 million in fiscal year 2005. The increase in the share of profit of associates in 2006 over 2005 is due to the increase in the operating results of our associates NSCP Fleet and IPP during the first six months of June 2006.

Investment Income

Our investment income decreased to US\$4.5 million in fiscal year 2006 from US\$6.9 million in fiscal year 2005. The decrease was due to significantly lower levels of interest bearing deposits in fiscal year 2006 because we had significantly less cash for investment purposes during fiscal year 2006 as compared to fiscal year 2005 following the June 2006 restructuring.

Finance Costs

Our finance of US\$22.7 million in fiscal year 2006 consisted primarily of interest expense during the second half of 2006 under the Sberbank Loan Agreement (as defined in “—Liquidity and Capital Resources—Capital Resources—Sberbank Loan Agreement”) and the other loan agreements described under “—Liquidity and Capital Resources”. We did not have any finance costs during fiscal year 2005.

Other Income, net

Our other income decreased to US\$1.8 million in fiscal year 2006 from US\$2.1 million in fiscal year 2005. Other gains and losses in fiscal year 2006 consisted of disposal of NCSP's investment in PromFinService

Bank in May 2006, which resulted in the recognition of a US\$0.1 million loss, and the disposal of NCSP's shareholdings in JSC Novorossiysk Loading Complex, which resulted in the recognition of a US\$0.3 million gain. Other net income in fiscal year 2006 included a foreign exchange gain of US\$5.4 million, which was an increase from US\$3.4 million in fiscal year 2005.

Income Tax

Our income tax expense decreased to US\$13.6 million in fiscal year 2006 from US\$20.9 million in fiscal year 2005. The decrease was mainly caused by the change in the profit before tax amount.

Liquidity and Capital Resources

We expect to have significant ongoing capital requirements to finance our growth strategy, particularly cash outlays for capital expenditures relating to our investment programme. See “—Key Trends and Recent Developments—Investment and Capital Expenditure Programme”. We also expect to have capital requirements to finance interest payments, repayment of debt, changes in working capital and general corporate activities.

We expect to be able to meet our capital requirements primarily out of our operating cash flows and, if necessary, through debt financing arrangements with commercial banks. The availability of debt financing is influenced by many factors, including our profitability, operating cash flows, consolidated indebtedness levels, credit ratings, contractual restrictions and market conditions. Accordingly there can be no assurance that we will be able to continue to obtain adequate debt financing in the future, as discussed more fully in “Risk Factors—Risks Relating to our Business—We may be unable to fund our capital investment programme to completion if cash flows from operating activities are substantially lower than anticipated or if we are unable to raise additional cash through our financing activities.”

Capital Commitments

As at 30 June 2007 we had commitments to acquire property, plant and equipment and construction works in an aggregate amount of US\$120.7 million, broken down as follows:

	<u>As at 30 June 2007</u>
	<u>(‘000s of US dollars)</u>
NCSP	87,652
NLE Timber & Container Terminal	25,096
NZT Grain Terminal	5,670
IPP	1,265
NSRZ Ship Repair Yard	<u>1,012</u>
Total	<u><u>120,695</u></u>

Capital Resources

As at 30 June 2007, we had total consolidated loans and borrowings of US\$533.4 million, of which US\$532.5 million was denominated in US dollars and US\$0.9 million was denominated in roubles. The following table sets forth certain information relating to these loans and borrowings as at 30 June 2007⁽¹⁾.

	<u>Currency</u>	<u>Contractual maturity date</u>	<u>Interest Rate (per annum)</u>	<u>Amount outstanding (‘000s of US dollars)</u>
Long-term				
<i>Bonds</i>				
Loan Participation Notes	USD	17 May 2012	7%	296,014
<i>Bank loans</i> ⁽²⁾				
Sberbank Loan Agreement ⁽³⁾	USD	11 June 2009	8.8-9.2%	117,692
Sberbank Credit Agreement. No. 9365/314/06	USD	3 August 2011	9.5%	28,689
Sberbank Credit Agreement No. 134 ⁽⁴⁾	USD	9 November 2010	9.2%	26,747
Sberbank Credit Agreement No. 068	USD	4 June 2010	8.8%	13,924
Sberbank loan	USD	25 March 2010	8.8%	6,350
Sberbank loan	USD	11 July 2011	9.2%	6,268
Sberbank loan	USD	23 December 2009	8.8%	4,410
Sberbank loan	USD	16 December 2011	8.8-9.2%	4,300
International Moscow Bank (IMB) loan ..	USD	12 September 2011	8.95%	3,025
Sberbank loan	USD	9 September 2011	9.2%	2,888
Sberbank loan	USD	2 August 2011	9.5%	1,700
Sberbank loan	USD	16 December 2011	8.8-9.2%	1,685
Loans from related parties		1 February 2012	0.5-6.0%	3,189
Other				39
Total long-term				516,920
Short-term				
Current portion of long-term loans				14,201
Loans from related parties				431
Other				634
Current portion of finance lease liability ...				1,232
Total short-term				16,498
Total debt				533,418

(1) We have renegotiated the interest rates of several of our US dollar denominated loans. See “—Recent Developments—Renegotiation of Sberbank Loans.”

(2) Our increased scale following the June 2006 restructuring has resulted in increased debt service capacity, which positioned us to renegotiate the interest rate on several loans from Sberbank to NCSP and its subsidiaries. See also “—Recent Developments—Renegotiation of Sberbank Secured Loans.”

(3) The principal amount of US\$117.7 million outstanding as at 30 June 2007 under the Sberbank Loan Agreement was repaid in full on 19 July 2007, using the net proceeds of the Facility. The outstanding principal amount of the Facility, which was US\$118.0 million as at 17 July 2007, matures on 17 July 2010 and currently bears interest at a rate of one month US dollar LIBOR plus 1.60% (which may decrease to 1.40% under certain circumstances).

(4) Until November 2007, after which the rate becomes 8.8%.

Certain additional details of our material borrowings as at 30 June 2007 are set out below.

Loan Participation Notes

On 17 May 2007, Novorossiysk Port Capital S.A., a special purpose vehicle consolidated with the Group’s financial statements, issued 7% Loan Participation Notes due 2012 (the “Loan Participation Notes”) in an aggregate principal amount of US\$300.0 million for the sole purpose of financing a loan to NCSP (the “Loan Participation Note Loan”) in the same amount, with the same maturity and bearing the same rate of interest. NCSP applied the proceeds of the Loan Participation Note Loan to repay a portion of the outstanding principal amount of the loan under the Sberbank Loan Agreement.

Interest on the Loan Participation Notes and the Loan Participation Note Loan is payable semi-annually on 17 November and 17 May of each year. The Loan Participation Notes and the Loan Participation Note Loan are subject to provisions common for high-yield debt facilities and include 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 NCSP being required to prepay the Loan Participation Note Loan, and Novorossiysk Port Capital S.A. being required to prepay the Loan Participation Notes, at 101% of par value. NCSP does not know of any breach, violation or default of or under such provisions and does not know of any breach, violation or default that will occur or arise by virtue of the consummation of the Offering as contemplated hereby.

Sberbank Loan Agreement

NCSP entered into a Non-Revolving Loan Agreement No. 3620 with Sberbank on 14 June 2006 (the “Sberbank Loan Agreement”) for a non-revolving credit line in an aggregate principal amount of US\$450.0 million. The full amount of the credit line was drawn by NCSP on that date and used to purchase shares of IPP, NCSP Fleet, NZT Grain Terminal, NSRZ Ship Repair Yard, NLE Timber & Container Terminal and Baltic Stevedore Co., as described under “—Significant Acquisitions and Restructuring”. The loan under the Sberbank Loan Agreement was repaid in full from the proceeds of the Loan Participation Notes, the proceeds of the Facility and our own funds, and the Sberbank Loan Agreement was terminated on 19 July 2007. The loan under the Sberbank Loan Agreement had been secured by a pledge of all of the shares in our subsidiaries we acquired in the June 2006 restructuring, as well as a pledge by certain of NCSP’s principal shareholders of 9,629,907,701 Ordinary Shares, representing just over 50% of the Ordinary Shares, of NCSP. These pledges were released and the pledge agreements terminated on 19 July 2007.

Sberbank Credit Agreement No. 9365/314/06

NLE Timber & Container Terminal entered into a Credit Agreement with Sberbank on 14 August 2006 (“Credit Agreement No. 9365/314/06”) for a term loan in the aggregate principal amount of US\$40.3 million to finance its project to reconstruct its container facilities and related infrastructure to increase its container handling capacity. See above “—Key Trends and Recent Developments—Investment and Capital Expenditure Programme”. The loan under Credit Agreement No. 9365/314/06 matures on 3 August 2011.

The interest rate varies from 9.5 to 10.5%. The weighted-average interest rate is determined in relation to the amounts available for financing and standing to the credit of an account as cover of letters of credit to the extent that transfer of such amounts to a foreign bank is not required. The agreement provides for a special interest rate from 2.5 to 3.5% per annum charged on the balance on any outstanding letters of credit (the base interest rate (9.5 to 10.5%) is not charged on the balance of any such letters of credit). NLE Timber & Container Terminal pays monthly interest payments together with a monthly “usage fee” in the amount of 0.3% per annum of the available (undrawn) credit balance, which applies if disbursements are made in tranches rather than one upfront payment. If the entire principal credit amount is disbursed as a lump sum, the “usage fee” equals zero. The credit amount was disbursed to the borrower in tranches in accordance with the grain terminal’s construction payment schedule. The agreement also provides for monthly payments of a “reservation fee” in the amount of 0.5% per annum of the available (undrawn) tranche balance, which is subject for payment if the main interest rate (9.5% to 10.5%) is not paid.

As security for Credit Agreement No. 9365/314/06, NLE Timber & Container Terminal pledged to Sberbank certain real property, and Sberbank has a right to require additional pledged collateral should the outstanding principal and interest amount exceed the value of the pledged assets. NLE Timber & Container Terminal may not sell, mortgage, pledge and lease the mortgaged properties without Sberbank’s prior written consent. Sberbank also has the right to require the mortgage or pledge of additional collateral should the outstanding principal and interest amount exceed the value of the collateral then mortgaged or pledged in favour of Sberbank.

Sberbank Credit Agreement No. 134

NZT Grain Terminal entered into a Credit Agreement with Sberbank on 23 November 2005 (“Credit Agreement No. 134”) for a term loan in the aggregate principal amount of US\$32.2 million to finance NZT Grain Terminal’s construction payments on its recently completed grain terminal. See “—Recent Developments—Completion of Grain Terminal”. The loan under Credit Agreement No. 134 matures on 9 November 2010. The base annual interest rate is 9.2% during the first and second years, which is reduced to 8.8% for the final three years. NZT Grain Terminal makes service fee and interest payments monthly and principal payments as provided in the agreement.

NCSP provided a guarantee in favour of Sberbank as security for Credit Agreement No. 134. NZT Grain Terminal entered into a mortgage agreement dated 20 January 2006 to secure its obligations under Credit Agreement No. 134. The mortgage agreement provides for the mortgage of title to four land plots and lease rights in respect of two additional land plots. NZT Grain Terminal may not sell, mortgage, pledge and lease the mortgaged properties without Sberbank's prior written consent. NZT Grain Terminal must keep a register of mortgages/pledges. Sberbank also has the right to require the mortgage or pledge of additional collateral should the outstanding principal and interest amount exceed the value of the collateral then mortgaged or pledged in favour of Sberbank. In addition, Sberbank has direct debit rights over the accounts of NZT Grain Terminal and NCSP with Sberbank and other financial institutions.

Sberbank Credit Agreement No. 068

NZT Grain Terminal entered into a Credit Agreement with Sberbank on 9 June 2005 ("Credit Agreement No. 068") to provide a 16-month irrevocable letter of credit in the aggregate principal amount of US\$16.8 million in favour of East Point Holdings Limited as security for NZT Grain Terminal's payments to it under a supply contract dated 8 October 2004. Credit Agreement No. 068 matures on 4 June 2010. The base annual interest rate is 9.2% during the first and second years, which is reduced to 8.8% for the final three years. NZT Grain Terminal makes service fee and interest payments monthly and principal payments as provided in the agreement.

NCSP provided a guarantee in favour of Sberbank as security for Credit Agreement No. 068. NZT Grain Terminal also secured its obligations under Credit Agreement No. 068 by entering into the following security arrangements:

- mortgage agreement No. 068 dated 5 August 2005 for the mortgage of title to four land plots;
- mortgage agreement No. 068 dated 7 September 2005 for the mortgage of its 49-year lease rights in respect of two land plots; and
- pledge agreement No. 068/01 dated 9 June 2005 for the pledge of its contract rights under the East Point Holdings supply contract.

NZT Grain Terminal may not sell, mortgage, pledge and lease the mortgaged or pledged properties without Sberbank's prior written consent. NZT Grain Terminal must keep a register of mortgages/pledges. Sberbank also has the right to require the mortgage or pledge of additional collateral should the outstanding principal and interest amount exceed the value of the collateral then mortgaged or pledged in favour of Sberbank.

Contractual Commitments

The following table summarises our contractual obligations and commitments, which principally include obligations associated with our future minimum lease obligations, long-term debt and commitments to acquire property plant and equipment as of 30 June 2007:

	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>More than 5 years</u>	<u>TOTAL</u>
	('000s of US dollars)				
Operating lease obligations ⁽¹⁾	1,738	6,954	6,344	90,076	105,112
Finance lease obligations	1,232	—	—	—	1,232
Property, plant and equipment acquisition commitments ⁽²⁾	120,695	—	—	—	120,695
Loan Participation Notes	—	—	296,014	—	296,014
Bank loans ⁽³⁾	<u>132,958</u>	<u>63,376</u>	<u>39,838</u>	<u>—</u>	<u>236,172</u>
Total ⁽⁴⁾	<u>255,558</u>	<u>71,395</u>	<u>342,196</u>	<u>90,076</u>	<u>759,225</u>

(1) Represents non-cancellable operating leases with initial terms in excess of one year. Operating lease arrangements relate to the lease of land and mooring installations from the Russian State. These arrangements have 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.

(2) Represents the Group's commitments to acquire property, plant and equipment and construction works.

(3) In the table above, due in less than one year includes the current portion of long-term debt of US\$14.2 million (which does not include finance lease obligations which are presented separately) US\$1.1 million of short-term loans and the principal amount of US\$117.7 million of the Sberbank Loan Agreement, which was repaid in full on 19 July 2007 using the net proceeds of the Facility.

(4) This table does not reflect purchase orders entered into in the normal course of business, amounts associated with the Group's employee benefit plans nor interest to be paid on long-term debt.

Cash Flows

The following table sets forth our cash flows for the periods indicated.

	For the six months ended 30 June		For the year ended 31 December	
	2007	2006	2006	2005
	('000s of US dollars)			
Net cash generated by operating activities	59,029	35,248	82,856	78,398
Net cash flows used in investing activities	(38,802)	(429,991)	(539,931)	(97,322)
Net cash flows from/(used in) financing activities	(1,658)	428,578	446,456	(9,995)
Net increase/(decrease) in cash and cash equivalents	18,569	33,835	(10,619)	(28,919)
Cash and cash equivalents at beginning of the period	37,037	43,915	43,915	75,519
Effect of translation of cash and cash equivalents to presentation currency	(4,987)	3,542	3,741	(2,685)
Cash and cash equivalents at the end of the period	50,619	81,292	37,037	43,915

Net cash flows generated by operating activities

Net cash inflows from our operating activities were US\$59.0 million for the six months ended 30 June 2007, compared with US\$35.2 million for the six months ended 30 June 2006. The increase from the first half of 2006 to the first half of 2007 is attributable in part to the net contribution of the companies acquired in the June 2006 acquisitions, in part to our increase in prices due to significant reduction of discounted tariff rates, and in part to the increase in the maximum tariff rates for oil and certain other cargoes and setting our prices at the level of such maximum tariff rates.

Net cash inflows from our operating activities increased to US\$82.9 million in 2006, compared with US\$78.4 million in 2005. The increase from 2005 to 2006 is principally attributable to the net contribution of the companies acquired in the June 2006 acquisitions, and would have been more pronounced but for a US\$21.3 million interest payment charged to net operating cash flows in 2006.

Net cash flows used in investing activities

Net cash used in our investing activities was US\$38.8 million for the six months ended 30 June 2007, compared with US\$430.0 million for the six months ended 30 June 2006. Net cash used in our investing activities increased to US\$539.9 million in 2006, compared with US\$97.3 million in 2005. The relatively high level of net investing cash outflows for the first half of 2006 and the fiscal year 2006 is principally attributable to the US\$537.6 million of cash consideration paid for the June 2006 acquisitions. Net investing cash outflows during the periods under review were also increased by cash outlays for our investment programme, of which US\$38.8 million was invested in the first half of 2007, US\$539.9 million was invested in the fiscal year 2006, US\$430.0 million was invested in the first half of 2006 and US\$97.3 million was invested in the fiscal year 2005. The difference between the net cash outflows from investing activities in 2006 and 2005 would have been even more pronounced, but for the fact that net cash outflows from investing activities in 2005 were increased by a purchase of US\$57.3 million of short-term investments, which when sold in 2006 generated a cash inflow of US\$61.2 million.

Net cash flows from/(used in) financing activities

Net cash used in our financing activities was US\$1.7 million for the six months ended 30 June 2007, compared with net cash inflows of US\$428.6 million for the six months ended 30 June 2006. As compared with the first half of 2006, when we drew down the US\$450.0 million Sberbank Loan Agreement in full, in the first half of 2007 the cash inflow from the proceeds of the US\$300.0 million Loan Participation Notes and related Loan was offset by an equivalent cash outflow when we used those proceeds to repay amounts outstanding under the Sberbank Loan Agreement.

Net cash inflows from our financing activities amounted to US\$446.5 million in 2006, compared with net cash outflows of US\$10.0 million in 2005. The net cash inflow in 2006 is due principally to our borrowings under the US\$450.0 million Sberbank Loan Agreement and the US\$40.3 million Credit Agreement No. 9365/314/06. The net cash outflow in 2005 is principally attributable to our annual dividend which, in accordance with our dividend policy, is targeted to be approximately US\$10 million.

Provisions and Contingencies

Taxation

Many issues associated with the practical implication of Russian tax legislation are unclear, which complicates our tax planning and related business decisions. See “Risk Factors—Risk Relating to the Russian Legal System and Russian Legislation—“Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs”.

While we believe that we have adequately paid or accrued all tax liabilities based on our interpretation of current and previous legislation, Russian tax authorities could take differing positions with regard to interpretive issues. This uncertainty may expose us to additional taxation, fines and penalties that could be significant. As at 30 June 2007, we have estimated an aggregate amount of US\$0.7 million possible contingent liabilities associated with potential tax claims that could have been made against us. Tax claims in addition to these have been made against us and are outstanding; however, our liability in connection with such claims, and the potential amount of such liability, if any arises, cannot reasonably be determined as at 30 June 2007. Accordingly, we have not made provision for contingent liabilities in connection with such additional tax claims.

Environmental matters

We believe that we have a strong environmental record, and in recent years we have not experienced in our operations any events causing significant environmental damage.

We are subject to extensive federal and local environmental controls and regulations. While we believe that our operations are conducted in compliance with all current Russian environmental laws and regulations, environmental laws and regulations continue to evolve, and prosecutors and environmental regulators are increasingly vigorous in their application and administration of such laws and regulations. See “Risk Factors—Risks Relating to Our Business—More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our results of operations and we may be subject to environmental liabilities in connection with properties owned and/or leased by us”.

We seek to take appropriate precautionary measures at the Port in respect of health, safety and environmental matters, and to maintain appropriate accident response capabilities. However, in the event of an oil or chemical spill, fire or other accident causing or threatening damage to property or the environment or harm to human life or health, even a successful containment or other response may not fully insulate us from clean up costs, fines or penalties that could be significant.

Operating lease arrangements

Operating lease arrangements relate to the lease of land and hydrotechnical infrastructure (principally, berths and piers) from the State. These arrangements generally have lease terms of 49 years, with a minority having terms ranging 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 hydrotechnical infrastructure at the expiry of the lease period.

Market Risk

In the normal course of our operations, we are exposed to credit, currency, liquidity and interest rate risks. We have implemented a risk management structure and adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Credit Risk

Credit risk is the risk that a customer or supplier may not meet its obligations to us on a timely basis, or at all, thereby causing us a financial loss. Shippers, and the cargo expeditors acting on their behalf, have few alternatives to using our services because of our monopoly position at the Port, which constitutes a strong incentive to pay for our services on a timely basis. We are likewise in an advantageous position relative to shipping lines seeking allocations of pier time at our berths. Nevertheless, we actively seek to mitigate credit risks, including through requiring prepayment.

Concentration

In 2006, approximately 78% of our gross sales revenues were received from fifteen expeditor companies, which act as agents for many individual cargo shippers. Our counterparty concentration in the first half of 2007 remained at approximately the same level. Although there are many cargo expeditors with whom we could contract, we seek to deal with only the most reputable and creditworthy. Accordingly, we consider that this level of counterparty concentration is balanced by the performance benefits of dealing with such counterparties.

Performance

We seek to mitigate the risk of non-performance on our contracts is mitigated by requiring prepayment (not later than the month in which services are rendered) for all of our stevedore services, by selectively dealing with expeditors and other shippers whom we deem reputable and creditworthy and by requiring customers to collateralise their payment obligations (e.g., with a bank guarantee) where we deem appropriate.

We also seek to manage performance risks on contracts with expeditors or shippers of cargoes with volatile cargo volumes by imposing penalties for failure to meet minimum cargo volumes. Such penalties are intended to reflect the profit margin implied by our tariffs, and therefore insulate us to a certain extent from non-performance by our counterparties.

Currency Risk

Currency risk is the risk that our financial condition or results of operations will be adversely impacted by changes in exchange rates to which we are exposed.

Cash flow mismatches

Sixty-five per cent. of our revenues in 2006, and 76% in 2005, were linked to US dollars and the majority of our operating costs are denominated and paid in roubles. Accordingly, our operating cash inflows may be adversely impacted by a substantial appreciation of the rouble against the US dollar and positively impacted by a substantial depreciation of the rouble against the US dollar. On the other hand, almost all of our borrowings are denominated in US dollars and, accordingly, the negative impact on our operating cash inflows due to rouble appreciation against the US dollar is offset to a certain extent by the positive impact on our US dollar-denominated debt service cost when translated into roubles.

Translation gains and losses

Our presentation currency is the US dollar, while our functional currency is the rouble. Nominal depreciation of the rouble against the US dollar results in a decrease in the reported US dollar value of our assets (and liabilities) and nominal appreciation of the rouble against the US dollar results in an increase in the reported US dollar value of our assets (and liabilities). Moreover, nominal appreciation and depreciation of the rouble against the US dollar have a similar effect when our income statements are translated into US dollars in connection with the preparation of IFRS consolidated financial statements. For example, we recognised a reduction of US\$5.0 million in our net cash position due to translation from our functional currency to our presentation currency in the first half of 2007 as the rouble appreciated against the US dollar, whereas we recognised an increase of US\$3.5 million in our net cash position due to such translations in the first half of 2006 when the rouble depreciated against the dollar.

Hedging

The rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR.

We did not enter into any foreign currency hedging contracts during the first half of 2007 or during the fiscal years 2006 or 2005. However, as noted above, we do seek to match the currencies of our cash inflows and outflows to the extent reasonably practicable.

Liquidity Risk

Liquidity risk is the risk that we will not be able to settle all of our liabilities as they fall due. We carefully monitor and manage our liquidity position, and we have in place a detailed budgeting and cash forecasting process to help ensure that we have adequate cash available to meet our payment obligations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely impact our financial results. With the exception of the Facility, all of our borrowings are subject to fixed interest rates.

Management mitigates this risk by frequently monitoring the changes between floating and fixed interest rates and considers refinancing borrowings whenever possible if the interest rate environment has moved against our interests. During 2006, we successfully refinanced several instruments at a lower rate and reduced the interest rate on another current loan. In the first half of 2007, we also successfully refinanced a portion of the 8.8% Sberbank Loan Agreement with the proceeds of the 7% Loan Participation Note Loan.

We entered into the Facility after the date of the most recent balance sheet. The Facility is a floating rate instrument bearing monthly interest at a rate of one month US dollar LIBOR plus 1.60%. The Facility exposes us to the risk of increased interest if floating interest rates increase. If one month US dollar LIBOR were to increase by 1%, over the course of one year our additional interest expense would be approximately US\$1.2 million.

Critical Accounting Policies

Our significant IFRS accounting policies are more fully described in Note 4 to our IFRS Annual Accounts. In the application of our 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. These estimates and associated assumptions, which management reviews on an ongoing basis, are based on historical experience and other factors that management considers relevant. We recognise revisions to accounting estimates in the period in which we revise the estimate if such revisions affect only current or future periods. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of our consolidated financial statements, actual results may differ from these estimates.

Described below are the critical accounting policies that our management believes are the most significant to the preparation and understanding of our IFRS Annual Accounts.

Impairment of Goodwill

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 any such indication exists, we estimate the recoverable amount of the asset. This requires an estimation of the value in use of the cash generating units (each individual subsidiary) to which goodwill has been allocated. Estimating the value in use requires management to make an estimate of the future cash flows expected to arise from the cash-generating unit. These cash flow projections are based upon a number of assumptions including but not limited to discount rates, future transaction levels and future price levels. Changes in assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Impairment of Tangible and Intangible Assets, Excluding Goodwill

At each balance sheet date or more frequently when there is an indication that there might be an impairment, management reviews the carrying amounts of our tangible and intangible assets to determine whether those assets have suffered an impairment loss. If any such indication exists, we estimate the asset's recoverable amount to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, we discount the estimated future cash flows to their present value using a pre-tax discount rate that reflects management's current market assessments of the time value of money and the risks specific to the asset. If we estimate that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount on our consolidated balance sheet, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount, and we recognise an immediate impairment loss in profit or loss on our consolidated income statement.

Changes in assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the IFRS Accounts.

Income Tax

We are subject to income taxes in different jurisdictions on the territory of the Russian Federation and abroad. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final 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 is recognised as the difference between 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 generally are recognised for all temporary taxable differences and we recognise deferred tax assets to the extent that management determines that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The estimation of that probability includes judgements 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. Deferred tax liabilities are not recognised when we are able to control the reversal of the temporary difference and management determines that it is probable that the temporary difference will not reverse in the foreseeable future.

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

If actual results differ from those 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

Management frequently reviews inventory to determine the necessity of reserves for slow-moving inventory. We record inventory allowances based on historical experiences, the ability to utilize inventory during our operating activities. These allowance estimates may prove to be inaccurate, in which case we may have overstated or understated the reserve required for slow-moving inventory.

Allowance for Trade and Other Receivables

Accounts receivable are stated at their net realisable value after deducting allowance for doubtful receivables. The allowance for doubtful receivables is management's best estimate of probable credit losses in our existing accounts receivable balances. The allowance for doubtful receivables is based on management's evaluation of the volume of the receivables outstanding, past experience and general economic conditions. Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful debts that may be required.

New Accounting Pronouncements

At the date of the authorisation of the IFRS Annual Accounts, certain new standards and interpretations have been issued and are mandatory for adoption for accounting periods beginning on or after 1 January 2007:

- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 23 (revised) "Borrowing costs";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";

- IFRIC 10 “Interim Financial Reporting and Impairment”;
- IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”;
- IFRIC 12 “Service Concession Arrangements”;
- IFRIC 13 “Customer Loyalty Programmes”; and
- IFRIC 14 “IAS 19—The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction”.

We are currently assessing the impact of adopting these standards and interpretations in future periods, however, we do not anticipate any material financial impact on our financial statements, except that IFRS 7 “Financial Instruments: Disclosures” and IFRS 8 “Operating Segments” are expected to significantly increase the volume of disclosures in the consolidated financial statements.

INDUSTRY OVERVIEW

The information set forth in this section is based on publicly available information, such as official and industry sources and other sources we believe to be reliable, and information included in the Global Insight/ISL Report and the ASOP Overview, and we have relied on the accuracy of this information without independent verification. See “Presentation of Industry and Market Data.” We accept responsibility for accurately reproducing such information and as far as NCSP is aware no facts have been omitted which would render such information inaccurate or misleading, but NCSP accepts no further responsibility in respect of such information. Such information may be approximations or estimates or use rounded numbers.

International Shipping and the Global Port Sector

Global trade and seaborne trade volumes

According to the Global Insight/ISL Report, in 2006 total global trade grew at approximately 3.6% and amounted to over 9.2 billion tonnes of cargo worldwide. Of that amount, approximately 68.2% was transported by sea, approximately 32% was transported overland and less than 1% was transported by air.

Global seaborne trade has grown significantly in recent years, principally driven by the liberalisation of international trade policies and increased movement of manufacturing from consumer countries with higher production costs to countries with lower production costs (“off-shoring”). The opening of economies, particularly China, has facilitated trade and off-shoring has enhanced trade as intermediate and finished goods are more likely to be produced outside of the country of final consumption. Total seaborne trade tonnes grew at approximately 4.4% annually between 1995 and 2005, although certain transportation modes, such as containers, have witnessed faster growth. Containers grew at approximately 9.4% annually over the same period. Part of this growth stems from the increasing number of seaborne trade commodities moving in containers. Containers continue to gain market share as the transport mode of choice, increasing from 8.6% of seaborne tonnage in 1995 to 14.2% (almost 898 million container tonnes) in 2006.

Liquid and dry bulk cargoes have also grown moderately between 1995 and 2005, driven largely by rising global demand for oil and related products (liquid cargo) and China’s construction boom (dry bulk cargo). Together, liquid and dry bulk cargoes represent 81% (over 5 billion tonnes) of the world’s seaborne trade tonnes in 2006.

Major cargo classifications

There are four major types of seaborne cargoes: containers, dry bulk, liquid and general cargo. Containerised trade, measured in TEU, currently represents the fastest growing segment of seaborne trade growth and is driven both by rising global demand for containerised goods and the shift of previously non-containerised goods into containers. Liquid cargoes, such as oil and oil products, natural gas, animal/vegetable oils and chemicals, comprise the largest portion of seaborne tonnage. Dry bulk cargoes, such as grains, coal, seeds, animal feed and sugar, comprise the next largest category by tonnage and general cargoes comprise the lowest tonnage. General cargo has recently lost volume to containers, especially in reefer cargoes where the quality of refrigerated containers is comparable to that of full refrigerated vessels. Outside of the peak seasons when loads are smaller, containers often offer greater efficiency than general cargo. General cargo, often referred to as break-bulk or neo-bulk cargo because it requires special handling at port, generally consists of motor vehicles (transported in roll on/roll off vessels), refrigerated cargoes in reefer vessels, and large pieces of equipment, lumber/forestry products, steel coils or other items that do not fit into containers.

Trade Routes

Trade flows are dictated by the world’s largest exporters and importers, but the vast number of combinations of trading countries and commodities result in millions of origin-destination pairs. The various patterns taken by liner and tramp shipping services influence trade flows further as these liner and tramp services may stop at multiple locations between the first origin and final destination in order to maximise cargo and revenues. Liner shipping services often stop at multiple ports in multiple countries on a regular schedule. As such, trade between China and Black Sea countries may result in a shipping service stopping at China (Shanghai and Ningbo) followed by Singapore, Istanbul, Constantza, Odessa, Izmir and Damietta. Liner shipping primarily pertains to containerised cargo.

The geography of world trade can be summarised by reviewing major exporters and importers of seaborne tonnage. Australia, Saudi Arabia and China are currently the world's largest exporters in terms of tonnage, due to their respective dominance in producing and exporting coal and metal ores (Australia), crude oil (Saudi Arabia) and major dry bulks and containerised goods (China). The United States, Japan and China are currently the world's largest importers in terms of tonnage, due to each country's large consumer and producer markets that require energy resources, dry bulk materials and finished consumer products.

Development of commercial ports: regional trends

The global economy and international trade have seen certain changes in regional trading patterns. In addition to the core regions of the global economy, namely Europe, North America and Japan, other regions, such as the Black Sea region, are becoming increasingly important. Increased shipping has expanded the range of trading possibilities and thus provided a stimulus for the transport of manufactured goods, resulting in increasing trade and transport volumes.

According to the Global Insight/ISL Report, the total port traffic of leading European ports grew on average by 3.9% per year in the period from 2000 to 2005 led by container traffic at 10.7% per year. The total TEU traffic of the top Black Sea container ports (excluding Turkey), Constantza, Odessa, Ilyichevsk and Varna, increased by 66.3% per year between 2000 and 2005, from 0.3 million TEU in 2000 to 1.4 million TEU in 2005. Russian containerised cargo on the Black Sea is largely concentrated on Novorossiysk, which handled 158,000 TEU in 2005 and 225,000 TEU in 2006.

Position of Russia compared to other exporters and importers

According to the ASOP Overview, Russian seaborne traffic through Russian, Ukrainian and Baltic ports was approximately 525.1 million tonnes in 2006, about 80% of which was handled by Russian ports. Russia's current level of seaborne import tonnage (an estimated 31.5 million seaborne tonnes in 2006 according to ASOP Overview) is much less than the import levels set by other industrialised countries, and is similar to that of Pakistan (31.4 million tonnes according to Global Insight/ISL Report), United Arab Emirates (30 million according to Global Insight/ISL Report), Vietnam (26 million according to Global Insight/ISL Report) and Greece (23 million according to Global Insight/ISL Report).

Russia is amongst the top 10 exporters in the world in terms of seaborne export tonnage. While Australia, Saudi Arabia and China dominate world seaborne exports due to exports of coal, oil and dry bulk cargo respectively, Russia falls just below Venezuela but above Canada, Indonesia and Mexico as a result of its exports of coal and oil.

The Russian Maritime Sector

Role of maritime sector in Russian economy

The events of the post-Soviet Union period have changed the international maritime activity of the Russian Federation. The number of major outlets to the sea was reduced considerably, especially in the Baltic region and Black Sea-Azov Sea region. Approximately 50% of the Soviet Union's port and coastal infrastructure ended up in other CIS countries.

International trade in goods and services is a major component of Russia's GDP. According to the Global Insight/ISL Report, in 2006, imports and exports of goods and services accounted for over 55% of GDP. The total value of Russian GDP in 2006 was US\$764 billion, with a growth of 6.4% in 2006. According to the Russian Ministry of Economics and Trade, Russian GDP growth rate is expected to grow by more than 6.5% in 2007.

In recent years, Russia's external trade has expanded rapidly both in terms of value and in volume and is primarily commodity-driven. With the development of new pipelines for the transportation of crude oil and oil products from the oil fields and refineries, Russian exports are expected to continue to increase. Given the lack of rail compatibility with neighbouring countries, the focus is expected to remain on the shipment of oil and products by sea and pipeline.

Given the location of the oil fields and the pipeline outlets, development is expected to be linked to the maritime sector, with a focus on two major ports, Novorossiysk for the Black Sea and Primorsk for the Baltic Sea. Container traffic imports from the South Pacific to Russia are growing rapidly and increasingly

shifting to the Black Sea-Azov Sea region. As a result, the major container lines such as Maersk, CMA-CGM, MSC and ZIM are investing in services calling directly at, and by transshipment with larger vessels to, Black Sea and Azov Sea ports. Due to the former Soviet Union inland infrastructure, Novorossiysk competes with the Ukraine for certain cargoes. The Baltic ports are not direct competitors due to their geographic location, however the Ust-Luga port, if developed, could become a competitor for container traffic.

There are three major seaport ranges in Russia:

- the Northwest Basin, including the Baltic Sea, the Barents Sea and the White Sea;
- the Far East Coast; and
- the Southern Basin (Black Sea-Azov Sea region).

Northwest Basin

The Northwest ports are located closest to Russia's major consumption centres, which represent more than one third of its population, including the Moscow region, Russia's most important population centre with 17 million inhabitants. Almost two thirds of containerised cargo traffic passing through Russian ports was handled by ports in the Northwest Basin in 2006.

Ports in the Northwest Basin include Kaliningrad, St. Petersburg, Ust-Luga, Primorsk, Vysotsk, Murmansk and Archangelsk, and handle cargo bound for Western and Northwestern Europe and the eastern United States.

The following table sets forth major cargo flows in the Northwest Basin during 2006 and 2005.

Type of Cargo	Northwest Basin		
	Total Cargo Volume	Total Cargo Volume	Year on Year
	2006	2005	Growth
	('000s of tonnes)		
Dry bulk cargo			
Ores.....	1,273.3	1,665.0	(23.5)%
Coal.....	21,818.0	18,721.6	16.5%
Mineral fertiliser.....	9,204.8	11,408.7	(19.3)%
Grain.....	875.1	884.4	(1.1)%
Sugar.....	42.3	—	N/A
Metal scrap.....	3,693.8	4,108.1	(10.1)%
Other.....	758.6	647.8	17.1%
Total dry bulk cargo.....	37,665.9	37,435.6	0.6%
General cargo			
Timber cargo.....	4,127.6	4,781.5	(13.7)%
Ferrous metals.....	6,622.9	6,921.9	(4.3)%
Non-ferrous metals.....	1,813.7	1,822.5	(0.5)%
Packaged cargo.....	1,056.4	1,032.4	2.3%
Refrigerated cargo.....	3,898.3	3,737.2	4.3%
Other.....	2,321.5	2,209.7	5.1%
Total general cargo.....	19,840.4	20,505.2	(3.2)%
Containers			
Containers.....	16,881.0	13,808.0	22.3%
Containers (TEU).....	1,604,588.0	1,202,480.0	33.4%
Liquid cargo			
Oil.....	79,956.6	75,038.3	6.6%
Oil products.....	37,150.1	31,840.2	16.7%
Liquid chemicals.....	170.4	249.0	(31.6)%
Other.....	93.2	267.8	(65.2)%
Total liquid cargo.....	117,370.3	107,395.3	9.3%
Total for all cargoes.....	191,757.6	179,144.1	7.0%

Source: ASOP Overview

Far East Coast

The Far East ports benefit from the Trans-Siberian railway which connects them to coal mines in Siberia. Russia's major Far East ports (Vladivostok, Nakhodka, Vostochnyy, Vanino and Sovetskaya Gavan) are all situated in the Primorsky Region, Khabarovsk Region and other regions in the Far-East of Russia, and handle cargo bound for Pacific countries including Japan, Korea, Australia and the western United States.

The following table sets forth major cargo flows in the Far East Basin during 2006 and 2005.

Type of Cargo	Far East Basin		
	Total Cargo Volume 2006	Total Cargo Volume 2005	Year on Year Growth
	('000s of tonnes)		
<i>Dry bulk cargo</i>			
Ores.....	965.1	1,577.0	(38.8)%
Coal.....	20,222.2	19,259.1	5.0%
Mineral fertiliser.....	947.2	1,113.6	(14.9)%
Grain.....	33.9	9.5	256.8%
Sugar.....	152.5	70.6	116.0%
Metal scrap.....	1,389.6	2,038.2	(31.8)%
Other.....	624.4	635.8	(1.8)%
Total dry bulk cargo.....	24,334.9	24,703.8	(1.5)%
<i>General cargo</i>			
Timber cargo.....	8,128.6	7,684.5	5.8%
Ferrous metals.....	6,506.9	8,665.4	(24.9)%
Non-ferrous metals.....	821.5	881.2	(6.8)%
Packaged cargo.....	3,183.3	2,995.7	6.3%
Refrigerated cargo.....	457.7	424.0	7.9%
Other.....	2,936.5	3,043.9	(3.5)%
Total general cargo.....	22,034.5	23,694.7	(7.0)%
<i>Containers</i>			
Containers.....	6,337.3	6,200.9	2.2%
Containers (TEU).....	580,969.0	596,239.0	(2.6)%
<i>Liquid cargo</i>			
Oil.....	5,613.4	3,256.4	72.4%
Oil products.....	11,532.2	11,697.6	(1.4)%
Liquid chemicals.....	—	—	—
Other.....	—	—	—
Total liquid cargo.....	17,145.6	14,954.0	14.7%
Total for all cargoes.....	69,852.3	69,553.4	0.4%

Source: ASOP Overview

Southern Basin

The Southern region is more dependant on agriculture and forestry than other regions. According to ASOP Overview, more than two thirds of cargo traffic out of a total of 149.1 million tonnes in the Russian Black Sea and Azov Sea ports is oil traffic (83.3 million). Other major export commodities are metals (15.2 million tonnes) and grain (7.2 million tonnes). The port traffic of the Black Sea and Azov Sea ports is concentrated to a large extent in Novorossiysk and Tuapse. Cargo volume in the Black Sea and Azov Sea ports grew by 0.2% in 2006.

The Southern ports facilitate trade with Mediterranean countries, the Middle East, and southern and south eastern Asia (including countries such as India and southern China) and Central and South America.

The following table sets forth major cargo flows in the Southern Basin during 2006 and 2005.

<u>Type of Cargo</u>	<u>Southern Basin</u>		
	<u>Total Cargo Volume</u> <u>2006</u>	<u>Total Cargo Volume</u> <u>2005</u>	<u>Year on Year</u> <u>Growth</u>
	('000s of tonnes)		
<i>Dry bulk cargo</i>			
Ores.....	2,014.5	2,603.4	(22.6)%
Coal.....	4,039.1	3,780.5	6.8%
Mineral fertilizer.....	1,515.6	2,196.1	(31.0)%
Grain.....	7,153.8	8,018.3	(10.8)%
Sugar.....	2,154.6	2,517.9	(14.4)%
Metal scrap.....	791.2	1,253.6	(36.9)%
Other.....	<u>3,796.7</u>	<u>3,573.9</u>	6.2%
Total dry bulk cargo.....	21,465.5	23,943.7	(10.4)%
<i>General cargo</i>			
Timber cargo.....	3,088.1	3,025.2	2.1%
Ferrous metals.....	16,278.8	14,428.6	12.8%
Non-ferrous metals.....	1,382.2	1,079.4	28.1%
Packaged cargo.....	611.8	917.2	(33.3)%
Refrigerated cargo.....	555.8	543.4	2.3%
Other.....	<u>1,223.8</u>	<u>927.9</u>	31.9%
Total general cargo.....	23,140.5	20,921.7	10.6%
<i>Containers</i>			
Containers.....	2,742.9	2,047.7	34.0%
Containers (TEU).....	245,091.0	179,735.0	36.4%
<i>Liquid cargo</i>			
Oil.....	86,858.0	90,075.1	(3.6)%
Oil products.....	23,295.6	20,759.6	12.2%
Liquid chemicals.....	1,135.4	1,059.8	7.1%
Other.....	<u>754.8</u>	<u>189.3</u>	298.7%
Total liquid cargo.....	<u>112,043.8</u>	<u>112,083.8</u>	0.0%
Total for all cargoes ⁽¹⁾	<u>159,392.7</u>	<u>158,996.9</u>	0.2%

Source: ASOP Overview

Note:

- (1) Volumes include the Russian ports Astrakhan, Olya and Makhachkala in the Caspian basin. Volumes of ports in the Black Sea-Azov basin alone amounted to approximately 149.1 million tonnes in 2006.

Interaction of ports with related industries, including the Russian railway industry and forwarding services

There is a high level of cooperation between ports and the State monopolies for trunk oil and oil products pipelines, Transneft and Transnefteproduct, respectively, and the state railway monopoly. In 2006, approximately 43.63% of all Russian cargoes were delivered to the sea ports by railroad, 45.8% were delivered by pipelines, 5.67% were delivered by motorway, 2.7% were delivered by river transport, and 2.2% were delivered by sea transport, according to the ASOP Overview.

Recently, the development of forwarding services has become one of the most important elements in creating new supply and distribution systems. Forwarding services include preparing the necessary documentation required and arranging ancillary services for international transportation. The Southern Basin has been among the most dynamic markets for expanding forwarding and logistic services.

Novorossiysk is located on International Transport Route No. 9, which is a major international road corridor connecting Finland with Novorossiysk via St. Petersburg, Moscow, Rostov-on-Don and Krasnodar. Most of the highways on this route are federal highways, which are relatively well maintained by Russian standards.

The Maritime Sector in the Southern Basin

Russian Black Sea Ports

Novorossiysk

Novorossiysk is the largest Russian seaport in terms of cargo volume, according to the ASOP Overview. The port is located in the Black-Azov Sea basin, at the top of the Tsemesskaya Bay and consists of several terminals. Novorossiysk handles approximately 20% of Russia's foreign-trade sea cargo shipped via Russian sea ports and accounts for 23% of total Russian crude oil and oil products seaborne exports, according to the ASOP Overview. Oil represents approximately 60% of total cargo volume, with dry cargo representing approximately 27% and other liquids (including oil products and fertilisers) approximately 12%. The total volume of oil shipped through Novorossiysk in 2006 (without Caspian Pipeline Consortium) was approximately 47.3 million tonnes. Novorossiysk is the fifth largest port in Europe in terms of cargo volume, according to the Global Insight/ISL Report.

Tuapse

Tuapse Commercial Seaport ranks among the five major ports of Russia and is the second largest Russian port on the Black Sea. Tuapse is situated east of Novorossiysk in the Tuapse Bay. In addition to cargo handling facilities, the port territory comprises a ship repair yard, a ship machinery plant and a former fishery port. Tuapse specialises in the processing of bulk oil cargoes, coal, ore, ferrous and non-ferrous metals, sugar and other bulk cargo. Total cargo volume of Tuapse in 2006 was approximately 21.4 million tonnes according to the ASOP Overview.

Ukrainian ports

Ukraine has 20 seaports along the Black Sea and Sea of Azov coastline. These ports belong to the Ukrainian Morskoy Port governmental body. All Ukrainian ports are state property, but some private terminals exist in major ports and operate as independent legal entities.

Ukrainian ports were developed to meet the demand of the Soviet Union, and handling volume in 1990 stood at 121.4 million tonnes, according to the Global Insight/ISL Report. Due to the collapse of the Soviet Union and its economy, the ports' cargo traffic sharply decreased. Since this time port traffic increased steadily but from a significantly lower level. In 2006, Ukrainian ports handled 112.5 million tonnes, an increase of 3.2% on the 2005 level.

Transit cargoes play an important role for Ukrainian ports, and approximately two thirds of the total transit traffic (land and sea) transported through Ukraine are Russian imports and exports. Russian transport policy, particularly railway tariffs, influences the development of Ukrainian ports and Russian reorientation towards its own ports has resulted in transit share reductions. In 2006, the total Russian transit traffic through Ukraine was 38.0 million tonnes. However, the Russian government has recently announced its plans to transfer cargo flows, particularly for the strategic cargoes such as energy resources, to Russian ports from the ports of neighbouring countries. The share of Russian cargoes going through non-Russian ports has decreased from 25% in 2002 to 21% in 2006.

The leading ports in the Ukrainian north-western part of the Black Sea are Ilyichevsk, Odessa, Yuzhnyy and Nikolayev. In 2006, their total handling volume reached approximately 70 million tonnes.

Romanian port: Constantza

Constantza is Romania's main port located on the western coast of the Black Sea on trade routes linking the developed countries of Western Europe and the emerging markets of Central Europe with the suppliers of raw materials from the CIS, Central Asia and Transcaucasus.

Constantza is one of the main European bulk ports, with almost 75% of its traffic attributable to dry and liquid bulk. Moreover, the port is becoming the biggest container hub in the Black Sea area. Container traffic doubled in the period from 2004 to 2005, reaching approximately 770,000 TEUs in 2005. The average yearly growth rate was 58.1% in the period from 2001 to 2006, according to the Global Insight/ISL Report.

Bulgarian ports:

Varna

The port of Varna is the main gateway for Bulgaria's grain exports, including wheat, maize, sunflower and barley. Varna's two terminals, Varna East and Varna West, represent the biggest Bulgarian container port. Varna East is also equipped with a rail discharge station for grain carrying wagons.

Bourgas

The port of Bourgas is situated on the west coast of the Black Sea at the head of the Bay of Bourgas and is the first large seaport for vessels entering the Black Sea. Bourgas is located in the centre of the Pan-European Corridor VIII from Italy via Albania and Macedonia to Central Asia. Bourgas serves the industrial centres to the south of the Balkans and handles transit cargoes destined for or originating from Macedonia, Serbia and other Central European countries. There are plans for a pipeline construction which will extend over 300 kilometres from Bourgas to Alexandropolis in the Aegean. The new pipeline's planned throughput is 35 million tonnes per year.

Georgian port: Poti

Due to its strategic location with ports on the Black Sea, Georgia is a gateway for land transportation across the Caucasus. Poti, on Georgia's Black Sea coast, is an important port in the Caucasus region and is likely to become a major centre for economic growth with the development of offshore oil reserves in the Caspian Sea.

Main cargo flows in the Black Sea

Non-Russian Black Sea cargo flows to the region are fairly substantial, with nearly 87 million tonnes of import cargo and 71 million tonnes of export cargo in 2006, according to the Global Insight/ISL Report. If Russian Black Sea trade is included, the balance changes significantly as 40% of Russian export tonnage and 26% of import tonnage travels through the Black Sea and Azov Sea.

The major Black Sea exports (measured in seaborne tonnes) are crude oil and related petroleum products, which represented 25% and 4% respectively of Black Sea exports in 2005. Also notable are containers and iron and steel products, which comprised 15% and 14% respectively of exports in 2005.

Nearly a quarter of Black Sea imports were represented by oil and related products. Major dry bulk commodities such as ores, coal, grain, and sugar, represented 42% of Black Sea imports for a total of 36 million tonnes in 2006. Container imports also represented 14% of the total tonnage (12 million tonnes).

The Black Sea has significant imports from Latin America, the Mediterranean, and the United States and Canada. Black Sea exports are primarily destined for the Mediterranean, with the Far East and Latin America ranking second and third in terms of seaborne tonnage in 2006.

Drivers of seaborne trades in the Black Sea

Drivers of Black Sea trade demand stem from import and export demand from countries sharing borders with the Black Sea. With the demise of the Soviet Union, the economies of the former Soviet Union have opened up to international trade, and there has also been an increase in consumer demand following strong domestic economic growth. The countries utilising the Black Sea for their imports and exports at present include Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Turkmenistan, Romania, Turkey and part of Russia. Those countries which are closer to the Adriatic and Mediterranean seas, such as Slovakia and Hungary, are not expected to utilise the Black Sea for the majority of their cargo.

Global demand for resources

The Black Sea portion of Russian trade dominates Black Sea cargo flows. Turkey's imports and exports are also significant. The Romanian and Bulgarian economies are projected to expand rapidly after their accession to the EU and consequently are expected to increase trade flows, particularly on the import side. Trade growth of these economies should continue to be important drivers of total Black Sea trade in the future.

Growth in consumer demand

Growth in consumer demand in Black Sea countries is expected to continue to drive Black Sea imports while global demand for key products handled by Black Sea ports, such as oil, is expected to continue to drive Black Sea exports.

Congestion of Baltic ports

Supply-side drivers also serve as key drivers of Black Sea trade. These supply-side drivers include port congestion, inland infrastructure and costs. Port congestion in other ports influences the competitiveness

of Black Sea ports, as is evidenced by the growth in Black Sea trade following congestion at the St. Petersburg port and other ports in the Baltic Sea. The rapid growth of container traffic into both the Ukrainian and Russian ports in the Black Sea may be the result of this Baltic congestion. As shipping lines seek to maintain service schedules, they often choose ports based on service reliability. Therefore, maintaining low congestion levels at Black Sea ports is important for future competitiveness.

Inland transportation infrastructure

Inland transportation infrastructure also drives demand for Black Sea ports to the extent that it enables or hinders efficient delivery schedules. Roads in good condition and with sufficient capacity and good rail capacity with a reliable service are essential pieces of infrastructure for moving cargo from port to its end destination. Currently, much of the inland transportation infrastructure connected to many Black Sea ports is in poor condition, is congested or does not efficiently reach end destinations for cargo. However, since this problem is already endemic for Baltic Sea ports and inland connections to the Black Sea region from the north, the Black Sea is not at risk for immediate market share loss.

Cost of shipping

Costs of shipping through the Black Sea are a further supply-side driver of Black Sea trade. A significant change in the costs of shipping through the Black Sea can change the competitive position of the Black Sea ports and thereby influence the cargo demand for the port.

Types of ships operating to and from the Black Sea

The Turkish Straits, comprising the Dardanelles, Sea of Marmara and the Bosphorus, are the only all-weather connections between the Black Sea and Mediterranean Sea and are narrow and congested with a limited waterway capacity. According to the Global Insight/ISL Report, in 2006, nearly 55,000 ships transited through the Bosphorus, a traffic density which is four times higher than the Suez Canal and three times higher than the Panama Canal. Waiting times for vessels currently range from several hours to several days.

The Turkish government has expressed concern that tankers carrying oil could cause disruptive oil spills and environmental damage.

While Turkey controls the Turkish Straits, they are considered international waterways, and Turkey is prohibited from restricting their use in peacetime. Under the Montreux Convention of 1936, Turkish maritime authorities can check ships for sanitary conditions and safety and can charge tolls, but cannot stop their passage. Nevertheless, Turkey has sought to impose restrictions on commercial vessels, particularly those deemed hazardous, including oil. In particular, Turkey requires that certain vessels maintain a certain distance from each other while in the Turkish Straits, and may prohibit more than one oil tanker passing through the Turkish Straits in either direction at a given time. The Turkish Straits are an important issue for energy transport mostly originating in Russian Black Sea ports, and in 2006 tankers represented 16% of the total transits. The amount of dangerous cargoes, namely oil and oil products transported to and from the Black Sea through the Turkish Straits increased from 60.1 million tonnes in 1996 to 143.5 million tonnes in 2004. Container ships were restricted for the most part to smaller feeder ships.

BUSINESS

Overview

We are a multi-purpose Russian stevedoring and port services company and Russia's largest commercial sea port operator, according to the ASOP Overview. We are Russia's key southern gateway for shipment of a wide range of Russian export and import cargoes, handling approximately 20% of Russia's exports and imports shipped via sea ports during 2006, according to the ASOP Overview. Our multi-purpose facilities give us the capability to handle cargoes shipped by any of the four main modes for seaborne cargo transport—liquid, dry bulk, general cargo and containers — and have sufficient flexibility to react rapidly to changes in the mix of cargoes we handle.

We operate primarily at the Port of Novorossiysk, a multi-purpose, year-round, deep-water port located on the Russian shore of the Black Sea which has a number of geographic, topographic and infrastructure advantages in comparison to ports, and potential port sites, in the Black Sea-Azov basin. The Group includes the six largest stevedore and port services companies at the Port, which together handled approximately 97% of the cargo volumes shipped through the Port in 2006, according to the ASOP Overview. In addition, we have a stevedore operation specialising in container cargo at the port of Baltiysk, on the Baltic Sea in Russia's Kaliningrad Region.

We operate principally in the following areas:

- NCSP provides a full range of stevedoring services, including handling of oil and oil products, other liquid cargo, dry bulk cargo, general cargo and containers.
- IPP operates a high-speed complex for handling liquid cargoes, including oil products and liquid fertiliser.
- NLE Timber & Container Terminal provides cargo handling and storage services for containers, timber and timber products and other general cargo.
- NZT Grain Terminal operates a new, high speed grain storage and handling terminal.
- NSRZ Ship Repair Yard handles ferrous and non-ferrous metal products and other general cargo, provides ship repair services to vessels calling at the Port, including vessels from the Russian Navy's Black Sea Fleet, and generates electricity for its own use and for sale to third parties.
- NCSP Fleet provides tug, towing and mooring services, as well as bunkering services, and also provides emergency, hazardous materials response and waste management services at the Port.
- Baltic Stevedore Co. provides stevedoring services for container cargo at the port of Baltiysk on the Baltic Sea in Russia's Kaliningrad Region.

Our consolidated revenue and net profit amounted to US\$197.9 million and US\$28.5 million, respectively, for the six months ended 30 June 2007, and US\$277.3 million and US\$44.1 million, respectively, for the year ended 31 December 2006. As at 30 June 2007 and 31 December 2006, we had total consolidated assets of US\$1,322.6 million and US\$1,296.9 million, respectively.

The Port of Novorossiysk

The Port of Novorossiysk was founded in the 19th century and has been Russia's key southern gateway for foreign trade since the dissolution of the Soviet Union in 1991. Construction of modern facilities first commenced at the Port in 1957, when the Soviet government began to build berths in the Port's western and central districts, the Sheskharis oil terminal, a passenger terminal, and other infrastructure.

Today, the deep-water Port of Novorossiysk is Russia's largest sea port in terms of cargo volume according to the ASOP Overview, and in 2005 it was Europe's fifth largest commercial sea port by cargo volume, according to the Global Insight/ISL Report. The Port is one of the few Russian sea ports in the Southern Basin formed by the Black Sea and Azov Sea. Together with the Northwest Basin of the Baltic Sea and White Sea, and the Far East Basin along Russia's Pacific coast, the Southern Basin is one of only three commercially viable shipping routes between Russia and the open seas.

The Port's relative proximity to the world's major foreign markets makes it an expedient outlet for shipment of cargoes from or to southern and central Russia, including the Urals and the Volga Region, as well as Central Asia. For example, the voyage from Southeast Asia to cargo destinations in central and southern Russia via Novorossiysk is approximately eight days shorter than the route via the Rotterdam/Hamburg-St. Petersburg corridor.

A developed transport hub in Novorossiysk connects our facilities at the Port to railroad and highway networks providing access to the major industrial, agricultural and population centres and other key cargo origins and destinations in southern and central Russia and Central Asia. Subject to congestion and capacity limitations, this transport infrastructure allows the shipment of high, relatively stable volumes of export and import cargoes to and from our facilities at the Port.

The Tsemesskaya Bay, in which the Port is located, does not freeze in winter, which permits year-round navigation without the use of ice breakers, allowing us to operate our Port facilities continuously. In addition, the Port's system of sea walls and breakwaters buffers its harbour sufficiently to allow our Port facilities to operate during all but the strongest storms each year.

Our Restructuring

In June 2006, NCSP, already the largest operator at the Port, began a corporate restructuring by acquiring controlling interests in IPP, NCSP Fleet and NLE Timber & Container Terminal (in which NCSP had held interests prior to the date of acquisition) as well as controlling interests in NZT Grain Terminal and NSRZ Ship Repair Yard and a controlling interest in Baltic Stevedore Co. These are, after NCSP, the five next-largest companies providing stevedore, fleet and other services at the Port. NCSP purchased these interests from U.F.G.I.S. Structured Holdings Limited, which, acting as principal, had acquired these interests from a number of private shareholders.

Prior to the restructuring, each stevedore company operating at the Port competed against one another in seeking to position itself as a multi-purpose terminal operator. By consolidating most of the operators at the Port into the Group, the restructuring has permitted us to virtually eliminate such competition and capitalise on resulting economies of scale and scope. Having a greater market share has given us increased pricing power for our services at the Port, which has allowed us to increase our prices by significantly reducing discounts from maximum tariff rates established by the FTS, applying for increases in certain maximum tariff rates and, where approved, charging our customers the higher tariff rates. This has in turn strengthened our cash inflows. Eliminating internal competition has made it possible to introduce specialisation among our facilities, allowing them to focus on particular higher-margin cargoes, whilst the Group as a whole remains a multi-purpose port operator with ability to handle, and diversified exposure to, a broad mix of cargoes. In addition, our greater size due to the restructuring has enabled us to improve our cost of capital.

The restructuring has also allowed us to enhance our efficiency and the value of our services in a number of ways. Due to our greater size and scope, we have been able to enhance our operational efficiency through the increased specialisation of our facilities as well as by co-ordinating the provision of services by the members of the Group, thereby reducing or eliminating duplication of such services. Such co-ordination has also allowed us to improve service quality and operational efficiency by implementing uniform operational standards across the Group and to capture efficiencies from the provision of services, such as towing and bunkering, which are complementary to our stevedoring services. We have also increased our overall efficiency by centralising within NCSP certain management functions for the Group. We believe these improvements in efficiency and service quality not only contribute to our profitability, but also make our facilities more attractive to customers.

Competitive Strengths and Strategy

Competitive Strengths

Our multi-purpose stevedoring facilities are capable of efficiently handling a broad mix of cargoes transported in Russian seaborne trade, and allow us to react sufficiently quickly to changes in this cargo mix, which makes us a vital link in the logistics chain for, and a reflection of, Russian imports and exports.

Our multi-purpose facilities at the Port give us the capability to efficiently handle cargoes shipped by any of the four main modes of seaborne cargo transport: liquid, dry bulk, general cargo and containers. Unlike many of the world's other large ports, which specialise in a single cargo type, we are able to handle nearly all types of cargo shipped in Russian seaborne trade. Several of our facilities are specially designed for high-efficiency handling of particular cargo types, such as NCSP's Sheskhari oil terminal, IPP's complex for handling oil products, liquid fertiliser and other liquid cargoes, NZT Grain Terminal's grain terminal, and NLE Timber & Container Terminal's container terminal. Many of our other facilities, such as our general and dry bulk cargo terminals, have very broad capabilities to ship many different cargoes within

the relevant cargo type, and in some cases can be retooled without significant time or expense to handle other kinds of cargo as well. As a result, the multi-purpose scope of our operations broadly reflects the make-up of Russian foreign trade and gives us sufficient flexibility to react rapidly to changes in the mix of cargoes we handle, which makes us a key part of Russia's infrastructure for seaborne trade.

We are the largest port operator in Russia in terms of cargo volume, according to the ASOP Overview, and our large-scale stevedoring operations, and our leading market position at the Port, give us significant economies of scale.

The high capacity, efficiency and operational flexibility of our stevedoring facilities and our deep-water berths permit us to handle large volumes of a wide variety of cargoes. In 2006, according to the ASOP Overview, we handled approximately 20% of Russia's seaborne trade. Our Sheskharis oil terminal is a major gateway for oil exports from producers in Russia, handling approximately 27% of all the oil exports shipped from Russia via sea ports during 2006, according to the ASOP Overview. In addition, we handled approximately 50% of the grain, 31% of the ferrous metals, 23% of the non-ferrous metals and 8% of the timber exported or imported through Russian sea ports in 2006, according to the ASOP Overview.

Our large-scale stevedoring operations and leading market position at the Port, where we provide approximately 97% of the stevedoring and port services according to the ASOP Overview, give us significant economies of scale, including the ability to negotiate better prices and terms with customers, subject to regulated maximum tariff rates and other restrictions imposed by law. See "Regulation—Tariff Regulation." Our large size and broad scope also allow us to make intensive capital investments in high-efficiency, specialty facilities, to co-ordinate the operations of our terminals and cargo logistics throughout our facilities, to diversify our exposure to any one cargo type and to reduce the effect of seasonal fluctuations in cargo volumes. In addition, our consolidation of the largest stevedoring companies at the Port allows us to take a unified approach to co-ordinating with Russian Railways and other cargo transporters on cargo logistics in and around the Port and strategic planning for development of the transport infrastructure leading into the Port.

Our facilities at the Port are situated in a geographically advantageous location in relation to many major cargo origins and destinations in Russia and the CIS, and in relation to many key markets for Russian and CIS imports and exports.

The Port lies at the intersection of major international shipping lanes and transcontinental trade routes serving Russia and other CIS countries, which places our Port facilities in relative proximity to many major destinations and origins of cargo shipments in Russia and the CIS, including major oil fields in western Siberia and major metals manufacturers and grain producers in southern and central Russia. The Port is also one of the nearest deep-water ports for cargoes in transit to and from certain Central Asian countries such as Kazakhstan and Turkmenistan. In addition, the Port is close to key overseas markets for Russian exports and imports, such as the Mediterranean countries, elsewhere in Africa and the Middle East, and Southeast Asia, including southern China and India. For example, the voyage from Southeast Asia, the source of many Russian imports, via Novorossiysk to cargo destinations in central Russia is approximately eight days shorter than the route to such destinations via the Rotterdam/Hamburg – St. Petersburg corridor.

Furthermore, because of the Port's location and geography, its harbour does not freeze in winter, which allows us to operate year-round without the use of ice breakers, as is required in several of Russia's northern ports and certain Azov Sea ports. Year-round navigability also helps insulate us from seasonal fluctuations in cargo volumes. In addition, the topography of the Port has made it possible to construct deep-water berths, including our oil terminal berths, which have depths of up to 24 metres and can accept VLCC-class tankers with deadweight of up to 250,000 tonnes, and our dry cargo berths, which have depths of up to 13.5 metres and can accommodate Panamax-class vessels with deadweight of up to 65,000 tonnes. These deep-water berths support our ability to efficiently handle large cargo volumes.

Extensive rail, highway and pipeline links provide many key Russian and CIS exporters and importers with convenient access to our facilities at the Port.

A developed rail and highway transport hub in Novorossiysk and a pipeline extension from the Sheskharis oil terminal connect our facilities at the Port to an extensive network of rail, highway and pipeline infrastructure serving key cargo origins and destinations in central and southern Russia, and other CIS markets whose cargo shipments we handle. Russian Railways' rail network connects directly into our facilities at the Port, which allows efficient loading and unloading of rail cars to and from our storage facilities located adjacent to our berths, and provides rail access to all major industrial, commercial and

population centres in Russia, as well as connections to other CIS markets. Similarly, our facilities are located near junctions with major highways leading to cargo origins and destinations throughout Russia.

We have a strong competitive position in relation to other Russian ports, other ports on the Black Sea and other port operators in Novorossiysk.

Our competitive advantages, including our size and scope, geographic, topographic and infrastructure advantages and the location of our facilities in relation to key trade routes, major Russian and CIS cargo origins and destinations and transport infrastructure, as well as significant barriers to entry into the markets in which we operate, give us a strong competitive position. Constructing a new port, or reconstructing an existing port, to compete with ours would take years of sustained political support and massive capital expenditure to dredge a harbour, construct berths, stevedoring facilities and interconnections to the necessary transport infrastructure. Moreover, our leading market position at the Port, where we provide approximately 97% of the stevedoring and port services, and the limited amount of waterfront at the Port that is not already under our control, virtually eliminates the likelihood that we could be subject to significant competition in the Port itself. These factors give us a strong competitive position in relation to our competitors, create significant barriers to entry into our markets and limit our vulnerability to competition.

We have cooperative relationships with the State and State-owned transport enterprises such as Russian Railways. In addition, over the past 15 years, we have benefited from what we consider to be a reasonable and balanced regulatory environment for natural monopolies (which includes NCSP).

The State holds a 20% stake in NCSP and currently has three representatives on NCSP's Board of Directors. In addition, Russian Railways, the State-owned railway monopoly, holds a proxy granted by the Selling Shareholder to vote 16% of our Shares and has one representative on NCSP's Board of Directors. We believe that the equity interest of the State and the voting rights of Russian Railways have provided a strong foundation for cooperation in a variety of matters, including critical infrastructure development projects. For example, we won a tender to prepare, and have recently submitted, a feasibility study for the Project "Complex Development of Novorossiysk Transport Hub", a part of the Sub-Programme "Development of Exports of Transport Services" of the Federal Target Programme "Modernisation of Russia's Transport System (2002-2010)". The project is intended to modernise and expand the infrastructure of the Novorossiysk transport hub. Such support from both the federal and regional governments has historically facilitated our ability to grow and modernise our facilities.

Our management team has extensive experience in port operations, business management and corporate development, and provides us with strong strategic leadership.

NCSP and each of its subsidiaries has an operations management team with extensive experience in stevedoring, fleet services and other port operations. Many of these managers have spent most of their careers working at the Port. Our senior management team at NCSP are highly skilled and provide strategic leadership and overall business management to the Group as a whole, and have substantial experience with managing businesses and executing acquisitions and integrating corporate assets, including in connection with our June 2006 restructuring. See "Management".

We hold long-term leases on many of the key assets (including berths and piers, which cannot be privatised under Russian law) we use in our operations, which gives us secure tenure as an operator at the Port and supports our ability to plan and invest for the long term.

We hold long-term leases from the State for most of the land and hydrotechnical structures (i.e., berths and piers) we use at the Port, and own a significant portion of the remainder. These leases have been granted on a long-term basis, in most cases up to 49 years, which supports our operational stability and provides a long-term planning horizon for our investment and capital expenditure programmes. This provides an important competitive advantage over other port operators and stevedore companies in Russia, which we believe normally hold leases with terms of only a few years and therefore have a comparative disincentive to making substantial investments in maintaining and upgrading their facilities.

Strategy

We believe that increasing congestion at Russian ports, driven by rising Russian export and import volumes, creates an opportunity for us to grow revenues by increasing our cargo handling capacity and efficiency in order to increase our cargo volumes. Although Russian export and import volumes have

increased in recent years, Russian port capacities have not increased to meet growing demand for stevedoring services. Historically high global commodity prices, driven by global economic growth, have resulted in high volumes of commodity exports from Russia, one of the world's biggest producers of oil, metals, timber and other natural resources. Similarly, Russian economic growth and development has driven an increase in imports to Russia. However, limits on capacity of Russian ports, including the Port of Novorossiysk, have resulted in congestion. This creates an opportunity to satisfy current unmet demand and, if these trends continue, additional future demand as well.

We will make capital investments to modernise, expand and enhance the efficiency of existing facilities and build new facilities in order to increase our capacities for, and our volumes of, high-margin cargoes.

We intend to capitalise on the trend of rising Russian export and import volumes, and the unsatisfied demand for stevedoring services we believe such demand has created, by investing in new and existing facilities to increase our annual cargo handling capacity to at least 112 million tonnes in order to increase our cargo volumes to up to approximately 112 million tonnes by 2011, capture resulting increases in revenues and enhance our profitability. In order to achieve this goal, we have begun implementing an approximately US\$700.0 million capital investment programme to modernise and expand existing facilities and build additional facilities to handle both new and existing kinds of high-margin cargoes.

In addition to projects which have increased our capacities for grain and bunkerage fuel that have already been completed, our capital investment programme anticipates that we will make investments in expanding the capacity of the following:

- Containers
- Oil
- Dry mineral fertiliser
- Petrol handling complex
- Increased timber cargo volumes
- Fuel oil
- Alumina

For more details of our capital investment programme, see “—Capital Investment Programme”.

In addition to our capital investment programme, we will seek to increase capacities and throughput volumes and reduce warehousing and demurrage time in ways that do not require significant capital expenditures.

We monitor existing operations in order to find and implement opportunities to increase the capacity and operating efficiency of our facilities, thus allowing us to increase our cargo volumes and revenues in ways which do not require significant capital expenditures. We seek to optimise our operational efficiency through specialisation of our facilities and by maximising the capabilities of our existing technology. We also seek to capture efficiencies by centralising and streamlining processes, for example, by centrally co-ordinating logistics of cargo flows throughout our facilities, which is one way in which we seek to reduce warehousing and demurrage time, which can be costly for cargo shippers and ship operators.

We intend to continue optimising our mix of cargo handling capabilities and the other services we offer based on competitive advantages arising from the quality of our facilities and our pricing power.

We monitor trends in and markets for Russian cargo flows in order to identify particular cargoes which have high margins and steady shipment volumes relative to other cargoes, permitting us to optimise the profitability of the total mix of cargoes we handle. We use the information we obtain to identify trends which form the basis for our programme for capital investment to increase our capacities for such higher-margin cargoes.

For example, we are investing in the development of container terminals to capitalise on higher profitability of and increased demand for containerised cargo in Russia. See “Industry Overview and Background—Global Port Sector”. To the extent that the trend toward containerisation of general cargoes continues, the container handling capacity of Russian ports will need to increase accordingly. We believe that when the capacity of our container terminals in southern Russia is expanded (as discussed under “—Capital Investment Programme—Increase in Container Cargo Capacity”), our container cargo volume will exceed 1.0 million TEU. In addition, we believe that increasing demand for oil products in

Europe, Asia and the United States is likely to result in an increase in demand for oil products we handle. We expect growth in the volume of petrol and fuel oil throughput following launch of IPP's petrol and fuel oil handling complexes, due to become fully operational by 2008 and 2009, respectively.

We also monitor our business and the needs of customers to identify unsatisfied demand for port services which we can provide. For example, in 2007, we completed our new fuel bunkering complex intended to increase our sales of fuel oil by satisfying demand which we believe exists at the Port. See "—Capital Investment Programme".

We will seek to improve our throughput capacity by participating in a government initiative to modernise and expand the Novorossiysk transport hub in order to improve and ease congestion on the rail and highway infrastructure by which cargoes are transported to our facilities at the Port from key cargo origins and destinations.

The President and Government of the Russian Federation have prioritised the increase in volumes of Russian cargoes handled by Russian ports, rather than by ports of neighbouring countries. The share of Russian cargoes handled by such foreign ports has steadily decreased from 25% of all Russian cargoes in 2002 to 21% in 2006, according to the ASOP Overview. In addition, the leadership of the Russian Ministry of Transport has announced its intention to handle strategic cargoes, in particular, oil and oil products, exclusively through Russian ports.

NCSP is participating in the Project "Complex Development of Novorossiysk Transport Hub", a part of the Sub-Programme "Development of Exports of Transport Services" of the Federal Target Programme "Modernisation of Russia's Transport System (2002-2010)", intended to extensively develop Russia's ports and other transport infrastructure. In November 2006, NCSP won a tender to conduct a feasibility study, which we have prepared and recently submitted, for the comprehensive development of the Novorossiysk transport hub. This initiative creates the opportunity for us to have a voice in the development of the transport infrastructure serving our facilities at the Port. In addition, our current participation in this initiative does not commit us to capital expenditures in the project. We believe that improvements in the Port's transport infrastructure will help to de-bottleneck congestion leading into our facilities and complement our capacity expansion plans.

We will seek to reap further benefits flowing from our 2006 restructuring, including increased revenue, costs savings, elimination of duplicative services, improved efficiency of operating assets and greater specialisation of services we offer.

Although we have already been able to realise a number of the anticipated economic benefits of our June 2006 restructuring, we believe we can capitalise further on our enhanced commercial position and capture administrative and operating efficiencies as we continue the post-acquisition restructuring and integration process. The restructuring has given us a leading market position at the Port, and allowed us to effectively eliminate competition, which has given us the commercial flexibility to increase revenues by increasing our prices by significantly reducing discounts from maximum tariff rates and by applying for and obtaining increases in the maximum tariff rates themselves and setting our prices at the level of such maximum tariff rates. We will also seek to maximise our profitability and diversification through continued specialisation of our facilities to handle particular high-margin cargoes, and through offering value-added services, such as bunkering, which are complementary and auxiliary to our stevedoring services and make our facilities an attractive port of call. We also intend to maintain centralised strategic and management control over our subsidiaries in order to further optimise our cost structure and our operational efficiency through more effective planning, operational controls and resource allocation.

We will continue to explore opportunities to expand through selective acquisition of other Black Sea and Russian stevedoring operators and further consolidation of our port operations business.

We believe opportunities exist to grow our business through acquisition of other port operators in Russia and elsewhere in the Black Sea region. For example, we were recently able to acquire all of the interests in Zarubezhneft, a company in Novorossiysk which owns a land plot adjacent to our facilities at the Port. We are currently reviewing our options for development of this land plot for its best use in our operations. We are also seeking to consolidate our ownership of our subsidiaries by acquiring shares in such entities which we do not already hold. We also have expanded the geographic scope of our business into Russia's Northwest Basin by acquiring a controlling interest in Baltic Stevedore Co., which specialises in container cargo at its facilities in Baltiysk on the Baltic Sea. We will continue to monitor the market for similar acquisition opportunities in Russia and elsewhere in the Black Sea region and will seek to capitalise on those opportunities which we believe will strengthen our business.

We will seek to capitalise on opportunities which we identify as arising from external events which may affect our business.

We monitor certain international political and economic developments in Russia, the Black Sea and elsewhere in order to identify opportunities to grow our business or maximise our profitability. Currently, we are monitoring the following developments which we believe have the potential to create such opportunities. To the extent, if any, that we conclude in the future that these developments give rise to concrete opportunities, we will seek to modify or expand our business plan and strategy in order to capitalise on such opportunities. However, because these developments depend mostly or entirely on factors outside our control, and it is not sufficiently clear at this stage what effect, if any, they could have on our business, we have not yet focused on them in our business plan and strategy.

Possible free economic zone status. The Russian parliament, the Duma, is currently considering a draft law which would establish free economic zones at certain commercial sea ports in Russia.

Sochi 2014 Olympic Games. Demand for stevedoring services at the Port may further increase as nearby Sochi's demand for construction materials and other goods intensifies due to its preparation for the 2014 Olympic Games.

Pipelines to bypass the Turkish Straits. Russia, Bulgaria and Greece have signed an inter-governmental agreement for the construction of a new oil pipeline which would connect the Bulgarian port of Bourgas on the Black Sea with the Greek port of Alexandroupolis on the Mediterranean. If completed, this pipeline would create a bypass for oil transport around the congested Turkish Straits, and potentially help ease such congestion. In addition, we believe that if the pipeline is completed, we would be able to increase the volume of oil shipped through the Sheskhari oil terminal, if Transneft were to raise the volumes of oil it delivers to the terminal. If Transneft is able to increase the volumes it currently delivers to our terminal for shipment, and to the extent that Transneft obtains the right to supply the Russian oil to be carried through the new pipeline, the resulting increase in our oil volumes could be significant. Construction of the pipeline could decrease the volumes of oil shipped through the Turkish Straits, which would have a positive effect on the opportunities for Black Sea ports to increase their cargo volumes.

Opportunities for transit cargoes to and from Central Asia. The Port is one of the closest deep-water ports for Kazakhstan and other Central Asian countries, and could serve as an effective alternative to existing routes for delivery of cargoes for areas of northwest China. The economic growth of Kazakhstan, Turkmenistan and China will create opportunities to increase volumes of transit cargoes through the Port. We closely monitor developments in this area and are working with cargo owners with a view to attracting corresponding volumes to our facilities.

Overview of the Group

We generate revenue principally from the broad range of stevedore services, fleet services, ship repair services and other services we provide at our facilities at the Port of Novorossiysk and at the container terminal which Baltic Stevedore Co. operates at the port of Baltiysk.

During the first six months of 2007 and during 2006, we generated consolidated revenues of US\$197.9 million and US\$277.3 million, respectively.

Our Facilities at the Port of Novorossiysk

We own all of the immovable property located at our facilities at the Port and part of the underlying land. The land and hydrotechnical structures (berths and piers) are held under long-term leases. Our facilities include 10.8 kilometres of berths; 58 operating cargo berths, which have depths of up to 24 metres and can accommodate VLCC-class tankers with deadweight of up to 250,000 tonnes, and our dry cargo berths, which have depths of up to 13.5 metres and can accommodate Panamax-class vessels with deadweight of up to 65,000 tonnes. We have specialised terminals such as those for handling oil and oil products as well as multi-cargo terminals that can handle similar cargoes within a broad category of cargoes. We own 136 cranes of various types, bunkerage facilities, a fleet of vessels providing support services at the Port, a power generation station and other infrastructure.

Novorossiysk Transport Infrastructure

Over the past five years, total annual cargo volumes shipped by us and other operators through the Port have increased from approximately 50 million tonnes to approximately 83 million tonnes in 2006. Of the

current cargo volumes, approximately 35 million tonnes per annum are shipped via the local railway and motorway networks, which are working at full capacity under the prevailing logistics conditions. In view of our aim of increasing our throughput to 112 million tonnes by 2011, the capacity of the Novorossiysk transport hub, particularly the local rail and motorway systems, will need to increase significantly.

The Russian government has prioritised the improvement of Russia's transport system, including the Port and the transport services serving the Port, and declared its intention to re-direct to Russian ports Russian cargo flows currently shipped through Ukrainian ports. The key goal of the programme is that 90% of Russian import and export cargo will pass through domestic ports.

We have taken an active role in developing the government's modernisation plan in respect of the transport infrastructure affecting our operations. In order to ensure the planned growth of cargo capacities, We, together with the government, have initiated the development and further implementation of the programme which would result in the development of a modernised transport infrastructure complex including highways, railways and logistics automation by preparing and submitting a feasibility study for this programme.

We are participating in the programme based on our selection through a competitive tender. In addition, the programme's other primary participants are the Ministry of Transport, Russian Railways, and the administrations of Krasnodar Region and the City of Novorossiysk.

Our Stevedoring Services

We provide a full range of stevedore services, which include loading and unloading vessels, railroad cars and freight trucks, transporting cargo to our warehouses and storage facilities, sorting cargo, packing, unpacking and separating packaged cargo, measuring and weighing cargo and warehouse clean-up between cargo shipments.

During the first six months of 2007 and during the year 2006, our stevedore services generated revenues of US\$165.7 million and US\$244.7 million, respectively, which represented 83.7% and 88.3%, respectively, of our total revenues.

Capacities of Our Facilities

Based on the current mix of cargoes we handle and the technology and equipment we currently use in our operations, the approximate annual capacity of our facilities can be estimated as set out in the table below. Figures are shown as at 31 December 2006, the most recent date for which such data is available.

<u>Overall Annual Cargo Capacity of Our Facilities</u>	<u>As at 31 December 2006 (millions of tonnes, except as indicated)</u>
Liquid Cargo	58
Dry Bulk Cargo	11
General Cargo	13
Containers ⁽¹⁾	<u>2</u>
Total for All Cargoes	84
Containers ('000s of TEU)	168

Note:

(1) For the purposes of estimating container capacity by weight, we assume that one 20-foot container has a weight of 14 tonnes.

Tonnage of actual throughput capacity of our stevedoring facilities is difficult to determine or forecast, because actual capacity of a facility depends on the mix of cargoes being handled at the relevant time and the technology being used to handle each given cargo type.

We take a number of measures to increase our facilities' actual capacities, including the construction of new facilities and expansion of existing ones, as well as measures which can increase capacity without significant capital expenditures, such as the use of new technology and equipment to increase the efficiency of existing facilities.

Principal Cargoes

As a multi-purpose port operator, we handle a broad variety of liquid cargo, dry bulk cargo and general cargo, as well as containers. In our operations, certain cargoes can be shipped by more than one mode of transport, and so such cargoes may fit within one or more of these categories. For the purposes of this prospectus, we define these categories as follows:

- Liquid cargo, or liquid bulk cargo, is any cargo which is a homogeneous liquid shipped in bulk, i.e., it is typically pumped directly into the hull of a vessel, rather than shipped in self-contained packaging, such as barrels. Some liquid cargoes, such as oil products and liquid fertilisers, are accumulated in temporary storage tanks at our facilities and then loaded onto ships in batches.
- Dry bulk cargo is any cargo, other than a liquid, which is homogeneous and shipped in bulk, i.e., it is not shipped in self-contained packaging, but loaded onto and unloaded from vessels by pouring or dumping the cargo, for example, by using specialised scoops or other equipment attached to cranes, which are typically the same type of cranes as are used for general cargoes.
- General cargo is any kind of cargo which is shipped in its own package or on pallets and loaded and unloaded using cranes. General cargo is often referred to as break-bulk cargo and requires additional handling at port, for example, general cargoes shipped on pallets. Some general cargo may require covered storage to protect it from adverse weather conditions, while other types can be stored on open ground.
- Containers are metal containers built based on international standards, usually in 20-foot or 40-foot lengths, and can be used to ship a wide variety of cargoes. Efficient operation of a container terminal requires specialised equipment for loading and unloading containers from vessels, and computerised systems for tracking containers and managing their logistics. Containers are stackable by design, and can be stored outdoors.

The table below sets out, on a cargo-by-cargo basis, the volumes of the principal cargoes shipped by the companies currently in the Group during the first six months of 2007 and 2006 and during the years 2006, 2005 and 2004.

<u>Volumes of Cargo Handled⁽¹⁾</u>	<u>For the six months ended 30 June</u>		<u>For the year ended 31 December</u>		
	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
	('000 tonnes except as indicated)				
<i>Liquid Cargo</i>					
Oil	22,325	24,014	47,337	48,791	49,113
Oil products	4,339	4,103	8,453	6,501	3,372
UAN (liquid fertiliser)	372	438	878	824	819
Seed oils	294	272	507	81	6
Total	27,330	28,827	57,175	56,197	53,310
<i>Dry Bulk Cargo</i>					
Grain	2,182	1,309	4,084	4,167	1,446
Mineral fertilisers and other chemicals	683	728	1,461	2,088	1,875
Raw sugar	881	747	1,230	1,255	1,319
Raw iron ore and iron ore concentrate	358	607	1,029	1,968	1,230
Scrap metal	117	226	374	563	692
Total	4,221	3,617	8,178	10,041	6,562

Volumes of Cargo Handled⁽¹⁾	For the six months ended 30 June		For the year ended 31 December		
	2007	2006	2006	2005	2004
	('000 tonnes except as indicated)				
<i>General Cargo</i>					
Ferrous metals	4,159	4,737	8,979	8,132	8,157
Timber products ⁽²⁾	608	707	1,282	1,178	1,017
Timber products ('000s m ³)	1,086	1,246	2,300	2,000	1,800
Cement	255	568	1,122	1,030	807
Non-ferrous metals	503	440	901	810	742
Pig iron	134	197	374	742	0
Perishables	56	77	112	196	148
Ores (imported and exported)	27	8	14	26	0
Other	134	77	444	276	328
Total	5,876	6,811	13,229	12,389	11,199
<i>Containers</i>					
Containers ⁽³⁾	1,624	746	2,346	1,504	1,263
Containers (000's of TEUs)	116	62	167	100	102
Total	1,624	746	2,346	1,504	1,263
Total for All Cargoes	39,051	40,001	80,928	80,131	72,334

Notes:

- (1) For each period, figures are shown for all members of the Group at the date of this prospectus. However, since NCSP acquired controlling interests in its current principal subsidiaries on 14 June 2006, revenues of those subsidiaries accrued prior to the acquisition date are not reflected in our historical financial information for periods ending prior to 14 June 2006.
- (2) For the purposes of this and the following tables, conversion of cubic metres into tonnes is based on a ratio of 0.55 tonnes per 1 m, a ratio which we use as an indicative measure and which is based on assumptions we believe to be reasonable. See "Certain References—References to Units of Measure." Any discrepancy between this data and actual weight in tonnes of timber cargo does not materially affect our revenues and EBITDA, because the relevant tariffs are charged per cubic metre, and not by weight.
- (3) For the purposes of this and the following tables, conversion of TEU into tonnes is based on a ratio of 14 tonnes per 1 TEU, a ratio which we use as an indicative measure and which is based on assumptions we believe to be reasonable. See "Certain References—References to Units of Measure." Any discrepancy between this data and actual weight in tonnes of container cargo does not materially affect our revenues and EBITDA, because the relevant tariffs are charged per TEU, and not by weight.

We principally handle the following cargoes.

—*Liquid Cargo*

Oil. Crude oil represented approximately 57.1% of our total cargo volume in the first six months of 2007 and approximately 58.5% in 2006, accounting for approximately 24.5% and 27% of oil exported from Russia by sea during the respective periods, according to the ASOP Overview. Most of the oil we handled is exported from Russia to Europe and the United States.

Oil products. Oil products, including diesel fuel and fuel oil, represented approximately 11.1% of our total cargo volume in the first six months of 2007 and approximately 10.4% in 2006. Most of the diesel fuel and fuel oil we handled is exported from Russia to Europe.

Liquid fertiliser. Urea ammonium nitrate, or UAN, a liquid mineral fertiliser, represented approximately 1.0% of our total cargo volume in the first six months of 2007 and approximately 1.1% in 2006. IPP ships liquid fertiliser, most of which is exported from Russia to the United States.

—*Dry Bulk Cargoes*

Grain. Grain represented approximately 5.6% of our total cargo volume in the first six months of 2007 and approximately 5.0% in 2006. NCSP ships grain, although NZT Grain Terminal has taken over most of the grain handling services we provide since its new grain terminal was launched in August 2007.

Dry chemicals and mineral fertilisers. Dry chemicals and mineral fertilisers represented approximately 1.8% of our total cargo volume in the first six months of 2007 and approximately 1.8% in 2006. The main importers are Europe, the United States and Asia.

Raw sugar. Raw sugar represented approximately 2.2% and 1.9% of our total cargo volume in the first six months of 2007 and in 2006, respectively. Raw sugar is imported as bulk cargo from Central and South America.

—General Cargo

Metals. We handle pig iron, ferrous and non-ferrous metals produced by major Russian and certain CIS manufacturers. Metal represented approximately 12.3% of our total cargo volume in the first six months of 2007 and 12.7% of our total cargo volume in 2006.

Timber and timber products. Timber and timber products represented approximately 1.5% and 1.6% of our total cargo volume in the first six months of 2007 and in 2006, respectively. Timber and timber products include plywood, fibreboard, chipboard, saw-timber and are mainly exported from Russia to the Middle East.

—Containers

Containers represented approximately 4.2% and 3.0% of our total cargo volume in the first six months of 2007 and in 2006, respectively.

The table below shows the key cargoes handled by, the principal services provided by, and the total cargo volume of each member of the Group for the six months ended 30 June 2007 and for 2006.

<u>Group Company</u>	<u>Key Cargo / Services</u>	<u>Cargo Volume (‘000s of tonnes)</u>	
		<u>2007 (to 30 June)</u>	<u>2006</u>
NCSP	Oil, oil products, metals, containers, grain ⁽¹⁾	35,790	75,008
Portion due to IPP	Oil products, liquid fertilisers	2,229	4,891
Portion due to NZT Grain Terminal	Grain ⁽²⁾	—	—
NLE Timber & Container Terminal	Timber, containers	1,344	2,418
NSRZ Ship Repair Yard	Metals, ship repairs	1,523	2,940
NCSP Fleet	Bunkerage and towing, auxiliary services	—	—
Baltic Stevedore Co.	Containers, other	394	562
Total		<u>39,051</u>	<u>80,928</u>

Note:

(1) The cargo volume figures for NCSP include cargo volumes shipped through NCSP’s berths by IPP and NZT Grain Terminal, which do not have their own berths. Accordingly, in order to avoid double-counting, the cargo volumes shown for IPP and NZT Grain Terminal are not reflected in the figure shown for the Group’s total cargo volumes.

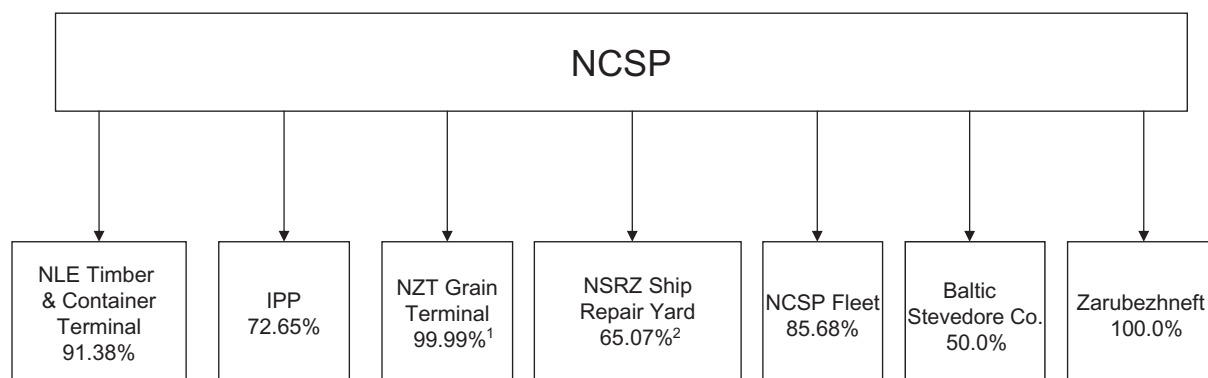
(2) NZT Grain Terminal had no cargo volume prior to the completion of construction of its new grain terminal in August 2007.

Other Services

In addition to our stevedore services, NSRZ Ship Repair Yard provides ship repair and maintenance services and produces electricity from its own power station. NCSP Fleet provides approximately 95% of the tug, towing and mooring services and 19% of the bunkerage services provided at the Port.

Our Corporate Structure

The Board of Directors of NCSP provides strategic oversight for its subsidiaries. In addition, certain of our senior managers and certain members of the boards of directors of our subsidiaries are resident in the Moscow representative office of NCSP. The chart below shows the corporate structure of NCSP and our principal operating subsidiaries.



(1) NCSP Fleet holds the remaining 0.01% interest in NZT Grain Terminal.

(2) NCSP holds 57.5% of the ordinary shares and 87.8% of the preferred shares in the share capital of NSRZ Ship Repair Yard.

NCSP

NCSP is the largest stevedoring company in the Group and the cargo volumes handled by NCSP account for more than 90% of the Group's total cargo volume. Through its Sheskhari oil terminal, NCSP handles approximately 27% of the oil exported from Russia through Russian sea ports, according to the ASOP Overview, making us Russia's second largest transport gateway for the export of oil by sea port. NCSP also handles high volumes of many other cargoes, including dry bulk cargoes, general cargoes such as ferrous and non-ferrous metals and containers.

Facilities and Capacity

NCSP occupies berths at the Port with an aggregate length of approximately 8 kilometres and has 38 berths, which it has leased from the State until 2055. Its facilities include more than 200,000 square metres of covered warehouses and open storage yards, and it has long-term leases on other hydrotechnical infrastructure (principally berths and piers), loading equipment and other facilities required for its operations.

—Liquid Cargo

NCSP uses 2.8 kilometres of its berths at the Port for liquid cargoes, including oil, oil products and liquid fertiliser. NCSP handles oil via its Sheskhari oil terminal and handles oil products and liquid fertilisers through Sheskhari and pier No. 5. The current effective capacity of the Sheskhari oil terminal is 50 million tonnes of oil per year, and NCSP's capacity for oil products and other liquid cargo is approximately 4.5 million tonnes. NCSP leases 2.2 kilometres of berths at the Sheskhari oil terminal, and owns a pipeline extension carrying oil to the terminal from a tank farm operated by Transneft, the Russian pipeline monopoly. NCSP's berths used for handling liquid cargo have depths ranging up to 24 metres at Sheskhari and up to 13 metres at pier No. 5, and can accommodate oil tankers with deadweight from 80,000 to 250,000 tonnes, although the largest tankers which navigate the Turkish Straits have deadweight of 150,000 tonnes.

NCSP is currently implementing a US\$127.3 million investment project aimed at the modernisation of existing facilities at the Sheskhari oil terminal in order to ensure the safe and efficient handling of oil and petroleum products. See "—Capital Investment Programme—Reconstruction of Sheskhari Oil Terminal".

Oil and oil products are transported from western Siberia, Kazakhstan and Azerbaijan to the Sheskhari oil terminal via a pipeline operated by Transneft. NCSP owns a pipeline extension which carries oil and oil products to NCSP's oil loading equipment at Sheskhari. The terminal's cargo volume depends materially on the volume of oil which the Transneft pipeline delivers to the terminal, which in 2005 and 2006 have been approximately 50 million tonnes per year.

The Caspian Pipeline Consortium's Tengiz-Novorossiysk pipeline terminates near Novorossiysk but does not operate at the Port or use our services, and instead uses an offshore jetty for loading oil onto vessels moored in the Black Sea.

—Dry Bulk Cargo, General Cargo and Containers

NCSP uses 5.1 kilometres of its berths at the Port for handling of dry cargoes, including dry bulk cargo, general cargo and containers. NCSP leases 27 dry cargo berths with depths ranging up to 13.5 metres. This

maximum depth permits NCSP's berths to accommodate Panamax class vessels with a deadweight of up to 65,000 tonnes. NCSP's containerised cargo volumes have increased by approximately 70% from 47,000 TEU in 2003 to 67,000 TEU in 2006. Container cargo is processed using the indirect method.

As NCSP currently operates near maximum capacity for dry cargoes, it is shifting its focus from lower margin cargo, such as iron ore, to higher margin cargo, such as ferrous metals, as further discussed under “—Competitive Strengths and Strategy—Strategy—We intend to continue optimising our mix of cargo handling capabilities and the other services we offer based on competitive advantages arising from the quality of our facilities and our pricing power”.

IPP

IPP operates a complex for the shipment of liquid cargoes, including oil products and liquid fertiliser. In addition, in May 2007 we completed the construction of a new bunkering complex for fuel oil and diesel fuel at IPP with a direct railroad connection that will facilitate the storage and handling of up to 600,000 tonnes of bunkering fuel per year. See “—Capital Investment Programme—IPP Bunkering complex”.

Facilities and Capacity

IPP currently handles diesel and urea ammonium nitrate (UAN), a liquid fertiliser, through its complex, which has capacity to handle up to 4,500 million tonnes of diesel fuel and up to 600,000 tonnes of bunkering fuel annually. The complex is currently operating at close to 100% of capacity, however, IPP is in the process of expanding the complex by constructing facilities for shipment of up to 1 million tonnes of petrol annually, and intends to build facilities to handle up to 3 million tonnes of fuel oil annually.

IPP is currently expanding its operational capacity by implementing investment projects, such as its new bunkering complex and the ongoing reconstruction of its existing facilities. The new liquid shipment facility has increased IPP's diesel fuel shipment volumes from 0.65 million tonnes in 2002 to 4.0 million tonnes as at 31 December 2006 and its capacity for shipping UAN from 0.46 million tonnes in 2002 to 0.85 million tonnes as at 31 December 2006. IPP's complex makes use of state-of-the-art techniques, such as a process to heat fuel oil using pre-heated fuel oil—rather than heating the fuel oil cargo with steam, which dilutes the fuel oil and lowers its quality.

IPP's facilities lie just inland from the waterfront and include a tank farm for temporary storage of liquid cargoes. Details of the storage capacity of the tank farm are set out in the table below.

Cargo	Number of Storage Tanks	Aggregate Capacity (‘000 m³)
Diesel fuel.	9	71
UAN	2	25
Fuel oil (for bunkering).	2	10
Diesel fuel (for bunkering).	1	1
Total.	14	107

Principal Cargoes and Volumes

IPP's aggregate cargo volume of liquid cargoes, i.e., diesel fuel and UAN liquid fertiliser, was 4.9 million tonnes in 2006 and 2.2 million tonnes in the first six months of 2007.

Bunkering Services

IPP began loading bunkering vessels with fuel in 2007 with a capacity to supply up to 0.45 million tonnes of diesel fuel and 0.4 million tonnes of fuel oil to bunkering customers.

NLE Timber & Container Terminal

NLE Timber & Container Terminal provides cargo handling and storage services for shipment of containers as well as timber products, such as processed timber, plywood, fibreboard and chipboard. Unlike other stevedoring companies in the Black Sea-Azov Sea region, NLE Timber & Container Terminal's focus is on the shipment of processed timber, because we expect volumes of processed timber exports to grow in the foreseeable future. In addition, NLE Timber & Container Terminal provides a variety of value-added services to customers, including warehousing and freight forwarding services, and is also engaged in the stevedoring of metals and perishable goods.

Facilities and Capacity

NLE Timber & Container Terminal has open storage capacity of approximately 55,500 square metres for containers and approximately 250,000 square metres for timber, and warehouses for timber with storage capacity of approximately 14,500 square metres. NLE Timber & Container Terminal has 10 berths on long-term leases from the State with a total length of 1.2 kilometres and depths up to 9.8 metres. NLE Timber & Container Terminal is running at near full capacity, but is carrying out capital investment projects which it expects will allow it to increase cargo volumes beginning in 2007. See “—Capital Investment Programme”.

Principal Cargoes

NLE Timber & Container Terminal's cargo handling volume was 1.3 million tonnes in the first six months of 2007 and 2.4 million tonnes in 2006. In the first six months of 2007, NLE Timber & Container Terminal handled 0.6 million tonnes of timber cargo, 40,000 TEU of containers and 0.2 million tonnes of other cargo, including non-ferrous metals. NLE Timber & Container Terminal handled 1.3 million tonnes of timber cargo, 58,200 TEU of containers and 0.3 million tonnes of other cargo, including non-ferrous metals, in 2006. NLE Timber & Container Terminal's container volumes are currently the fastest growing among the cargoes it handles.

NZT Grain Terminal

NZT Grain Terminal provides storage and handling services for the export of grain, as well as related value-added services, such as cleaning and drying of grain. Located in Russia's primary agricultural region and one of the world's largest grain producing areas, NZT Grain Terminal's facilities provide an important gateway for Russia's grain exports. In August 2007, NZT Grain Terminal completed construction of a new grain storage and shipment terminal which we believe is the fastest of its kind in Russia. We further believe there is a large amount of unsatisfied demand in southern Russia and in Kazakhstan for grain shipment capability, as indicated by the fact that by May 2007, NZT Grain Terminal had already contracted all of its capacity for 2007. NZT Grain Terminal began generating revenues in August 2007.

Facilities and Capacity

NZT Grain Terminal's new complex has capacity to store and handle up to 4.0 million tonnes of grain annually, and its high-speed equipment gives NZT Grain Terminal the capability of loading a Panamax class vessel within 72 hours. This high loading speed permits relatively short waiting times for vessels, which reduces freight costs incurred by cargo shippers. Since freight costs can represent a substantial portion of the overall cost of shipping cargoes by sea, NZT Grain Terminal's ability to load vessels at higher speeds gives it a key advantage over its competitors.

NZT Grain Terminal's new complex includes grain warehouse facilities, consisting of 10 steel containers with an aggregate storage capacity of 120,000 tonnes, loading and weighing devices, a unit for cleaning and drying grain, bucket-chain grain elevator towers, ground galleries and bunkers for aspiration drifts. In addition, the grain terminal uses state-of-the-art techniques, such as the oiling of grain to reduce dust while handling. NZT Grain Terminal does not have its own berths, and uses NCSP's deep-water berths capable of accommodating Panamax class vessels.

In order to expedite the process of unloading rail cars, most grain arriving at the Port for export is unloaded and sent to grain elevators for temporary storage. We use an automated conveyor system to transport the grain, which ensures high speed of loading from elevator bins through a system of conveyor galleries and transfer stations which terminate at two ship loaders.

Principal Cargoes and Volumes

NZT Grain Terminal currently handles grain, the majority of which is wheat, barley and sunflower seeds. In September 2007, its new grain terminal commenced trial operations handling approximately 100,000 tonnes of grain. Full commissioning is currently expected by the end of 2007. The launch of the new grain terminal is expected to lead to an increase in the grain volumes handled at the Port. During 2006, approximately 51% of grain exported from Russia by sea passed through NCSP's facilities at the Port. We expect that NZT Grain Terminal will handle such volumes in the future.

NSRZ Ship Repair Yard

In addition to its ship repair services, NSRZ Ship Repair Yard provides stevedoring services, concentrating on shipment of metals cargoes. NSRZ Ship Repair Yard also has the largest Russian ship repair facility on the Black Sea.

Facilities and Capacity

NSRZ Ship Repair Yard leases 10 berths with depths ranging up to 12 metres with a total berth wall length of 1.7 kilometres. NSRZ Ship Repair Yard has 73,000 square metres of covered and open-air cargo storage facilities.

Principal Cargoes and Volumes

In the first six months of 2007, NSRZ Ship Repair Yard handled 1.5 million tonnes of cargo and in 2006, handled 2.9 million tonnes of cargo. NSRZ Ship Repair Yard handles mainly metal cargoes.

Ship Repair Services

NSRZ Ship Repair Yard's operating area occupies over 360,000 square metres. NSRZ Ship Repair Yard operates one of the largest dry-docks on the Russian Black Sea coast which includes two floating dry-docks with a lifting capacity of 30,000 to 60,000 tonnes (allowing in-dock overhauls of vessels with deadweight of up to 200,000 tonnes) and powerful gantry cranes and cargo-lifting machinery. NSRZ Ship Repair Yard is also one of the few facilities in the Black Sea available to service the Russian naval fleet and competes on a regular basis for tenders to provide service and repairs for naval vessels.

Electricity Generation

NSRZ Ship Repair Yard also generates its own electricity from its gas-fuelled 9.2 megawatt power station. NSRZ Ship Repair Yard also sells some of the electricity generated to NCSP and a small portion to customers located near NSRZ Ship Repair Yard's facilities.

NCSP Fleet

NCSP Fleet is one of the largest private maritime tug and towing companies in Russia and provides bunkering and a variety of other fleet services at the Port.

Vessels

NCSP Fleet currently has a fleet consisting of 68 vessels, which includes 27 tug-boats, seven bunkering vessels, a specialised fire-extinguishing vessel, a fleet of small passenger and supply vessels, and other specialised vessels. NCSP Fleet leases 9 vessels from RosMorPort and 44 vessels and various other special-use vessels from NCSP, and owns 15 vessels.

Tug and Towing Services

NCSP Fleet provides all of the tug, towing and mooring services to vessels in and calling at the Port. In addition, NCSP Fleet provides emergency services such as transferring vessels to shelter zones, cleaning and containment services for oil or other liquid spills, hazardous material response and waste management services in and around the Port. NCSP Fleet also removes bilge water, sewage and garbage from vessels.

Bunkering Services

NCSP Fleet provides approximately 19% of the bunkering services for vessels in and calling at the Port. Bunkering services consist of providing fuel oil, water and other supplies used for the operation of such vessels. NCSP Fleet buys its bunkering fuel from IPP and third parties at market value and sells the bunkering fuel to the end-customer.

Baltic Stevedore Co.

Baltic Stevedore Co. primarily handles containers at a container terminal it operates at the port of Baltiysk in the Kaliningrad Region, a Russian enclave and free trade zone located on the Baltic Sea between Lithuania and Poland. In addition, Baltic Stevedore Co. provides cargo storage and vessel mooring services, and operates the passenger and automobile ferry terminal at the Baltiysk port. The container terminal became operational in April 2006 and, during 2006, Baltic Stevedore Co. handled approximately 41,000 TEU. The terminal currently has annual capacity to handle approximately 80,000 TEU.

We purchased a 50% interest in Baltic Stevedore Co. in 2006 in order to compete in part of the lucrative container cargo market in the Kaliningrad Region. The other 50% interest in Baltic Stevedore Co. is held by a private Russian company. However, NCSP retains operational control of Baltic Stevedore Co., and its results of operations are consolidated into the Group's consolidated financial results.

Operations of Other Subsidiaries

In addition to NCSP's principal subsidiaries, we also have other subsidiaries which provide consulting services for the Group, air transport for senior management and security at our facilities at the Port, as well as a recently acquired subsidiary which owns an undeveloped plot of land adjacent to IPP's facilities in respect of which we are currently exploring opportunities for development or other use.

Zarubezhneft

We acquired 100% of the interests in Zarubezhneft in June 2007. The main asset of Zarubezhneft is a land plot with total area of 26 hectares located adjacent to IPP's facilities. We are currently exploring opportunities for the most efficient use of this land plot in our business.

TPS

TPS is a consulting services company based in Moscow that provides various kinds of consulting services to the Group (including marketing, strategic planning and investment portfolio management services).

Kuban Security

Kuban Security provides security services at the Port, such as guarding the territory, gates and fences and controlling vehicle and personnel access to the Port and our facilities. Kuban Security provides services primarily to members of the Group.

NR Air

NR Air is a Cayman Islands company and a wholly-owned subsidiary of NCSP. It owns one jet airplane and provides air transport services for senior management. NR Air does not carry out any other operations.

Capital Investment Programme

We are engaged in a capital investment programme which contemplates a number of substantial modernisation and improvement projects, including the expansion and reconstruction of facilities to handle additional volumes of existing cargoes more efficiently, the construction of specialised facilities for new cargoes that are expected to form an increasing portion of the total mix of cargoes exported from or imported to Russia, and augmentation of port service facilities to handle the increased number of vessels that are expected to use our expanded stevedore facilities.

The following table summarises the amounts of capital expenditure budgeted for our current investment projects and the amounts invested as at 30 June 2007.

<u>Project</u>	<u>Amount Budgeted</u>	<u>Amount Invested as</u>
	(millions of US dollars)	at 30 June 2007
Bunkerage Complex	12.4	11.8
Grain Terminal	82.0	76.4
Container Terminal	82.7	40.4
Sheskharis Oil Terminal	127.3	46.8
Petrol Shipment Complex	18.4	0.7
Timber Cargo Terminal	14.6	5.8
Fertiliser Cargo Complex	<u>25.1</u>	<u>0.6</u>
Total	<u>362.5</u>	<u>182.5</u>

Completed Projects

Grain Terminal Construction

The Port's proximity to Russia's main grain producing regions in southern Russia and our leading position in the grain export market makes the expansion and modernisation of our grain export facilities one of

our top priorities. On 29 August 2007, we completed construction of a modern, special-purpose grain terminal with a throughput capacity of 4.0 million tonnes of grain per year. Construction of the terminal began in the second quarter of 2005 and was completed in August 2007. See “Business—NZT Grain Terminal”.

IPP Bunkerage Complex

Our cargo volumes of bunkerage fuel have been growing steadily during the past three years. We believe that the successful completion of our other modernisation projects will contribute to a substantial increase in the number of vessels entering the Port, which in turn will result in an increased number of vessels that will require bunkerage services. Our goal is to increase our annual bunkerage fuel sales from 180,000 tonnes in 2006 to 450,000 tonnes by 2009, which we believe would result in an increase in our market share of fuel sales at the Port from approximately 19% in 2006 to approximately 50% in 2009.

In May 2007, we have completed the construction of a new fuel bunkerage complex for fuel oil and diesel fuel with a direct railroad connection that will facilitate the storage and unloading of up to 600,000 tonnes of bunkerage fuel per year. These improvements in our infrastructure for liquid cargo allow us to deliver bunkerage fuel directly to berthed vessels via a newly-installed pipeline rather than using trucks to transport the bunkerage fuel to berthed vessels, thereby reducing our environmental transport risks and allowing us to fulfil fuel requests more quickly and efficiently.

Projects in Progress

Increase in Container Cargo Capacity

One of our most important modernisation projects is the reconstruction and expansion of NLE Timber & Container Terminal's container cargo terminal. Container cargo volumes have been growing rapidly in Russia in recent years. The growth of container cargo thus far has not been as rapid in the Black Sea-Azov Sea region as in other parts of Russia or the world due to the absence of the necessary facilities. We believe the reconstruction and increased capacity of our new container cargo terminal will meet untapped demand in the region.

We expect that reconstruction of our existing container terminal, operated by NLE Timber & Container Terminal, will increase our throughput capacity from 60,000 TEU to 350,000 TEU per year when fully operational. In conjunction with this project, we are carrying out improvements of the berths serving the terminal. We expect that these improvements will allow the berths to accommodate larger vessels, increasing the maximum vessel size from 700 TEU to 4,000 TEU. The 14 hectares of warehouse space at the existing terminal is expected to provide sufficient container storage space to allow us to offer container re-packaging services in addition to increased handling capacity. We have already allocated land plots, demolished old buildings, purchased container handling equipment and begun pavement work and railway track installation. We anticipate that work on the terminal will be completed by the second quarter of 2007.

We are working jointly with Russian Railways on a project which contemplates launching container block-train service between Novorossiysk and certain major industrial centres in Russia and the CIS, including Moscow. The first such service was launched in February 2007, when a block-train began to regularly haul containers on a route from Novorossiysk to Tatarstan (three times every eight days).

Reconstruction of Sheskhari's Oil Terminal

The Sheskhari's oil terminal has been operating since 1978 without a substantial overhaul to its infrastructure. Our project is aimed at ensuring the safe and efficient shipment of oil through Sheskhari's oil terminal. As part of this project, we purchased all of the equipment installed on the berth serving the terminal and on the land NCSP leases from the State. This equipment includes a pipeline extension leading from the Transneft pipeline to the terminal. We are in the process of refurbishing this pipeline extension to improve our capacity and efficiency in transporting oil to the Port. Reconstruction works include reconstruction of the existing berth, and construction of a new, second berth, which, upon completion, would be able to accommodate tankers with deadweight from 90,000 to 110,000 tonnes. Reconstruction works are being carried out in a way which do not interfere with current operations and do not reduce cargo volumes. We currently expect the project to be completed in December 2009.

Petrol Handling Complex

IPP's new petrol handling complex will include facilities to receive, temporarily store and load petrol onto ships at berth. We expect the complex to be completed in 2008. The project is expected to have annual capacity to handle 1.0 million tonnes of petrol capacity.

Increase in Timber Cargo Volumes

The timber industry is one of Russia's strongest areas of industrial development due to Russia's extensive forests and the widespread demand for timber materials in many manufacturing industries. We anticipate that the export volumes of Russian round timber will decrease in favour of processed timber, pulp and paper products, which the Russian government has been promoting. The goal of this project is to increase our volume of processed timber cargo shipments from 2.2 million to 3.0 million cubic metres, which will account for approximately 70% of the timber cargo exports in the Black Sea-Azov Sea region. Accordingly, we are expanding our existing timber export facilities, improving railroad and road access to the loading facilities and acquiring more efficient special-purpose equipment for loading and unloading timber cargo from rail cars, trucks and vessels. We anticipate the project will be completed by the end of 2007.

Completion of Fertiliser Cargo Complex

Russian enterprises export approximately 80% of all mineral fertilisers they manufacture. A substantial part of Russia's mineral fertilisers are currently exported through Ukrainian sea ports. We believe we can capture some of this market through a two-phase modernisation and expansion of our fertiliser cargo complex. The project is expected to increase our dry mineral fertiliser export capacity from 700,000 tonnes to 2.6 million tonnes per year. The first phase of this complex, a dry mineral fertiliser shipment terminal for bulk shipment of mineral fertilisers, including carbamide, complex nitrogenous phosphoric and nitrogenous potassium fertilisers, has already been completed, and we expect the second phase, a covered warehouse for temporary storage of nitrogenous and phosphoric fertilisers with a planned capacity of 90,000 tonnes to 100,000 tonnes, as well as additional conveyor, transport and communications systems, to be completed in 2008. We will also upgrade most of our equipment servicing the complex in this second phase.

Projects under Consideration

We are considering investment in a number of other projects which will increase capacity for cargoes we currently handle, as well as new, high-margin cargoes, through the construction of new facilities and the expansion and modernisation of existing facilities. At present, we are reviewing the following proposed projects, although our Board of Directors has not approved them, and we have not budgeted funds for them.

Increase in Container Cargo Capacity

To further capitalise on the growth opportunities we believe exist for handling containers, we are considering investing approximately US\$120.0 million to expand NCSP's container terminal from an annual capacity of 70,000 TEU at the end of 2006 to up to approximately 500,000 TEU by 2008.

We are also considering a proposed project to expand Baltic Stevedore Co.'s container capacity from 80,000 TEU at present to 300,000 TEU by scheduled completion in 2009, for an approximate investment of US\$51.2 million.

Increase in Fuel Oil Capacity

We are considering a project for an investment of approximately US\$91.9 million to construct a new fuel oil terminal to be operated by IPP, in order to expand our share of the fuel oil stevedoring market. Upon completion, scheduled for 2009, this terminal is expected to have annual capacity of 3.0 million tonnes.

New Alumina Terminal

We believe a trend may develop toward increased import of alumina into Russia for use by aluminium producers in their manufacturing process. Our proposed alumina project contemplates investment of approximately US\$65.1 million for construction of an alumina terminal to be operated by NCSP with annual capacity of 4.0 million tonnes, to be completed by 2010.

Relationship with Expeditors

In order to maximise the capacity utilisation of our facilities, we do not interact directly with cargo shippers and owners. Instead, cargo is delivered to us by expeditor companies that act as coordinators of the logistics chain between the shipper and the cargo receiver, in which we are an important part. There

are over 30 expeditors operating in the Port and we work with approximately half of them at any given time. We rely on expeditors to secure stable cargo volumes and to utilise efficiently our available capacity. This relieves us from having to establish relationships with the cargo owners, thereby saving us time and transaction expenses and enabling us to focus on our core business.

Expeditors also perform the function of consolidating small portions of cargo of one type. We select cargo expeditors through a competitive tender process, which generates competition between expeditors to provide the terms most favourable to us. The tenders contain provisions whereby the expeditors guarantee they will provide a certain volume of cargo. Should these cargo volumes not be delivered by the expeditor, we can either allow the existing expeditor the opportunity to deliver a different cargo, offer the available capacities to other expeditors or replace the expeditor. At the end of 2006, our relationships with 15 expeditors, accounted for approximately 76% of our cargo volumes. All expeditors have approximately the same coverage in terms of products and producers.

We organise all-party meetings with our key management and major expeditors on a quarterly basis to collect feedback on our performance.

Term and Termination

After our June 2006 restructuring and changes in the mix of cargoes we handle, more than 90% of the service contracts with our customers are for terms of one year or less, which allows us to maintain flexibility to re-negotiate terms, such as in the event we wish to raise prices for our stevedoring services. Most of our contracts with expeditors require prepayment for services not later than the month of service. Due to the short-term nature of our contracts, we engage in significant ongoing marketing efforts aimed not only at expeditors, but also at ultimate end users and producers (e.g., major Russian metals companies and timber mills) who are able to select or influence the choice of sea port through which their cargoes are shipped, to ensure that such customers are comfortable with tariffs and satisfied with the quality of service delivered at the Port. As a result, approximately 99% of our short-term service contracts have historically been extended or renewed for an additional term upon their expiration.

Among our multi-year contracts is a contract with the Russian state-owned pipeline company, Transneft, for cargo shipment services in connection with oil shipped through the Baku pipeline from Azerbaijan, which is coterminous with the long-term oil pipeline agreement between Azerbaijan and Russia.

Competition

Russian ports are primarily split into three main regions: the Far East Basin, the Northwest Basin and the Southern Basin of the Black Sea-Azov Sea region. There is only limited competition between ports in different regions as a result of the significant distances between them, the geography of major cargo destinations and origins and the composition of cargo flows.

Ports in the Southern Basin

The Russian Black Sea port of Tuapse is one of the few ports that is in a position to compete with the Port. However, the Tuapse port currently engages primarily in servicing oil and petroleum product exports for OJSC Rosneft that are refined at the Tuapse and other refineries. The refinery's proximity to the port substantially reduces transportation costs, guaranteeing the supply of oil products to the Tuapse port. The increasing volume of OJSC Rosneft's exports is exhausting the Tuapse port's capacity, and its potential expansion is geographically limited. Tuapse also handles small volumes of ferrous metals produced by OJSC Novolipetsk Steel (NLMK) for which we compete.

In our experience, the other Black Sea region sea ports are the Port's only competitors. However, the Ukrainian ports of Odessa, Nikolayev, Ilyichivsk and Kherson are less attractive to the vast majority of our customers because of the greater distance from our customers to the Ukrainian ports and the need to cross the congested Russian-Ukrainian border. We do, however, compete with the Ukrainian ports for volumes of iron ore, dry mineral fertilisers, and, to a certain extent, for metals.

Furthermore, the Ukrainian ports have not been privatised and remain government-owned. The Ukrainian government has not yet provided the necessary financing to upgrade the infrastructure of Ukrainian ports. We believe that any sizeable third-party investment into Ukrainian ports is not feasible prior to their privatisation. Currently, Ukrainian ports offer lower stevedore tariffs than ours, and Ukrzaliznitsa, the Ukrainian government-owned railroad operator, offers low railroad tariffs. We believe these tariffs are lower than would be necessary to operate the ports on a profitable basis and finance

infrastructure improvements, and that the Ukrainian ports are thus dependent on the Ukrainian government's continued economic support. In the absence of such support, we believe that such low tariffs are not sustainable in the long-term.

The Port and the Azov Sea ports currently compete for cargo flows only to a limited extent. The shallow waters of the Azov Sea, which freeze in winter, accept vessels with deadweight of up to only 15,000 tonnes. As a result, these ports are limited to handling small cargo loads shipped to Turkey and other countries on the Black Sea and the eastern Mediterranean, rather than the larger-scale cargo shipments we can handle.

Ports in the Northwest Basin

The North-Western ports compete with the Black Sea-Azov Sea ports only in respect of container shipments. Unlike the Port, the St. Petersburg port is operated by several independent stevedores which are not consolidated. The St. Petersburg port is running near maximum container capacity, and St. Petersburg's transportation junction is heavily congested. The St. Petersburg to Moscow highway is also the busiest route in Russia, and highways, railroads and associated infrastructure used by this port are relatively old and not properly constructed to accommodate such heavy traffic. Any increase in the St. Petersburg port's capacity would therefore have to be accompanied by significant investments into the entire region's infrastructure and transportation network. However, the Russian government is currently considering making such investments, which could increase the level of competition we face from them.

Ports in the Far East Basin

The Far East Basin ports do not compete with us and other ports in the Black Sea-Azov region, because they are significantly further away from the major cargo origins and destinations we serve, which renders it uneconomic to ship such cargoes from these origins and destinations to and from Far East Basin ports by rail.

Principal Lease Agreements

We hold long-term leases from the State for most of the land and hydrotechnical infrastructure (i.e., berths and piers), and we own approximately 35% of the land, which we use in our operations at the Port. We also own all of the buildings we occupy at the Port. In addition, we lease certain other immovable property under lease agreements with local authorities.

Most of our leases for land, berths and piers, including most of those held by NCSP and NSRZ Ship Repair Yard, have been granted on a long-term basis, on terms of up to 49 years. The year of expiry of these long-term leases ranges from 2010 to 2055, whilst a minority are one-year lease agreements with unlimited renewal provisions that allow us to extend the lease after its expiration. Our primary lease agreement with the Ministry of Transport and the Administration of Sea Ports, dated 2 August 2002 and amended on 21 August 2006, expires on 31 December 2055 and requires us to maintain and carry out major repairs and reconstruction on all of our leased facilities (which includes the berths and piers we use at the Port).

Resources

We require electricity, gas, petroleum products, water and heat energy for our operational needs. With the exception of electricity produced by NSRZ Ship Repair Yard, a portion of which is purchased by other members of the Group, we purchase resources from third parties on the open market on market terms.

Our Corporate History

During the Soviet era, the enterprises at the Port were nationalised by the State. In 1992, pursuant to the Russian Privatisation Law of July 1991, the Russian government began to privatise these enterprises. 51% of NCSP's shares were distributed under a closed subscription among employees, 9% were sold through voucher auctions, 20% were sold at open auctions in four lots of 5% each and 20% were retained by the State. The other enterprises operating at the Port were privatised according to similar schemes.

On 1 February 2006, President Putin issued a decree that added NCSP to the register of strategic enterprises. As a result, State ownership in NCSP may only fall below 20% if permitted by Presidential decree.

In June 2006, NCSP acquired controlling interests in certain companies that are now consolidated in the Group. See “—Overview—Our Restructuring.” The purchase price was based on a valuation prepared by an independent appraiser (the Centre of Professional Valuation) and was approved by the FAMFP.

During May 2007, NCSP acquired an additional 15.04% interest in the outstanding share capital of NSRZ Ship Repair Yard for approximately US\$25 million, giving us a total interest of 65.07% in the company, including 57.5% of the outstanding ordinary shares and 87.8% of the outstanding preferred shares. Since NSRZ Ship Repair Yard did not pay dividends in its most recent financial period, voting rights attach to the preferred shares on a parity basis with ordinary shares, which gives us control over the entity. During the same period, we acquired the remaining 0.01% interest in NZT Grain Terminal, increasing the Group’s interest in this entity to 100%. In addition, on 28 June 2007, NCSP acquired 100% of the share capital of Zarubezhneft.

Occupational Health and Safety

We consider the health and safety of our employees to be our most significant responsibility in connection with our operations. We strive to create a healthy and safe working environment at each of our facilities through the implementation of appropriate safety measures. We believe that we follow Russian industry safety standards applicable to our respective operations.

We provide each employee at our facilities with appropriate work attire and protective equipment. All our employees are provided with mandatory medical and pension insurance. We offer benefits such as additional payments and extra vacation to employees working in harmful conditions.

There have been no serious industrial accidents in the course of our operations during the past three years.

Port Security

We adhere to the International Ship and Port Facility Security Code (the “ISPS Code”), which came into force in Russia on 1 July 2004. The ISPS Code determines how ports and governments should assess and manage risks and establishes a number of functional security requirements for ships and port facilities. As provided in the ISPS Code, the government must establish a framework for port facility security, including a system for threat assessment. The three components of the security assessment are: (i) the identification and evaluation of important assets and infrastructures that are critical to the Port as well as those areas or structures that, if damaged, could cause significant loss of life or damage to the Port’s economy or environment; (ii) the evaluation of the actual threats to those critical assets and infrastructure in order to prioritise security measures; and (iii) the assessment of the Port’s vulnerability by identifying its weaknesses in physical security, structural integrity, protection systems, procedural policies, communications systems, transportation infrastructure, utilities, and other areas that may be a likely target. The Federal Service for Transport Supervision, the Federal Agency for Sea and River Transport, and the Administrations of Sea Ports are responsible for implementation of the ISPS Code in Russia.

Under the ISPS Code, ships are subject to a system of survey, verification, certification and control to ensure that their security measures are implemented, we are required to report certain security information to the relevant Russian authorities. We have plans for port facilities security approved by the Russian Ministry of Transport and appoint special officers to supervise fulfilment of such plans.

All our equipment is certified for compliance with work safety requirements under Russian law. Certain items such as cranes also have ISO certification. We believe we are in compliance in all material respects with all safety laws and regulations applicable to our business.

We have entered into agreements with a local agency of the Ministry of Internal Affairs to provide security services, maintenance of controlled access security systems and the use of various security premises to assist us with Port security in compliance with the ISPS Code.

In addition, one of our subsidiaries, Kuban Security, provides security services to the Port such as guarding the territory gates and fences and controlling vehicle and personnel access to the Port and our facilities.

From 1 September 2007, on the recommendation of the Ministry of Transport, security has been provided for our Sheskhari oil terminal by the local department of the Ministry’s Security Administration, which specialises in providing security services for transport infrastructure, including facilities situated at sea ports.

Insurance

The insurance industry in the Russian Federation is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. Our policy is to procure mainly the mandatory insurance amounts and policies required by applicable law. See “Risk Factors—Risks Relating to our Business—We maintain the insurance coverage required by Russian law, which may be insufficient to cover our actual losses”. Industrial companies in Russia must maintain mandatory liability insurance for damages caused as a result of exploitation of dangerous industrial objects, hydrotechnical infrastructure, and certain other similar types of insurance.

We currently have all insurance policies that we are required to have by applicable law. These insurance policies include cover for third party liability arising out of operation of certain of our facilities, mandatory motor vehicle insurance, and certain other types of insurance. In addition to mandatory insurance, we have insurance cover in respect of risk of damage to or loss of our owned and leased property, such as our buildings, facilities and equipment, against events such as fire, lightning, gas explosions, natural disasters, damage caused by water, theft, malicious acts of third parties and terrorist attacks, and business interruption insurance. We maintain insurance policies with some of the leading Russian insurance companies such as Ingosstrakh, Reso-Garantiya, Insurance Group Uralsib and OSAO Rossiya. We renew our insurance policies annually in the ordinary course of business on commercially reasonable terms, conditions and rates.

Legal Proceedings

In the ordinary course of business, we have been and continue to be the subject of legal and arbitration proceedings and adjudications from time to time, which may result in damage awards, settlements or administrative sanctions including fines. We are not, and during the past 12 months have not been, the subject of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), which individually or in the aggregate may have, or have had in the recent past, a significant effect on us or our financial position or profitability. These proceedings arise in the ordinary course of business and do not contain any threat to our business.

Environmental Matters

We are subject to various environmental laws and regulations. We believe that we are in material compliance with all environmental laws and regulations to which we are subject. We believe that we hold all necessary environmental licences and permits, including licences for the use of water resources, permits for water discharges, air emissions, waste disposal and waste management, and other licences for operations at our facilities. We comply with the sanitary protective zone regime established at each of our operational sites. In addition, we take measures to prevent water pollution and soil contamination in the areas where we handle oil and oil products. For a more detailed discussion of the environmental regulations to which we are subject, see “Regulation—Environmental Matters.”

Our costs of environmental compliance include payments for air and water discharges and waste which are within the limits set out in our licences, payments for discharge and waste in excess of these limits, and payments for the insurance against environmental damage when handling hazardous industrial objects.

Intellectual Property

Our “NCSP” logo has been registered as a trademark in Russia in respect of a number of classes of goods and services. Other logos identifying operational subsidiaries have not been registered. We maintain registration of the internet domain name <http://www.nmtp.info>. We do not hold any proprietary patents or patent applications, although as is common in our industry, we rely on a number of relevant trade secrets and know-how concerning our business and operations. We also use multiple electronic systems allowing us to monitor warehousing, location and movement of cargoes.

Employees

The table below sets out the number of our employees at the end of fiscal years 2006 and 2005 and as at 30 June 2007.

Company	Number of Employees		
	As at 30 June	As at 31 December	
	2007	2006	2005
NCSP	3,552	3,831	3,990
NCSP Fleet	883	905	941
IPP	399	356	326
NZT Grain Terminal	57	39	31
NSRZ Ship Repair Yard	1,576	1,684	1,821
NLE Timber & Container Terminal	1,355	1,255	1,502
Baltic Stevedore Co.	114	88	46
Total	<u>7,936</u>	<u>8,158</u>	<u>8,657</u>

The number of employees has not materially changed since 30 June 2007.

The following table summarises the main categories of our employees as at 30 June 2007, 31 December 2006 and 31 December 2005.

Category	Number of Employees		
	As at 30 June	As at 31 December	
	2007	2006	2005
Management	555	502	457
Professional employees (specialists)	1,690	1,782	1,779
Office staff	373	393	469
Workers	<u>5,318</u>	<u>5,481</u>	<u>5,952</u>
Total	<u>7,936</u>	<u>8,158</u>	<u>8,657</u>

Because the members of the Group are separate legal entities, each Group member enters into collective bargaining arrangements with trade unions separately. Most of the members of the Group entered into collective bargaining agreements during the past three years.

Over 75% of the employees of the Group and 82.7% of NCSP's employees are members of various trade unions, the most notable of which is Krasnodar Region seaport workers trade union with whom a new collective bargaining agreement was signed on 28 February 2007 and came into effect on 1 May 2007. The agreement provides special benefits for certain categories of employees, for example, employees working in harmful conditions, new mothers and senior employees.

We attract qualified personnel from the local institutions such as Ushakov State Maritime Academy. We are not party to any collective employment disputes and there have been no strikes or other cases of industrial action at our facilities, except for a minor strike in December 2006, which did not affect the conduct of our operations. In connection with the settlement of the strike, NCSP entered into the collective bargaining agreement described above. We operate the Novorossiysk Port Education Center, a not-for-profit organisation with facilities for the advanced training of our personnel in areas such as port facilities security and senior management training.

The average monthly salary at the Group companies amounts to RUB 14,500 (approximately US\$587.52 at the rate of exchange of the CBR on 2 November 2007), which is above average for the Krasnodar Region.

Pensions

We make defined contributions to the state pension funds for our employees in accordance with applicable Russian law and also provide limited pension and other post-employment benefits in accordance with collective bargaining agreements. These payments consist of regular lifetime pension payments and lump-sum amounts payable on retirement in amounts dependent on the number of years of service, level of compensation and amount of pension payments due under collective bargaining agreements.

REGULATION

General

Russia has not enacted any legislation specifically governing the commercial sea port industry and the business of commercial sea port operators. However, the operation of commercial sea ports in Russia, particularly stevedoring operations involving cargoes shipped in Russian seaborne trade, is subject to a wide variety of federal and regional laws and regulations, including general, civil and commercial legislation and special legislation relating to licensing, water and land use, anti-monopoly matters, environmental, health and safety concerns, employment and other issues, as well as the regulatory oversight of a number of federal, regional and local authorities.

Regulatory Authorities

Several government agencies participate in regulation of the Russian commercial sea port industry. These agencies, whose functions are not always clearly defined, form a complex multi-tier system of regulation. In addition, over the past years, the structure of the Russian government was extensively reorganised and various ministries and agencies were consolidated into a smaller number of governmental agencies. This governmental restructuring continues to date and may affect our business in a number of ways. See “Risk Factors—Risks Relating to the Russian Federation”. At present, the principal regulatory authorities which oversee our business include the following:

- The Ministry of Economic Development and Trade regulates Russian imports and exports and co-ordinates the relevant intergovernmental negotiations. In addition, the FAMFP, which is under the supervision of the Ministry of Economic Development and Trade, is responsible for the management of shares held by the State in NCSP. FAMFP appoints its representatives who vote at the general meetings of shareholders and exercise other rights attaching to the shares of NCSP on the basis of directives issued by FAMFP.
- The Ministry of Transport generally regulates and supervises transport industry and infrastructure in Russia. The Ministry of Transport has several agencies specialising in regulation of a particular kind of transport under its supervision. The Federal Agency of Marine and River Transport regulates the use of State-owned property, such as berths, land and hydrotechnical equipment in connection with the operation of commercial sea ports and exercises other regulatory functions. The Federal Service for Transport Supervision, which is also subject to the Ministry of Transport, performs controlling functions and oversees compliance with the laws and regulations governing transport activity.
- The FTS sets maximum tariff rates for the services rendered by natural monopolies, including sea port operators. The FTS also acts as a regulatory authority for natural monopolies in certain other aspects of their activities. See “Regulation—Tariff Regulation”.
- The Federal Anti-Monopoly Service supervises competition and pricing regulations, monitors compliance by the natural monopolies with anti-monopoly and natural monopoly legislation, particularly over the equal access of customers to the services provided by natural monopolies.
- In addition, the government has established special organisations, Federal State Unitary Enterprise RosMorPort (“RosMorPort”) and Port Authorities (Administrations of Sea Ports) which regulate various aspects of sea ports’ activity. RosMorPort is a federal state unitary enterprise that holds the infrastructure which sea ports operate, including hydrotechnical constructions, and ensures effective operation thereof. In addition, RosMorPort is responsible for collection of port duties and redirecting them towards construction and modernisation of ports’ infrastructure. RosMorPort also oversees implementation of certain governmental port development programmes. Port Authorities are state organisations which exercise supervising and controlling functions in relation to sea ports’ activities, in particular, they supervise compliance by the port with applicable Russian and international laws and regulations, maintain the register of vessels operated by the port, control navigation and ecological safety, and exercise certain other functions.

Strategic Entity Status

NCSP is included in the list of Russia’s strategic entities. Any decision to privatise such entities or their shares or reduce the shareholding of the State can be taken by the government only after the President decides to exclude the relevant company from the list pursuant to Federal Law No. 178-FZ of 21 December 2001 “On Privatisation of State and Municipal Property”. In addition, the liquidation and reorganisation of such strategic companies can be carried out by the Government only on the basis of a presidential decision.

Natural Monopoly Law Status

The Federal Law On Natural Monopolies No. 147-FZ dated 24 June 1999, as amended (the “Natural Monopoly Law”) regulates those markets in which “demand is more efficiently satisfied in the absence of competition due to the technological aspects of the production process... and the goods produced by the natural monopolies cannot be substituted by other goods” (Article 3). The list of regulated activities provided by Article 4 of the Natural Monopoly Law includes the services of terminals and commercial sea ports. The list of entities which are natural monopolies is maintained by the FTS, and NCSP is included on this list. The key elements of the regime established by the Natural Monopoly Law applicable to NCSP are:

- certain types of transactions, particularly (i) investments outside the regulated activity of a natural monopoly (in NCSP’s case its regulated activity is the service of terminals and ports and the provision of services through its transportation terminals at sea ports), (ii) any sale, lease or other transaction which results in another entity obtaining title to a part of natural monopoly’s main assets used for regulated activity), in each case exceeding 10% of the natural monopoly’s own capital, must be approved by the FAS;
- any transactions resulting in acquisition of more than 10% voting interest in the natural monopoly’s charter capital and/or changing of the amount of such interest require notification of the FAS, and vice versa, if a natural monopoly acquires more than 10% voting interest in an entity outside the regulated activity of a natural monopoly it must notify the FAS of such acquisition;
- the FTS has the power to determine the categories of consumer who are entitled to require the natural monopoly to provide them with a certain level or volume of services: in the case of NCSP, oil companies have prioritised access to crude oil export terminals located at sea ports. In addition, Article 8.1 prohibits natural monopolies from refusing to enter into contracts with particular customers, provided that the relevant natural monopoly has the requisite capacity;
- tariffs of such natural monopolies are regulated by the FTS (Articles 6 and 11); and
- reporting requirements apply to the natural monopoly’s regulated activity and projects on capital investments.

Tariff Regulation

All Russian sea port operators are classified as natural monopolies under Russian law, and stevedoring services, including cargo shipment and related services, are therefore subject to tariff regulation by the FTS. The FTS has exercised its authority with respect to regulated services provided by NCSP by instituting the tariffs and tariff setting procedures set out in FTS Order No. 368-t/4 of 23 December 2004 “On the Approval of Tariffs for the Loading and Off-loading Activities and Related Services for OJSC Novorossiysk Commercial Sea Port,” as amended, and FTS has issued separate tariff setting orders for each member of the Group (collectively, the “FTS Orders”).

The FTS Orders set tariffs for a range of stevedoring services, cargoes and technologies and may review the tariffs set forth therein, either at our request or upon its own initiative. Instead, stevedoring services companies that are subject to the FTS Orders, such as NCSP and our subsidiaries, may from time to time apply to have their existing tariffs amended if the value of any of the cost components of the tariff changes materially or due to capital expenditure requirements. If a company subject to the order commences the provision of services, the handling of cargoes or the application of technologies that were not covered by the initial tariff regime applicable set out in the FTS Orders, it would initiate a special tariff setting procedure by first setting its own provisional tariff. This provisional tariff must be notified to the FTS within one month after the company begins using it, and can be used for up to six months, by which time the company must apply for a final tariff to be set by the FTS on the basis of experience with the provisional tariff and other factors.

In order to amend an existing tariff, or to seek a final tariff for a start-up service, cargo or technology, the company must submit a detailed application to the FTS, providing information on labour and other operational costs, allocable overhead, planned or commenced capital expenditure projects, cargo volumes, cash flow requirements, any forms of governmental financial support and other factors. After reviewing the application, the FTS may request additional information and typically engages in a negotiation process with the applicant. At the end of the process, the management board of the FTS holds a meeting that is open neither to the applicant nor to the public, and decides whether to grant or reject or modify the applicant’s tariff proposal.

FTS sets maximum tariff rates on a basis similar to “cost-plus.” The components of the maximum tariff include the applicant’s fixed and variable costs to provide the service, capital expenditures for planned or commenced projects plus a specified rate of return, and may contemplate automatic adjustments for inflation rates or other macroeconomic factors. Maximum tariffs and calculation methodologies vary depending on whether the relevant cargo is loaded or unloaded using the “direct method” (in which cargoes are moved directly between the vessel and the mode of land transportation) or the “indirect method” (in which cargoes are warehoused or otherwise stored between loading and unloading), the latter method involving additional kinds of costs that must be factored into the tariff. Pursuant to the FTS Orders, all such maximum tariffs are coupled with minimum tariffs at a level 35% below the maximum tariff. Companies have the flexibility to set their tariffs at any point between the maximum and minimum tariffs, and to change them within that range at any time and from time to time, without any notice to or approval from FTS. The actual tariff level for a particular cargo is, among other things, influenced by demand for that cargo and tariffs applied for that type of cargo by competitors. Regulated tariffs are currently denominated in US dollars.

Licensing

We are required to obtain numerous licenses from governmental authorities in the conduct of our operations pursuant to the Federal Law “On Licensing of Certain Types of Activities,” dated 8 August 2001, which came into force in February 2002 (the “Licensing Law”). The Licensing Law provides a list of activities, which can only be performed on the basis of licenses issued by the relevant Russian authorities, and includes activities relating to the sea port operations such as passenger and cargo transportation, loading and unloading hazardous cargo in the sea ports, loading and unloading hazardous cargo onto and from railway vehicles, sea towing and handling hazardous waste and gathering, utilisation, disposing, transportation and distribution of hazardous wastes. Apart from those activities we conduct certain corresponding services that are also subject to licensing. Under the Licensing Law, licenses for the activities listed above are issued for a minimum period of five years and may be extended upon application of the licensee. A license can be suspended if the licensee breaches the terms and conditions of such a license and the licensing authority may apply to court for the cancellation of a license in the event that a licensee does not rectify a breach of the license within the established period. Licensees may apply to extend expired licences.

Water Use Rights

Seas or separate parts thereof (for example, straits, gulfs, harbours), which are part of Russian territory, are considered to be owned by the Russian Federation. Pursuant to the Water Code of the Russian Federation, dated 3 June 2006, which came into force in January 2007 (the “Water Code”), use of the sea in connection with carrying out the sea port activities (such as use of berths, fixed and floating sea platforms, as well as discharging waste and drainage waters into the sea) requires a permit from the relevant regional state or municipal authorities. The term of the permit is normally set forth in the permit.

A permit may be suspended by a court or administrative order in certain situations including risk to a person’s life or health, a radiation accident or other emergency and inflicting harm on the environment. A permit may be cancelled by a court order if activities are being carried out for purposes other than those for which the permit was granted, or in other violation of Russian legislation.

Pursuant to the Water Code, in the event that activities cause harm to the sea, any person responsible for inflicting such harm shall be required to compensate for it either voluntarily or pursuant to a court order.

Land Use Rights

Water use legislation provides that in order to obtain a permit to use the sea, a document certifying the right to use the land plot adjoining to the sea has to be provided to the relevant regional state or municipal authorities.

Under the Land Code of the Russian Federation, dated 25 October 2001, as amended (the “Land Code”), companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership, (2) right of free use for a fixed term, or (3) lease.

A majority of land plots in the Russian Federation are owned by the Russian Federation itself, Russian regions (“oblasts” and “krais”) and municipalities, which through public auctions or tenders or on an individual basis, can sell or lease land plots to companies.

Companies may also have a right of perpetual use of land provided that this right was obtained prior to the enactment of the Land Code. However, the Federal Law “On Introduction of the Land Code,” dated 25 October 2001, as amended, with certain exceptions, requires companies using land under the right of perpetual use either to purchase the land, or to enter into a lease agreement relating to the land with the relevant owner of the land by 1 January 2010.

Companies generally have a right of ownership or perpetual use of their plots, or enter into long-term lease agreements. The lessee normally has a priority right to enter into a new land lease agreement with the lessor upon expiration of the land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authority) for a renewal prior to the expiration of the agreement. Lease agreements concluded for a period longer than one year must be registered with the relevant state authorities as a prerequisite for their validity.

Environmental Matters

We are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of waste and drainage waters into the sea, the management and shipment of hazardous substances and the cleanup of contaminated sites. Issues related to protection of water resources in Russia are regulated primarily by the Federal Law “On Environmental Protection,” dated 10 January 2002 (the “Environmental Protection Law”), the Water Code, and a number of other federal and regional normative acts.

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

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

A company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable.

Pay-to-Pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered jointly by federal and local authorities. The Ministry of Natural Resources has established environmental impact standards, such as limits on emissions and hazardous waste disposal. A company can obtain a permit to exceed these limits from the federal or regional authorities, depending on the type and scale of the proposed environmental impact. As a condition to such a permit, the company must develop a plan for the reduction of emissions or hazardous waste disposals and submit it to the applicable government agency for approval.

Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake remediation and clean-up activities.

Health and Safety

Due to the nature of the sea port business, much of the relevant activities are conducted at industrial sites by large number of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law “On Industrial Safety of Dangerous Industrial Facilities,” dated 21 July 1997, as amended (the “Safety Law”). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used and where cargoes are handled. The Safety Law also contains a

comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used.

Any construction, reconstruction, liquidation or other activities in relation to related industrial sites are subject to a state industrial safety review. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law. In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites.

In the event of an accident, a special commission, led by a representative of the relevant state authorities, conducts a technical investigation to establish the cause of the accident at the expense of the company operating the facility where the accident occurred. The relevant state officials have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Operations of the company may be suspended as a result of such inspections.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for loss of earnings, as well as other health-related damages.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code of the Russian Federation, dated 30 December 2001 (the "Labour Code").

As a general rule, employment contracts are concluded for an indefinite term. An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- incompetence;
- systematic failure of the employee to fulfil his or her duties;
- any single gross violation by the employee of his or her duties, including absence from work; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides additional protection for specific categories of employees. For example, except in the event of liquidation of an enterprise, an employer cannot dismiss expectant mothers. The ability of a company to dismiss minors, mothers with a child under the age of three, single mothers with a child under the age of 14 or a disabled child under the age of 18 or other persons caring for a child under the age of 14 or a disabled child under the age of 18, is also limited.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to uphold employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for any unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

The Labour Code generally sets the regular working week at 40 hours. Any time worked above and beyond the regular working week, as well as any work on public holidays or weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days.

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is currently RUB2,300 (approximately US\$93.19 at the rate of exchange of the CBR on 2 November 2007). The current minimum wage is considered to be less than minimum subsistence level.

Employees in Russia have a right to participate in strikes. The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a

collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be an adequate ground for termination of the employment.

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia.

New Legislation on Sea Ports

The State Duma has recently approved the New Laws. The New Laws, which would come into effect if approved by the Federation Council and signed by the President, would establish a more unified regulatory framework for commercial sea ports in Russia and their commercial activities, and could significantly alter the existing regulatory regime.

The New Laws provide, *inter alia*, for the long-term lease of land plots and hydrotechnical infrastructure (such as berths and piers) and for the possibility for sea port operators to purchase land plots under buildings they own without the need for a public tender. In addition, under the New Laws, a sea port operator may purchase the rail, motorway and energy utilities infrastructure adjacent to the port. The New Laws also would regulate capital investment and major construction and development of sea port infrastructure, as well as relations between sea port operators and cargo shippers.

It remains to be seen whether the New Laws will be approved by the Federation Council and signed by the President in the form approved by the State Duma, or at all. If approved in such form, or any other form, the New Laws are likely to affect our business, and certain provisions of the New Laws may affect our business in ways which may be material, adverse, or both. However, we believe that, if the New Laws are approved and signed in their current form, they would not have a material adverse effect on our financial position or our results of operations.

MANAGEMENT

Directors

The table below shows NCSP's current Board of Directors. The Board of Directors was elected by shareholders at the general shareholders' meeting held on 29 June 2007 and the Board of Directors will serve until NCSP's next general shareholders' meeting. The business address for the Board of Directors is Portovaya Street, 14, Novorossiysk, Krasnodar Region, 353901, Russian Federation.

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Aleksandr Anatolievich Ponomarenko	1964	Chairman of the Board of Directors
Aleksandr Oganovich Chubaryan	1931	Member of the Board of Directors
Aleksandr Aleksandrovich Davydenko	1954	Member of the Board of Directors
Yuri Vladimirovich Parfenov	1956	Member of the Board of Directors
Aleksandr Aleksandrovich Remezko	1962	Member of the Board of Directors
Vladimir Gennadievich Uliyanov	1963	Member of the Board of Directors
Vladimir Borisovich Vorobiev	1949	Member of the Board of Directors

Brief biographies of NCSP's directors are set out below.

Mr. Aleksandr Anatolievich Ponomarenko has been a member of the Board of Directors since 2003 and the Chairman of the Board of Directors since 2006. Currently, Mr. Ponomarenko also serves as the President of TPS starting from 2004 and is either a member of the board of directors or the chairman of the board of directors of some of the Group companies. Mr. Ponomarenko was Marketing Vice President of the Scientific Institution International Institute of Corporations from 2000 until 2004. Mr. Ponomarenko received a degree in economics from the Simferopol State University and a Ph.D in economics from the Supreme Examination Board of the Ministry of Education. Mr. Ponomarenko does not receive a salary from NCSP.

Mr. Aleksandr Oganovich Chubaryan has been a member of the Board of Directors since 2006. Mr. Chubaryan also has served as the President of the State University of Human Science since the beginning of 2007. Mr. Chubaryan became a foreign member of the Norwegian Academy of Science in 1996 and a director of the Institute of General History of the Russian Academy of Science in 1988. He became a member of the International Committee for Historical Sciences in 1990. Mr. Chubaryan is Deputy Chairman of the Russian National Committee of Historians and received a Ph.D in history from Moscow State University.

Mr. Aleksandr Aleksandrovich Davydenko has been a member of the Board of Directors since 2006. Mr. Davydenko has also served as the Head of the Federal Agency on River and Marine Transport since 2005. Mr. Davydenko served as director of the Department for State Policy in the Area of River Marine Transport during 2005, counsel to the Ministry of Transport from 2004 until 2005, and general director of JSC Mortsentr-TEK, a company coordinating sea cargo transportation, from 1997 until 2004. Mr. Davydenko received a degree in marine transport maintenance engineering from the Admiral Nevelsky Far-East Maritime State University. Mr. Davydenko also received a masters in economics and management from the International Academy of Informatisation UNESCO and a Ph.D in economics from the Supreme Examination Board of the Ministry of Education.

Mr. Aleksandr Aleksandrovich Remezko has been a member of the Board of Directors since 2006. Mr. Remezko is the First Deputy Head of Administration of Krasnodar Region advising on matters of economics, financing and audit and has served in a number of other positions in the Krasnodar Region administration since 2001. Mr. Remezko has also served as a member of the board of directors of TPS since 2004. Mr. Remezko served as a director of private companies from 1991 until 1997 and as a finance director from 1997 until 1998. Mr. Remezko received a degree in engineering from Volgograd University of Engineering and Construction. Mr. Remezko also received a degree in economics from Kuban State Agrarian University and a Ph.D in economics from Adygei State University.

Mr. Vladimir Gennadievich Uliyanov has been a member of the Board of Directors since 2006 and has served as the Head of the Internal Control Service since 2006. Mr. Uliyanov served as Krasnodar Region's Prosecutor from 2002 until 2004 and as the First Deputy of Krasnodar Region's Prosecutor, Sochi's Prosecutor, from 1997 until 2002. Mr. Uliyanov lectures at the Moscow State Law Academy and graduated from Kuban State University with a J.D. degree.

Mr. Yuri Vladimirovich Parfenov has been the General Director of the Federal State Unitary Enterprise RosMorPort since July 2006. Mr. Parfenov previously served as the acting General Director of the Federal State Unitary Enterprise RosMorPort and as the Deputy Head of Investment Policy in the Marine Administration of Novorossiysk Port. He graduated from the Moscow State University of International Relations and from the Moscow University of Consumer Cooperation.

Mr. Vladimir Borisovich Vorobiev has been a member of the Board of Directors since 2006. Mr. Vorobiev also serves as the Vice President of Russian Railways since 2006. Mr. Vorobiev has also served in a number of management positions at Russian Railways since 1992, including serving as the head of North Caucasus Railways and a member of the Management Board of Russian Railways. He graduated from the Moscow Institute of Railway Transport with a degree in construction of railway lines and facilities.

Management

The table below shows NCSP's current Management Board. The present members of the Management Board were elected at the meeting of the Board of Directors on 12 July 2007. The business address for the Management Board is Portovaya Street, 14, Novorossiysk, Krasnodar Region, 353901, Russian Federation.

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Igor Yevgenievich Vilinov	1962	General Director
Dmitri Alekseevich Bolotov	1972	First Deputy General Director
Igor Konstantinovich Sergeev	1951	Operations Manager
Vladimir Viktorovich Lebedev	1959	Chief Engineer
Yuri Vladimirovich Starenkov	1961	Director of Economics
Eduard Valerievich Borovok	1963	Director for Business Support
German Ivanovich Kachan	1962	Chief Accountant
Pavel Alekseevich Moroz	1965	Human Resources Manager
Oleg Iosifovich Evmenchikov	1939	Director of Sheskhari Oil Terminal
Aleksandr Borisovich Blokhin	1954	Security Manager

Brief biographies of members of NCSP's Management Board are set out below.

Mr. Igor Yevgenievich Vilinov has been NCSP's General Director since 2005. Mr. Vilinov has been with NCSP since 1996, first as the Director of Economics from 1996 to 1999 and then as the First Deputy General Director-Director of Economics until 2005. Mr. Vilinov, is the chairman of the board of directors of NCSP Fleet and is a member of the board of directors of IPP. Mr. Vilinov graduated from the Odessa Institute of Marine Transport Engineers with a first-class honours degree in marine transport maintenance and also from the Moscow Institute of International Business under the All-Russian Academy of Foreign Trade with a degree in economics and foreign relations.

Mr. Dmitri Alekseevich Bolotov has been NCSP's First Deputy General Director since May 2007. Mr. Bolotov served as the Chief Engineer of IPP from 2000 to 2004 and as the General Director of IPP from 2004 to 2007. Mr. Bolotov received a degree in electric systems maintenance and marine transport automatics from the Novorossiysk Marine State Academy in 1997 and also graduated from the All-Russian Financial and Economic Institute with a degree in economics in 2006.

Mr. Igor Konstantinovich Sergeev has been NCSP's Operational Director since 1996. Mr. Sergeev has been with NCSP since 1979, first as the Chief Stevedore from 1979 to 1985, then as the Chief Dispatcher from 1985-1986, then as the Deputy Director of the Cargo District for Exploitation from 1986 to 1988 and as the Director of the Cargo District from 1988 to 1996. Mr. Sergeev graduated from the Odessa Institute of Marine Transport Engineers with a degree in marine transport maintenance in 1974.

Mr. Vladimir Viktorovich Lebedev has been NCSP's Chief Engineer since March 2007. Mr. Lebedev has also held a number of management positions at Kandalakshskiy Sea Commercial Port since 1982 including serving as the Head of Mechanisation Department and as the Chief Engineer since 1997. Mr. Lebedev received a degree in marine transport maintenance from the Odessa Institute of Marine Transport Engineers in 1982.

Mr. Yuri Vladimirovich Starenkov has been NCSP's Director of Economics since April 2006. Mr. Starenkov has also served as the Audit Director of Donaudit from 1992 to 1998 and as the Director of Donaudit from 1998 to 2006. Mr. Starenkov graduated from the Rostov-on-Don National Economy Institute with a degree in auditing and accounting in 1989.

Mr. Eduard Valerievich Borovok has been the Director for Business Support of NCSP since April 2007. Mr. Borovok served as the Head of the Legal Department of the Novorossiysk Shipping Company from 2002 until 2003. Mr. Borovok also served as a judge of the Federal Arbitrazh Court of the North-Caucasus Region from 1997 until 2002. Mr. Borovok received degrees in law from Kuban State University and the Moscow Institute of International Relations (MGIMO).

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

Mr. Pavel Alekseevich Moroz has been NCSP's Human Resources Director since January 2007. Mr. Moroz has served as the Human Resources Manager in LLC Cherkizovo-Kashira from 1999 to 2004, as Human Resources Director in JSC Kolomenskiy Experimental Meat Factory from 2004 to 2005, and Deputy General Director for Human Resources in LLC Maslozhircombinat from 2005 to 2006. Mr. Moroz holds a degree in aircraft instrument engineering from St. Petersburg Aircraft Instrument Institute. He also obtained a law degree from the Academy of the Ministry of Foreign Affairs of Russia in 1997.

Mr. Oleg Iosifovich Evmenchikov has been the Director of Sheskhari Oil Terminal since April 1979. Mr. Evmenchikov has been with NCSP since 1970 and has held various positions, including Chief Engineer and Deputy Chief Dispatcher. Mr. Evmenchikov graduated from the Odessa Institute of Marine Transport Engineers with a degree in marine transport maintenance in 1970.

Mr. Aleksandr Borisovich Blokhin has been the Security Director of NCSP since August 2006. Mr. Blokhin has been engaged in military service from 1981 to 2005 and then served as the Deputy Director of Legal Department at ZAO Lukoil-Chernomorie in 2005. Mr. Blokhin has graduated from Almaty Institute of Engineers of Railway Transport with a degree in construction of railways and facilities in 1981 and also holds a law degree from the Academy of the Federal Security Service of Russia.

The Board of Directors

NCSP's Board of Directors is responsible for the general management of NCSP, with the exception of those matters that are reserved, either by law or NCSP's charter, for the shareholders. Directors are elected to the Board of Directors at NCSP's general shareholders' meeting and serve until the next general shareholders' meeting and may be re-elected an unlimited number of times. NCSP's Board of Directors currently has seven members, five of whom are independent in accordance with Russian statutory independence criteria, which deem a member of the board of directors of the company to be independent if he/she is not, and has not been during the preceding 12 months (i) the person serving as the chief executive officer of the company; or (ii) a person whose close relatives hold a position in such governing bodies of the company or its management organisation or are the company's manager; or (iii) an affiliate of the company other than a member of the board of directors of the company. These criteria differ in certain respects to the criteria in other countries, including the Combined Code on Corporate Governance applicable in the United Kingdom. See "Risk Factors—Risks Relating to the Russian Legal System and Russian Legislation—Corporate governance standards in Russia are not of the same standard as those in Western Europe and the United States and there is little minority shareholder protection in Russia."

The aggregate compensation paid to the members of NCSP's Board of Directors in 2006 was RUB 150,000 (approximately US\$6,078 at the rate of exchange of the CBR on 2 November 2007) and RUB 30,000 (approximately US\$1,216 at the rate of exchange of the CBR on 2 November 2007) for the six months ended 30 June 2007. None of the members of NCSP's Board of Directors serve pursuant to agreements, except Mr. Uliyanov who entered into an employment contract on 3 July 2006 on standard terms and terminable in accordance with applicable laws of the Russian Federation.

Under Russian statutory law, a director is deemed to be "interested" in a transaction by the company if such person, his or her close relatives and/or any of their affiliates are (i) a party to such transaction, a beneficiary thereof or participate therein as an agent or representative; or (ii) individually or jointly own 20% or more of equity interests in the legal entity acting as a party, beneficiary, agent or representative in the transaction; or (iii) hold a position in a governing body of a legal entity that is a party, beneficiary, agent or representative in the transaction, or a position in a governing body of the management organisation of such legal entity.

There are no conflicts of interest between any member of the Board of Directors and any member of the Group. Further, there are no potential conflicts of interest between the duties owed by the members of the Board of Directors to NCSP or the Group and their private interests or other duties.

Management Board

The Management Board is the collective executive body responsible for NCSP's day-to-day management. The Management Board reports to, and is responsible for the implementation of decisions taken by, our shareholders and Board of Directors. The charter provides for the establishment of a Management Board, and on 3 September 2007, restated Regulations on the Management Board were adopted at NCSP's general shareholders' meeting.

General Director

NCSP's General Director is NCSP's chief executive officer and is responsible for NCSP's day-to-day activities. The General Director's activities are governed by the Joint Stock Companies Law, the charter and regulation on the General Director approved on 3 September 2007. The General Director exercises executive authority over all activities of NCSP, except for issues specifically reserved for the exclusive competence of the general shareholders' meeting, the Board of Directors and the Management Board. The General Director is appointed for a five-year term and may be re-appointed an unlimited number of times. The current General Director's term expires in 2010.

Management of Subsidiaries

In order to achieve integrated control over the activities of our operating facilities, in June 2006 we made NCSP a centralised management company in addition to it being an operational company. The board of directors of each Group company has general control over the activity of that company. The Chairman of NCSP's Board of Directors also serves as the chairman or a member of the board of directors of most of NCSP's subsidiaries. NCSP's General Director is also a member of the board of directors of two of NCSP's subsidiaries. The relationship between the members of the Group is not contractually governed.

NCSP's Board of Directors determines the strategies to be employed by the Group and implements those strategies with respect to each Group company, subject to approval by the boards of directors of such companies. Decisions by NCSP are subject to the corporate governance procedures adopted by the Board of Directors. Each of NCSP's subsidiaries is required to seek the approval of NCSP prior to entering into transactions over a certain rouble limit, which in the case of most subsidiaries is RUB3 million and in the case of IPP is RUB30 million.

Internal Audit Commission

The internal audit commission oversees and coordinates internal audits of NCSP's financial and economic activity. It is governed by the Joint Stock Companies Law, NCSP's charter and internal regulations approved in accordance therewith. The principal duties of the internal audit commission are to ensure that NCSP's activities, accounting and reporting comply with applicable legislation and do not infringe shareholders' rights. Members of the internal audit commission are elected by the general shareholders' meeting for a term which expires at the date of the next general shareholders' meeting. Pursuant to the Joint Stock Companies Law, members of NCSP's management bodies including the Board of Directors and the Management Board may not be appointed to the internal audit commission.

NCSP's internal audit commission currently has five members:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Roman Nikolaevich Zinoviev	1977	Head of Administration of Investments of Closed Joint Stock Company Obiedinennaya Promishlennaya Korporatsiya
Tatiana Stanislavovna Vnukova	1969	Chief expert of NCSP's Moscow representative office; Head of Planning and Budgetary Department of TPS
Nadezhda Evgenievna Krasivicheva	1952	Deputy Head of Department of Financing and Accounting of the Federal Agency for Sea and River Transport at the Ministry of Transport of the Russian Federation
Tatiana Pavlovna Chibinyaeva	1969	Vice President for Finance and Deputy Director of NCSP's Moscow representative office; Vice President—Financial Director of TPS
Natalia Alekseevna Zavoloka	1953	Head of Budget Department of NCSP

Our internal audit commission, whose activities are governed by our charter and our internal regulations, oversees and coordinates audits of our financial and economic activity. The principal duties of the internal audit commission are ensuring that:

- our operations comply with applicable laws and do not infringe shareholders' rights; and
- our accounts and reports do not contain any material misstatements.

The members of our internal audit commission must be elected at each annual general shareholders' meeting in the amount of five persons. Members of our board of directors and the general director may not serve on our internal audit commission.

Committees of the Board of Directors

Audit Committee

Our Audit Committee was established on 11 September 2007 and consists of three members, Mr. Parfenov, Mr. Remezko and Mr. Chubaryan and is headed by Mr. Chubaryan, an independent director. The purpose of the Audit Committee is to assist NCSP's Board of Directors with its oversight responsibilities regarding the quality and integrity of NCSP's financial statements, NCSP's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, the performance of NCSP's internal audit function and independent auditor and appraisal of NCSP's property as it may be required under the law.

The Audit Committee convenes as often as necessary, but at least once every quarter and is authorised to carry out the following key functions relating to the control of NCSP's financial and business operations:

- coordinate with NCSP's independent auditors and prepare recommendations for its Board of Directors in connection with the election and removal of the independent auditors and on the fees and scope of services to be provided by auditors;
- coordinate with the auditing commission and examine the auditing commission's conclusions on the verification of NCSP's financial activities and annual accounts;
- review NCSP's standards and internal controls procedures and make appropriate reports and recommendations;
- settle the disagreements between the managers of NCSP and independent auditor in respect to financial reports of NCSP; and
- assess NCSP's financial reports.

Internal Control Service

The Internal Control Service was formed under a decision of the Board of Directors and is a separate department within NCSP. The Internal Control Service is controlled by the Audit Committee at the Board of Directors and the General Director. The number of members of the Internal Control Service must be sufficient for the purpose of execution of its functions. The Internal Control Service carries out internal control over financial and business activities of NCSP and its subsidiaries in accordance with the principles of permanent activity, independence of the services of internal control, fairness, professional competence, and free and effective performance of functions of the Internal Control Service.

Personnel and Compensation Committee

The Personnel and Compensation Committee was established on 11 September 2007 and consists of three members, Mr. Vorobyev, Mr. Remezko and Mr. Chubaryan. The committee is chaired by Mr. Chubaryan, an independent director. The committee has the following functions:

- determine the criteria for appointment of candidates to the Board of Directors, members of the Management Board and General Director and consider potential candidates;
- give recommendations as to candidates to members of the committees of the Board of Directors;
- give recommendations as to the term of service and removal of the General Director and members of the Management Board;

- give recommendations with respect to service contracts for the General Director and members of the Management Board;
- evaluate activities of the General Director and members of the Management Board;
- prepare proposals on the amount of compensation to the members of the Board of Directors, the Management Board, the internal audit commission and the General Director;
- control payments to the top managers; and
- review the terms of payments in case of early termination of powers of the General Director and members of the Management Board.

Remuneration of Directors and Executive Officers

The aggregate amount of remuneration paid by us for the period from 1 January 2007 to 30 June 2007 to the above named directors and executive officers as a group for services in all capacities provided to us during the six months ended 30 June 2007 was RUB 80,167,206 (approximately US\$3,248,266 at the rate of exchange of the CBR on 2 November 2007). We do not have employment contracts with directors. Employment contracts with executive officers do not provide for payment of any bonuses or other benefits. We do not provide pension, retirement or similar benefits to our directors or executive officers.

Loans to Directors and Executive Officers

As of the date of this prospectus, there were no outstanding loans granted by us to our directors and executive officers and no guarantees provided for their benefit.

Corporate Governance

We comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Our Ordinary Shares have been admitted to list “V” on RTS since 26 September 2007 and included in list “V” since 1 November 2007, as a result, we are required to comply with a number of corporate governance requirements as of the listing date. Such requirements include the: (1) obligation to have at least one independent director, (2) formation of an audit committee, (3) adoption of a bylaw on insider trading and (4) implementation of internal control procedures. We are in full compliance with these requirements. In addition, we observe the code of corporate conduct, as recommended by the FSFM.

Interests of Directors and Officers

Certain of our directors and executive officers have direct interests and hold positions in management bodies in affiliated and non-affiliated companies, with which NCSP has engaged in transactions, including those in the ordinary course of business. There are no potential conflicts of interest between any duties owed to NCSP by our directors and executive officers referred to above and their private interests and/or other duties. See “Risk Factors—Risks Relating to Our Business—NCSP is and after the Offering will continue to be, effectively controlled by members of the families of Mr. Ponomarenko and Mr. Skorobogatko, whose interests could conflict with those of the Holders of Shares or GDRs”. Under Russian legislation, certain transactions defined as “interested party transactions” require approval by our disinterested directors or shareholders. See “Description of Share Capital and Certain Requirements of Russian Legislation—Interested party transactions”.

Certain of our directors and executive officers have beneficial ownership interests in our Ordinary Shares. See “Principal and Selling Shareholders.” None of our directors or executive officers holds options with respect to our Ordinary Shares.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of our directors or executive officers for at least the previous five years:

- has had any convictions in relation to fraudulent offences; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor

- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

The following is a summary of our most significant transactions with related parties as at 30 June 2007 and for the six months ended 30 June 2007 and as at and for the years ended 31 December 2006, 2005 and 2004. For further details of these transactions, see Note 18 to the IFRS Interim Accounts, Note 29 to the IFRS Annual Accounts and Note 18 to the US GAAP Annual Accounts.

General

Under IAS 24 “Related Party Disclosures” (which applies to disclosures of related party transactions in accordance with IFRS), and under FASB Statement No. 57 (which applies to disclosures of related party transactions in accordance with US GAAP), a party is related to the Group if it directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Group, has an interest in us that gives it significant influence over our group or has joint control over us. A party is also considered to be a related party to us if it is an associate, a joint venture or a member of the key management personnel of the Group. Intra-group transactions are eliminated on consolidation.

In the ordinary course of our business, we have engaged and continue to engage in sales, purchases, and other transactions with related parties. See “Principal and Selling Shareholders.” Other than the transactions with related parties described in this section, we did not engage in any material transactions with any related parties during the periods under review. We seek to conduct all transactions with related parties and interested parties on market terms and in accordance with applicable Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See “Risk Factors—Risks Relating to Our Business—NCSP is and after the Offering will continue to be effectively controlled by members of the families of Mr. Ponomarenko and Mr. Skorobogatko, whose interests could conflict with those of the holders of Shares or GDRs”.

Significant balances and transactions with State-controlled entities are considered transactions with related parties because the Russian state owns 20% of our share capital. The principal State-controlled entities with which we have engaged in related party transactions are Russian Railways, Sberbank, Transneft and the Russian military. For more details of our loans from Sberbank, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources”.

Related Party Transactions as at and for the Six Months Ended 30 June 2007 and 31 December 2006 and 2005

Material balances with related parties as at 30 June 2007 and 31 December 2006 and 2005 were as follows:

	As at 30 June 2007	As at 31 December	
		2006	2005
	('000s of US dollars)		
Loans from related parties			
Long-term			
Entities under common control ⁽¹⁾	—	4,702	—
Sberbank	214,653	463,201	—
Other related parties ⁽²⁾	3,189	9,444	—
Total	217,842	477,347	—
Short-term			
Entities under common control ⁽¹⁾	—	680	—
Sberbank	11,263	57,318	—
Other related parties ⁽²⁾	431	1,359	—
Total	11,694	59,357	—
Short-term loans to related parties			
Entities under common control ⁽¹⁾	—	21,285	—
Sberbank	518	—	—
Other related parties ⁽²⁾	388	—	—
Total	906	21,285	—
Cash and cash equivalents			
Sberbank	22,530	17,128	676
Other related parties ⁽²⁾	—	—	42,995
Total	22,530	17,128	43,671
Deposits and depositary notes purchased			
Long-term			
Other related parties ⁽²⁾	—	—	28,149
Short-term			
Other related parties ⁽²⁾	—	—	76,607

Notes:

- (1) Entities under common control with the Group include entities (other than members of the Group) owned by members of the families of Mr. Ponomarenko and Mr. Skorobogatko, who are the principal beneficial owners of the Group.
- (2) Other related parties represent affiliates of the principal beneficial owners of the Group and companies which became subsidiaries as a result of acquisition in June 2006.

Material transactions with related parties for the six months ended 30 June 2007 and for the year ended 31 December 2006 and 2005 were as follows:

	For the six months ended 30 June 2007	For the year ended 31 December	
		2006	2005
	('000s of US dollars)		
Sales			
Russian military	1,231	4,340	—
Russian Railways	32	416	—
Transneft	2,278	7,542	7,213
Total	3,541	12,298	7,213
Interest on borrowings			
Sberbank	19,802	—	—
Other related parties ⁽¹⁾	141	—	—
Total	19,943	—	—

Notes:

- (1) Other related parties represent affiliates of the principal beneficial owners of the Group.

Certain related parties ceased to be related during the six months ended 30 June 2007.

During 2006, we sold all of our equity interests in Investsberbank, which resulted in a change of control over Investsberbank and, accordingly, Investsberbank ceased to be a related party upon such sale.

Interest expense on loans from related parties during 2006 amounted to US\$21.1 million and to nil in 2005.

Related Party Transactions as at and for the year ended 31 December 2004

Material balances with related parties as at 31 December 2004 were as follows:

	As at 31 December 2004
	(<i>'000s of US dollars</i>)
<i>Cash and cash equivalents</i>	
Bank Nikoil (Uralsib)	24,945
Russian General Bank	47,951
Other related parties ⁽¹⁾	<u>2,190</u>
Total	75,086
<i>Short-term certificates of deposits and promissory notes purchased</i>	
LLC Saviola FinTrust	11,558
Russian General Bank	8,132
TPS	<u>360</u>
Total	20,050
<i>Long-term certificates of deposits and promissory notes purchased</i>	
Russian General Bank	34,863
Other related parties ⁽¹⁾	<u>7,306</u>
Total	42,169
<i>Long-term loans to related parties</i>	
NZT Grain Terminal	6,126
<i>Loans from related parties</i>	
Long-term	
Other related parties ⁽¹⁾	411
<i>Short-term</i>	
Other related parties ⁽¹⁾	360

Notes:

(1) Entities under common control with the Group include entities (other than members of the Group) owned by members of the families of Mr. Ponomarenko and Mr. Skorobogatko, who are the principal beneficial shareholders of the Group.

Material transactions with related parties for the year ended 31 December 2004 were as follows:

	For the year ended 31 December 2004
	(<i>'000s of US dollars</i>)
<i>Revenues</i>	
Fleet NCSP	4,977
Transneft	4,702
<i>Cost of services</i>	
Nikoil Group	(15,118)
Russian Railways	(2,579)
<i>Interest income received</i>	
Russian General Bank	2,476

The majority of transactions and balances with related parties in 2004 represented purchases of depositary notes, investments in deposits and cash and cash equivalents held by the Russian General Bank and Nikoil Bank (Uralsib).

PRINCIPAL AND SELLING SHAREHOLDERS

The table below sets out the name, address and shareholding of each registered holder of over 2% of NCSP's shares as at 1 November 2007, according to NCSP's share register held by Open Joint Stock Company Registrar NIKoil, and as adjusted to reflect the sale of Shares in the Offering.

Shareholder or Nominee Holder	Address	Number of Shares before the Offering	Percentage of Shares before the Offering	Number of Shares after the Offering (assuming no exercise of the Over-allotment Option)	Percentage of Shares after the Offering (assuming no exercise of the Over-allotment Option)	Number of Shares after the Offering (assuming full exercise of the Over-allotment Option)	Percentage of Shares after the Offering (assuming full exercise of the Over-allotment Option)
FAMFP on behalf of the Russian Federation	9 Nikolsky per., Moscow, 103684, Russian Federation	3,851,981,300	20.0%	3,851,981,300	20.0%	3,851,981,300	20.0%
Depository of Sberbank ⁽¹⁾⁽²⁾	19 Vavilova Street, Moscow 117997, Russian Federation	11,455,059,339	59.48%	8,079,903,225	41.95%	7,723,185,975	40.10%
Joint-stock commercial bank "ROSBANK" (open joint-stock company) ⁽¹⁾	11 Masha Poryvaeva Street, Moscow, Russian Federation	1,925,981,540	10.0%	1,925,981,540	10.0%	1,925,981,540	10.0%
INVESTSBERBANK ⁽³⁾ (open-joint stock company)	4 Pokrovka, Moscow, Russian Federation	387,818,399	2.01%	387,818,399	2.01%	387,818,399	2.01%
Other shareholders, none of which holds more than 2% of NCSP's outstanding shares		1,638,974,822	8.51%	1,638,974,822	8.51%	1,638,974,822	8.51%
Others (including the Custodian and the Depository) ⁽⁴⁾⁽⁵⁾		—	—	3,375,156,114	17.52%	3,731,873,364	19.38%
Total		19,259,815,400	100.0%	19,259,815,400	100.0%	19,259,815,400	100.0%

Notes:

- (1) The Depository of Sberbank and Rosbank hold their respective Ordinary Shares as nominee holders for the Selling Shareholder, which holds 13,381,040,879 shares, or approximately 69.48% of all outstanding Ordinary Shares in NCSP. The Selling Shareholder ultimately is owned by a trust, the beneficiaries of which are members of the families of Mr. Ponomarenko and Mr. Skorobogatko. The Selling Shareholder has increased its shareholding from 52.9% as of 18 April 2007 through the purchase of Ordinary Shares from minority shareholders.
- (2) A voting proxy in respect of 16% of the shares held by the Depository of Sberbank has been issued in favour of Russian Railways. See "Risk Factors—Risks Relating to Our Business—NCSP is effectively controlled by members of the families of Mr. Ponomarenko and Mr. Skorobogatko, who will continue to have a significant interest in NCSP after the Offering. These interests could conflict with those of the Holders of Shares or GDRs."
- (3) INVESTSBERBANK holds these Ordinary Shares as a nominee holder for various minority shareholders.
- (4) Represents Shares in the Offering.
- (5) Approximately 28.5% of the Shares in the Offering (representing 5% of the total Ordinary Shares outstanding), assuming no exercise of the Over-allotment Option, are being offered to JSC TransCreditBank, a Russian state-owned bank that has a significant business relationship with Russian Railways.

To our knowledge, there are no agreements in effect in respect of voting interests in NCSP's shares other than as described in this section.

The Selling Shareholder was incorporated in British Virgin Islands on 13 October 2006 with registered number 1057018 under the laws of British Virgin Islands as a BVI business company limited by shares with the name Kadina Limited. The registered office and principal place of business of the Selling Shareholder is at Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands (Tel. No. +41 22 994 28 80).

The Selling Shareholder is ultimately controlled by Continental Administration Services Limited which acts as trustee on behalf of the Alexanders Trust, all of the beneficiaries of which are family members of Mr. Ponomarenko and Mr. Skorobogatko. It holds 100% voting shares, constituting 100% of the issued shares of the Selling Shareholder. The registered address and principal place of business of the Alexanders Trust is Dixcart House, Fort Charles, Charlestown, Nevis, St. Kitts and Nevis (Tel. No. +41 22 994 28 80).

Following the Offering, members of the families of Mr. Ponomarenko and Mr. Skorobogatko will beneficially own 50.1% of the outstanding Ordinary Shares, assuming that the Over-allotment Option is exercised in full. However, as a result of the voting proxy that has been granted in favour of Russian Railways, members of the families of Mr. Ponomarenko and Mr. Skorobogatko will only have a 34.1% voting interest in NCSP. To NCSP's knowledge, there are no other arrangements in place, the operation of which may at a subsequent date result in a change in control of NCSP. None of NCSP's shareholders has voting rights different from any other holders of its shares.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation. References in this section to “we,” “us” and “our” refer to NCSP only. GDR holders will be able to exercise their rights with respect to the Ordinary Shares underlying the GDRs only in accordance with the provisions of the Deposit Agreement, the Deed Poll and the relevant requirements of Russian law. See “Terms and Conditions of the Global Depositary Receipts” for more information.

Our Purpose

Article 3.1 of our charter provides that our purpose is to earn profit. NCSP is entitled to carry out various activities permissible under Russian law, such as shipping activities, bunkering activities, engineering and construction works and other activities provided for by its charter and applicable Russian legislation. NCSP may engage in certain types of activities, a list of which is prescribed by law, only on the basis of a licence.

Description of Share Capital

Pursuant to the Joint Stock Companies Law, we have the right to issue registered Ordinary Shares, preferred shares and other securities provided for by the legislation of the Russian Federation. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. Our charter capital consists of 19,259,815,400 Ordinary Shares, each with a nominal value of 0.01 roubles, which are fully paid, issued and outstanding. In addition, we are authorised by our charter to issue an additional 8,261,326,000 Ordinary Shares. When issued, such Ordinary Shares will be identical to, and fully fungible with, NCSP’s currently issued and outstanding Ordinary Shares. No preferred shares are authorised or outstanding.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for the purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Currently, we do not have any treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (i.e., they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented in this prospectus), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors.

Currently, we have more than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint Stock Companies Law, as described below.

Our Ordinary Shares are listed on RTS under the trading symbol “NMTP” and listed on MICEX.

Rights Attaching to Ordinary Shares

Holders of our Ordinary Shares have the right to vote at all shareholders’ meetings. As required by the Joint Stock Companies Law and our charter, all of our shares have the same nominal value and grant to their holders identical rights. Each fully paid share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without our consent and the consent of other shareholders;
- receive dividends;
- participate in shareholders’ meetings and vote on all matters within shareholders’ competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;
- participate in the election and dismissal of members of the board of directors and the internal audit commission;
- if holding, alone or with other holders, 2% or more of the voting stock, within 30 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders’ meeting and nominate candidates to the board of directors, collective and sole executive bodies, the internal audit commission and the counting commission;

- if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the internal audit commission or by an external auditor;
- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
 - any reorganisation;
 - the conclusion of a major transaction, as defined under Russian law; and
 - any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have access to accounting documents and minutes of the management board meetings free of charge; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meetings approved in accordance with its competence.

Holders of Ordinary Shares must also fulfil certain obligations such as compliance with NCSP's charter, decisions made by the general shareholders' meeting, and certain other requirements in accordance with NCSP's charter and Russian legislation.

Pre-emptive Rights

The Joint Stock Companies Law and our charter provide shareholders with a pre-emptive right to purchase shares (or securities convertible into shares) during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares (or securities convertible into shares) in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares (or securities convertible into shares) being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of the opportunity to exercise their pre-emptive right to purchase shares and indicate, among other things, the period during which shareholders can exercise their pre-emptive rights. As a rule, such period may not be less than 45 days from the date when notification is sent to shareholders, and under certain circumstances this period may be shortened to 20 days. During this period we may only place those shares (or securities convertible into shares) that are subject to the pre-emptive rights and only to those shareholders who would like to exercise their pre-emptive rights. Upon expiration of the pre-emptive right period, we may place the remaining portion of the shares being placed (or securities convertible into shares) to other potential acquirers as specified in the share issuance documents.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the dividends that we may distribute to our shareholders. We may declare dividends based on our first quarter, six-month, nine-month or annual results. The amount of dividends must be recommended to a shareholders' meeting by a majority vote of our board of directors and approved by the shareholders' meeting by a majority vote. The dividend amount approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. A decision on first quarter, six-month or nine-month dividends must be taken within three months after the end of the respective quarter at a general shareholders' meeting, and a decision on annual dividends must be taken at the annual general shareholders' meeting. We may only pay dividends to shareholders entitled to participate in the shareholders' meeting approving the dividends. See "—Description of General Meetings of Shareholders—Notice and Participation". Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of our net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- our charter capital has been paid in full;
- we have repurchased all shares from our shareholders having the right to demand repurchase;
- on the date of adoption of the decision to pay dividends, the value of our net assets (calculated under Russian accounting standards) is not, and would not become as a result of the proposed dividend payment, less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the nominal value of our issued and outstanding preferred shares (if any);
- on the date of adoption of the decision to pay dividends we are not insolvent and would not become insolvent as a result of the proposed dividend payment; or
- such declaration of dividends is not prohibited by Russian legislation.

In addition, we are prohibited from paying dividends, even if such dividends have been declared, if on the date of the dividend payment:

- we are insolvent or would become insolvent as a result of the proposed dividend payment;
- the value of our net assets (calculated under Russian accounting standards) is, or would become as a result of the proposed dividend payment, less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the nominal value of our issued and outstanding preferred shares (if any); or
- such payment is otherwise prohibited by Russian legislation.

We pay dividends (other than annual dividends) within the time period which is indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution. The annual dividends must be paid by 31 December of the year in which the shareholders meeting made a decision on the payment of such dividends.

Distribution to Shareholders on Liquidation

Under Russian legislation, a liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate us, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting (in case of a voluntary liquidation) or by the court (in case of a compulsory liquidation). Our creditors may file claims within a period to be determined by the liquidation commission, but no less than two months from the date of publication of liquidation notice by the liquidation commission.

The Civil Code of the Russian Federation (the "Civil Code") sets forth the following order of priority between the creditors during liquidation:

- (1) individuals owed compensation for injuries, deaths or moral damages;
- (2) employees entitled to salary and severance payments, as well as remuneration under copyright agreements;
- (3) federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and
- (4) other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of our property ("secured claims") are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, except for the creditors of priorities (1) and (2) above whose claims arose before the respective pledge agreements had been entered into. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the creditors of priority (4) above.

The Federal Law on Insolvency (Bankruptcy) No. 127-FZ dated 26 October 2002, however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- distribution of the remaining assets of the company among the holders of ordinary and preferred shares on a pro-rata basis.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of such company and bear only the risk of loss of their investment. This may not be the case, however, when one company (an "effective parent") is capable of determining decisions made by another company (an "effective subsidiary"). If the effective subsidiary is a joint stock company, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary if (i) the effective parent caused the effective subsidiary to conclude the transaction; and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for in the charter of the effective subsidiary or in a contract with the effective subsidiary. If the effective subsidiary is a limited liability company, the effective parent bears joint and several responsibility if the effective parent caused the effective subsidiary to conclude the transaction (regardless of how the effective parent's ability to determine decisions of the effective subsidiary arises).

Accordingly, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Our shareholders will not be personally liable for our debts or those of our effective subsidiaries, unless such shareholders control our business and/or our effective subsidiaries, and the conditions set forth above are met.

In addition, an effective parent may be held secondarily liable for the debts of an effective subsidiary if the latter becomes insolvent or bankrupt resulting from the action or inaction of the former. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. If the effective subsidiary is a joint stock company, then the effective parent will have secondary liability only if the effective parent caused the effective subsidiary to take any action or fail to take any action, knowing that such action or failure to take action would result in insolvency of the effective subsidiary. If the effective subsidiary is a limited liability company, then the effective parent will be held secondarily liable if the effective subsidiary's insolvency is caused by the wilful misconduct or negligence of such effective parent.

Shareholders of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if: (i) the effective parent caused the effective subsidiary to take any action or fail to take any action that resulted in a loss and (ii) the effective parent knew that such action or failure to take such action would result in an effective subsidiary's loss. Participants of an effective subsidiary that is a limited liability company may claim compensation for the effective subsidiary's losses from the effective parent if the effective parent, through its wilful misconduct or negligence, caused the effective subsidiary to take any action that resulted in a loss.

Share Acquisition above Certain Thresholds and Anti-takeover Protection

A person intending to acquire more than 30% of our voting shares (taking into account those it already holds together with its affiliates) has the right to make a public offer to our other shareholders (a "voluntary offer"). Within 35 days of acquiring, by any means, more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from our shareholders (a "mandatory offer").

The acquirer's payment obligations arising from both voluntary and mandatory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months from the expiration date of the relevant payment period under the offer.

At any time after we receive a voluntary or a mandatory offer and until 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing offer (that satisfies the

requirements for voluntary or mandatory offers, respectively) to purchase the number of shares and at a price greater than or equal to that offered in the relevant prior voluntary or mandatory offer. Any shareholder may revoke its previous acceptance of the prior offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the prior voluntary or mandatory offer so that such person may amend its offer by increasing the purchase price and/or shortening the settlement period.

In addition, once a voluntary or mandatory offer has been made and until expiration of a 20 day period following expiration of the period for acceptance of a voluntary or mandatory offer, only our shareholders' meeting (and not our board of directors) will have the power to make decisions on our increase in charter capital through additional share issuance, on approval of interested-party transactions and certain other transactions, and on certain other significant matters.

If, as a result of either the voluntary or the mandatory offer, the acquirer purchases more than 95% of the voting shares, it will have an obligation to:

- notify all the other shareholders (within 35 days after the acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares; and
- purchase their shares upon request of each minority shareholder.

In addition, instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, which is binding on the minority shareholders, for them to sell their shares. An offer of the kind described in the preceding paragraph must be accompanied by a bank guarantee of payment. Since we are a publicly traded company under Russian law, prior notices of the offers must be filed with the FSFM, and the latter may require revisions to be made to the terms of the offer (including price) in order to comply with the statutory provisions.

As a general rule, this new buy-out mechanism became effective as of 1 July 2006 and will be available to persons that acquired such shares pursuant to a voluntary or a mandatory offer after such date.

See also "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market— Because the Depositary may be considered the owner of the Shares underlying the GDRs, these Ordinary Shares may be arrested or seized in legal proceedings in Russia against the Depositary" and "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the Offering you may not be able to deposit our Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs".

Charter Capital Increase

We may increase our charter capital by increasing the nominal value of previously issued shares or by issuing new shares.

According to the Joint Stock Companies Law and our charter, a decision on increasing the nominal value of issued shares requires a simple majority vote of shareholders present at the general shareholders' meeting.

A decision to issue shares or securities convertible into shares by closed subscription, or to issue Ordinary Shares or securities convertible into Ordinary Shares constituting more than 25% of the number of issued Ordinary Shares by open subscription, requires a three-quarters majority vote of shareholders present at the general shareholders' meeting. Otherwise, as provided in our charter, a decision to increase our charter capital by issuance of additional shares requires a unanimous decision of our board of directors. If the board of directors failed to reach unanimous consent on this matter the decision is taken by the majority of shareholders present at the general shareholder's meeting.

The Joint Stock Companies Law requires that the placement price of newly issued shares be determined by the board of directors based on the market value, but may not be less than their nominal value. The placement price for existing shareholders exercising a pre-emptive right to purchase shares may be less than the price paid by third parties, but in any event no more than 10% below the price paid by third parties. Fees of an intermediary participating in the placement of shares cannot exceed 10% of the share price. The board of directors may, but is not required to, appoint an independent appraiser to set the placement price of the shares. There is a specific requirement that in determining the placement price of securities, for which prices are regularly published, the board of directors shall take into account such prices. The board of directors shall evaluate any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations establish information disclosure requirements and detailed procedures for each stage of the share issuance, including:

- adoption of a resolution on charter capital increase by placement of additional shares;
- adoption of a decision on issuance;
- registration of the share issuance;
- placement of the newly issued shares; and
- registration of the placement report or, as the case may be, filing the placement notification.

Charter Capital Decrease; Share Repurchases

We have the right to, and under certain circumstances, are required to, decrease our charter capital. The Joint Stock Companies Law does not allow us to reduce our charter capital below the minimum charter capital required by law, which is RUB100,000 (one thousand times the statutory minimum monthly wage, currently RUB100) for an open joint stock company. The Joint Stock Companies Law requires that any decisions to reduce our charter capital, through a reduction of the nominal value of the shares or through the repurchase and cancellation of our shares, are to be made by a general shareholders' meeting. The shares repurchased pursuant to a resolution of the shareholders' meeting to decrease the overall number of shares, are cancelled on their redemption.

Additionally, within 30 days of a decision to reduce our charter capital, we must notify our creditors in writing and publish this notification. Our creditors would then have a right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law allows, subject to the charter's provisions, the shareholders or the board of directors to authorise the repurchase by the joint stock company of up to 10% of the outstanding shares in exchange for cash. The repurchased shares must be resold at not less than market price but, in any case, at no less than the nominal value of shares within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital.

The Joint Stock Companies Law allows us to decrease our charter capital if the following conditions have been met:

- our charter capital has been paid in full;
- we have repurchased all shares from our shareholders who have exercised their right to demand repurchase of their shares;
- on the date of adoption of the resolution to decrease the charter capital we are not insolvent and would not become insolvent as a result of the proposed decrease of the charter capital;
- on the date of adoption of the resolution to decrease the charter capital the value of our net assets (calculated under Russian accounting standards) is not, and would not become as a result of the proposed decrease of the charter capital, less than the sum of our charter capital, the reserve fund and the difference between the liquidation value and the nominal value of the issued and (if any) outstanding preferred shares;
- we have paid all declared and unpaid dividends; and
- such decrease of the charter capital is not prohibited by Russian legislation.

The Joint Stock Companies Law allows us to repurchase our shares only if at the time of repurchase the following conditions have been met:

- our charter capital has been paid in full;
- we are not insolvent and would not become insolvent as a result of the repurchase;
- on the date of repurchase the value of our net assets (calculated under Russian accounting standards) is not, and would not become as a result of the proposed repurchase, less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the nominal value of our issued and outstanding preferred shares (if any); and
- we have repurchased all shares from our shareholders having the right to demand repurchase of their shares under legislation protecting the rights of minority shareholders, as described immediately below.

Russian legislation provides that our shareholders may demand repurchase of all or some of their shares as long as the shareholder demanding the repurchase voted against or did not participate in the voting on a resolution approving any of the following:

- our reorganisation;
- conclusion of a major transaction, the value of which exceeds 50% of the book value of our assets; or
- amendment of our charter or approval of a restated version of our charter in a manner that restricts shareholders' rights.

We may spend up to 10% of our net assets (calculated under Russian accounting standards) for a share repurchase demanded by our shareholders. If the value of our shares in respect of which our shareholders have exercised their rights to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro rata basis.

Registration and Transfer of Shares

All of our shares are ordinary registered non-documentary shares. Russian legislation requires that a joint stock company procure the maintenance of a register of its shareholders. Moreover, the shareholders' register of a joint stock company having more than 50 shareholders must be maintained by a licensed registrar. Ownership of our shares is evidenced solely by entries made in the shareholders' register or in accounts with a Russian licensed depository. Any of our shareholders may obtain an extract from the register certifying the number of shares that such shareholder owns. Our shareholders' register is maintained by Open Joint Stock Company "Registrar NIKoil," an independent licensed registrar, located at 3 Tretya Ulitsa Yamskogo Polya 28, Moscow 125124, Russian Federation.

The purchase, sale or other transfer of our shares is accomplished through registration of the transfer in our shareholders' register, or registration of the transfer with a licensed Russian depository if shares are held by such depository in the capacity of a nominee holder.

As a general rule under Russian law, an acquirer of shares is responsible for notifying a registrar or a depository in a timely manner regarding the share transfer. The registrar or depository may not require any documents in addition to those required by Russian legislation in order to record a transfer of shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the shareholder, in the name of a nominee holder, may be challenged in court.

Reserve Fund

Under Russian law, each joint stock company is required to establish a reserve fund to be used solely for purposes of covering its losses, redemption of bonds and repurchase of its shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- file quarterly reports with the FSFM containing information about us, our shareholders, management bodies, members of our board of directors, branches and representative offices, our shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity;
- file with the FSFM and publish in the FSFM's periodical print publication, as well as in other public media, any information concerning material facts and changes in our financial and business activity, including among other things:
 - our reorganisation;
 - certain changes in the value of our assets;
 - decisions on share issuances;
 - inclusion in our shareholders' register of any shareholder that has acquired 5% or more of our issued Ordinary Shares and any circumstance which resulted in a change in the quantity of our issued Ordinary Shares held by such shareholder above or below the 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold;

- disclose information on any of the following documents we have received:
 - a voluntary offer (including any competing offer);
 - a mandatory offer (including any competing offer);
 - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95% of the Ordinary Shares;
 - a request that minority shareholders sell their shares to the person that has acquired more than 95% of the Ordinary Shares;
- disclose information on various stages of share issuance, registration and placement through publication of certain data, as required by the securities regulations;
- publish our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- file with the FSFM on a quarterly basis a list of our affiliated persons and disclose the same on our website, simultaneously; and
- disclose other information, as required by applicable Russian legislation.

Governance Bodies

Our management structure consists of the general meeting of shareholders, the board of directors, the management board and the general director, the latter two of which are responsible for our day-to-day management. See “—Management”.

General Meetings of Shareholders

Competence and Procedure

The general shareholders’ meeting is our highest management body. The general shareholders’ meeting must be convened at least once a year. The scope of authority of a general shareholders’ meeting is limited to the issues specified by the Joint Stock Companies Law and our charter. The issues that the shareholders have the power to decide are, inter alia:

- amendments to our charter;
- our reorganisation or liquidation, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- determination of the number of members of our board of directors, election and dismissal of members of our board of directors;
- election of the general director and early termination of his powers;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- changes in our charter capital (other than those specifically delegated to the competence of our board of directors);
- appointment and dismissal of members of our internal audit commission;
- approval of our external auditor;
- adoption of our annual reports and financial statements;
- distribution of profits, including approval of dividends;
- split and consolidation of our shares;
- approval of certain interested-party transactions and major transactions;
- repurchase by us of issued shares in cases specified in the Joint Stock Companies Law;
- determination of the procedure for holding the general shareholders’ meeting;
- approval of our participation in financial and industrial groups, associations and other unions of commercial organisations;

- approval of the amounts of compensation to the members of the board of directors and the internal audit commission;
- approval of certain internal documents; and
- other issues as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per Ordinary Share, except for the election of the board of directors, which is effected through cumulative voting. Resolutions are generally passed by a simple majority vote of the voting shareholders present at a shareholders' meeting. However, Russian law and our charter require a three-quarters majority vote of the voting shareholders present at a shareholders' meeting to approve the following:

- amendments to our charter;
- our reorganisation or liquidation, appointment of a liquidation commission and approval of interim and final liquidation balance sheets;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- any issuance of shares or securities convertible into shares by closed subscription;
- issuance by open subscription of Ordinary Shares or securities convertible into Ordinary Shares, in each case, constituting more than 25% of the number of issued and outstanding Ordinary Shares;
- decrease of our charter capital by means of change in the nominal value of our shares; and
- major transactions involving assets in excess of 50% of the book value of our assets.

The quorum requirement for our shareholders' meeting is satisfied if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in case of an annual shareholders' meeting, must) be convened and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

Under the Joint Stock Companies Law certain shareholders' resolutions may provide that they remain valid for a specific period of time with respect to a company's reorganisation or spin-off, an increase or decrease in charter capital or a subdivision or consolidation of shares (the "Validity Period"). However, in the event such shareholders' resolutions are not acted upon within the Validity Period and/or the effective Validity Period for such resolutions has expired, such resolutions become void and, subject to provisions of the Joint Stock Companies Law, are no longer enforceable.

General shareholders' meetings may be either annual or extraordinary. The annual shareholders' meeting must be convened by our board of directors between March 1 and June 30 of each year, and the agenda must include the following issues:

- election of members of our board of directors;
- appointment of members of our internal audit commission;
- approval of our annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of our external auditor;
- approval of distribution of our profits, including payment of dividends and losses of NCSP based on the results of the financial year; and
- other issues according to the charter and the Joint Stock Companies Law.

A shareholder or a group of shareholders owning in aggregate at least 2% of our voting shares may introduce proposals for the agenda of the annual shareholders' meeting, may nominate candidates for our board of directors, our internal audit commission and for the position of the general director of NCSP and may introduce proposals in respect of nomination of candidate for the position of the auditor of NCSP. Any agenda proposals or nominations must be provided to us no later than 30 calendar days after the end of the preceding financial year.

Extraordinary shareholders' meetings may be convened by our board of directors on its own initiative, or at the request of our internal audit commission, our external auditor or our shareholder (group of shareholders) owning in the aggregate at least 10% of our voting shares as of the date of the request.

In case the agenda of the extraordinary shareholders' meeting contains issue in respect of election of members of the board of directors, a shareholder or a group of shareholders owning in aggregate at least 2% of our voting shares may introduce proposals for nomination of candidates to our board of directors. The number of such candidates may not be more than it is determined by our charter.

A general shareholders' meeting may be held in the form of a meeting or by absentee ballot. The form of meeting contemplates the adoption of resolutions by the general shareholders' meeting through attendance of the shareholders or their authorised representatives for the purpose of discussing and voting on issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to us without personally attending the meeting. A general shareholders' meeting by absentee ballot envisages that shareholders' opinions on issues on the agenda will be determined by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of members of our board of directors;
- appointment of members of our internal audit commission;
- approval of our annual reports and financial statements, including the balance sheet and profit and loss statement;
- approval of our external auditor; and
- approval of distribution of our profits, including approval of annual dividends (if any).

Notice and Participation

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 20 days prior to the date of the general shareholders' meeting (except for annual general shareholders' meeting or general shareholders' meeting, the agenda of which contains issue regarding reorganisation of the company, of which the shareholders must be notified not later than 30 days before the meeting), and such notification must specify the agenda of the meeting. However, in case of an extraordinary shareholders' meeting to (i) elect our board of directors or (ii) decide on the reorganisation by way of merger, spin-off or split-up and election of members of the board of directors of the reorganised company, shareholders must be notified at least 70 days prior to the date of the meeting. Only the items on the agenda may be voted upon at a general shareholders' meeting. In addition to mandatory written notification of shareholders of the company on the general shareholders' meeting, the company must publish the notification of such meeting in the newspapers "Novorossiyskiy Rabochiy" or "Kubanskie Novosti".

The list of persons entitled to participate in a general shareholders' meeting is compiled on the basis of data in our shareholders' register as of the date established by our board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting, nor more than 50 days before the date of the meeting (or, in case of an extraordinary shareholders' meeting to elect the board of directors, not more than 85 days before the date of the meeting).

Generally, the right to participate in a general shareholders' meeting may be exercised by shareholders as follows:

- by personal attendance;
- by attendance of a duly authorised representative (by proxy);
- by absentee ballot; or
- by delegating the right of absentee ballot to a duly authorised representative.

Board of Directors

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for joint stock companies with more than 1,000 holders of voting shares, and at least a nine-member board of directors for joint stock companies with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to be members of the board of directors. Members of our board of directors are not required to be our shareholders. Our current board of directors consists of seven members, in accordance with our charter.

Our board of directors elects its chairman from its members and has the right to remove the chairman at any time. However, our general director may not be elected as the chairman of our board of directors. The chairman of our board of directors organises its work, calls and presides over meetings of the board of directors and performs other functions provided by Russian law, our charter and internal documents.

According to the Joint Stock Companies Law, our entire board of directors must be elected at each annual general shareholders' meeting through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by a total number of directors to be elected, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the board of directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

Pursuant to the Joint Stock Companies Law and our charter, the board of directors directs our general management, except for adoption of such decisions that fall within the exclusive competence of the general shareholders' meeting. In particular, our board of directors has the powers to decide, among others, the following issues:

- determination of our business priorities;
- convening of our annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of a general shareholders' meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with preparation for, and holding of, general meetings of shareholders;
- adoption of a resolution on placement by way of open subscription of Ordinary Shares and securities convertible into Ordinary Shares, constituting 25% or less of the previously issued and outstanding Ordinary Shares;
- placement of our bonds and other securities, as provided in the Joint Stock Companies Law and our charter;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- election, determination of the term of the powers and dismissal of the members of our management board;
- recommendation on the amount of remuneration to be paid to members of our internal audit commission;
- determination of the amount of the fees payable for the services of an external auditor;
- recommendation on the amount of a dividend and its payment procedure;
- the use of our reserve fund and other funds;
- creation of our branches and representative offices;
- approval of our internal documents, except for those requiring approval of our general shareholders' meeting;
- approval of major and interested-party transactions in cases provided for by the Joint Stock Companies Law;
- approval of our participation (termination of participation) in other companies, except for participation in financial and industrial groups, associations and other unions of commercial organisations;
- appointment of our shareholder registrar;
- approval of transactions involving the acquisition, disposal or other transfers of rights to shares or participatory interests in the charter capital of legal entities and certain other transactions as provided for by our charter; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Meetings of our board of directors are called by the chairman on his or her own initiative, or at the request of:

- a member of our board of directors;
- a member of our internal audit commission;
- external auditor; or
- our executive body.

A meeting of our board of directors has a quorum if not fewer than half of members are present and/or have submitted voting ballots. Generally, a majority vote of the directors is required to adopt a resolution. Certain decisions, such as increases of our charter capital and approvals of major transactions, require a unanimous vote of all the board members. A majority vote of the disinterested and independent directors is required for approval of an interested party transaction by our board of directors, in cases provided for by the Joint Stock Companies Law and our charter. According to our charter, in case of a deadlock the chairman of our board of directors has a casting vote.

Management Board

Our management board is a collective executive body responsible for our day-to-day management. Our charter provides that our board of directors elects the members of our management board among the candidates proposed by the general director and determines the term of their powers. Our board of directors may at any time terminate the powers of any member of the management board. Under the Joint Stock Companies Law no more than 25% of the members of the board of directors are allowed to be members of the management board. The general director is the chairman of the management board. The number of members of the management board is not fixed and is determined by the board of directors on a case-by-case basis. Management board activity is determined in our Management Board Regulation. According to our charter, the duties of our management board include, among other things:

- fulfilment of NCSP's budget and production plan;
- approval of our internal regulations, except for those requiring approval of our general shareholders' meeting or our board of directors;
- making proposals with respect to our main activities, our annual budget, our short-term and medium-term budgets, our strategy and plans for our development;
- organisational and technical support of the activities of the general meeting of shareholders, board of directors, and internal audit commission;
- oversight over activities of our subdivisions and units;
- determination of the information that constitutes our commercial secret;
- determination of the amounts of salaries and forms of material incentives; and
- other issues provided for in our charter.

Meetings of the management board are called by its chairman on his or her own initiative, or at the request of a member of the management board, or at the decision of the general shareholders' meeting, Board of Directors, internal audit commission or internal auditor. Meeting of the management board must be called at least once a month. Our Management Board Regulation requires a majority vote of the members of the management board present for an action to pass, provided that minimum half of the elected members are present at the meeting. Members of our management board are not required to be our shareholders.

General Director

Pursuant to our charter and Joint Stock Companies Law, our day-to-day activities, except for the matters falling within the competence of our general shareholders' meeting, our board of directors or our management board, are managed by our general director who acts as our sole executive body and the chairman of our management board.

The general director is responsible for implementing the decisions of our general shareholders' meeting, our board of directors and our management board. The general director has the powers to, among other things, act on our behalf without a power of attorney, including representing our interests, entering into transactions, disposing of assets, opening bank accounts, approving staffing structure and issuing internal orders and directives.

The general director is elected by our general shareholders' meeting for 5 years. Upon a decision taken at our general shareholders' meeting, the functions of the general director may be transferred to a management company.

Our current general director is Mr. I.E. Vilinov, who serves in this capacity pursuant to an employment agreement.

Corporate Governance

Our shares are listed on "V" list on RTS and on MICEX. As a result, we are required to comply with a number of corporate governance requirements, including, among other things, the following:

- at least one independent director on our board of directors at all times;
- adoption of an internal regulation on the use of insider information;
- a provision in our Charter requiring that notification on holding annual general shareholders' meeting is made not less than 30 days prior to holding the meeting;
- a committee in the board of the directors with exclusive powers to assess candidates for independent auditor; and
- a provision in our internal regulations requiring our general director as well as the members of our board of directors and the management board to disclose information on their ownership, sale and purchase of our issued securities.

We are in compliance with the above requirements and we have implemented additional corporate governance practices, including establishment of an audit committee and a remuneration committee of our board of directors, each chaired by an independent director.

Internal Audit Commission

Our internal audit commission, whose activities are governed by our charter and our internal regulations, oversees and coordinates audits of our financial and economic activity. The principal duties of the internal audit commission are ensuring that:

- our operations comply with applicable laws and do not infringe shareholders' rights; and
- our accounts and reports do not contain any material misstatements.

The members of our internal audit commission are elected at the annual general shareholders' meeting. The Internal Audit Commission consists of five members. Members of the internal audit commission may be re-elected many times. Members of our board of directors and the general director as well as other executive officers may not serve on our internal audit commission (but our shareholders can serve on our internal audit commission).

Certain Requirements of Russian Legislation

Interested-Party Transactions

Under the Joint Stock Companies Law certain transactions defined as "interested-party transactions" require approval by disinterested directors, disinterested independent directors or disinterested shareholders of a company. Under Russian law, an "interested party" includes: (i) a member of the board of directors of the company, (ii) a person performing functions of the sole executive body (including a managing company or a manager who performs functions of the sole executive body of the company under a contract), (iii) a member of the collective executive body of the company, (iv) a shareholder, who owns, together with any of its affiliates, at least 20% of the company's voting shares, (v) any person able to issue mandatory instructions to the company, or (vi) any of such person's spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates who:

- is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20% of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- holds offices in any management body of a company (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- falls under other categories provided for by the company's charter.

The Joint Stock Companies Law requires that an “interested-party transaction” by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors who are not interested in the transaction. An “independent director” is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company except for being its director, or a member of any management body of the company’s management organisation or a person whose spouse, parents, children, adoptive parents or children, brothers or sisters have held positions on management bodies of a company or the managing organisation or have been the manager of such company. For companies with 1,000 or fewer shareholders, an interested-party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

An interested-party transaction must be approved by a decision of a majority of disinterested shareholders holding voting shares if:

- the value of such transaction, or series of interrelated transactions, is 2% or more of the book value of the company’s assets as of the last reporting date, determined in accordance with Russian accounting standards;
- the transaction, or series of interrelated transactions, involves a placement by subscription or disposal of Ordinary Shares in an amount exceeding 2% of the company’s issued Ordinary Shares and Ordinary Shares in which issued convertible securities may be converted;
- the transaction, or series of interrelated transactions, involves a placement by subscription of: (i) issued securities that may be converted into Ordinary Shares constituting more than 2% of the company’s issued Ordinary Shares; and (ii) Ordinary Shares into which issued convertible securities may be converted;
- all the members of the board of directors of a company with more than 1,000 shareholders holding voting shares are interested parties, and/or if none of them is an independent director; or
- the number of disinterested directors of a company with 1,000 or fewer shareholders holding voting shares is not sufficient to constitute a quorum.

Approval of an interested-party transaction by a majority of disinterested shareholders may not be required if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction. This exemption is effective only within a period from the date when such party became an interested party with respect to the transaction and until the next annual shareholders’ meeting.

Interested-party transactions do not need to be approved in the following instances:

- the company has only one shareholder that simultaneously performs the function of the executive body of the company;
- all shareholders of the company are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares or securities convertible into shares;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the company merges with or into another company; or
- the company is statutorily required to enter into the transactions and settlement under such transactions is made based on fixed tariffs established by the respective state authority.

An interested party transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders.

Major Transactions

The Joint Stock Companies Law defines a “major transaction” as a transaction, or series of interrelated transactions, involving the acquisition or disposal, or the possibility of disposal of property having a value of 25% or more of the book value of the assets of the company as determined in accordance with Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or

transactions involving a placement of Ordinary Shares through a subscription (sale) of Ordinary Shares or with a placement of securities convertible into Ordinary Shares. Major transactions involving assets ranging from 25% to 50% of the book value of the company's assets, as determined according to its balance sheet for the most recent reporting date, require unanimous approval by all members of the board of directors or, failing such approval, a simple majority vote of a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the company require a three-quarters' majority vote of shareholders present at a shareholders' meeting.

Any major transaction entered into in breach of the above rules may be invalidated by a court pursuant to an action brought by the company or any of its shareholders.

Anti-monopoly Regulation

Natural monopolies in Russia are subject to regulation by anti-monopoly legislation in connection with their dominant position in certain market segments, and certain mergers and acquisitions that they may effect.

Under the Federal Law "On Protection of Competition," dated 26 July 2006, which came into force on 26 October 2006 (the "Competition Law"), an entity together with its group may be considered as having a dominant position in a particular market. A dominant position may arise in circumstances including if (a) the entity (together with its group) has a market share in a particular market in excess of 50%, unless it is specifically established that the entity (together with its group) does not have a dominant position; or (b) the entity has a market share on a particular market in excess of 35% (but less than 50%), and it is specifically established by the FAS that the entity (together with its group) has a dominant position based on the following factors: (i) the share of the entity in the relevant market is permanent or is subject to insignificant changes as compared to competitors' shares in the same market; (ii) there is a low likelihood for new competitors to enter the relevant market; or (iii) other criteria characterising the market that the FAS deems relevant.

Under the Competition Law, an entity with a dominant position in a particular market shall not engage in the following array of activities: (a) fix and maintain excessively high or excessively low prices; (b) the withdrawal of goods or services from circulation resulting in price increases; (c) dictating terms unfavourable to a counterparty or irrelevant to the subject-matter of the agreement; (d) the reduction or termination of production of goods or provision of services, for reasons not economic or technological in nature, where demand for the goods or services exists, so long as the goods or services can be produced/provided at a profit; (e) the refusal to enter into an agreement with particular buyers or customers, where the goods or services can be produced or supplied; (f) the fixing of disparate prices (tariffs) for the same goods or services, for reasons not economic or technological in nature; (g) the creation of discriminatory conditions; (h) the creation of barriers to enter or exit a particular market; (i) violation of legal requirements relating to pricing; or (j) the carrying out of any other activities that result or may result in the prevention, limitation or elimination of competition and/or the infringement of interests of other persons.

The FAS is authorised to issue binding orders on companies to eliminate abuse of a dominant position, as well as to transfer the profits obtained as a result of the illegal conduct to federal funds. The FAS also has a power to require in a court order a spin-off or split of business operations of a company, which holds a dominant position and repeatedly (i.e., more than two times within three years) abuses its dominant position.

In addition to the above requirements set forth with regard to a dominant position, the Competition Law provides for a merger control regime, i.e., the necessity of "approval prior to closing" by the FAS, of the following actions:

- (1) the acquisition of voting shares of companies if the acquirer acquires more than 25%, 50% or 75% of voting shares in a joint stock company or 1/3, 1/2 or 2/3 of participation interests in a limited liability company;
- (2) the acquisition of the fixed production and/or intangible assets if the balance-sheet value of such assets exceeds 20% of the total assets of their owner;
- (3) the acquisition of rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body;

provided that, in each of the above cases, at least one of the following thresholds is met:

- (i) the aggregate asset value of the acquirer and target (together with their respective groups) exceeds RUB3.0 billion (approximately US\$121.56 million at the rate of exchange of the CBR on 2 November 2007); or
- (ii) the total annual turnover of the acquirer and the target (together with their respective groups) for the preceding calendar year exceeds RUB6.0 billion (approximately US\$243.11 million at the rate of exchange of the CBR on 2 November 2007);

and simultaneously:

- (A) the total assets of the target together with its group exceed RUB150 million (approximately US\$6.08 million at the rate of exchange of the CBR on 2 November 2007); or
- (B) one of the companies is included into the Russian register of entities having a market share in excess of 35% on a particular market (the “FAS Register”);

- (4) the merger and consolidation of entities;
- (5) the foundation of an entity if the charter capital is paid for with shares and/or assets of another company and the new company obtains the rights specified in (1), (2) and (3) above with respect to such shares and/or assets;

provided that at least one of the following conditions is met:

- (a) the aggregate asset value of the relevant entities and their groups exceeds RUB3.0 billion (approximately US\$121.56 million at the rate of exchange of the CBR on 2 November 2007);
- (b) the total annual turnover of the relevant entities and their groups for the preceding calendar year exceeds RUB6.0 billion (approximately US\$243.11 million at the rate of exchange of the CBR on 2 November 2007); or
- (c) one of the entities is included into the FAS Register.

The Competition Law establishes a 30-day review period for pre-closing approval of transactions. Under a general rule, the review period may be extended for a further two months if the FAS believes the prospective transaction might restrict competition with respect to a particular market.

An intra-group merger or acquisition can be carried out without pre-closing approval from the FAS, provided that a number of conditions are met.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court order initiated by the FAS, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

The Competition Law does not specifically address issues of liability for the violation of anti-monopoly legislation. Currently, such liability is governed by the Code on Administrative Offences of Russia. In particular, an entity which has a dominant position on the market, including, without limitation, a natural monopoly, may be subject to a fine in the amount up to 0.15% of its revenues from the sale of particular types of goods, works, or services (calculated in accordance with Russian standards) if it abuses its dominant position on the market for the relevant goods, works or services, or enters into agreements or performs other actions leading to the limitation of competition.

In addition, we are subject to specific regulation in our capacity as a natural monopoly. See “Regulation—Natural Monopoly Law Status”.

Currency Control

Pursuant to the Federal Law No. 173-FZ “On Currency Regulation and Currency Control,” dated 10 December 2003, as amended (the “Currency Law”), currency operations with such instruments as GDRs and Ordinary Shares may be conducted between (i) residents and non-residents and (ii) non-residents both in roubles and in foreign currencies, subject to compliance with securities and anti-monopoly laws and regulations.

Non-residents may receive dividends declared by Russian companies both in foreign currencies (confirmed by the CBR in its Information Letter No. 31 dated 31 March 2005) and roubles. Dividends paid in roubles may be freely converted by non-residents through Russian authorised banks and remitted outside of Russia.

Notification of Foreign Ownership

Foreign persons and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign persons that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of our Ordinary Shares or GDRs.

Certain Russian Law Considerations

Offering Outside the Russian Federation

Russian law requires that a permit from the FSFM must be received prior to effecting an offering of a Russian issuer's shares outside Russia, including offerings of equity securities through either sponsored or unsponsored depositary receipt programmes offering depositary receipts (e.g. GDRs) representing interests in the Russian issuer's shares. On 11 October 2007, the FSFM approved the circulation of up to 3,909,742,526 Ordinary Shares of NCSP, representing 20.3% of our Ordinary Shares, in the form of GDRs. See "Risk Factors—Risks Relating to the GDRs, the Shares and the trading market—Following the Offering you may not be able to deposit Shares in the GDR programme in order to receive GDRs, and changes in Russian regulatory policy with respect to the placement and circulation of the Shares outside Russia in the form of GDRs or otherwise may negatively affect the market for the Shares and GDRs".

Notification of the FSFM

Pursuant to Russian securities legislation, each holder of ordinary shares must notify the company and the FSFM of the acquisition of 5% or more of the Ordinary Shares and any subsequent change in the number of the Ordinary Shares above or below the 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% threshold. The notification should contain the name of the shareholder, the name of the company, the state registration number of the Ordinary Share issuance and the number of Ordinary Shares acquired. As a general rule, such notifications must be given within five days after the Ordinary Shares have been transferred to such shareholder's securities account (or a deposit account).

Any additional issuance of our Ordinary Shares is registered with the FSFM, and is assigned a provisional state registration number, containing a suffix distinguishing it from the previous issuance of our Ordinary Shares of the same class. Following completion of the issuance, the provisional suffix is cancelled. Under Russian law, the FSFM must cancel the suffix upon the expiration of three months following the registration of the placement report for the issuance (or, if applicable, upon the expiration of three months following the filing of a notice of the results of the issuance), but in practice such cancellation may be delayed beyond the prescribed term. The FSFM permission for our GDR programme expressly permits the deposit of shares with registration number 1-01-30251-E. Shares having a different registration number, issued in the future, may not be deposited in our GDR programme until cancellation of the individual registration number of such shares and its consolidation with the registration number of the previously issued shares. As a result, the Depositary may be entitled to refuse a deposit of shares having a different registration number than those set out in the FSFM permission for the GDR programme.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts (“GDRs”) represented by this certificate are issued in respect of equity Shares of nominal value 0.01 rouble each (the “Shares”) in PJSC Novorossiysk Commercial Sea Port (the “Company”), with one GDR issued in respect of 75 Shares, pursuant to and subject to an agreement dated 13 September 2007, and made between the Company and JPMorgan Chase Bank, N.A. as depositary (the “Depositary”) for the “Regulation S Facility” and the “Rule 144A Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed Sberbank (Joint Stock Commercial Savings Bank of the Russian Federation (open joint stock company)) as Custodian (as defined below) to receive and hold on its behalf the Share certificates in respect of certain Shares (the “Deposited Shares”) and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Shares for the benefit of the Holders (as defined below) in an omnibus account held for each Holder in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. In these terms and conditions (the “Conditions”), references to the “Depositary” are to JPMorgan Chase Bank, N.A. and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to Sberbank (Joint Stock Commercial Savings Bank of the Russian Federation (open joint stock company)) or any other Custodian from time to time appointed under the Deposit Agreement and references to the “Office” mean, in relation to the Custodian, its office at 19 Vavilova Street, 117997, Moscow, the Russian Federation (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary). Deposited Shares are subject to the law or market practice of a jurisdiction outside the United Kingdom and therefore may be registered or recorded in the name of the Depositary or the Custodian where the Depositary takes reasonable steps to determine that it is in the best interests of the Holders to register or record the Deposited Shares in this way, or it is not feasible to do otherwise, because of the nature of the applicable law or market practice. Each Holder is hereby notified that any registration of Deposited Shares in the name of the Depositary may mean that the Deposited Shares are not segregated from the assets of the Depositary and in the event of the insolvency of the Depositary, the Holder’s Deposited Shares may not be as well protected from claims made on behalf of the general creditors of the Depositary.

References in these Conditions to the “Holder” of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the “Register”). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

- (A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:
 - (i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;

- (ii) Shares subscribed for or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;
 - (iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to “Deposited Shares” or “Shares” shall include any such securities, where the context permits; and
 - (iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.
- (B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.
- (C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. The Company may, following receipt from the relevant Russian authority or regulator of formal approval given in anticipation of a further issue of Shares and GDRs to increase the number of Shares that may be deposited in the Regulation S Facility or the Rule 144A Facility, as applicable, instruct the Depositary to refuse to accept for deposit any Shares that would not have been permitted to be so deposited had such formal approval not been obtained, for a period ending no later than the relevant issue date of such further Shares and GDRs and the Depositary will refuse to accept such Shares. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.

In its capacity as Depositary, the Depositary shall not lend Shares or other Deposited Property held hereunder or GDRs, provided that, unless requested in writing by the Company not to do so, the Depositary reserves the right subject to applicable law and without prejudice to its obligations under the Deposit Agreement, to (i) execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be, and (ii) deliver Deposited Property prior to the receipt and cancellation of GDRs in accordance with the Conditions, including GDRs which were issued under (i) above but for which Shares may not have been received (in each case a “Pre-Release”). The Depositary may receive GDRs in lieu of Shares in satisfaction of a pre-release. Each pre-release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the “Pre-Releasee”) that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary or Custodian upon the Depositary’s request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such, (b) at all times fully collateralised marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by

GDRs outstanding at any time as a result of pre-releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may with the prior written consent of the Company change such limit for purposes of general application. The Depositary may also set limits with respect to the number of Shares and GDRs involved in pre-releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in (b) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees to deliver the relevant Shares or GDRs, as the case may be, set forth in (a) above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

Nothing in this Condition (C) shall obligate the Company to issue any new Shares in respect of any pre-release by the Depositary. The person to whom any pre-release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition (C) shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A. The person to whom any pre-release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition (C) shall be requested to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3.

- (D) The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. The Company specifically confirms its agreement that the Depositary will be entitled to make any pre-release in accordance with Condition 1(C) but, save as expressly provided in this Agreement, it will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to Condition 1(C).
- (E) If (i) the Company did not have a right to file, or, having such a right, failed to duly and timely file, a valid Placement Notice with FSFM, and (ii) a Placement Report required to be registered with the FSFM has not been so registered in respect of the New Shares, within 75 calendar days of the first closing date of the Initial Offering or, in respect of any subsequent issue of new Shares, within a reasonable period of time of the last closing date of the issue of such Shares, as the case may be, or such other time as may be agreed between the Company and the Joint Global Coordinators (in respect of the New Shares only) or the Depositary (in respect of any other new Shares) or any new Shares are to be cancelled, whether or not a valid Placement Notice has been due and timely filed or a Placement Report in respect of such Shares has been registered, the Company will notify the Depositary in writing of the number of (i) New Shares or new Shares, as the case may be, which have been or are to be cancelled, (ii) the number of Deposited Shares which have been or are to be cancelled and (iii) the number of GDRs to be cancelled. Upon receipt of this notice and on payment by or on behalf of the Company or other relevant persons (if applicable) to the Depositary or its nominee of the amount of the subscription monies paid in respect of the Deposited Shares which are to be cancelled, the Depositary will, as soon as practicable, give notice to the Holders in accordance with Condition 23 of the cancellation of such number of GDRs as notified to the Depositary by the Company, and will cancel such number of GDRs on a pro rata basis or such other basis as the Depositary determines is practicable in its sole discretion. To the extent that the Depositary receives any such amount from or on behalf of the Company or other relevant persons (if applicable), the Depositary will promptly distribute such amount to the Holders of the GDRs cancelled pursuant to this Condition 1(E) pro rata to the number of GDRs cancelled in accordance with Condition 4.

2. Withdrawal of Deposited Property

- (A) Deposited Property may not be withdrawn until the Depositary has received a written confirmation from the Company that the Shares are listed on the Russian Stock Exchange. The Depositary shall notify the Holders of such GDRs in accordance with Condition 23 as soon as is practically possible after receiving such written confirmation. Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs; or in Schedule 3, Part B, in respect of surrendered Regulation S GDRs.
- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable,

provided that (a) during any period prior to the Depositary being notified in writing by the Company that either (I) the Placement Report with respect to the New Shares has been registered with the FSFM or (II) a valid notice on placement of the New Shares (a "Placement Notice") has been filed with the FSFM or (b) at any time between the deposit of any subsequent issue of New Shares and the Depositary being notified in writing by the Company that either (I) (x) the Placement Report with respect to such New Shares has been registered with the FSFM or (y) a valid Placement Notice has been duly and timely filed with the FSFM or (II) if later, the Moscow business day next following the due and timely filing of a valid Placement Notice with the FSFM, Holders shall not be entitled to request withdrawal of any Deposited Shares. Holders shall not be entitled to give voting instructions as contemplated by Condition 12 hereof and Clause 7 of the Deposit Agreement, and the Depositary shall not vote or cause to be voted any such New Shares.

- (B) Certificates for withdrawn Deposited Shares will contain such legends, including the legends described under "Transfer Restrictions", and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.
- (C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:
 - (i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
 - (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.

- (D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.
- (E) Subject as set out above, upon request by any Holder in accordance with Condition 2 for withdrawal of Deposited Property and upon compliance therewith including provision to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4 Part B by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of the Rule 144A GDRs, or a duly executed and completed certificate substantially in the form set out in Schedule 3 Part B by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of the Regulation S GDRs, as applicable (in each, Part B of Schedule 3 and Schedule 4 may be modified in a manner not inconsistent with the provisions of this Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under this Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any shareholders' meeting of the Company when notified by the Company in writing that such suspension is necessary, or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Russian law or government resolution or the Charter, or for any other reason as agreed with the Depositary, as notified to the Depositary by the Company from time to time, or (iv) in the case of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR, during any period prior to the Depositary being notified in writing by the Company that a Placement Report in respect of the Shares represented by those GDRs has been registered with the FSFM or (v) in the case where the Depositary has been informed by the Company that any other new Shares represented by GDRs are being offered, then in relation to those GDRs, during any period from deposit of such new Shares prior to the Depositary being notified in writing that the Placement Report relating to those Shares has been registered with the FSFM. For the avoidance of doubt, in the absence of any such notification from the Company, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst beneficial owners) and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from the Company pursuant to this Condition 2(E), the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of this Agreement.

Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Condition 1(C) above. Notwithstanding the foregoing, each Holder and owner of Rule 144A GDRs acknowledges that at any time (a) the Company maintains an unrestricted depositary receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, and each of the

Depository and the Custodian agrees that, neither the Custodian nor the Depository will make any actual delivery of Rule 144A Shares to any Holder or beneficial owner at an address within the United States.

- (F) The Depository may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depository, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of this Agreement or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

3. Transfer and Ownership

The GDRs are in registered form, with one GDR issued in respect of 75 Shares. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration in the records of the Depository. The Depository will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depository and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are “restricted securities” within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depository of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depository shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company and amounts received pursuant to Clause 3.18 of the Deposit Agreement) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depository, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depository shall, if practicable in the opinion of the Depository, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depository, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

- (a) in the event that the Depository is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depository will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depository and any balance remaining shall be retained by the Depository beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall, without unreasonable delay, cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall, without unreasonable delay, distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

- (ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or
- (iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or Beneficial Owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the reasonable assistance of the Company to the extent required, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part

for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

- (A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and (i) DTC and (ii) if the Regulation S Master GDRs are held by Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and Euroclear S.A./N.V. (“Euroclear”) directly through an account at the Common Depositary, Clearstream, Luxembourg and Euroclear. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.
- (B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto.

10. Capital Reorganisation

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, without unreasonable delay, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6, and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

- (A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- (B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6, or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or

other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably required by the Company, at the cost and expense of the Company, make reasonable endeavours to assist the Company to obtain) any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

12. Voting Rights

- (A) As soon as practicable after receipt from the Company of notice of any meeting at which the holders of Shares or other Deposited Properties are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Properties, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of the Russian Stock Exchange(s) on which the Shares are listed), exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.
- (B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.
- (C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of the Russian Stock Exchange(s) on which the Shares are listed). In particular, prior to the Depositary

being notified in writing by the Company that the Placement Report in respect of the New Shares has been registered with the FSFM, the Depositary shall have no obligation to take any such action. The Company agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Russian law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

- (A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.
- (B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of wilful default, negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- (C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.
- (D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters

arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or beneficial owners of GDRs, or any other person for any profit arising therefrom.

- (E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.
- (F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.
- (G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- (H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or any other person.
- (I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.
- (J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.
- (K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the Board of Directors or the Management Board of the Company or by a person duly authorised by the Board of Directors or the Management Board of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- (L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees, or that of any nominee controlled by the Depositary or by an affiliate of the Depositary.
- (M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

- (N) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- (O) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.
- (P) Where Deposited Property is held in a jurisdiction outside the United Kingdom, there may be settlement, legal and regulatory requirements in such jurisdiction which are different from those applying in the United Kingdom, and there may be different practices for the separate identification of assets held by a custodian for its clients.
- (Q) The Depositary shall under no circumstances have any liability arising from the Conditions or from any obligations which relate to the Conditions (including, but not limited to, obligations in tort), whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.
- (R) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.
- (S) For the purposes of Condition 14(Q):
 - (i) “consequential loss or damage” means loss or damage of a kind or extent which was not reasonably foreseeable at the time this Agreement was entered into as a serious possibility in the event of the breach of obligation in question.
 - (ii) “special loss or damage” means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time this Agreement was entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

- (A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
 - (i) for the issue of GDRs or for the cancellation of GDRs upon the withdrawal of Deposited Property U.S.\$0.05 or less per GDR issued or cancelled;
 - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
 - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;
 - (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares, for the administration of the GDRs and in connection with inspections of the relevant share register maintained by the Russian registrar, if applicable: a combined fee of U.S.\$0.03 or less per GDR per annum;

- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): U.S.\$0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution; and
- (vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of U.S.\$0.05 or less per GDR (or portion thereof),

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depositary and such customary expenses as are incurred by the Depositary in the conversion of currencies other than U.S. dollars into U.S. dollars and fees imposed by any relevant regulatory authority.

- (B) The Depositary is entitled to receive from the Company such fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between the Company and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. Agents

The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, inter alia, of making distributions to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement that so long as any GDR is outstanding, and where the Company can no longer reasonably maintain a listing for the GDRs on the London Stock Exchange and a listing of the Shares on at least one Russian Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listings are suspended, to use its best efforts to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 calendar days’ notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (approved by (i) the Company, such approval not to be unreasonably withheld or delayed and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Company, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by (i) the Company, such approval not to be unreasonably withheld or delayed and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily

deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

- (A) Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange. The Depositary may resign as Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary until the appointment by the Company of a successor depositary, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depositary, and (c) the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

- (B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

21. Termination of Deposit Agreement

- (A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Company terminates the Deposit Agreement, it will (unless the termination is due to the wilful default, negligence or fraud of the Depositary) be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as, and only to the extent, set out in the Deposit Agreement and in any agreement between the Depositary and the Company.

- (B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be

entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of paragraph (D) of Condition 2 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.

- (C) If any GDRs remain outstanding after the date of termination, the Depositary shall, if possible, as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.
- (D) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as JPMorgan Chase Bank, N.A. is acting as Depositary under the Deposit Agreement.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 12 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary and if required, the permission of the FSFM in any respect which they may deem necessary or desirable. Unless impracticable in the circumstances to do so, at least ten business days' notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary. Any notice sent by mail shall be deemed to have been given on the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

24. Reports and Information on the Company

- (A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between the Company and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or any other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.
- (B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- (C) For so long as any Rule 144A GDRs or shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDR or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is subject to but not in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary will hold moneys received by it, in respect of or in connection with the Deposited Property in an account with itself as banker and not as trustee, will not hold such moneys in accordance with the FSA's client money rules, shall be entitled to deal with such moneys in the same manner as other moneys paid to it as a banker for its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

- (A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts. The Company has also agreed in the Deed Poll to allow the Holders to elect that disputes are to be resolved by arbitration.
- (B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)

29. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR Certificate in registered form and (ii) a single Master Rule 144A GDR Certificate in registered form. The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate (collectively the “Master GDRs”) will be registered in the name of Cede & Co., as nominee for DTC, and will be held by the Depositary as Custodian for DTC. The Master GDRs contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the Global Depositary Receipts set out in this prospectus. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form evidencing GDRs in the circumstances described in (i), (ii) or (iii) below in whole but not, except in the case of (iii) below, in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to persons entitled to interests in this Master GDR within 60 days in the event that:

- (i) any of DTC or any successor to DTC or, if the Regulation S Master GDR is held by Clearstream, Luxembourg and Euroclear directly through an account at the Common Depositary, Clearstream, Luxembourg and Euroclear advises the Company in writing at the time that it is unwilling or unable to continue as clearing agent (or as nominee thereof) and a successor clearing agent (or successor nominee thereof) is not appointed within 90 calendar days; or
- (ii) DTC or any successor ceases to be a “clearing agency” registered under the United States Securities Exchange Act of 1934, as amended; or
- (iii) any of DTC or any successor to DTC or, if the Regulation S Master GDR is held by Clearstream, Luxembourg and Euroclear directly through an account at the Common Depositary, Clearstream, Luxembourg and Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or to cease to make its book-entry settlement system available for the GDRs or does, in fact, do so and no alternative clearing and settlement system satisfactory to the Depositary is available within 45 days; or
- (iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depositary or its Agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs in definitive form.

In relation to (iii) above any person appearing in the records maintained by DTC, Clearstream Luxembourg or Euroclear as entitled to any interest in the relevant Master GDR shall be entitled to require the Holder to procure the exchange of an appropriate part of the relevant Master GDR for a definitive GDR for an interest held by such person in the relevant Master GDR in the above circumstances upon notice to the Holder. Any such exchange shall be at the expense (including printing costs) of the Holder in the case of such appropriate part or at the expense of the Holders in case of exchange of the whole of the Master GDR for the definitive GDRs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream, Luxembourg.

Upon any exchange of a part of a Master GDR for a certificate evidencing a GDR or GDRs in definitive form or any distribution of GDRs pursuant to Conditions 3, 5, 6, 7 or 10, or any reduction in the number of GDRs evidenced thereby following any withdrawal of any Deposited Property pursuant to Condition 2, or any increase in the number of GDRs following the deposit of Shares pursuant to Condition 1, the relevant details shall be entered on the Register of the Depositary, whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the Register, provided always that if the number of GDRs evidenced by the Master GDR is reduced to zero the Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments and Distributions

Payments of cash dividends and other amounts (including cash distributions) in respect of the GDRs evidenced by the Master GDR will be made by the Depositary through DTC or, if the Regulation S

Master GDR is held by Clearstream, Luxembourg and Euroclear directly through an account at the Common Depositary, Clearstream, Luxembourg and Euroclear on behalf of persons entitled thereto upon receipt of funds therefor from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of Holders may result in the Master GDR being marked up to reflect the enlarged number of GDRs it thereby evidences.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary shall be satisfied by the production by DTC or, if the Regulation S Master GDR is held by Clearstream, Luxembourg and Euroclear directly through an account at the Common Depositary, the Common Depositary, as the case may be, on behalf of a Holder of such evidence of entitlement of such Holder as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by DTC or, if the Regulation S Master GDR is held by Clearstream, Luxembourg and Euroclear directly through an account at the Common Depositary, Euroclear or Clearstream, Luxembourg or, if relevant, an alternative clearing system. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all moneys or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For so long as the Master GDR is registered in the name of DTC or the Common Depositary, notices to Holders may be given by the Depositary by delivery of the relevant notice to DTC or the Common Depositary, as the case may be, for communication to Holders in substitution for publications required by Condition 23 except that so long as the GDRs are listed on the Official List maintained by the UK Listing Authority and admitted for trading on the market for listed securities of the London Stock Exchange and, if and to the extent that the Rules of the UK Listing Authority or the London Stock Exchange so require, notices shall also be published in a leading newspaper having general circulation in the United Kingdom.

Governing Law

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following summary of the principal Russian, United Kingdom and United States federal income tax consequences of ownership of the Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming. Any such changes or interpretations could affect the tax consequences to holders of the Shares or GDRs, possibly on a retroactive basis, and could alter or modify the statements and conclusions set forth herein. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the Shares or GDRs. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

Russian Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the Shares and the GDRs and to the purchase, ownership and disposition of the Shares and the GDRs by Russian resident and non-resident holders. This summary is based on the laws of Russia in effect as of the date of this document. The discussion with respect to Russian legislation is based on our understanding of current Russian law and tax rules, which are subject to frequent change and varying interpretations. See “Risk Factors—Risks Relating to the Russian Federation—Risks relating to the Russian Legal System and Russian Legislation—Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the Shares and GDRs”.

The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own professional advisors regarding the tax consequences of investing in the Shares and GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to GDRs are characterised by uncertainties and by an absence of special provisions with respect to transactions with GDRs. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a “Russian resident holder” means (i) an individual, actually present in the Russian Federation for 183 days or more in 12 consecutive months or (ii) an organisation, in each case organised under Russian law, or (iii) an organisation, in each case organised under a foreign law, that holds and disposes of the Shares and GDRs through its permanent establishment in Russia. Individual presence in Russia is not considered interrupted if an individual departs from Russia for short periods (less than six months) for the purpose of medical treatment or education.

For the purposes of this summary, a “non-resident holder” means an entity or an individual which is not a Russian resident holder defined in the previous paragraph.

Taxation of Acquisition of the Shares and GDRs

No Russian tax implications should arise for holders of the Shares and GDRs, Russian resident holders as well as non-resident holders, upon purchase of the Shares and GDRs. However, under the certain conditions the taxable material gain may arise for individuals if the Shares and GDRs are purchased at the price below the market value.

Taxation of Dividends

A Russian company that pays dividends is generally obliged to act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian Federation state budget. However, the applicable withholding tax rate will depend on the status of the dividend’s recipient.

Russian Resident Holders

Shares

Dividends paid to a Russian resident holder of the Shares that is a Russian organisation or an individual will be generally subject to Russian withholding tax at the rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that we should calculate this tax by multiplying the tax rate (9%) by the difference between (1) the dividends to be distributed by us to our shareholders (other than to non-resident companies and non-resident individuals) and (2) dividends collected by us in the current and preceding tax periods from other Russian entities.

According to clarifications issued by the Russian tax authorities, it may be possible to claim that the 9% withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organisation, based on non-discrimination provisions of a double tax treaty between Russia and the country of tax residency of the respective foreign organisation. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that the claims for application of the 9% tax rate would not be challenged by the Russian tax authorities, hence it is likely that 15% withholding tax rate would be applied.

GDRs

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs primarily because the distinction between legal and beneficial ownership is unfamiliar to Russian law. In the absence of any official interpretative guidance and as the Depositary (and not the holders of the GDRs) is the legal holder of ordinary shares under Russian law, we will likely withhold tax at a domestic rate of 15% applicable to dividends payable to non-resident holders (as described below). Upon receiving dividends Russian resident holders which are organisations may be required to pay additional Russian profits tax at the rate of 15% (the rate applied to dividends received from non-residents) or 24% (if the income received will not be recognised as dividends) while Russian holders who are individuals—personal income tax at the rate of 9% or 13% (if the income received will not be recognised as dividends). There is also no established procedure providing for the refund of tax withheld from dividends payable through the Depositary to Russian resident holders of GDRs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Taking into account that we may be unaware of the exact amount of income payable to each particular holder, the maximum withholding income tax rate on dividends may constitute even 30% (the rate applicable to income of non-resident individuals).

Non-Resident Holders

Shares

Dividends paid to a non-resident holder of Shares will generally be subject to Russian withholding tax, which we will withhold. The applicable tax rate on dividends will depend on whether the dividend recipient is an organisation or an individual. Under Russian domestic law dividends paid to a non-resident holder, which is an organisation will be subject to Russian withholding tax at a rate of 15% while dividends paid to non-resident individual holders will be subject to Russian withholding tax at a rate of 30%. Withholding tax on dividends may be generally reduced under the terms of a double tax treaty between the Russian Federation and the country of tax treaty residence of a non-resident holder of the shares.

GDRs

Comments provided in the previous section (see “Taxation of Dividends—Non Resident Holders—Shares”) are also applicable to non-resident holders of GDRs. Notwithstanding the foregoing, treaty relief for dividends received may not be available to non-resident holders of GDRs. Over the period 2005 to 2007, the Ministry of Finance of the Russian Federation repeatedly expressed an opinion that depositary receipt holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that tax residencies of the depositary receipt holders are

duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all GDR holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each particular holder.

Although non-resident holders of GDRs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities will grant refund. See “—Tax treaty procedures” below.

With respect to individuals who are non-resident holders of GDRs, we may also be obligated to withhold income tax at the rate of 15% from dividend payments made to the Depositary. We will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favour of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident holders of GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the respective international double tax treaties, provided that the procedures described in “—Tax treaty procedures” are complied with. Obtaining the respective approvals from the tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15% tax withheld from payment of dividends to the Depositary as the tax authorities are unlikely to treat the 15% withholding tax as a tax liability of individual holders. Therefore, it is possible that non-resident holders may be subject to up to a 45% effective tax (30% with effect from 2008) on dividends accrued on their Shares held in deposit, i.e. 15% income tax withheld by us plus 30% (15% with effect from 2008) Russian personal income tax payable on the self-assessed basis.

Taxation of Capital Gains

The following sections summarise the taxation of capital gains in respect of the disposition of the Shares and GDRs.

Russian Resident Holders

As the Russian legislation related to taxation of capital gains derived by Russian resident holders (including organisations and individuals) in connection with GDRs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of GDRs.

Organisations

Capital gains arising from the sale of the Shares and GDRs by a Russian resident holder which is an organisation will be taxable at the regular Russian corporate income tax rate of 24%. Russian tax legislation contains a requirement that a profit arising from activities connected with securities quoted on a stock exchange must be calculated and accounted for separately from a profit from activities connected with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident holders may be able to apply losses arising in respect of the listed Shares and the GDRs to offset capital gains, or as a carry-forward amount to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange and, in respect of the non-listed GDRs, from the sale, exchange or other disposition of securities not quoted on a stock exchange. Special tax rules apply to Russian organisations that hold a broker and/or dealer license.

The Russian Tax Code also establishes special rules for calculation of the tax base for the purposes of transactions with securities.

Individuals

Capital gains arising from the sale, exchange or other disposition of the Shares and GDRs by individuals who are Russian resident holders must be declared on the holder's tax return and are subject to personal income tax at a rate of 13%.

The income in respect of sale of the Shares or the GDRs by an individual is calculated as sale proceeds less documentary confirmed expenses related to purchase of these securities (including cost of securities and expenses associated with purchase, keeping and sale of these securities).

Non-Resident Holders

Organisations

Capital gains arising from the sale, exchange or other disposition of the Shares and GDRs by organisations that are non-resident holders should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets. If more than 50% of our assets were to consist of immovable property located in Russia, organisations that are non-resident holders of the Shares and GDRs should be subject (except as described below) to a 20% withholding tax on the gross proceeds from sale, exchange or other disposition of GDRs or 24% withholding tax on the difference between the sales, exchange or other disposition price and the acquisition costs of the Shares and GDRs.

However, an exemption applies if immoveable property located in Russia constitutes more than 50% of the Company's assets and the GDRs are traded on a foreign stock exchange. In that case, the proceeds from the sale of GDRs on that foreign stock exchange shall not be deemed to be income from sources in Russia, and accordingly, will not be subject to taxation in Russia. It should be noted that the determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia will not constitute more than 50% of NCSP's assets as at the date of the sale of Shares and GDRs by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in the case in question.

Where the Shares and GDRs are sold by organisations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian budget.

Individuals

The taxation of the income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the Shares and GDRs outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However the Russian tax law gives no clear indication as to how the place of sale of the Shares and GDRs should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in Russia or out of Russia.

The sale, exchange or other disposal of the Shares and the GDRs by non-resident holders in Russia will be considered Russian source income and will be subject to tax at the rate of 30% on the difference between the sales price and the acquisition value of such Shares and GDRs as well as other documented expenses, such as depositary expenses and broker fees, among others.

Under Russian law, the acquisition value can be deducted at the source of payment if the sale was made by a non-resident holder through a professional trustee, dealer or broker that is a Russian organisation or a foreign company with a permanent establishment in Russia. Such professional trustee, dealer or broker should also act as a tax agent and withhold the applicable tax. Such a tax agent will be required to report to the Russian tax authorities the amount of income realised by the non-resident individual and tax withheld upon the sale of the Shares and GDRs not later than on 1 April of the year following the reporting year.

Otherwise, if the sale is made to other organisations and individuals, generally no withholding needs to be made and the non-resident holder will have an obligation to file a tax return, report his income realised and apply for a deduction of acquisition expenses (which includes filing of support documentation). Although Russian tax law imposes this responsibility only on professional trustees, brokers or dealers, in practice, the tax authorities may require Russian organisations or foreign companies with a permanent establishment in Russia that are not professional trustees, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from non-resident individuals.

In some circumstances, a non-resident holder may be exempt from Russian personal income tax on the sale, exchange or other disposition of the Shares and GDRs under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder. Under the United States-Russia Tax Treaty, capital gains from the sale of the Shares and/or GDRs by US holders

should be relieved from taxation in Russia, unless 50% or more of our assets (the term “fixed assets” is used in the Russian version of the United States-Russia Tax Treaty) were to consist of immovable property located in Russia. If this 50% threshold is not met, individuals who are US holders may seek to obtain the benefit of the United States-Russia Tax Treaty in relation to capital gains resulting from the sale, exchange or other disposition of the Shares and/or GDRs. The UK–Russia Tax Treaty provides for an exemption from personal income tax on capital gains received by UK holders unless the gains relate to shares that both (a) derive their value or the greater part of their value directly or indirectly from immovable property in Russia, and (b) are not quoted on a registered stock exchange. Therefore, individuals who are UK holders may also apply the provisions of the UK–Russia Tax Treaty as it exempts from Russian taxation any gain on the disposition of the Shares and GDRs quoted on a registered stock exchange.

In order to apply the provisions of relevant double tax treaties, the individual holders should receive clearance from the Russian tax authorities as described below. See “—Tax treaty procedures” below.

Recent Amendments to Russian Tax Laws

The new tax law establishing changes in the taxation of dividends regime was signed by the President on May 16, 2007 and will come into force starting from January 1, 2008.

This law establishes the following major changes with respect to taxation of dividends in Russia:

(a) Dividends received by individuals treated as non-residents for tax purposes from Russian organisations will be taxed at the rate of 15% (currently such income is taxed at the 30% rate);

(b) Dividends received by Russian organisations from foreign organisations will be taxed at the rate of 9% (currently such income is taxed at the 15% rate);

(c) Dividends received by Russian organisations from the qualified Russian and foreign subsidiaries will be subject to tax at 0% (currently any dividends received by Russian organisations from Russian subsidiaries are taxable at the 9% rate while dividends received from foreign subsidiaries are taxable at the 15% rate). This participation exemption would be available with respect to subsidiaries where all of the following conditions are met: (i) the Russian company holds at least 50% of the equity of the distributing entity or depositary receipts and the participation confers the right to receive at least 50% of the dividends distributed; (ii) the Russian company has held such participation for at least 365 days at the time the decision is made to distribute the dividends; (iii) the cost of the acquisition or other receipt, in accordance with the legislation of the Russian Federation, of such participation exceeds RUB 500 million (approximately EUR 14,3 million); and for a foreign subsidiary (iv) the jurisdiction of its residency is not included in the list of countries and territories with beneficial tax treatment and/or which do not require the disclosure and provision of information when financial operations are carried out (so called “offshore zones”) to be adopted by the Russian Ministry of Finance.

As a result of the above changes, the effective tax rates on dividends received by holders of the Shares or the GDRs may be reduced.

Tax Treaty Procedures

The Russian Tax Code does not contain a requirement that a non-resident holder that is an organisation must obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident organisation seeking to obtain relief from Russian withholding tax under a tax treaty must provide to a tax agent (i.e. the entity paying income to a non-resident) a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

In the absence of such confirmation, during a tax audit the Russian tax authorities may dispute the non-resident’s eligibility for the double tax treaty relief and require the tax agent (i.e. the company paying dividends or the Russian purchaser of ordinary shares) to pay penalties and interest for the late payment.

In accordance with the Russian Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming his residency in the home country and also other supporting documentation including a statement confirming the income received and the tax paid in the home country, confirmed by the foreign tax authorities. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very

unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before any payments are made to individuals. A non-resident holder which is an individual may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received.

If a non-resident holder which is an organisation does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian tax agent, the non-resident holder may apply for a refund within three years from the end of the tax period (a calendar year) in which the tax was withheld. To process a claim for a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to combine requirements (i) and (ii) specified above and recommended for application). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in foreign language. The refund of the tax withheld should be granted within one month of the filing of the above set of documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to GDRs, due to separation of legal ownership and beneficial ownership to the Ordinary Shares underlying the GDRs. Thus, no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders.

Stamp Duties

No Russian stamp duty will be payable by the holders of Shares and GDRs upon carrying out of transactions with the Shares and GDRs as discussed in the Taxation section of this prospectus (i.e. on a purchase of the Shares and GDRs, sale of the Shares and GDRs, etc.).

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice as of the date of this prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the “UK Treaty”), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the Shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the UK for tax purposes;
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base in Russia with which the holding of the Shares or GDRs (and the payment of dividends in respect of the Shares or GDRs) is connected.

Such absolute beneficial owners of the Shares or GDRs are referred to in this discussion as “UK holders”.

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the Shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, investment companies, collective investment schemes, tax-exempt organisations or persons connected with us.

Further, the summary assumes that:

- a holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying Shares and to the dividends on those Shares;
- the UK holder acquires the Shares or GDRs as an initial investor in the Offering;
- the UK holder did not acquire and will not be deemed to have acquired his/her Shares or GDRs by virtue of an office or employment;

- the Shares will not be held by, and the GDRs will not be issued by, a depositary incorporated in the UK;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the Shares and/or voting power of NCSP;
- neither the Shares nor the GDRs are registered in a register kept in the UK, by or on behalf of NCSP, and they will not become so registered; and
- the Shares are not paired with the shares issued by a body corporate incorporated in the UK nor will they be so paired.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. You should satisfy yourself as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of the Shares or GDRs in your own particular circumstances, by consulting your own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax, as applicable, on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Russia.

Withholding Tax and Tax Credits

When NCSP pays dividends to UK holders, it generally must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See “—Russian Tax Considerations—Taxation of Dividends”. Under the UK Treaty, UK holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see “—Russian Tax Considerations—Taxation of Dividends—Non-Resident Holders” and “—Russian Tax Considerations—Taxation of Capital Gains—Non-Resident Holders” and “—Russian Tax Considerations—Tax Treaty Procedures” regarding, among other things, the procedures for obtaining relief at source or a refund, certain uncertainties relating thereto and the position that NCSP intends to take in respect of its obligation to withhold tax on dividends that it pays to the Depositary.

Any remaining Russian withholding tax may be allowed as a credit against the UK income or corporation tax liability, as applicable, of a UK holder depending on the circumstances but any excess of such Russian withholding tax over the UK tax payable on the aggregate amount of the dividend is not generally refundable. The amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under Russian domestic law and under the UK Treaty to minimise the amount of tax payable in the Russian Federation, including obtaining relief at source and any available refunds. See also “—Russian Tax Considerations”.

NCSP need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual Holders

For an individual UK holder who is liable to UK income tax on dividends at the dividend upper rate (currently 32.5%), UK income tax will be chargeable on the gross dividend with potential credit (as described above) for Russian tax deducted at source. For an individual UK holder who is liable to UK tax on the dividend at the dividend lower rate (currently 10%), any credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he will have no further UK income tax to pay.

Tax Liability for Corporate Shareholders

For a UK holder within the charge to UK corporation tax who is liable for UK corporation tax on the receipt of the gross dividend, UK corporation tax will be chargeable with potential credit for Russian tax deducted at source (as described above). In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Provision of Information

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, another person may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or GDRs may constitute “foreign dividends” for this purpose.

Taxation of Capital Gains

The disposal or deemed disposal of all or part of the Shares or GDRs held by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual UK holders who dispose of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK. Any gains or losses in respect of currency fluctuations over the period of holding the Shares or GDRs would also be brought into account on the disposal.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to UK capital gains tax are the extent to which they realise any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the “annual exemption”) and the level of available relief (if any).

The annual exemption for individuals is £9,200 for the 2007-2008 tax year.

A UK holder that is a company may be entitled to an indexation allowance that applies to reduce chargeable gains to the extent that (broadly speaking) they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create or increase any allowable loss.

As discussed in “Russian Tax Considerations—Taxation of Capital Gains”, certain capital gains may be subject to Russian tax. Credit against UK capital gains or corporation tax on the same gain may be available in respect of the Russian tax suffered, subject to the detailed UK tax law and practice regarding the availability and calculation of such credit.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty will be payable in the UK in connection with a transfer of the Shares provided that any instrument of transfer is executed outside the UK and does not relate to any property situated or to any matter or thing done or to be done in the UK.

No stamp duty reserve tax (“SDRT”) will be payable in the UK in respect of any agreement to transfer the Shares.

No ad valorem stamp duty or SDRT will arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of GDRs into a clearance service, such as DTC, Euroclear or Clearstream; or
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance Tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, Shares or GDRs where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance purposes, a transfer of assets at less than the full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Other UK Tax Considerations

The attention of individuals ordinarily resident in the UK is drawn to the provisions of Chapter 2 of Part 13 of the Income Tax Act 2007. These contain anti-avoidance provisions dealing with the transfer of assets to overseas persons in circumstances which may render such individuals liable to taxation in respect of undistributed profits of NCSP.

United States Federal Income Tax Considerations

The following summary of the taxation of the holders of Shares or GDRs sets forth the material US federal income tax considerations relating to the purchase, ownership and disposition of the Shares or GDRs by the purchasers in this offering.

The following legal discussion (including and subject to the matters and qualifications set forth in such discussion) of certain United States federal income tax considerations relies upon and is premised on the accuracy of the assumptions contained herein and the factual statements and representations made by NCSP and its representatives, concerning NCSP's business, properties, ownership, organisation, cash flows, source of income and manner of operations, including any forward looking statements, beliefs, intentions or expectations with respect to such. The tax treatment of a holder of Shares or GDRs, or of a person treated as a holder of Shares or GDRs for US federal income, state, local or non-US tax purposes, may vary depending on the holder's particular tax situation. Statements contained herein as to NCSP's beliefs, expectations, intended treatment and conditions represent the view of NCSP's management and do not represent the opinions of counsel.

THE UNITED STATES FEDERAL TAX ADVICE CONTAINED HEREIN IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE SHARES OR GDRS, AND IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING US FEDERAL TAX PENALTIES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR CIRCUMSTANCES CONCERNING THE US FEDERAL, STATE, LOCAL AND NON-US TAX CONSEQUENCES OF OWNING THE SHARES OR GDRS.

Taxation of US Persons Holding Shares or GDRs

Unless otherwise stated, this summary deals only with holders of Shares or GDRs that are US Persons (as defined below) who acquire their Shares or GDRs pursuant to this offering at the initial offering price and who hold their Shares or GDRs as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). The following discussion is a discussion of only the material US federal income tax matters as described herein and does not purport to address all of the US federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder's specific circumstances. In addition, the following summary does not address the US federal income tax consequences that may be relevant to special classes of holders of Shares or GDRs, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, dealers or traders in securities, tax-exempt organisations, expatriates, investors in pass-through entities, persons who are considered with respect to NCSP as "United States shareholders" for purposes of the controlled foreign corporation rules of the Code (generally, a US Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power of NCSP's equity (i.e., 10% US Shareholders)) or persons who hold their Shares or GDRs as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon current law under the Code, the Treasury Regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively and could affect the tax consequences to NCSP or holders of Shares or GDRs. There can be no assurances that the Internal Revenue Service or other taxing authority will not challenge one or more of the consequences discussed herein. This discussion does not include any description of the tax laws of any state or local governments within the United States or of any non-US government. Persons considering acquiring Shares or GDRs should consult their own tax advisors concerning the application of the US federal tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-US taxing jurisdiction prior to making such investment.

If a partnership (or other entity treated as a partnership for US federal income tax purposes) holds the Shares or GDRs, the tax treatment of the partners will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Shares or GDRs, you should consult your tax advisor.

For purposes of this discussion, the term "US Person" means: (i) a citizen or resident of the United States, (ii) a partnership or corporation created or organised in or under the laws of the United States or organised under the laws of any political subdivision thereof, (iii) an estate the income of which is subject to US federal income taxation regardless of its source, (iv) a trust if either (x) a court within the

United States is able to exercise primary supervision over the administration of such trust and one or more US Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a US Person for US federal income tax purposes or (v) any other person or entity that is treated for US federal income tax purposes as if it were one of the foregoing. A US Person, other than an entity treated as a partnership or other pass-through entity for US federal income tax purposes, that is the beneficial owner of a Share or GDR may be referred to herein as a “US Holder”.

Ownership of GDRs in General

For US federal income tax purposes, if you are a holder of GDRs, you generally will be treated as the owner of the Shares represented by such GDRs. As a consequence, no gain or loss will be recognised upon the exchange of Shares for GDRs or the exchange of GDRs for Shares.

Taxation of Distributions

Subject to the discussion below under “Passive Foreign Investment Companies,” distributions should constitute dividends for US federal income tax purposes to the extent paid out of NCSP’s current or accumulated earnings and profits (as computed using US federal income tax principles). Distributions in excess of NCSP’s current and accumulated earnings and profits will be treated first as a return of the US Person’s basis in the Shares or GDRs to the extent thereof and then as gain from the sale of a capital asset. NCSP does not intend to compute (or to provide US Persons with the information necessary to compute) earnings and profits under US federal income tax principles. Accordingly, US Persons should expect to treat distributions as dividends.

Dividends paid by NCSP to corporate holders will not be eligible for the dividends received deduction. We believe dividends paid by US before 2011 to non-corporate holders on the Shares or GDRs will be eligible for reduced rates of tax up to a maximum of 15% as qualified dividend income, provided that we are entitled to the benefits of the “US income tax treaty with the Russian Federation” or “US/Russian Treaty,” not characterised as a PFIC for US federal income tax purposes, and certain other requirements, including stock holding period requirements, are satisfied. Qualified dividend income is subject to tax at capital gain rates. We believe that we should be entitled to the benefits of the US/Russian Treaty and should not be characterised as a PFIC (as discussed below).

Dividends paid in Russian roubles will be included in the gross income of a US Person in a US dollar amount calculated by reference to the prevailing spot market exchange rate in effect on the date that the dividends are received by the US Person (in the case of Shares) or by the Depositary (in the case of GDRs), regardless of whether such roubles are in fact converted into US dollars on such date. If such dividends are converted into US dollars on the date of receipt, a US Holder generally should not be required to recognise foreign currency gain or loss in respect thereof.

A US Holder eligible for benefits under the US/Russian Treaty may be able to claim a reduced rate of Russian withholding tax. Each US Holder should consult its own tax advisor about its eligibility for reduction of Russian withholding tax. A US Holder may claim a deduction or a foreign tax credit, subject to other applicable limitations, only for tax withheld at the appropriate rate. A US holder should not be allowed a foreign tax credit for withholding tax for any portion of the tax that could have been avoided by claiming benefits under the US/Russian Treaty. See “—Russian Tax Considerations—Taxation of Dividends—Non-Resident Holders”. The rules relating to US foreign tax credits and the timing thereof are extremely complex. Accordingly, US Holders should consult their tax advisors with regard to the availability of a US foreign tax credit and the application of the US foreign tax credit limitations to their particular situations.

Distributions will be non-US source income for purposes of the Code and “passive” or general income for foreign tax credit limitation purposes, unless NCSP is determined to be engaged in a trade or business within the United States, in which case the distributions would be treated as arising from sources within the United States.

Dispositions of Shares or GDRs

Subject to the discussion below relating to the potential application of the PFIC rules, US Holders of Shares or GDRs generally should recognise capital gain or loss for US federal income tax purposes on the sale, exchange or other disposition of Shares or GDRs in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. In this regard, a US Person’s tax basis will

initially equal the amount paid for the Shares or GDRs. If the holding period for the Shares or GDRs exceeds one year, any gain should be subject to tax at a current maximum marginal tax rate of 35% for corporations and 15% for individuals and certain other non-corporate US Holders. Deductions for capital losses are subject to limitations.

A US Holder that receives currency other than the U.S. dollar on the sale or other disposition of Shares or GDRs will realise an amount equal to the US dollar value of such currency on the date of sale, or, in the case of cash basis and electing accrual basis taxpayers, the settlement date. A US Holder will have a tax basis in the currency received equal to the US dollar amount realised. Any gain or loss on a subsequent conversion of the non-US currency into US dollars for a different amount generally will be US source ordinary income or loss.

A US Holder eligible for benefits under the US/Russian Treaty may be exempt from Russian capital gains tax, provided 50% or more of the fixed assets of NCSP are not represented by immovable property located in Russia. Each US Holder should consult its own tax advisor about its eligibility for the exemption. Any gain or loss on the sale or disposition of the Shares or GDRs generally will be treated as arising from US sources. Consequently, in the case of a sale or disposition that is subject to tax in Russia, a US Holder's ability to use any foreign tax credits for Russian tax imposed on the sale may be limited. A US Holder will not be allowed a foreign tax credit for Russian capital gains tax if the holder could have avoided the tax by claiming benefits under the US/Russian Treaty.

Passive Foreign Investment Companies

In general, a non-US corporation will be a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" (the "75% test") or (ii) 50% or more of its assets produce (or are held for the production of) passive income (the "50% test"). For the above purposes, passive income generally includes interest, dividends, annuities, certain royalties and rents and other investment income. The PFIC provisions also contain a look-through rule under which a non-US corporation shall be treated as if it "received directly its proportionate share of the income ..." and as if it "held its proportionate share of the assets ..." of any other corporation in which it owns at least 25% of the value of the stock. Under the look-through rule, NCSP should be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of IPP, NLE Timber & Container Terminal, NSRZ Ship Repair Yard, NZT Grain Terminal and Baltic Stevedore for purposes of the 75% test and the 50% test. Based on NCSP's, and its subsidiaries, projected business activities, NCSP believes that it should not meet the 75% test or the 50% test for 2007 and the foreseeable future and that we should not be characterised as a PFIC for US federal income tax purposes for 2007 and the foreseeable future, however, we cannot assure that the IRS will not successfully conclude otherwise.

In general, if a non-US corporation is characterised as a PFIC during a given year, each US Person holding its shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their shares, unless such person has made a timely "qualified electing fund election" ("QEF election") or a mark to market election. NCSP does not expect to provide the information necessary for a US Person to make a QEF election. A US Holder can elect to mark the Shares or GDRs to market only if the Shares or GDRs are "marketable stock." The Shares or GDRs will be marketable stock only if they are traded (other than in de minimis quantities) on at least 15 days during each calendar quarter on a "qualified exchange." Any gain from marking the Shares or GDRs to market or from disposing of them is ordinary income. A US Holder can recognise loss from marking the Shares or GDRs to market, but only to the extent of its unreversed gains. Loss recognised from marking the Shares or GDRs to market is ordinary, but loss on disposing of them is capital loss except to the extent of unreversed gains. In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. For these purposes, gifts, exchanges pursuant to corporate reorganisations, and use of the Shares or GDRs as security for a loan may be treated as a taxable disposition. The interest charge is equal to the applicable rate imposed on underpayments of US federal income tax for such period.

Prospective investors in the Shares or GDRs are urged to consult their tax advisor as to the application and effects of the PFIC rules.

Backup Withholding and Information Reporting on Distributions and Dispositions

Information returns may be filed with the IRS in connection with distributions on the Shares or GDRs and the proceeds from a sale or other disposition of the Shares or GDRs unless the US Holder of the Shares or GDRs establishes an exemption from the information reporting rules. A US Holder of Shares or GDRs that does not establish such an exemption may be subject to US backup withholding tax on these payments if the holder is not a corporation or non-US Person or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a US Person should be allowed as a credit against the US Person's US federal income tax liability and may entitle the US Person to a refund, provided that the required information is timely furnished to the IRS.

Potential Changes to US Federal Tax Law

The US federal income tax laws and interpretations regarding whether a company is a PFIC, are subject to change, possibly on a retroactive basis. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. NCSP cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect. Prospective investors are urged to consult with their tax advisors.

PLAN OF DISTRIBUTION

The Offering consists of an offering of (i) of GDRs in the United States to QIBs, as defined in, and in reliance on, Rule 144A, and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S and (ii) of Shares in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

NCSP, the Selling Shareholder and the Joint Global Coordinators have entered into an underwriting agreement dated 2 November 2007 (the “Underwriting Agreement”) in respect of the Shares and the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Joint Global Coordinator has agreed, severally but not jointly, to purchase such number of Shares and GDRs as is set forth opposite its name in the following table.

<u>Joint Global Coordinator</u>	<u>Number of Shares (in the form of Shares and GDRs)</u>
Morgan Stanley & Co. International plc.	1,687,578,057
TD Investments Limited	1,687,578,057
Total	3,375,156,114

Approximately 28.5% of the Shares in the Offering (representing 5% of the Ordinary Shares outstanding), assuming no exercise of the Over-allotment Option, are being offered to JSC TransCreditBank, a Russian state-owned bank that has a significant business relationship with Russian Railways.

The GDRs will be represented by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate and will be subject to certain restrictions as further discussed in “Terms and Conditions of the Global Depositary Receipts.”

The offer price is US\$0.256 per Share and US\$19.20 per GDR. The Joint Global Coordinators will receive a combined underwriting, management and selling commission of 4% (which includes a discretionary commission) of the gross proceeds of the Offering, including in respect of the Over-allotment Option (if exercised).

The Selling Shareholder has also agreed to reimburse the Joint Global Coordinators for certain of their expenses in connection with the Offering. Including these expenses, the estimated expenses of the Selling Shareholder in relation to the Offering, other than the commission payable to the Joint Global Coordinators, are expected to be approximately US\$5.1 million.

In the Underwriting Agreement, we and the Selling Shareholder have made certain customary representations and warranties, including in relation to our business, the Shares and GDRs and the contents of this prospectus and, in the case of the Selling Shareholder, in relation to its title to the shares it is selling in the Offering. We and the Selling Shareholder have also agreed to provide customary indemnification to the several Joint Global Coordinators against certain liabilities, including liability under the Securities Act. If these indemnities are unenforceable, we and the Selling Shareholder have agreed, in customary form, to contribute to any payments that the Joint Global Coordinators are required to make in respect of the liabilities against which we and the Selling Shareholder have agreed to indemnify them.

The Joint Global Coordinators are offering the Shares and the GDRs, when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Shares and other conditions contained in the Underwriting Agreement, such as the receipt by the Joint Global Coordinators of officers’ certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the London Stock Exchange or certain other stock exchanges or a material adverse change in our financial condition or business, and on certain other conditions, the Joint Global Coordinators have the right, collectively but not individually, to withdraw from the Offering before delivery of Shares or GDRs and to terminate the Underwriting Agreement.

Over-allotment Option

The Selling Shareholder has granted the Joint Global Coordinators an Over-allotment Option, exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 356,717,250 Shares in the form of GDRs at the offer price, solely to cover over-allotments and/or short positions relating to stabilisation activities.

The Joint Global Coordinators may also sell GDRs in excess of the Over-allotment Option up to a maximum of 5% of the total number of GDRs being offered, creating a market short position. The Joint Global Coordinators must close out any such market position by purchasing Ordinary Shares in the open market.

Lock-up Arrangements

We and the Selling Shareholder have agreed, as part of the arrangements with the Joint Global Coordinators, for a period of 180 days after the Closing Date, subject to certain limited exceptions, not to issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of shares; or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether any such transaction described above is to be settled by delivery of shares or such other securities, in cash or otherwise. The foregoing undertaking shall not apply to the offer and sale of the Shares or GDRs pursuant to the Offering.

Stabilisation

In connection with the Offering, Morgan Stanley & Co. International plc (or any agent or other person acting for Morgan Stanley & Co. International plc), as stabilising manager, may over-allot or effect transactions intended to enable it to satisfy any over-allotments or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. However, neither Morgan Stanley & Co. International plc nor any such agents have any obligation to do so. Such stabilisation, if commenced, may begin on the date of announcement of the offer price and may be discontinued at any time, but in no event later than 30 days thereafter. Such transactions may be effected on the London Stock Exchange and any other securities market, over the counter market, stock exchange or otherwise. There is no assurance that such transactions will be undertaken and, except as required by law, Morgan Stanley & Co. International plc does not intend to disclose the extent of allotments and/or stabilisation transactions under the Offering.

Other Relationships

The Joint Global Coordinators and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with NCSP and/or the Selling Shareholder. They have received customary fees and commissions for these transactions and services.

In connection with the Offering, the Joint Global Coordinators and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Shares and GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of NCSP or other related investments in connection with the Offering or otherwise. Accordingly, references in this prospectus to the Shares and GDRs being offered, placed or otherwise dealt with should be read as including any offer or placing to, or dealing by, the Joint Global Coordinators or any of them and any of their affiliates acting as an investor for its or their own account(s). The Joint Global Coordinators do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, the Joint Global Coordinators may enter into financing agreements with investors, such as share swap arrangements or lending arrangements, that could result in the Joint Global Coordinators acquiring Shares or GDRs.

Selling Restrictions

No action has been taken or will be taken in any jurisdiction, that would permit a public offering of the Shares or GDRs in any country or jurisdiction where action for that purpose is required.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Shares and the GDRs are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that the Joint Global Coordinators may directly or through their respective US broker-dealer affiliates, arrange for the offer and resale of the Shares and GDRs within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Offering of the Shares and the GDRs, an offer or sale of Shares and GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Joint Global Coordinators has agreed that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply; and (ii) it has complied and will comply with all applicable provisions of the FSMA in respect of anything done by it in relation to the Shares or GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer to the public of any Shares or GDRs which are the subject of the Offering contemplated herein may not be made in that Relevant Member State, except that an offer of Shares and GDRs may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall result in a requirement for the publication by NCSP or the Selling Shareholder or any Joint Global Coordinator of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of any shares or GDRs to the public” in relation to any shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares or GDRs to be offered so as to enable an investor to decide to purchase any shares or GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

In the case of any Shares or GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares or GDRs acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any shares or GDRs to the public other than

their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale. NCSP, the Selling Shareholder, the Joint Global Coordinators and their affiliates, and others will rely (and NCSP and the Selling Shareholder each acknowledges that the Joint Global Coordinators and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements, and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators be permitted to subscribe for or purchase Shares or GDRs.

The Joint Global Coordinators may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

Russian Federation

Each of the Joint Global Coordinators has agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Joint Global Coordinators may distribute this prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of the GDRs and may sell the GDRs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined in Russian law).

General

No action has been or will be taken in any jurisdiction (other than Russia with respect to the Shares) that would permit a public offering of the Shares or the GDRs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, neither the Shares nor the GDRs may be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisement in connection with the Shares or the GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorised to give any information or to make any representation not contained in this prospectus, and, if given or made, such information representation must not be relied upon as having been authorised by NCSP or the Joint Global Coordinators. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in NCSP's affairs since the date hereof or that the information contained in this offering circular is correct as of a date after its date.

Other

The Joint Global Coordinators from time to time perform or may perform banking, investment banking and other financial services for NCSP and its affiliates for which the Joint Global Coordinators may receive customary advisory or transaction fees, as applicable, plus out-of-pocket expenses.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established with DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments in respect of book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants (including Euroclear and Clearstream) and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments in respect of book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—United States Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions in respect of book-entry interests in the GDRs, may be limited.

Registration and Form

The Master Rule 144A GDR and the Master Regulation S GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC.

The aggregate holdings of book-entry interests in the GDRs in DTC will be reflected in the book-entry accounts of DTC and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be

responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See “Terms and Conditions of the Global Depositary Receipts”.

Settlement and Delivery of Shares

Each purchaser of the Shares in the Offering is required to pay for any such Shares in US dollars or Russian roubles. In order to take delivery of the Shares, an investor should either have a direct account with our share registrar, OJSC “Registrar NIKoil”, or a deposit account with DCC or any other depositary that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the Shares through a direct account with our share registrar or through a share depositary account with a Russian-licensed depositary other than DCC or NDC. However, directly-held Shares are ineligible for trading on RTS. Only if the Shares are deposited with DCC (or through another depositary having an account at DCC) can they be traded on RTS and MICEX and only if the Shares are deposited with NDC (or through another depositary having an account in NDC) can they be traded on MICEX.

Global Clearance and Settlement Procedures

Initial Settlement

Ownership of interests in GDRs evidenced by the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate (together the “Master GDRs”) will be limited to DTC participants or persons who hold interests through DTC participants (including Euroclear and Clearstream). Ownership of such interests will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee, Cede & Co. (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of persons other than DTC participants). So long as Cede & Co. as nominee of DTC, is the registered owner or holder of the Master GDRs, Cede & Co., will be considered the sole legal owner of the GDRs evidenced by such security for all purposes under the Deposit Agreement and the GDRs. In addition, no owner of an interest in the GDRs evidenced by the Master GDRs will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the Deposit Agreement, and, if applicable, those of Euroclear and Clearstream).

Secondary Market Trading

Each purchaser of the Shares offered hereby in reliance on Rule 144A (“Rule 144A Shares”) will be deemed to have represented and agreed as follows:

- (1) The purchaser is (a) a QIB, (b) aware, and each beneficial owner of the Shares has been advised, that the sale of the Shares to it is being made in reliance on Rule 144A and (c) acquiring the Shares for its own account or for the account of a QIB; and
- (2) The purchaser understands that the Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (a)(i) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (b) in accordance with all applicable securities laws of the states of the United States. Such purchaser acknowledges that the Shares offered and sold in accordance with Rule 144A are “restricted securities” within the meaning of Rule 144A(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Shares.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see “Terms and Conditions of the Global Depositary Receipts—Transfer Restrictions” and “Plan of Distribution—Selling Restrictions”.

Trading between DTC Participants

Transfers between DTC participants will be effected through DTC. Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in GDRs evidenced by the Master GDRs to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.

Trading between Euroclear and Clearstream Account Holders

Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross Market Trading

Subject to compliance with the transfer restrictions applicable to the GDRs described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream accountholders, on the other, will be effected through DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the GDRs, as the case may be, and making or receiving payment in accordance with normal procedures for settlement applicable to DTC. Euroclear and Clearstream accountholders may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of the time zone differences, the securities of a Euroclear or Clearstream accountholder purchasing an interest in a security from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in such securities settled during such processing day will be reported to the relevant Euroclear or Clearstream accountholder on such day. Cash received in Euroclear or Clearstream as a result of sales of interest in securities by or through a Euroclear or Clearstream accountholder to a DTC participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised the Company that it will take any action permitted to be taken by a holder of GDRs only at the direction of one or more DTC participants to whose account or accounts with DTC interests in the GDRs evidenced by the Master GDRs are credited and only in respect of such portion of the number of GDRs, as to which such DTC participant or DTC participants has or have given such direction. Holders of indirect interests in securities evidenced by the Master GDRs through DTC participants have no direct rights to enforce such interests while the securities are in global form.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Joint Global Coordinators, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is JPMorgan Chase Bank, National Association, a national banking association, organized under the laws of the United States and with its main office in Columbus, United States of America. JPMorgan Chase Bank, National Association is the principal banking subsidiary of JPMorgan Chase & Co. The Depositary was organized as a national banking association under the National Bank Act on November 13, 2004. Previously, it had been a banking corporation incorporated under the Banking Law of New York. The Depositary is subject to the regulation of, and supervision by, the Office of the Comptroller of the Currency. The registered office of the Depositary is located at 1111 Polaris Parkway, Columbus, Ohio, United States of America. A copy of JPMorgan Chase & Co.'s by-laws, as amended, together with copies of the most recent consolidated reports of condition and income—FFIEC 031 (call reports) will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 270 Park Avenue, New York, New York 10017, United States of America.

LEGAL MATTERS

Certain legal matters with respect to the Offering will be passed upon for us by Dewey & LeBoeuf LLP, Moscow, Russian Federation, and Dewey & LeBoeuf, London, England. Certain matters of Russian law with respect to the Offering will be passed upon for us by Andrey Gorodissky & Partners, Moscow, Russian Federation. Certain legal matters with respect to the Offering will be passed upon for the Joint Global Coordinators by Linklaters LLP, London, England, and Linklaters CIS, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The financial statements of the Group as at and for the years ended 31 December 2004, 2005 and 2006, included in this prospectus, have been audited by ZAO Deloitte & Touche CIS, independent auditors, as stated in their reports, appearing herein (which (1) the report for the years ended 31 December 2005 and 2006 expresses an unqualified opinion and includes an explanatory paragraph relating to the restatement of the financial statements, as discussed in note 35 to the IFRS Annual Accounts and (2) the report for the year ended 31 December 2004 expresses a qualified opinion relating to the accounting of investments in common stock and includes an explanatory paragraph relating to the restatement of the financial statements, as discussed in note 22 to the US GAAP Annual Accounts).

ZAO Deloitte & Touche CIS has its registered office at Business Center “Mokhovaya”, 4/7 Vozdvizhenka St., Bldg.2, Moscow 125009, Russian Federation. ZAO Deloitte & Touche CIS is a member firm of the Institute of Professional Accountants of Russia (“IPAR”).

ZAO Deloitte & Touche CIS has given and not withdrawn its consent to the inclusion in this prospectus of its reports and references to them in the form and context in which they appear, and has authorised the contents of its reports for the purposes of paragraph 5.5.3R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004. ZAO Deloitte & Touche CIS has also accepted responsibility for such reports as part of the prospectus and declared that it has taken all reasonable care to ensure that the information contained in such reports is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import. As the Shares and GDRs have not been and will not be registered under the Securities Act, ZAO Deloitte & Touche CIS has not filed a consent under the Securities Act.

GENERAL INFORMATION

1. NCSP was incorporated as an open joint stock company under the laws of the Russian Federation on 11 December 1992. NCSP was registered with the Ministry of Taxes and Duties of the Russian Federation under the principal state registration number (OGRN) 1022302380638 on 26 August 2002. The principal legislation under which NCSP operates is the legislation of the Russian Federation, and the regulations and orders made thereunder. NCSP's main executive offices are located at, and its registered address is, Portovaya Street, 14, Novorossiysk, Krasnodar Region, 353901, Russian Federation. NCSP also has a representative office in Moscow located at Pokrovka 47A, Moscow, 105062, Russian Federation. NCSP's contact telephone number is +7 8617 604 631. NCSP's internet address is www.nmtp.info. Information posted on the websites of NCSP, its subsidiaries or any of their affiliates is not a part of this prospectus.
2. We have obtained all consents, approvals and authorisations in Russia in connection with the offer, sale and listing of the Shares and the GDRs. The offer of the Shares and the GDRs was authorised by the sole director of Kadina Limited on 12 October 2007 and by the sole shareholder of Kadina Limited on 16 October 2007, and the offer of the GDRs outside of the Russian Federation was approved by the FSFM on 11 October 2007 pursuant to the letter of the FSFM dated 16 October 2007 No. 07-B2-03/21083.
3. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate, to the Official List on or about 8 November 2007. Application has been made for the GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions in GDRs will normally be effected for delivery on the third working day after the day of the transaction.
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the registered offices of NCSP from the date of publication of this prospectus to the Admission:
 - this prospectus;
 - our charter;
 - the Deposit Agreement;
 - our unaudited IFRS condensed consolidated interim financial statements as at 30 June 2007 and for the six month periods ended 30 June 2007 and 2006;
 - our IFRS annual consolidated financial statements as at and for the years ended 31 December 2006 and 2005, together with the audit report relating thereto; and
 - our US GAAP annual consolidated financial statements as at and for the year ended 31 December 2004, together with the audit report relating thereto.
5. The GDRs are not denominated in any currency and have no nominal or par value. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in this Offering. The offer price was determined based on the results of the bookbuilding exercise conducted by the Joint Global Coordinators. The results of the Offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the Offering. This Offering is an institutional Offering only, in which payment for the GDRs by investors will be arranged with the Joint Global Coordinators.
6. There are no temporary documents of title issued in respect of the GDRs.
7. If definitive certificates are issued in exchange for the Master GDRs, we will appoint an agent in the United Kingdom.
8. From time to time we are involved in governmental, legal and arbitration proceedings arising in the ordinary course of business, resulting in damage awards, settlements or administrative sanctions including fines. However, there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which we are aware, during the twelve months preceding the date of this prospectus which may have, or have had in the recent past significant effects on us and/or our financial position or profitability.
9. There has been no significant change in the financial or trading position of the Group since 30 June 2007, the end of the last financial period for which financial information has been published, except for the following matters, which are set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments:"

- potential increases in maximum tariff rates we are permitted to charge, for certain services;
- completion of construction and commencement of trial operations of a new grain terminal operated by NZT Grain Terminal;
- completion of construction and commencement of operations of a new bunkering complex operated by IPP and sales by NCSP Fleet of diesel oil and fuel oil handled by the complex;
- NCSP's drawdown of the Facility, a US\$118.0 million syndicated term loan facility, and repayment of certain indebtedness under the Sberbank Loan Agreement with a portion of the proceeds of the Facility;
- renegotiation of the terms of several US dollar denominated loans from Sberbank to NCSP and its subsidiaries, as well as the related security packages; and
- renegotiation of our existing insurance agreement with OJSC Rossiya, including a reduction in the premium.

10. The following table sets forth the registered offices of our significant subsidiaries:

Group Company	Registered Office
NCSP Fleet	Mira Street 21 353900 Novorossiysk Krasnodar Region, Russia
NLE Timber & Container Terminal	Portovaya Street 6 353900 Novorossiysk Krasnodar Region, Russia
NSRZ Ship Repair Yard	Sukhumskoe Highway 353900, Novorossiysk Krasnodar Region, Russia
IPP	Magistralnaya Street 4 353900 Novorossiysk Krasnodar Region, Russia
Baltic Stevedore Co.	Nakhimova By-lane 15, 23600 Kaliningrad Kaliningrad Region, Russia
NZT Grain Terminal	Portovaya street 10 353900 Novorossiysk Krasnodar Region, Russia
Zarubezhneft	Mira Street 21 353900 Novorossiysk Krasnodar Region, Russia

11. Set forth below are summaries of each material contract, other than contracts entered into in the ordinary course of business, to which we are a party, for the two years immediately preceding publication of this prospectus, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by us, which contain any provisions under which we have any obligation or entitlement material to us at the date of this prospectus.

Agreements in Connection with the Offering

Underwriting Agreement

The Underwriting Agreement, dated 2 November 2007, between NCSP, the Selling Shareholder and the Joint Global Coordinators with respect to the Shares and GDRs being offered, as described in "Plan of Distribution".

Deposit Agreement

The Deposit Agreement, dated 13 September 2007, between NCSP and the Depositary, pursuant to which the Depositary acts as depositary for the Rule 144A GDRs and the Regulation S GDRs. See "Terms and Conditions of the Global Depositary Receipts".

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INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Condensed Consolidated Interim Financial Statements as at 30 June 2007 and for the six months ended 30 June 2007 and 2006 (unaudited)	
Condensed Consolidated Income Statements	F-2
Condensed Consolidated Balance Sheets.....	F-3
Condensed Consolidated Statements of Changes in Equity.....	F-4
Condensed Consolidated Statements of Cash Flows	F-5
Notes to the Condensed Consolidated Interim Financial Statements.....	F-6
Consolidated Financial Statements as at and for the years ended 31 December 2006 and 2005 (restated)	
Independent Auditors' Report.....	F-21
Consolidated Income Statements	F-22
Consolidated Balance Sheets	F-23
Consolidated Statements of Changes in Equity	F-24
Consolidated Statements of Cash Flows	F-25
Notes to the Audited Consolidated Financial Statements	F-26
Consolidated Financial Statements as at and for the year ended 31 December 2004 (restated)	
Independent Auditors' Report.....	F-67
Consolidated Balance Sheet.....	F-68
Consolidated Statement of Operations and Comprehensive Income	F-69
Consolidated Statement of Changes in Shareholders' Equity	F-70
Consolidated Statement of Cash Flows	F-71
Notes to the Audited Consolidated Financial Statements	F-72

**PUBLIC JOINT STOCK COMPANY
NOVOROSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars, except earnings per share)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenue	3	197,932	98,032
Cost of services	4	(111,595)	(52,934)
Gross profit		86,337	45,098
Selling, general and administrative expenses	5	(30,565)	(11,362)
OPERATING PROFIT		55,772	33,736
Share of profit of associates		—	3,011
Investment income		432	3,015
Finance costs	6	(24,313)	(1,699)
Other income/(expenses), net	7	6,311	(9,416)
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	17	2,890	607
PROFIT BEFORE INCOME TAX		41,092	29,254
INCOME TAX	8	(12,549)	(6,915)
PROFIT FOR THE PERIOD		28,543	22,339
Attributable to:			
Equity shareholders		28,133	22,339
Minority interest		410	—
		28,543	22,339
Weighted average number of common shares outstanding		19,140,154,250	19,159,457,580
Earnings per share, basic and diluted (US Dollars)		0.0015	0.0012

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS
AT 30 JUNE 2007 (UNAUDITED) AND 31 DECEMBER 2006
(in thousands of US Dollars)**

	<u>Notes</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	693,634	664,166
Goodwill		465,969	456,856
Mooring rights and other intangible assets		14,003	14,195
Investments in securities and other financial assets		13,109	12,903
Non-current VAT recoverable		8,281	11,095
Spare parts		5,899	4,840
Deferred tax assets		1,039	580
		<u>1,201,934</u>	<u>1,164,635</u>
CURRENT ASSETS:			
Inventories	11	7,347	6,581
Trade and other receivables, net	12	59,405	65,155
Investments in securities and other financial assets		3,297	23,470
Cash and cash equivalents	13	50,619	37,037
		<u>120,668</u>	<u>132,243</u>
TOTAL ASSETS		<u>1,322,602</u>	<u>1,296,878</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	14	10,469	10,366
Share premium	14	9,867	—
Foreign currency translation reserves		44,810	32,533
Retained earnings		566,172	569,024
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		631,318	611,923
MINORITY INTEREST		37,399	41,734
TOTAL EQUITY		<u>668,717</u>	<u>653,657</u>
NON-CURRENT LIABILITIES:			
Long-term debt	15	516,920	482,297
Retirement benefit obligation		7,587	6,451
Deferred tax liabilities		70,708	68,252
		<u>595,215</u>	<u>557,000</u>
CURRENT LIABILITIES:			
Trade payables		12,495	7,086
Short-term debt	15	16,498	60,400
Other payables and accruals	16	29,677	18,735
		<u>58,670</u>	<u>86,221</u>
TOTAL EQUITY AND LIABILITIES		<u>1,322,602</u>	<u>1,296,878</u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

	Note	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2006		10,464	—	(18,200)	543,884	536,148	—	536,148
Profit for the period		—	—	—	22,339	22,339	—	22,339
Dividends and distributions	9	—	—	—	(10,437)	(10,437)	—	(10,437)
Minority interest acquired		—	—	—	—	—	40,074	40,074
Buy back of ordinary shares	14	(71)	—	—	(5,131)	(5,202)	—	(5,202)
Effect of translation into presentation currency		—	—	39,146	—	39,146	—	39,146
Balance at 30 June 2006		10,393	—	20,946	550,655	581,994	40,074	622,068
Balance at 1 January 2007		10,366	—	32,533	569,024	611,923	41,734	653,657
Profit for the period		—	—	—	28,133	28,133	410	28,543
Dividends and distributions	9	—	—	—	(11,076)	(11,076)	—	(11,076)
Purchase of non-controlling minority interest		—	—	—	(19,117)	(19,117)	(5,525)	(24,642)
Buy-back of ordinary shares	14	(10)	—	—	(792)	(802)	—	(802)
Reissuance of treasury stock		113	9,867	—	—	9,980	—	9,980
Effect of translation into presentation currency		—	—	12,277	—	12,277	780	13,057
Balance at 30 June 2007		10,469	9,867	44,810	566,172	631,318	37,399	668,717

F-4

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Cash flows from operating activities			
Cash generated from operations		92,130	46,189
Income tax paid		(14,690)	(9,242)
Interest paid		(18,411)	(1,699)
Net cash generated by operating activities		59,029	35,248
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		618	262
Payments for property, plant and equipment		(28,805)	(2,037)
Acquisition of subsidiaries, net of cash acquired		(31,096)	(449,871)
Proceeds from disposal of securities and other financial assets		—	37,602
Payments for securities and other financial assets		50	—
Proceeds from disposal of short-term investments		20,431	—
Purchases of short-term investments		—	(15,947)
Net cash used in investing activities		(38,802)	(429,991)
Cash flows from financing activities			
Proceeds from long-term borrowings		207,786	559,498
Repayments of long-term borrowings		(217,138)	(130,920)
Proceeds from short-term borrowings		631	—
Repayments of short-term borrowings		(2,858)	—
Buy-back of ordinary shares		(802)	—
Proceeds from sale of treasury stock		9,970	—
Repayments of obligations under finance leases		753	—
Net cash (used in)/generated by financing activities		(1,658)	428,578
Net increase in cash and cash equivalents		18,569	33,835
Cash and cash equivalents at the beginning of the period		37,037	43,915
Effect of exchange rate changes on cash and cash equivalents		(4,987)	3,542
Cash and cash equivalents at the end of the period		50,619	81,292

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

1. GENERAL

Organisation

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 services 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 (see Note 17). The principal activities and entities of the Group as of 30 June 2007 were as follows:

Subsidiaries by country of incorporation	Nature of business
<i>Russian Federation</i>	
OJSC IPP	Stevedoring and storage
PJSC Fleet of Novorossiysk Commercial Sea Port	Tug & bunkering services
OJSC Novorossiysk Shipyard	Stevedoring & marine vessels repairs
OJSC Novorossiysk Export	Stevedoring and storage
PJSC Novorossiysk Grain Terminal	Stevedoring and storage
PJSC TPS	Consulting services
LLC Baltic stevedores company	Stevedoring and storage
LLC Kuban security services	Security services
OJSC NPK Zarubezhneft	Owns land for future construction of transshipping terminals
<i>Cayman Islands</i>	
NR Air Ltd.	Transportation services

Novorossiysk Port Capital S.A. (“Novorossiysk Capital”) was created as a special purpose entity during the six months ended 30 June 2007 and was used as a vehicle for the issuance of loan participation notes on the Irish Stock Exchange.

Russian companies of the Group 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, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysk 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

Open Joint Stock Company Novorossiysk Shipyard ("Shipyard")

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

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 nonferrous metals. It engages in all year-round cargo operations.

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.

Baltic Stevedore Company LLC ("Baltic Stevedore")

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

Statement of compliance

The condensed consolidated interim financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements as of and for the year ended 31 December 2006 and in compliance with the requirements of International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These financial statements do not include all of the information required for disclosure in annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements at and for the year ended 31 December 2006. These financial statements reflect all adjustments (consisting of normal recurring adjustments), which are, in the opinion of Group management, necessary to fairly state the results of interim periods. Interim results are not necessarily indicative of results to be expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2006.

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 United States of America Dollar ("USD" or "US Dollar"). The functional currency reflects the economic substance of the underlying events and transactions of each entity's respective operations.

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

Rates of exchange

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

	<u>30 June 2007</u>	<u>31 December 2006</u>
Period-end rates		
RUR/1 US Dollar	25.8162	26.3311
	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Average rates for the period		
RUR/1 US Dollar	26.0827	27.6799

3. REVENUE

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Stevedore services (including bunkering services)	165,708	91,505
Fleet services	23,295	—
Other	8,929	6,527
Total	<u>197,932</u>	<u>98,032</u>

During the six months ended 30 June 2007, fleet services were provided by companies which became subsidiaries of the Group as a result of acquisitions on 14 June 2006.

4. COST OF SERVICES

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Payroll	30,625	14,396
Fuel	24,119	1,192
Depreciation	22,398	13,217
Insurance	10,620	7,597
Unified social tax	6,139	3,238
Repairs and maintenance	5,544	2,642
Raw materials	4,024	2,809
Rent	2,692	3,536
Energy and utilities	2,292	844
Subcontractors	1,155	744
Change in allowance for slow-moving inventories	265	2,231
Other	1,722	488
Total	<u>111,595</u>	<u>52,934</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2007	Six months ended 30 June 2006
Payroll	10,661	3,159
Taxes other than income tax	4,140	1,687
Charity	2,127	1,030
Depreciation and amortisation	2,089	248
Transport	1,669	1,620
Unified social tax	1,452	328
Advertising	1,329	210
Rent	1,304	396
Bank charges	1,238	555
Security services	817	1,063
Representative expenses	721	122
Repairs and maintenance	656	167
Raw materials	482	89
Information technology and communication services	342	108
Change in allowance for doubtful receivables	326	182
Insurance	174	1
Energy and utilities	148	145
Other expenses	890	252
Total	30,565	11,362

6. FINANCE COSTS

	Six months ended 30 June 2007	Six months ended 30 June 2006
Interest on borrowings	19,943	1,699
Loss on early repayment of debt	4,347	—
Other	23	—
Total	24,313	1,699

Upon acquisition of PJSC Novorossiysk Grain Terminal and Timber Export in June 2006, the Group acquired long-term loans at interest rates lower than market rates. In the purchase price allocation, those loans were recorded at fair value, which was determined using market interest rates. During the six months ended 30 June 2007, the Group repaid the majority of those loans which resulted in a loss of 4,347.

**PUBLIC JOINT STOCK COMPANY
NOVOROSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

7. OTHER INCOME/(EXPENSES), NET

	Six months ended 30 June 2007	Six months ended 30 June 2006
Foreign exchange gain/(loss)	9,408	(7,590)
Loss on disposal of property, plant and equipment	(1,832)	(2,192)
Gain on disposal of shares of Investsberbank and PFS	—	1,005
Other expenses, net	<u>(1,265)</u>	<u>(639)</u>
Total	<u>6,311</u>	<u>(9,416)</u>

8. INCOME TAX

	Six months ended 30 June 2007	Six months ended 30 June 2006
Current tax expense	14,757	8,787
Deferred tax benefit	<u>(2,208)</u>	<u>(1,872)</u>
Total	<u>12,549</u>	<u>6,915</u>

9. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2007 and 2006 were 11,076 and 10,437, respectively. The Group did not paid dividends during the six month periods ended 30 June 2007 and 2006.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Marine vessels</u>	<u>Aircraft</u>	<u>Vehicles</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost									
1 January 2007	8,432	248,269	189,436	76,528	24,827	8,376	64,443	111,047	731,358
Acquisition of subsidiaries	13,019	—	—	—	—	6	3	361	13,389
Additions	—	4,688	3,816	—	—	2,963	3,721	16,074	31,262
Disposals	—	(2,079)	(397)	(1,643)	—	(262)	(559)	—	(4,940)
Effect of translation into presentation currency	<u>168</u>	<u>4,922</u>	<u>3,767</u>	<u>1,509</u>	<u>495</u>	<u>165</u>	<u>1,263</u>	<u>2,215</u>	<u>14,504</u>
30 June 2007	21,619	255,800	196,622	76,394	25,322	11,248	68,871	129,697	785,573
Accumulated depreciation									
1 January 2007	—	(12,430)	(36,995)	(9,170)	(828)	(1,150)	(6,619)	—	(67,192)
Depreciation charge	—	(6,213)	(10,473)	(2,506)	(835)	(626)	(3,012)	—	(23,665)
Disposals	—	38	182	183	—	21	75	—	499
Effect of translation into presentation currency	<u>—</u>	<u>(313)</u>	<u>(843)</u>	<u>(207)</u>	<u>(25)</u>	<u>(30)</u>	<u>(163)</u>	<u>—</u>	<u>(1,581)</u>
30 June 2007	—	(18,918)	(48,129)	(11,700)	(1,688)	(1,785)	(9,719)	—	(91,939)
Net book value									
1 January 2007	8,432	235,839	152,441	67,358	23,999	7,226	57,824	111,047	664,166
30 June 2007	21,619	236,882	148,493	64,694	23,634	9,463	59,152	129,697	693,634

At 30 June 2007, construction in progress included 19,824 (31 December 2006: 28,981) of advances paid for property, plant and equipment. Plant and equipment with carrying value of 85,353 were pledged to secure bank overdrafts and loans granted to the Group (Note 15).

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

11. INVENTORIES

	30 June 2007	31 December 2006
Raw materials and low value items	7,109	7,088
Goods for resale	1,803	913
Fuel	1,126	1,084
Other	159	151
Less: allowance for slow-moving inventories	(2,850)	(2,655)
Total	<u>7,347</u>	<u>6,581</u>

12. TRADE AND OTHER RECEIVABLES, NET

	30 June 2007	31 December 2006
Trade accounts receivable	20,762	18,803
VAT recoverable	15,959	24,480
Taxes receivable	10,258	13,320
Advances to suppliers	7,623	4,555
Other receivables and prepayments	6,471	5,504
Less: allowance for doubtful debt	(1,668)	(1,507)
Total:	<u>59,405</u>	<u>65,155</u>

13. CASH AND CASH EQUIVALENTS

	30 June 2007	31 December 2006
Current accounts in RUR	21,958	15,464
Current accounts in USD	17,497	20,539
Bank deposits in USD	11,157	1,029
Cash in hand	7	5
Total	<u>50,619</u>	<u>37,037</u>

Bank deposits at 30 June 2007 mainly represent two deposits amounting to 11,078 with Investsberbank with 5.0% and 5.5% interest and original maturities of 30 July 2007 and 28 August 2007, respectively.

Current accounts in USD as of 30 June 2007 and 31 December 2006 included 5,800 of cash to guarantee a letter of credit. 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.

14. SHARE CAPITAL

The share capital of the Group is contributed by shareholders in RUR and consists of 19,259,815,400 shares authorised, issued and outstanding with a par value of USD 0.000375. 9,629,907,701 (50% plus 1 share) are pledged as a collateral under the loan agreement with Sberbank (Note 15). Authorised share capital at par is 7,213.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

At 30 June 2007 the outstanding share capital of the Group was 10,469 (31 December 2006: 10,366). During the six months ended 30 June 2007, the Group repurchased its own shares at par value of 10 and sold all of its treasury shares for 9,980 creating share premium in amount of 9,867.

15. DEBT

	<u>Interest rate</u>	<u>Maturity date</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
Long-term				
<i>Unsecured bond issue:</i>				
Loan Participation Notes	7%	May 2012	296,014	—
<i>Secured bank loans:</i>				
Sberbank (USD)	8.8 – 9.2%	June 2009	117,692	388,000
Sberbank (USD)	9.5%	August 2011	28,689	21,903
Sberbank (USD)	9.2%	November 2010	26,747	17,400
Sberbank (USD)	8.8%	June 2010	13,924	13,924
Sberbank (USD)	8.8%	March 2010	6,350	—
Sberbank (USD)	9.2%	July 2011	6,268	7,173
Sberbank (USD)	8.8%	December 2009	4,410	5,040
Sberbank (USD)	8.8 – 9.2%	December 2011	4,300	4,300
IMB (USD)	8.95%	September 2011	3,025	3,025
Sberbank (USD)	9.2%	September 2011	2,888	2,076
Sberbank (USD)	9.5%	August 2011	1,700	1,700
Sberbank (USD)	8.8 – 9.2%	December 2011	1,685	1,685
Other loans from related parties	0.5 – 6.0%	February 2012	3,189	14,146
Other			39	1,925
Total long-term			<u>516,920</u>	<u>482,297</u>
Short-term				
Current portion of long-term loans			14,201	57,551
Short-term loans from related parties			431	2,094
Other			634	227
Current portion of finance lease liability			1,232	528
Total short-term			<u>16,498</u>	<u>60,400</u>
Total debt			<u>533,418</u>	<u>542,697</u>

On 17 May 2007 Loan Participation Notes were issued by the Group for 300,000 bearing 7% per annum (7.27% effective interest rate) which mature on 17 May 2012. Interest is paid semi-annually in arrears on 17 May and 17 November, commencing 17 November 2007. The Notes were admitted to the official Irish Stock Exchange listing.

The Loan Participation Notes are subject to provisions, including representations and warranties, covenants, undertakings and events of default, including change of control,

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

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.

On 14 June 2006, the Group entered into a non-revolving loan agreement with Sberbank, a state-owned company, (the "Sberbank Loan Agreement"). This agreement provided the Group with a non-revolving credit line in the aggregate amount of 450,000. The loan is due in full on 11 June 2009 unless extended in accordance with its terms until 11 June 2013.

The loan carries an annual interest rate of 8.8% or 9.2% depending upon whether the Group achieves certain stated average monthly current account turnover. Increases in the interest rate become effective 30 days after the Group notifies Sberbank of its prior quarter's average monthly current account turnover, and the Group retains the ability to prepay the entire unpaid principal and accrued interest within such 30 day period based on the interest rate in effect prior to the notified increase. To date, the loan has accrued interest at 8.8% without any increase. The loan agreement also provides for a default interest rate of 14% per annum above the interest rate then in effect for any amounts due and unpaid.

As collateral for its obligations under the Sberbank loan agreement, the Group pledged all of its shares in Novorossiysk Shipyard, Timber Export, Fleet, IPP and Grain Terminal and also its shareholders pledged 50% plus 1 share of the shares of NCSP.

The number of pledged shares, and the percentage of each company's share capital represented by the pledged shares is stated below:

<u>Subsidiary</u>	<u>Number of shares</u>	<u>Share of share capital</u>
Fleet	8,289,492	51.55%
Grain Terminal	2,999,655	99.99%
Timber Export	2,322,579	75.01%
IPP	10,303	50.01%
Novorossiysk Shipyard	2,166,460 (common shares)	50.02%
	948,749 (preferred shares)	

The rest of Group debt is secured by property, plant and equipment. At 30 June 2007 and 31 December 2006, property, plant and equipment with a carrying value of 85,353 and 120,932, respectively, were pledged to secure bank overdrafts and loans granted to the Group.

The Group borrowings are denominated in the following currencies:

	<u>30 June 2007</u>	<u>31 December 2006</u>
Russian Roubles	943	563
US Dollars	532,475	542,134
Total	533,418	542,697

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

The Group borrowings are repayable as follows:

	30 June 2007	31 December 2006
Within 1 year	16,498	60,400
Within 2-3 years	181,068	445,522
Within 3-6 years	335,852	36,775
Total	533,418	542,697

16. OTHER PAYABLES AND ACCRUALS

	30 June 2007	31 December 2006
Dividends payable	10,853	644
Payroll accruals	7,588	5,966
Taxes payable	5,482	3,725
Advances received from customers	3,264	3,293
Other accounts payable	2,490	5,107
Total	29,677	18,735

17. ACQUISITIONS

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	13,389
Trade receivables	542
Cash and cash equivalents	2
Short-term debt	(1,468)
Other payables and accruals	(272)
Deferred tax	(2,849)
Net assets	9,344
Excess of the Group's interest in the fair value of the acquiree's net assets over cost	(2,890)
Purchase price	6,454
Settled in cash	(6,456)
Cash acquired	2
Net cash outflow on acquisition	(6,454)

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 condensed consolidated interim financial statements of the Group.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

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 USD 24,642, 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 36,711. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 5,525. Excess of consideration paid over the Group's share in net assets acquired in the amount of 19,117 was recognised in the statement of changes in equity as a decrease of retained earnings.

18. 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 Group and its 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.

The Group's ultimate beneficiaries are 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.

Significant balances and transactions with state-controlled entities are considered transactions with related parties and are disclosed below.

Material balances with related parties were as follows:

	30 June 2007	31 December 2006
<i>Loans from related parties</i>		
Long-term		
Entities under common control ^(a)	—	4,702
Sberbank	214,653	463,201
Other related parties	<u>3,189</u>	<u>9,444</u>
	<u>217,842</u>	<u>477,347</u>
Short-term		
Entities under common control ^(a)	—	680
Sberbank	11,263	57,318
Other related parties	<u>431</u>	<u>1,359</u>
	<u>11,694</u>	<u>59,357</u>
<i>Short-term loans to related parties</i>		
Entities under common control ^(a)	—	21,285
Sberbank	518	—
Other related parties	<u>388</u>	<u>—</u>
	<u>906</u>	<u>21,285</u>
<i>Cash and cash equivalents</i>		
Sberbank	22,530	17,128

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

Material transactions with related parties were as follows:

	Six months ended 30 June 2007	Six months ended 30 June 2006
<i>Sales</i>		
Military divisions	1,231	—
Russian Railways	32	11
Transneft	2,278	3,900
Other related parties	—	2,967
	<u>3,541</u>	<u>6,878</u>
<i>Interest on borrowings</i>		
Sberbank	19,802	1,698
Other related parties	141	—
	<u>19,943</u>	<u>1,698</u>

Other related parties represent affiliates of the ultimate beneficiaries and companies which became subsidiaries as a result of acquisition in June 2006.

Compensation of key management personnel

For the six months ended 30 June 2007 and 2006 the remuneration of the directors and other members of key management was 63 and 1,092, respectively.

The remuneration of directors and key executives is determined by the Board of Directors based on the performance of individuals and market trends.

19. 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 676 and penalty fees of 486 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 on 14 November 2007.

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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

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 estimate total unprovided amount of possible tax risks to be approximately 716.

Environmental matters

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

Insurance

As of 30 June 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 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 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 Group does not have an option to purchase the land or mooring installations at the expiry of the lease period. Non-cancellable operating leases with initial terms in excess of one year are as follows:

	<u>30 June 2007</u>
2007	1,738
2008	3,477
2009	3,477
2010	3,197
2011	3,147
Thereafter	<u>90,076</u>
Total	<u>105,112</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 AND 2006 (UNAUDITED)**
(in thousands of US Dollars)

20. CAPITAL COMMITMENTS

At 30 June 2007, the Group had the following capital commitments to purchase items which will increase the transshipment capacities:

	<u>30 June 2007</u>
Commitments for acquisition of property, plant and equipment and construction works:	
NCSP	87,652
Timber Export	25,096
Grain Terminal	5,670
IPP	1,265
Shipyard	<u>1,012</u>
Total	<u>120,695</u>

21. EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of approval of the condensed consolidation financial statements the Group raised additional 10,011 of long-term debt under existing loan agreements with Sberbank. In July 2007, the Group also refinanced the non-revolving loan with Sberbank of 118,000 with a syndicated loan provided by CJSC International Moscow Bank and Bank Austria Creditanstalt AG which matures on 17 July 2010 and accrues interest at LIBOR + 1.6%. This refinancing led to the release of all pledged shares under the Sberbank Loan Agreement (Note 15).

The following changes in interest rates occurred up to the date of approval of the condensed consolidated financial statements:

<u>Secured bank loans</u>	<u>Maturity date</u>	<u>30 June 2007</u>	<u>Interest rate at 30 June 2007</u>	<u>Interest rate after 1 July 2007</u>
Sberbank (USD)	03.08.2011	28,689	9.5%	8.2%
Sberbank (USD)	09.11.2010	26,747	9.2%	8.2%
Sberbank (USD)	04.06.2010	13,924	8.8%	8.2%
Sberbank (USD)	25.03.2010	6,350	8.8%	8.0%
Sberbank (USD)	11.07.2011	6,268	9.2%	8.2%
Sberbank (USD)	23.12.2009	4,410	8.8%	8.0%
Sberbank (USD)	09.09.2011	2,888	9.2%	8.2%
Sberbank (USD)	02.08.2011	1,700	9.5%	8.2%

On 1 July 2007, the Group signed the addendum to the existing insurance agreement with OJSC Russia. Based on the terms of this addendum the 2007 annual insurance premium was decreased from 16,269 to 8,565. During the six months ended 30 June 2007, insurance premium was accrued based on the insurance agreement effective during the period.

During July and August 2007 according to the amendments to the pledge agreements property, plant and equipment with carrying value of 25,998 was released from the pledge.

On 11 October 2007, the FSFM approved the placement and circulation of up to 3,909,742,526 Ordinary Shares of NCSP, representing 20.3% of all Ordinary Shares in the form of GDRs.

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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 (collectively, the "Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated income statements, the consolidated statements of changes in equity and cash flow statements for the years 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 consolidated 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.

Auditors' 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 auditors' 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 respects, the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries as of 31 December 2006 and 2005, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

As discussed in Note 35, the accompanying consolidated financial statements for the years ended 31 December 2006 and 2005 have been restated.

/s/ ZAO Deloitte & Touche CIS

16 October 2007
Moscow, Russia

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars, except earnings per share)

	Notes	Year ended 31 December 2006 (As restated, see Note 35)	Year ended 31 December 2005 (As restated, see Note 35)
Revenue	6	277,277	189,246
Cost of services	7	(172,897)	(101,997)
Gross profit		104,380	87,249
Selling, general and administrative expenses	8	(33,979)	(20,540)
OPERATING PROFIT		70,401	66,709
Share of profit of associates	18	3,065	2,500
Investment income	9	4,542	6,906
Finance costs	10	(22,703)	—
Other income, net	11	1,813	2,099
Excess of Group's interest in the fair value of acquired companies' net assets over cost	28	618	—
PROFIT BEFORE INCOME TAX		57,736	78,214
INCOME TAX	12	(13,647)	(20,935)
PROFIT FOR THE YEAR		44,089	57,279
Attributable to:			
Equity shareholders		44,469	57,279
Minority interest		(380)	—
		44,089	57,279
Earnings per share			
Basic and diluted (US Dollars)	14	0.0023	0.0030

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2006 AND 2005 (RESTATED)
(in thousands of US Dollars)**

	<u>Notes</u>	<u>31 December 2006 (As restated, see Note 35)</u>	<u>31 December 2005 (As restated, see Note 35)</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	15	664,166	334,343
Goodwill	16	456,856	—
Mooring rights and other intangible assets	17	14,195	489
Investments in associates	18	—	57,326
Investments in securities and other financial assets	19	12,903	38,123
Non-current VAT recoverable		11,095	7,817
Spare parts		4,840	3,544
Deferred tax assets	12	580	—
		<u>1,164,635</u>	<u>441,642</u>
CURRENT ASSETS:			
Inventories	20	6,581	3,362
Trade and other receivables, net	21	65,155	23,969
Investments in securities and other financial assets	19	23,470	76,607
Cash and cash equivalents	22	37,037	43,915
		<u>132,243</u>	<u>147,853</u>
TOTAL ASSETS		<u>1,296,878</u>	<u>589,495</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	23	10,366	10,464
Foreign currency translation reserve		32,533	(18,200)
Retained earnings		<u>569,024</u>	<u>543,884</u>
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		611,923	536,148
MINORITY INTEREST		<u>41,734</u>	<u>—</u>
TOTAL EQUITY		<u>653,657</u>	<u>536,148</u>
NON-CURRENT LIABILITIES:			
Long-term debt	24	482,297	500
Deferred tax liabilities	12	68,252	41,274
Retirement benefit obligation	25	<u>6,451</u>	<u>2,508</u>
		<u>557,000</u>	<u>44,282</u>
CURRENT LIABILITIES:			
Short-term debt	24	60,400	284
Trade payables		7,086	131
Other payables and accruals	26	<u>18,735</u>	<u>8,650</u>
		<u>86,221</u>	<u>9,065</u>
TOTAL EQUITY AND LIABILITIES		<u>1,296,878</u>	<u>589,495</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

	Note	Share capital	Foreign currency translation reserve	Retained earnings	Attributable to shareholders of the parent	Minority interest	Total
Balance at 1 January 2005 – as previously reported		<u>10,464</u>	<u>—</u>	<u>498,860</u>	<u>509,324</u>	<u>—</u>	<u>509,324</u>
Prior period adjustments (See Note 35)	35	—	—	(2,218)	(2,218)	—	(2,218)
Balance at 1 January 2005 – as restated		<u>10,464</u>	<u>—</u>	<u>496,642</u>	<u>507,106</u>	<u>—</u>	<u>507,106</u>
Profit for the year		—	—	57,279	57,279	—	57,279
Dividends	13	—	—	(10,037)	(10,037)	—	(10,037)
Effect of translation into presentation currency		—	(18,200)	—	(18,200)	—	(18,200)
Balance at 31 December 2005 – as restated		<u>10,464</u>	<u>(18,200)</u>	<u>543,884</u>	<u>536,148</u>	<u>—</u>	<u>536,148</u>
Profit for the year		—	—	44,469	44,469	(380)	44,089
Dividends	13	—	—	(10,624)	(10,624)	—	(10,624)
Minority interest acquired	28	—	—	—	—	40,793	40,793
Buy-back of ordinary shares	23	(98)	—	(8,705)	(8,803)	—	(8,803)
Effect of translation into presentation currency		—	50,733	—	50,733	1,321	52,054
Balance at 31 December 2006 – as restated		<u>10,366</u>	<u>32,533</u>	<u>569,024</u>	<u>611,923</u>	<u>41,734</u>	<u>653,657</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

	Notes	Year ended 31 December 2006 (As restated, see Note 35)	Year ended 31 December 2005 (As restated, see Note 35)
Cash flows from operating activities			
Cash generated from operations	27	122,942	102,670
Income tax paid		(18,770)	(24,272)
Interest paid		(21,316)	—
Net cash generated by operating activities		82,856	78,398
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		1,715	311
Payments for property, plant and equipment		(99,812)	(15,659)
Proceeds from disposal of securities and other financial assets		34,593	3,743
Acquisitions of subsidiaries, net of cash acquired		(537,610)	(28,454)
Proceeds from disposal of short-term investments		61,183	—
Purchases of short-term investments		—	(57,263)
Net cash used in investing activities		(539,931)	(97,322)
Cash flows from financing activities			
Proceeds from long-term borrowings		519,964	499
Repayments of long-term borrowings		(48,936)	—
Proceeds from short-term borrowings		1,043	—
Repayments of short-term borrowings		(11,382)	(459)
Dividends paid		(10,205)	(10,035)
Treasury shares purchased		(3,507)	—
Repayments of obligations under finance leases		(521)	—
Net cash from/(used in) financing activities		446,456	(9,995)
Net decrease in cash and cash equivalents		(10,619)	(28,919)
Cash and cash equivalents at the beginning of the year	22	43,915	75,519
Effect of exchange rate changes on cash and cash equivalents		3,741	(2,685)
Cash and cash equivalents at the end of the year	22	37,037	43,915

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(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 2006 were as follows (Note 34):

Subsidiaries by country of incorporation	Nature of business
<i>Russian Federation</i>	
OJSC IPP	Stevedoring and storage
PJSC Fleet of Novorossiysk Commercial Sea Port	Tug & bunkering services
OJSC Novorossiysk Shipyard	Stevedoring & marine vessels repairs
OJSC Novoroslesexport	Stevedoring and storage
PJSC Novorossiysk Grain Terminal	Stevedoring and storage
PJSC TPS	Consulting services
LLC Baltic stevedore company	Stevedoring and storage
LLC Kuban security services	Security services
<i>Cayman Islands</i>	
NR Air Ltd.	Transportation services

Most of the Group operations 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.

Public Joint Stock Company Fleet of NCSP (“Fleet”)

Fleet is a maritime tug and towing company. It provides most of the tug and towing, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysk Port (the “Port”). In addition, it provides emergency services such as transferring vessels to shelter zones during emergencies, cleaning and containment services for oil or other liquid spills in and around the Port and hazardous material response and waste management services pursuant to its agreement on water use with Kubanskoye Basin Department of Krasnodar Region under the Russian Ministry of Natural Resources.

Open Joint Stock Company Novorossiysk Shipyard (“Shipyard”)

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Open Joint Stock Company Novoroslesexport (“Timber Export”)

Timber Export provides cargo handling, shipping and storage services for the export of the timber, containerized cargo and nonferrous metals. It engages in all year-round cargo operations.

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 Port.

Baltic Stevedore Company LLC (“Baltic Stevedore”)

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

Management believes the Group operates in a single operating segment, which is composed of the stevedore services and other related services. The revenues from the transshipping services constitute substantially all revenues and are attributed to the Russian Federation. All significant assets, production and management and administrative facilities are located in the city of Novorossiysk, the Russian Federation.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which includes standards and interpretations approved by the International Accounting Standards Board (the “IASB”), including International Accounting Standards 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 first IFRS annual reporting date, 31 December 2006.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for the valuation of property, plant and equipment, which has been presented at fair value, as determined by independent appraisers.

New accounting pronouncements

At the date of authorization of these consolidated financial statements, certain new standards and interpretations have been issued and are mandatory for adoption for accounting periods beginning on or after 1 January 2007:

- IAS 1 (revised) “Presentation of Financial Statements”;
- IAS 23 (revised) “Borrowing costs”;
- IFRS 7 “Financial Instruments: Disclosures”;
- IFRS 8 “Operating Segments”;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”;
- IFRIC 8 “Scope of IFRS 2”;
- IFRIC 9 “Reassessment of Embedded Derivatives”;

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

- IFRIC 10 “Interim Financial Reporting and Impairment”;
- IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”;
- IFRIC 12 “Service Concession Arrangements”;
- IFRIC 13 “Customer Loyalty Programmes”;
- IFRIC 14 “IAS 19—The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction”.

The impact of adopting these standards and interpretations in future periods is currently being assessed by management, however they do not anticipate any material financial impact on the financial statements of the Group. IFRS 7 “Financial Instruments: Disclosures” and IFRS 8 “Operating Segments” are expected to significantly increase the volume of disclosures in the consolidated financial statements.

3. BASIS OF TRANSITION TO IFRS

The Group applied IFRS 1, “First Time Adoption of International Financial Reporting Standards”, in the preparation of its consolidated balance sheet at 1 January 2005 as this is the Group’s transition date for the first time adoption of IFRS. For such associates acquired prior to the date of transition, the Group applied an exemption permitted by IFRS 1, and adjusted the carrying amounts of these associates’ assets and liabilities to the amounts that IFRS would require to be reflected in the associates’ balance sheets. The Group also elected under IFRS 1 to re-measure its property, plant and equipment, including property, plant and equipment held by its associates, at fair value on the date of transition to IFRS. The Group then used these fair values as deemed cost.

In preparing consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and the optional exemption on acquisitions from full retrospective application of IFRS.

Effect of the transition from Russian GAAP to IFRS on the Group’s consolidated financial position and financial performance

Reconciliation of equity at the date of the transition to IFRS and at 31 December and 1 January, 2005:

		31 December 2005 (As restated, see Note 35)	1 January 2005 (As restated, see Note 35)
	Notes		
Equity under Russian GAAP		419,104	376,501
Allowance for slow-moving inventories	(a)	(3,478)	(2,705)
Fair value adjustment on property, plant and equipment	(b)	148,012	166,290
Consolidation of subsidiaries not consolidated under Russian GAAP	(c)	17,131	15,378
Deferred income tax	(d)	(39,919)	(43,602)
Accruals for employees’ holidays and compensations	(e)	(1,630)	(1,761)
Retirement benefit obligation	(g)	(2,508)	(2,218)
Other adjustments		(564)	(777)
Equity under IFRS		536,148	507,106

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Reconciliation of net profit for the year ended 31 December 2005:

	<u>Note</u>	<u>Year ended 31 December 2005 (As restated, see Note 35)</u>
Profit for the year under Russian GAAP		66,146
Allowance for slow-moving inventories	(a)	(203)
Additional depreciation charge	(b)	(10,304)
Consolidation of subsidiaries not consolidated under Russian GAAP	(c)	1,694
Deferred income tax	(d)	2,920
Accruals for employees' holidays and compensations	(e)	(1,202)
Retirement benefit obligation	(g)	(369)
Other adjustments		<u>(1,403)</u>
Profit for the year under IFRS		<u>57,279</u>

Reconciliation of property, plant and equipment at 1 January 2005:

	<u>Note</u>	<u>1 January 2005</u>
Carrying value under Russian GAAP		184,307
Fair value adjustment on property, plant and equipment	(b)	166,290
Reclassification of prepayments for construction in progress	(f)	3,340
Consolidation of subsidiaries not consolidated under Russian GAAP	(c)	6,603
Other adjustments		<u>242</u>
Carrying value under IFRS		<u>360,782</u>

- (a) Additional provision created for the difference between net realizable value of inventory and its carrying value under IFRS.
- (b) This is the difference between the fair value of the property, plant and equipment and its cost under Russian GAAP at 1 January 2005. The additional depreciation charge is due to the difference between the fair value of the property, plant and equipment used in IFRS and its cost under Russian GAAP.
- (c) Under Russian GAAP companies are not obliged to prepare consolidated financial statements.
- (d) The calculation method of deferred income tax under Russian GAAP (income statement method) is different from IFRS (balance sheet method) (see Note 12).
- (e) The accrual of a provision for employees' holidays and compensation as per IAS 37 "Provisions, contingent liabilities and contingent assets" is not required under Russian GAAP.
- (f) Advances made to suppliers of certain fixed assets reclassified to property, plant and equipment.
- (g) Retirement benefit obligation recognised under IAS 19 is not defined under Russian GAAP (see Note 35).

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NSCP and its subsidiaries (Note 34), from the date that control effectively commenced until the date that control effectively ceased.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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.

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 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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.

Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

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 subsequent periods.

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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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. All cash flows are translated at the average exchange rates for the year presented.

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:

	<u>31 December 2006</u>	<u>31 December 2005</u>
Year-end rates		
RUR/1 US dollar	26.3311	28.7825
Average rates for the year ended		
RUR/1 US dollar	27.1920	28.7900

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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

For the purpose of the consolidated financial statements, the assets and liabilities of a foreign operation with a functional currency different from the functional currency of the reporting entity are translated at the exchange rates prevailing on the balance sheet dates. Income statement items are translated at the average exchange rates for the period. Exchange differences arising on translation are included in the statement of changes in equity.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred or services have been rendered, 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: (i) stevedore services (liquid, dry, bulk cargo, general cargo and containers transshipment services, including storage services), (ii) fleet services, and (iii) other services.

- (i) Liquid, dry bulk cargo, general cargo and containers transshipment services includes loading and unloading of oil and oil products grain, mineral fertilizers, chemicals, containers, timber and timber products, metal products (slabs, tubing, rolled metal and others), sugar, and other cargo;
- (ii) Fleet services includes tag, towing and mooring services and other fleet services;
- (iii) Other services include vessel repair services, passenger transit, vessel rent and other services provided at the Port.

Revenue is recognized 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 recognizes 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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 unamortized 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 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 350 per month depending on the employee's actual years of services and qualifications.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Income tax

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

The 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 substantively enacted at the balance sheet date.

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 utilized. 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.

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 is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

As discussed in Note 3, the Group has adopted IFRS for the first time effective 1 January 2005. The Group has elected to utilize exemptions available for first-time adopters under IFRS 1 and has recorded property, plant and equipment at fair value. The valuations were performed by an independent appraiser as of 1 January 2005. The difference between the fair value of the property, plant and equipment and its cost in Russian GAAP at 1 January 2005 is recorded as retained earnings at that date (Note 3). Property, plant and equipment acquired through acquisitions are recorded at fair value on the date of the acquisition, as determined by an independent appraiser.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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.

	<u>Number of years</u>
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.

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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

General description

Financial assets are classified into the following specified categories: 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.

Financial assets are recognized and derecognized 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, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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 assets designated as at FVTPL.

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual arrangement of the instrument and include investments, loans receivable, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

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 the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Promissory notes 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 income recognized 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. 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 method and foreign exchange gains and losses, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Where a quoted market price does not exist, these instruments are measured at management's estimate of fair value.

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 the income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement 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.

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 assets of an entity deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct costs.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. 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.

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.

5. 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 recognized 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.

The most significant areas requiring the use of management estimates and assumptions are described below.

Allowance for trade and other receivables

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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 utilize inventory in other programs, the ability to redistribute inventory back to the suppliers and current and forecasted demand for the inventory.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

6. REVENUE

	Year ended 31 December 2006	Year ended 31 December 2005
Stevedore services	244,746	184,139
Fleet services	22,369	—
Ship repair services	4,032	—
Vessel rent	2,742	5,107
Other	3,388	—
Total	277,277	189,246

In 2005 vessel rent income was received from Fleet which became a subsidiary of the Group in 2006.

7. COST OF SERVICES

	Year ended 31 December 2006	Year ended 31 December 2005
Payroll	42,406	29,299
Depreciation	36,590	26,796
Fuel	20,857	—
Insurance	18,093	14,830
Repairs and maintenance	12,566	8,603
Rent	10,027	5,658
Raw materials	9,142	4,706
Unified social tax	7,917	5,851
Energy and utilities	5,725	4,578
Subcontractors	2,467	—
Other	7,107	1,676
Total	172,897	101,997

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Payroll	10,491	4,025
Taxes other than income tax	6,752	3,072
Professional services	4,036	4,183
Transport	3,485	3,297
Charity	3,374	2,466
Depreciation and amortisation	2,046	347
Unified social tax	1,066	320
Bank charges	990	768
Allowance for slow-moving inventories and doubtful receivables	413	145
Repairs and maintenance	358	427
Rent	261	343
Other expenses	707	1,147
Total	33,979	20,540

9. INVESTMENT INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income on deposits	4,117	6,846
Discount of long-term debt	371	—
Coupon income	54	60
Total	4,542	6,906

10. FINANCE COSTS

	Year ended 31 December 2006	Year ended 31 December 2005
Interest on borrowings	22,666	—
Other	37	—
Total	22,703	—

11. OTHER INCOME, NET

	Year ended 31 December 2006	Year ended 31 December 2005
Foreign exchange gain	5,391	3,406
Gain on disposal of shares of Investsberbank and PFS	740	—
Loss on disposal of property, plant and equipment	(3,931)	(1,537)
Other	(387)	230
Total	1,813	2,099

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

12. INCOME TAX

	Year ended 31 December 2006	Year ended 31 December 2005
Current tax expense	18,712	23,177
Deferred tax benefit	(5,065)	(2,242)
Total	13,647	20,935

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

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before tax	57,736	78,214
Tax at the statutory rate of 24%	13,857	18,771
Effect of (income)/expenses that are not (taxable)/deductible in determining taxable profit	(210)	2,164
Total	13,647	20,935

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

	31 December 2006	31 December 2005
Net liability	41,274	45,138
Deferred tax benefit	(5,065)	(2,242)
Deferred tax liability assumed on acquisition of subsidiaries	26,905	—
Effect of translation into presentation currency	4,558	(1,622)
Net deferred tax liability	67,672	41,274

The deferred tax position of the Group by subsidiary was:

JSC NCSP	36,575	41,274
JSC Fleet of NCSP	149	—
JSC IPP	4,917	—
JSC Shipyard	12,205	—
JSC TPS	(580)	—
JSC Grain Terminal	2,122	—
LLC Baltic Stevedore	46	—
JSC Timber Export	12,238	—
Total	67,672	41,274

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:

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

	31 December 2005	Acquired	Charged	Effect of translation into presentation currency	31 December 2006
Fixed assets	38,375	28,036	(4,525)	4,340	66,226
Mooring rights	—	3,242	(85)	103	3,260
Bad debt provision	(88)	150	(83)	(6)	(27)
Obsolescence provision	273	(214)	(415)	5	(351)
Investments valuation	3,163	(5,205)	232	136	(1,674)
Vacation accruals	(305)	(328)	(41)	(41)	(715)
Long-term debt	—	1,057	80	37	1,174
Deferred income	54	—	(57)	3	—
Loss carryforward	(316)	(429)	(507)	(60)	(1,312)
Other	118	(154)	336	16	316
	—	—	—	—	—
Less: valuation allowance	—	750	—	25	775
Total	41,274	26,905	(5,065)	4,558	67,672

13. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2006 and 2005 were 10,624 and 10,037, respectively. The total amounts of dividends paid during 2006 and 2005 were 10,205 and 10,035, respectively.

8,705 represents the excess of the treasury shares purchase price over their par value (of which 5,296 were assumed within assets of new subsidiaries acquired in 2006).

14. EARNINGS PER SHARE

Basic and diluted earnings per share for 2006 and 2005 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 2006	Year ended 31 December 2005
Profit attributed to shareholders of the parent company	44,469	57,279
Weighted average number of shares during the year	19,124,483,167	19,259,815,400
Basic and diluted earnings per share (US Dollars)	0.0023	0.0030

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

15. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Marine vessels</u>	<u>Aircraft</u>	<u>Vehicles</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost									
1 January 2005	<u>—</u>	<u>122,169</u>	<u>113,754</u>	<u>69,252</u>	<u>—</u>	<u>4,053</u>	<u>17,366</u>	<u>34,188</u>	<u>360,782</u>
Additions	—	28,715	11,388	—	—	278	2,004	(26,916)	15,469
Disposals	—	(185)	(1,465)	—	—	(303)	(304)	—	(2,257)
Effect of translation into presentation currency	—	(4,388)	(4,086)	(2,487)	—	(146)	(624)	(1,228)	(12,959)
31 December 2005	<u>—</u>	<u>146,311</u>	<u>119,591</u>	<u>66,765</u>	<u>—</u>	<u>3,882</u>	<u>18,442</u>	<u>6,044</u>	<u>361,035</u>
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
31 December 2006	<u>8,432</u>	<u>248,269</u>	<u>189,436</u>	<u>76,528</u>	<u>24,827</u>	<u>8,376</u>	<u>64,443</u>	<u>111,047</u>	<u>731,358</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Marine vessels</u>	<u>Aircraft</u>	<u>Vehicles</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Accumulated depreciation & impairment									
1 January 2005	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Depreciation charge	—	(4,033)	(16,359)	(4,175)	—	(454)	(2,076)	—	(27,097)
Disposals	—	5	352	—	—	39	16	—	412
Effect of translation into presentation currency	—	(1)	(5)	(1)	—	—	—	—	(7)
31 December 2005	<u>—</u>	<u>(4,029)</u>	<u>(16,012)</u>	<u>(4,176)</u>	<u>—</u>	<u>(415)</u>	<u>(2,060)</u>	<u>—</u>	<u>(26,692)</u>
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)
31 December 2006	<u>—</u>	<u>(12,430)</u>	<u>(36,995)</u>	<u>(9,170)</u>	<u>(828)</u>	<u>(1,150)</u>	<u>(6,619)</u>	<u>—</u>	<u>(67,192)</u>
Carrying Value									
31 December 2005	<u>—</u>	<u>142,282</u>	<u>103,579</u>	<u>62,589</u>	<u>—</u>	<u>3,467</u>	<u>16,382</u>	<u>6,044</u>	<u>334,343</u>
31 December 2006	<u>8,432</u>	<u>235,839</u>	<u>152,441</u>	<u>67,358</u>	<u>23,999</u>	<u>7,226</u>	<u>57,824</u>	<u>111,047</u>	<u>664,166</u>

As of 31 December 2006, construction in progress included 28,981 (2005: 1,260) of advances paid for property, plant and equipment. Property, plant and equipment with carrying value of 120,932 were pledged to secure bank overdrafts and loans granted to the Group (Note 24). The net carrying value of machinery and equipment under a finance lease at 31 December 2006 and 2005 amounted to 998 and nil, respectively.

An independent valuation of the Group's property, plant and equipment was performed by Centre of Professional Valuation to determine the fair value of the property, plant and equipment as of 1 January 2005, the date of Group first time adoption of IFRS. The valuation was performed in accordance with International Valuation Standards.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

16. GOODWILL

Cost

At 1 January 2006	—
Additional amounts recognised from business combinations	442,393
Effect of translation into presentation currency	<u>14,463</u>
At 31 December 2006	<u>456,856</u>
Carrying amount	
1 January 2006	—
31 December 2006	<u>456,856</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill recognised from the business combination has been allocated as follows:

IPP	30,375
Fleet	79,573
Shipyard	13,752
Timber Export	140,924
Grain Terminal	174,626
Baltic Stevedore	<u>3,143</u>
Total	<u>442,393</u>

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that no goodwill associated with the Group's operations was impaired.

17. MOORING RIGHTS AND OTHER INTANGIBLE ASSETS

Cost	2006
Balance as of 31 December 2005	857
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	<u>529</u>
Balance as of 31 December 2006	15,125
Accumulated amortisation and impairment as of 31 December 2005	(368)
Amortisation charge	(508)
Effect of translation into foreign currency	<u>(54)</u>
Accumulated amortisation and impairment as of 31 December 2006	<u>(930)</u>
Carrying value as of 31 December 2005	<u>489</u>
Carrying value as of 31 December 2006	<u>14,195</u>

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

18. INVESTMENTS IN ASSOCIATES

Movement of the Group's associates are as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Balance as of 1 January	57,326	14,709
Investment in IPP	—	28,454
Investments in Timber Export and TPS	—	12,183
Group share of income for the year	3,065	2,500
Transfer from associate to subsidiary	(63,853)	—
Effect of translation into presentation currency	<u>3,462</u>	<u>(520)</u>
Balance as of 31 December	<u>—</u>	<u>57,326</u>

During July 2005, the Group acquired 16.38% of IPP for the total consideration of 28,454. During 2005, the Group also acquired a 16.37% of Timber Export and 5.33% of PJSC TPS for total consideration of \$12,183.

As of 31 December 2005 the Group has significant influence in Fleet, IPP and Timber Export. The existence of significant influence was caused by the representation on the Board of Directors.

On 14 June 2006, the Group acquired controlling stakes in its associates: IPP, Fleet and Timber Export (Note 28). It increased its shareholdings from 22.65% to 72.65% and from 34.13% to 85.68% in IPP and Fleet, correspondingly and from 16.37% to 91.38% in Timber Export. Those companies became subsidiaries and were consolidated in the Group financial statements at the date of acquisition (Note 28).

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	<u>31 December 2006</u>	<u>31 December 2005</u>
Current		
Loans and other		
Investenergo loan (Note 29)	21,285	—
Vnesheconombank bonds (“Min-fin bonds” or “OGVVZ”)	1,805	—
Promissory notes	380	—
Deposits in USD (Investsberbank & Nikoil)	—	76,607
Total current	<u>23,470</u>	<u>76,607</u>
Non-current		
Available-for-sale		
Office centre Pokrovsky	7,691	—
City Park	5,129	—
Investments in Investsberbank and PFS Bank	—	5,027
Vnesheconombank bonds (“Min-fin bonds” or “OGVVZ”)	—	1,778
Depository notes of Investsberbank	—	28,149
Loans and other		
Loans	—	3,049
Other	83	120
Total non-current	<u>12,903</u>	<u>38,123</u>

On 28 March 2006, the Group received the par amount of the depository notes of Investsberbank. During 2006, the short-term Investsberbank and Nikoil deposits were redeemed. Interest income for 2006 amounted to 3,831 and was included in investment income.

During 2006, the Group granted two non-interest bearing short-term loans to Investenergo, related party, amounting to 21,285. Due to the short-term nature these loans were not discounted as of the year end.

OGVVZ (bonds) are not listed on any stock exchange. At 31 December 2006 total coupon income amounted to 54 (60 in 2005).

As a result of the acquisition of subsidiaries, the Group obtained an additional 6,626 equity investment in Investsberbank. The shares were sold for 11,880 and gain of 511 was recognized in the 2006 income statement.

During 2006, the Group invested in 4.21% of OJSC City Park share capital and 7.4% OJSC Office Centre Pokrovsky. The fair value of these unlisted available-for-sale investments 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

20. INVENTORIES

	31 December 2006	31 December 2005
Raw materials and low value items	7,088	5,653
Fuel	1,084	—
Goods for resale	913	—
Other	151	113
Less: allowance for slow-moving inventories	<u>(2,655)</u>	<u>(2,404)</u>
Total	<u>6,581</u>	<u>3,362</u>

21. TRADE AND OTHER RECEIVABLES, NET

	31 December 2006	31 December 2005
Trade accounts receivable	18,803	14,993
VAT recoverable	24,480	3,967
Other taxes receivable	13,320	4,769
Advances to suppliers	4,555	140
Other receivables and prepayments	5,504	1,174
Less: allowance for doubtful receivables	<u>(1,507)</u>	<u>(1,074)</u>
Total	<u>65,155</u>	<u>23,969</u>

22. CASH AND CASH EQUIVALENTS

	31 December 2006	31 December 2005
Current accounts in RUR	21,264	39,174
Current accounts in USD	14,739	—
Bank deposits in USD	1,029	96
Cash in hand	<u>5</u>	<u>4,645</u>
Total	<u>37,037</u>	<u>43,915</u>

Bank deposits as of 31 December 2006 mainly represent a 1,019 Investsberbank deposit with 9% interest and maturity date 9 March 2007.

Current accounts in USD as of 31 December 2006 included 5,800 of cash restricted under letter of credit. 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. Maturity of the letter of credit is 31 January 2008.

23. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 shares authorized, issued and outstanding with a par value of 0.000375 USD. 9,629,907,701 (50% plus 1 share) are pledged against the loan agreement with Sberbank (Note 24). Authorised share capital at par is 7,213.

At 31 December 2006, the outstanding share capital of the Group was 10,366 (2005: 10,464). During 2006, the Group repurchased its own shares at nominal value of 98.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

24. DEBT

	Interest rate	Maturity Date	31 December 2006	31 December 2005
Long-term				
Sberbank (USD)	8.8 – 9.2%	June 2009	388,000	—
Sberbank (USD)	9.5 – 10.5%	August 2011	21,903	—
Sberbank (USD)	9.2%	November 2010	17,400	—
Sberbank (USD)	9.2%	June 2010	13,924	—
Sberbank (USD)	8.8 – 9.2%	July 2011	7,173	—
Sberbank (USD)	8.95%	September 2011	5,040	—
Sberbank (USD)	8.8 – 9.2%	December 2011	4,300	—
IMB (USD)	8.95%	June 2009	3,025	—
Sberbank (USD)	9.2 – 10.2%	September 2011	2,076	—
Sberbank (USD)	9.5 – 10.5%	August 2011	1,700	—
Sberbank (USD)	8.8 – 9.2%	December 2011	1,685	—
Loans from related parties (Note 29)	0.1% – 6%	2008-2012	14,146	—
Other			1,925	500
Total long-term			482,297	500
Short-term				
Current portion of long-term loans			57,551	—
Loans from related parties (Note 29)			2,094	—
Other			227	284
Current portion of finance lease liability			528	—
Total short-term			60,400	284
Total debt			542,697	784

The Group entered into a non-revolving loan agreement with Open Joint Stock Company Commercial Savings Bank of the Russian Federation (“Sberbank”) No. 3620 on 14 June 2006 (the “Sberbank Loan”). The Sberbank Loan provided the Group with a non-revolving credit line in the aggregate amount of 450,000. This loan is due in full on 11 June 2009 unless extended in accordance with its terms until 11 June 2013.

The Sberbank Loan carries an annual interest rate of 8.8% or 9.2% depending upon whether the Group achieves certain stated average monthly current account turnover. Increases in the interest rate become effective 30 days after the Group notifies Sberbank of its prior quarter’s average monthly current account turnover, and the Group retains the ability to prepay the entire unpaid principal and accrued interest within such 30 day period based on the interest rate in effect prior to the notified increase. To date, the Sberbank Loan has accrued interest at 8.8% without any increase. The loan agreement also provides for a default interest rate of 14% per annum above the interest rate then in effect for any amounts due and unpaid. The Group may repay the remaining principal amount of the Sberbank Loan with accrued interest at any time prior to maturity without penalty upon five business days’ advance notice to Sberbank.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

As collateral for its obligations under the Sberbank Loan, the Group pledged all of its shares in Novorossiysk Shipyard, Timber Export, Fleet, IPP and Grain Terminal and also its shareholders pledged 50% plus 1 share of the shares of NCSP. The number of pledged shares and the percentage of each pledged company's share capital represented by the pledged shares is stated below:

Subsidiary	Number of shares	Share of share capital
Fleet	8,289,492	51.55%
Grain Terminal	2,999,655	99.99%
Timber Export	2,322,579	75.01%
IPP	10,303	50.01%
	2,166,460	
	(common shares)	50.03%
Novorossiysk Shipyard	948,749	
	(preferred shares)	

The Group also has other agreements with Sberbank for loans and letters of credit, which bear interest at 8.8%-10.5%. Under these agreements, the Group has pledged certain real property as collateral. Sberbank also has the right to require additional collateral should the outstanding amount exceed the value of the pledged debt.

The Sberbank Loan and certain other debt is secured by property, plant and equipment. At 31 December 2006, property, plant and equipment with a carrying value of 120,932 were pledged to secure bank overdrafts and loans granted to the Group (Note 15).

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

	31 December 2006	31 December 2005
Russian Roubles	563	—
US Dollars	542,134	784
Total	542,697	784

The Group borrowings are repayable as follows:

	31 December 2006	31 December 2005
During 2007	60,400	284
During 2008-2009	445,522	500
During 2010-2012	36,775	—
Total	542,697	784

As of 31 December 2006, the average effective borrowing rate was 9.2%. 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

25. EMPLOYEE BENEFITS

Defined benefit plan

The most recent actuarial valuation of the defined benefit obligation was carried out at 31 December 2006. 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 2006	31 December 2005
	%	%
Discount rate	7.62	7.62
Expected return on plan assets	n/a	n/a
Expected annual rate of salary increase	5	5
Employees turnover	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 2006	Year ended 31 December 2005
Current service cost	86	76
Interest on obligation	342	314
Actuarial gains recognised during the year	(145)	(58)
Past service cost	267	252
Total	550	584

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 2006	31 December 2005
Present value of defined benefit obligation	8,103	4,271
Past service cost not yet recognised	(1,652)	(1,763)
Net liability arising from defined benefit obligation	6,451	2,508

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

	Year ended 31 December 2006	Year ended 31 December 2005
Balance as of 1 January	2,508	2,218
Current service cost	86	76
Interest on obligation	342	314
Actuarial gains recognised during the year	(145)	(58)
Past service cost	267	252
Liabilities assumed in a business combination	3,278	—
Benefits paid	(236)	(215)
Effect of translation to presentation currency	351	(79)
Balance as of 31 December	6,451	2,508

The Defined Benefit Plan is unfunded.

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to 8,983 and 6,171 for the year ended 31 December 2006 and 2005, respectively.

26. OTHER PAYABLES AND ACCRUALS

	31 December 2006	31 December 2005
Payroll accruals	5,966	4,252
Taxes payable	3,725	2,316
Advances received from customers	3,293	1,419
Dividends payable	644	371
Other accounts payable	5,107	292
Total	18,735	8,650

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

27. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2006	Year ended 31 December 2005
Profit for the year	44,089	57,279
Adjustments for:		
Depreciation and amortisation	38,636	27,143
Interest expense	22,666	—
Excess of interest in net assets acquired over contribution paid on acquisition of subsidiaries	(618)	—
Discount amortisation	(371)	—
Change in allowance for doubtful receivables	7	348
Change in allowance for slow-moving inventories	406	(203)
Loss on disposal of property, plant and equipment	3,931	1,537
Share of profit of associates	(3,065)	(2,500)
Gain on disposal of shares of Investsberbank and PFS	(740)	—
Finance lease charge	37	—
Income tax	13,647	20,935
Foreign exchange gain	(5,391)	(3,406)
Working capital changes:		
Decrease in inventories	252	192
Decrease/(increase) in trade and other receivables	11,861	(1,020)
(Decrease)/increase in trade and other payables and accruals	(2,405)	2,365
Cash generated from operating activities	<u>122,942</u>	<u>102,670</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

28. ACQUISITION OF SUBSIDIARIES

									14 June 2006 fair value total
<u>Net assets of subsidiaries acquired</u>	<u>Fleet</u>	<u>IPP</u>	<u>Shipyard</u>	<u>Timber Export</u>	<u>Grain Terminal</u>	<u>TPS</u>	<u>Baltic Stevedore</u>	<u>NR Air Ltd.</u>	
Property, plant and equipment	9,216	38,784	57,349	63,449	40,333	294	298	23,645	233,368
Mooring rights and other intangible assets	664	—	5,252	7,591	—	62	—	—	13,569
Non-current VAT recoverable	—	—	169	186	1,413	—	—	—	1,768
Spare parts	403	—	313	343	—	—	—	—	1,059
Long-term investments	18,023	216	74	10	—	—	—	—	18,323
Retirement benefit obligation	—	(257)	(942)	(2,079)	—	—	—	—	(3,278)
Inventories	2,116	421	402	356	5	46	7	—	3,353
Accounts receivable	25,962	6,521	6,045	5,687	3,039	1,170	491	—	48,915
Short-term investments	2,023	—	—	37	588	—	—	—	2,648
Cash and cash equivalents	3,000	624	125	1,539	8,199	371	243	396	14,497
Debt	(1,876)	(13,228)	(12,574)	230	(38,480)	(151)	(3,506)	—	(69,585)
Accounts payable	(1,719)	(185)	(1,357)	(230)	(3,165)	(5)	(568)	—	(7,229)
Other accruals	(1,219)	(736)	(4,428)	(2,040)	(74)	(700)	(143)	—	(9,340)
Deferred tax	(136)	(4,543)	(12,195)	(8,436)	(1,951)	321	35	—	(26,905)
Net assets	56,457	27,617	38,233	66,643	9,907	1,408	(3,143)	24,041	221,163
Minority interest	(8,084)	(7,553)	(19,105)	(5,372)	(1)	(678)	—	—	(40,793)
Goodwill	79,573	30,375	13,752	140,924	174,626	—	3,143	—	442,393
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	—	—	—	—	—	(618)	—	—	(618)
Fair value of net assets acquired companies	127,946	50,439	32,880	202,195	184,532	112	—	24,041	622,145
Consideration paid in cash	107,605	19,927	32,880	189,307	178,347	—	—	24,041	552,107
Previously held interest in the acquired companies	20,341	30,512	—	12,888	6,185	112	—	—	70,038
Net cash used in acquisition of subsidiaries:									
Consideration paid in cash	(107,605)	(19,927)	(32,880)	(189,307)	(178,347)	—	—	(24,041)	(552,107)
Cash and cash equivalents acquired	3,000	624	125	1,539	8,199	371	243	396	14,497
Net cash outflow on acquisition of subsidiaries	(104,605)	(19,303)	(32,755)	(187,768)	(170,148)	371	243	(23,645)	(537,610)

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

On 14 June 2006, the Group acquired controlling stakes in the following entities (Note 34):

	Interest acquired	Effective % held at 31 December 2006
Grain Terminal	99.99%	99.99%
Timber Export	75.01%	91.38%
Fleet ^(a)	51.55%	85.68%
Shipyard	50.03%	50.03%
IPP	50.00%	72.65%
TPS ^(b)	30.00%	51.83%

(a) NCSP acquired 51.55% of Fleet, which owned 50% of Baltic Stevedores Company. At the year end NCSP acquired 50.00% of Baltic Stevedore Company from Fleet.

(b) NCSP owns 51.83% of OJSC TPS, which owns 50% of LLC Kuban security services. Accordingly, the Group holds 25.91% of LLC Kuban security services.

These entities were purchased from U.F.G.I.S. Structured Holdings Limited.

The net assets of subsidiaries purchased were subject to an independent appraisers' valuation, as shown in the preliminary purchase price allocation above. The Group recorded these fair values of the assets, liabilities and contingent liabilities of each acquired subsidiary.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire the above mentioned companies. In addition, the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development, the assembled workforce and future investment projects from the combination. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured. The purchased subsidiaries contributed 85,113 to the Group's revenue and 4,748 to the Group's profit before tax for the period from the date of acquisition to the balance sheet date.

Prior to acquisition, the certain acquired entities 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. It is also not practicable to disclose the pro forma revenue and profit of the combined group as if the acquisition had occurred at the beginning of 2006.

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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

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:

	<u>31 December 2006</u>	<u>31 December 2005</u>
<i>Loans from related parties</i>		
Long-term		
Entities under common control ^(a)	4,702	—
Sberbank	463,201	—
Other related parties	<u>9,444</u>	<u>—</u>
	<u>477,347</u>	<u>—</u>
Short-term		
Entities under common control ^(a)	680	—
Sberbank	57,318	—
Other related parties	<u>1,359</u>	<u>—</u>
	<u>59,357</u>	<u>—</u>
<i>Short-term loans to related parties</i>		
Entities under common control ^(a)	<u>21,285</u>	<u>—</u>
	<u>21,285</u>	<u>—</u>
<i>Cash and cash equivalents</i>		
Sberbank	17,128	676
Other related parties	<u>—</u>	<u>42,995</u>
	<u>17,128</u>	<u>43,671</u>
<i>Deposits and depositary notes purchased</i>		
Long-term		
Other related parties	—	28,149
Short-term		
Other related parties	—	76,607

(a) 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:

	<u>Year ended 31 December 2006</u>	<u>Year ended 31 December 2005</u>
<i>Sales</i>		
Military divisions	4,340	—
Russian Railways	416	—
Transneft	<u>7,542</u>	<u>7,213</u>
	<u>12,298</u>	<u>7,213</u>

During 2006, Investsberbank ceased to be a related party due to change of its owners.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Other related parties represent affiliates of the ultimate beneficiaries. Interest expense on loans from related parties during 2006 and 2005 amounted to 21,080 and nil thousand, respectively.

Compensation of key management personnel

For the year ended 31 December 2006 and 2005, the remuneration of the directors and other members of key management was 1,006 and 647, 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 litigation relating to its operating activities. Management believes that none 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 JSC Timber Export. The penalty was accrued for wrong application of cadastral classification of land and includes rent payment of 662 and penalty fees of 476 for the period from 1 January 2006 till 21 November 2006. Based on the court decision of 21 February 2007 the cost of the rented land is being clarified.

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 1,850.

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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Insurance

As of 31 December 2006, 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:

2007	3,409
2008	3,409
2009	3,409
2010	3,134
2011	3,085
Thereafter	<u>70,298</u>
Total	<u>86,744</u>

31. CAPITAL COMMITMENTS

As of 31 December 2006, the Group had the following capital commitments:

	31 December 2006
Commitments for the acquisition of property, plant and equipment and construction works:	
NCSP	102,839
Timber Export	20,747
Grain Terminal	9,585
IPP	1,196
Shipyard	<u>790</u>
Total	<u>135,157</u>

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

32. RISK MANAGEMENT

In the normal course of its operations, the Group is exposed to credit, currency, liquidity and interest rate risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Concentration of credit risk

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

15 customers in 2006 and 2005 were approximate 78% and 88% of the Group's total sales, respectively. In order to mitigate credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate.

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. A significant amount of the Group's revenues (65% in 2006, and 76% in 2005) is denominated in foreign currency—US Dollar. In order to mitigate this risk the Group attracts borrowings in the same currency. The Group's results may be adversely impacted by appreciation of the Russian rouble against the US Dollar, however this impact will be mitigated by the borrowings that are denominated in USD. During 2006, the net effect of foreign exchange differences for the Group was a gain of 5,391 following the RUR appreciation against the USD of 8.6%. The Group did not enter into any forward foreign exchange contracts in 2006 and 2005.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall 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.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group is exposed to interest rate risk as entities in the Group borrow funds at fixed interest rates. In the case of a 1% decrease in the floating rate below the effective Group's borrowing rate the potential interest expense impact will be approximately 5,200. The risk is managed by the Group by timely monitoring the changes between the floating and the fixed rates.

33. EVENTS AFTER THE BALANCE SHEET DATE

During May 2007, the Group acquired additional 15.04% of shares in Shipyard and 0.01% of shares in Grain Terminal for a cash consideration of 24,642, 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 interest was 36,711. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 5,525. Excess of consideration paid over the Group's share in net assets acquired in the amount of 19,117 was recognised in the statement of changes in equity as decrease of retained earnings as of 30 June 2007.

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 US\$300.0 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

On 28 June 2007, the Group acquired 100% of the share capital of OJSC NPK Zarubezhneft (“Zarubezhneft”) for a cash consideration of 6,456. The carrying value of OJSC NPK Zarubezhneft net assets in the consolidated financial statements on the date of acquisition was 9,346. Excess of the Group’s share in net assets acquired over the consideration paid in the amount of 2,890 was recognised in the income statement of the Group for the six months ended 30 June 2007.

Up to the date of approval of the consolidated financial statements the Group extinguished 26,956 of debt on the existing loan agreements with Sberbank and raised 6,350 of new debt on the existing loan agreement with Sberbank with interest rates of 8.8% and a maturity date of 25 March 2010.

The following changes in interest rates occurred up to the date of approval of the consolidated financial statements:

<u>Secured bank loans</u>	<u>Maturity date</u>	<u>30 June 2007</u>	<u>Interest rate at 30 June 2007</u>	<u>Interest rate after 1 July 2007</u>
Sberbank (USD)	03.08.2011	28,689	9.5%	8.2%
Sberbank (USD)	09.11.2010	26,747	9.2%	8.2%
Sberbank (USD)	04.06.2010	13,924	8.8%	8.2%
Sberbank (USD)	25.03.2010	6,350	8.8%	8.0%
Sberbank (USD)	11.07.2011	6,268	9.2%	8.2%
Sberbank (USD)	23.12.2009	4,410	8.8%	8.0%
Sberbank (USD)	09.09.2011	2,888	9.2%	8.2%
Sberbank (USD)	02.08.2011	1,700	9.5%	8.2%

On 1 July 2007, the Group negotiated and signed the addendum to the existing insurance agreement with OJSC Russia. Based on the terms of this addendum the 2007 annual insurance premium was decreased from 16,269 to 8,565.

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 loan agreement with amounts in the Group’s IFRS audited consolidated financial statements, including: (i) from and after 31 December 2006, 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 Eurobonds, the proceeds of the Facility and our own funds, and the loan agreement was terminated in July 2007. The repayment led to the release of all pledged shares under the Sberbank Loan (Note 24).

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

On 11 October 2007, FSFM approved the placement and circulation of up to 3,909,742,526 Ordinary Shares of NCSP, representing 20.3% of all Ordinary Shares, in the form of GDRs.

34. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

<u>Subsidiaries by country of incorporation</u>	<u>Effective % held*</u>		<u>Voting rights</u>	
	<u>Year ended 31 December 2006</u>	<u>Year ended 31 December 2005</u>	<u>Year ended 31 December 2006</u>	<u>Year ended 31 December 2005</u>
<i>Russian Federation</i>				
OJSC IPP	72.65%	22.65%	72.65%	22.65%
PJSC Fleet of Novorossiysk Commercial Sea Port	85.68%	34.13%	85.68%	34.13%
OJSC Novorossiysk Shipyard	50.03%	—	50.03%	—
OJSC Novoroslesexport	91.38%	16.37%	91.38%	16.37%
PJSC Novorossiysk Grain Terminal	99.99%	—	99.99%	—
PJSC TPS	51.83%	5.33%	59.98%	5.33%
LLC Baltic stevedores company	50.00%	—	50.00%	—
LLC Kuban security services	25.91%	—	50.00%	—
<i>Cayman Islands</i>				
NR Air Ltd.	100.00%	—	100.00%	—

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

35. RESTATEMENT

Subsequent to the issuance of the Group's consolidated financial statements for the year ended December 31, 2006, the Group's management performed actuarial evaluation of retirement benefit obligation. Respective plans were previously accounted for as defined contribution plans.

Accordingly, the Group restated its consolidated financial statements for the years ended December 31, 2005 and 2006 to account for retirement benefit obligation under these plans.

Following is a summary of the effect of the restatement on the consolidated income statements:

	<u>Year ended 31 December 2006</u>			<u>Year ended 31 December 2005</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Cost of sales	(172,347)	(550)	(172,897)	(101,413)	(584)	(101,997)
Gross profit	104,930	(550)	104,380	87,833	(584)	87,249
Other income and expenses	1,577	236	1,813	1,884	215	2,099
Profit before tax	58,050	(314)	57,736	78,583	(369)	78,214
Profit for the year	44,403	(314)	44,089	57,648	(369)	57,279

**PUBLIC JOINT STOCK COMPANY
NOVOROSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)**
(in thousands of US Dollars)

Following is a summary of the effect of the restatement on the consolidated balance sheets:

	<u>31 December 2006</u>			<u>31 December 2005</u>		
	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Goodwill	454,215	2,641	456,856	—	—	—
Retained earnings	571,925	(2,901)	569,024	546,471	(2,587)	543,884
Foreign currency translation reserve	32,698	(165)	32,533	(18,279)	79	(18,200)
Minority interest	42,478	(744)	41,734	—	—	—
Retirement benefit obligation	—	6,451	6,451	—	2,508	2,508

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiary (collectively, the "Group") as of December 31, 2004 and the consolidated statement of operations and comprehensive income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Group has accounted for investments in common stock of two companies, in which it has ownership interests of 25% and 34%, based on the Group's share in fair value of these companies' net assets. In our opinion, accounting principles generally accepted in the United States of America require that such investments be accounted for by the equity method. The information needed to quantify the effects of using the equity method of accounting for these investments on the financial position, results of operations, and cash flows of the Group is not reasonably determinable because management believes the information is not available.

In our opinion, except for the effects of not accounting for the investments in two companies by the equity method as discussed in the preceding paragraph, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22, the accompanying consolidated financial statements for the year ended December 31, 2004 have been restated.

/s/ ZAO Deloitte & Touche CIS

16 October 2007

Moscow, Russia

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2004 (RESTATED)
(in thousands of U.S. dollars)**

	<u>Notes</u>	<u>December, 31 2004 (As restated, see Note 22)</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (including cash and cash equivalents with related parties of \$75,086)	3	\$ 75,519
Short-term investments in related parties	4	20,050
Accounts receivable, net	5	12,372
Inventories	6	4,659
Taxes receivable	7	14,815
Advances paid		264
Deferred tax assets	12	617
Total current assets		<u>128,296</u>
PROPERTY, PLANT AND EQUIPMENT, net	8	225,527
INVESTMENTS IN EQUITY METHOD INVESTEEES	9	15,283
LONG-TERM INVESTMENTS (including investments in related parties of \$42,169)	10	44,517
LONG-TERM LOAN TO A RELATED PARTY	10	6,126
SPARE PARTS		2,752
TOTAL ASSETS		<u>\$422,501</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable		\$ 59
Advances received		1,649
Taxes payable		1,276
Accrued expenses and other current liabilities	11	2,441
Short-term loans from related parties		360
Total current liabilities		<u>5,785</u>
LONG-TERM LIABILITIES		
Long-term loans from related parties		411
Deferred tax liabilities	12	14,863
Total long-term liabilities		<u>15,274</u>
TOTAL LIABILITIES		<u>21,059</u>
Commitments and contingent liabilities	19	—
SHAREHOLDERS' EQUITY:		
Share capital (19,259,815,400 ordinary shares authorized, issued and outstanding; par value 0.01 Roubles)	13	6,669
Retained earnings		357,573
Accumulated other comprehensive income		37,200
TOTAL SHAREHOLDERS' EQUITY		<u>401,442</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$422,501</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, except earnings per share)

	<u>Notes</u>	<u>2004 (As restated, see Note 22)</u>
REVENUE	14	\$ 166,812
Cost of services (exclusive of depreciation shown separately below)	15	(55,335)
General and administrative expenses	16	(26,874)
Depreciation	8	(21,345)
		<u>(103,554)</u>
OPERATING INCOME		<u>63,258</u>
Interest income		2,534
Other expenses, net	17	(1,332)
Foreign currency transactions losses		(4,202)
INCOME BEFORE INCOME TAX		<u>60,258</u>
INCOME TAX EXPENSE	12	(18,265)
INCOME FROM EQUITY METHOD INVESTEEES	9	3,393
NET INCOME		<u>\$ 45,386</u>
Other comprehensive income:		
Translation adjustment, net of income tax of nil		22,574
Comprehensive income		67,960
Weighted average number of common shares outstanding		19,259,815,400
Earnings per share, basic and diluted		0.002

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, except share amounts)

	Notes	Share capital		Retained earnings	Accumulated other comprehensive income	Total
		Shares	Amount			
Balances at January 1, 2004, as previously reported		19,259,815,400	\$6,669	\$302,105	\$14,475	\$323,249
Prior period adjustment (See Note 22)		—	—	20,493	151	20,644
Balances at January 1, 2004, as restated		19,259,815,400	\$6,669	\$322,598	\$14,626	\$343,893
Other comprehensive income:						
Translation adjustment, as restated		—	—	—	22,574	22,574
Net income, as restated		—	—	45,386	—	45,386
Dividends declared	13	—	—	(10,411)	—	(10,411)
Balances at December 31, 2004, as restated		19,259,815,400	\$6,669	\$357,573	\$37,200	\$401,442

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars)

	2004 (As restated, see Note 22)
OPERATING ACTIVITIES:	
Net income	\$ 45,386
Adjustments to reconcile net income to net cash provided by operations:	
Gain on sale of property, plant and equipment	(242)
Gain on sales of short-term investments, net	(207)
Depreciation	21,345
Deferred income taxes	1,716
Reversal of provision for bad debts	(6,333)
Income from equity method investees	(3,393)
Inventory obsolescence expense	1,248
Other adjustments	(768)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	7,523
Decrease in inventories	3
Decrease in taxes receivable	4,938
Decrease in advances paid	416
Decrease in accounts payable	(679)
Increase in advances received	1,116
Decrease in taxes payable	(1,374)
Increase in accrued expenses and other current liabilities	1,075
Net cash provided by operating activities	<u>71,770</u>
INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(22,588)
Proceeds from sale of property, plant and equipment	1,771
Purchases of long-term investments	(5,929)
Purchases of short-term investments	(11,477)
Proceeds from sale of short-term investments	11,083
Net cash used in investing activities	<u>(27,140)</u>
	2004 (As restated, see Note 22)
FINANCING ACTIVITIES:	
Dividends paid	(10,380)
Proceeds from short-term borrowings	346
Proceeds from long-term borrowings	396
Net cash used in financing activities	<u>(9,638)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>3,962</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>38,954</u>
CASH AND CASH EQUIVALENTS, beginning of the year	<u>36,565</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 75,519</u>
SUPPLEMENTAL INFORMATION:	
Income taxes paid	\$ 18,010

The accompanying notes are an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

1. DESCRIPTION OF BUSINESS

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. The consolidated financial statements of NCSP and its subsidiary reflect the consolidation of the separate financial statements of NCSP and LLC Novorossiysky Navalochny Complex (the “Subsidiary”). The Subsidiary was founded by NCSP in October 2003 and its share of voting stock of the Subsidiary is 99.99%. The principal activity of the subsidiary is chemical fertilizer transportation and transshipment services. Both NCSP and its Subsidiary (collectively herein referred to as the “Group”) are incorporated in the Russian Federation. NCSP has two equity method investees: a maritime tug and towing company, OJSC Fleet of NCSP, and a bank, Promfinservicebank.

The Group is located in the Eastern sector of the Black sea in the Tsemesskaya bay and consists of three cargo-loading districts (Western, Central and Eastern), the Sheskhari oil terminal, the technical support base and passenger terminals in Novorossiysk and Anapa. The specialization of the Western district is storage and transshipment of metals, containers, grain, paper, cellulose and chemicals. The central district handles sugar, metals, cereals and other general cargo. Also, it provides storage for frozen goods. The Eastern district is concentrated on the transshipment of cement, scrap metal and chemicals in bulk. Due to the unique climate characteristics of Tsemesskaya Bay, navigation into the port is maintained throughout the year.

As of December 31, 2004, the NCSP shareholders and their respective ownership percentage interests were as follows:

	<u>2004</u>
CJSC Depository Company UralSib (Nominal shareholder)	26.8%
OJSC Commercial bank Russian General Bank (“RGB”) (Nominal shareholder)	21.2%
Federal Agency on Management of Federal Property	20.0%
LLL Delo-Center	5.5%
CJSC Depository Company UralSib	4.7%
CJSC Depository Clearing Company (Nominal shareholder)	2.8%
LLC First Check-Russian bank (Nominal shareholder)	1.8%
OJSC Commercial bank Russian General Bank (RGB)	0.9%
Other shareholders	<u>16.3%</u>
	<u>100.0%</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”), and on the historical cost basis.

Principles of Consolidation—The consolidated financial statements include the accounts of NCSP and the subsidiary over which it has operating and financial control, as described in Note 1. Inter-company balances and transactions between NCSP and the Subsidiary are eliminated upon consolidation.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

Use of Estimates—The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to taxes, useful economic lives and residual values of property, plant and equipment and impairment of long-lived assets.

Foreign Currency Translation—The Group follows a translation policy in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 52, “Foreign Currency Translation”. Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The functional currency of NCSP and the Subsidiary is the Russian Rouble (“Rouble” or “RUR”).

The Group uses the U.S. dollar as its reporting currency. The results and financial position of the NCSP and the Subsidiary are translated into the reporting currency as follows:

- Assets and liabilities are translated at the closing rate at the balance sheet date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a component of other comprehensive income/(loss).

Rates of Exchange—The year-end exchange rates used by the Group in the preparation of the financial statements are as follows:

	<u>2004</u>
RUR/USD	27.75
RUR/EURO (“EUR”)	37.81

Revenue Recognition—Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, delivery has occurred or services have been rendered, 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 from loading services as follows: (i) oil transshipment, (ii) dry cargo transshipment, (iii) container transshipment and (iv) other services.

- (i) Oil transshipment revenue includes the loading of oil and oil-refined products from the oil district named “Sheskhari”;
- (ii) Dry cargo transshipment revenue includes the loading of metal products (slabs, tubing, rolled metal and others), concrete, sugar, cereals, chemicals and other cargo;
- (iii) Container transshipment revenue is derived from container terminal which is located in the Group, which supports loading and unloading container vessels;
- (iv) Other services revenue is mainly derived from operating lease of vessels (tug boats), services on cargo traffic forwarding and cargo storage services.

Revenue is recognized when the 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.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

The Group recognizes revenues net of Value Added Tax ("VAT").

Segment Reporting—According to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", segment reporting follows the internal organization and reporting structure of the Group. The Group operates in a single business segment, which is composed of the liquid and bulk cargo transshipping services. The revenues from the transshipping services constitute substantially all revenues and are attributed to the Russian Federation. All significant assets, production and management and administrative facilities are located in the city of Novorossiysk, the Russian Federation.

Financial Instruments—The Group financial instruments primarily comprise cash and cash equivalents, short-term and long-term investments, accounts and other receivables, accounts and other payables, short-term loans. The estimated fair value of short-term financial instruments as of December 31, 2004 approximated their carrying value as reflected in the balance sheet because of the short-term maturities of these instruments. The fair value of long-term loans and long-term investments was not determinable due to quoted market prices not being readily available.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments with original maturities of three months or less.

Accounts Receivable—Accounts receivable are stated at their net realizable value less any allowance for doubtful receivables. Such allowances reflect either specific cases of delinquencies or defaults or estimates based on evidence of collectibility.

Advances Paid—Advances paid represent amounts paid to suppliers in advance of ordering inventories or services.

Inventories—Inventories are stated at the lower of cost or market value. The cost of the Group's inventories is computed using the weighted average method. Cost of inventories includes cost of purchase, customs duties and transportation and handling costs.

Spare Parts—Spare parts represent components for property, plant and equipment. Due to the long-term nature of their usage (after one year from the purchase date) they are recorded as non-current assets in the financial statements.

Property, Plant and Equipment—Property, plant and equipment is stated at cost less accumulated depreciation.

Major expenditures for improvements and replacements, which extend the useful lives of the assets or increase their revenue generating capacity, are capitalized. Repairs and maintenance are expensed in the consolidated statement of operations as incurred.

Depreciation is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Machinery and equipment	10 years
Transport equipment	7 years
Other ^(a)	5-10 years

(a) Other consists of furniture and fixtures, office equipment and other miscellaneous assets.

Property, plant and equipment that is retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

Construction in progress comprises the costs directly related to the construction of property, plant and equipment plus an appropriate allocation of variable and fixed overhead costs that are incurred in construction. No depreciation is provided for construction in progress until such time as the assets are completed and are placed into service.

Management reviews the carrying value of property, plant and equipment for impairment in accordance with the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Whenever events and circumstances indicate that the carrying value may not be recoverable from the undiscounted estimated future cash flows expected to result from their use and eventual disposal, the Group will record impairment losses to write the carrying amount of such assets down to their fair value, measured by the discounted estimated net future cash flows expected to be generated from the assets.

Investments—The Group's investments in debt securities and marketable equity securities are primarily classified as available-for-sale investments or trading assets and are recorded at fair value. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on available-for-sale investments, net of tax, are reported as a separate component of shareholders' equity. Gains or losses on trading assets resulting from changes in fair value are recognized currently in earnings. The Group periodically reviews these investments for impairment. In the event the carrying value of an investment exceeds its fair value and the decline in fair value is determined to be other-than-temporary, the Group writes down the value of the investment to its fair value.

The Group classifies investments as held-to-maturity when it has a positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance impairment. Amortized discounts are recognized as interest income using the effective interest method over the period to maturity. The investments are written-down to their estimated net realizable value when there is evidence of a decline in value below carried cost that is other than temporary.

Investments in common stock are accounted for using the equity method of accounting if the Group has the ability to exercise significant influence, but not control over, the investee. Significant influence generally exists if the Group has an ownership interest between 20% and 50%. The Group periodically reviews this investment to determine if any other than temporary declines in value have occurred and then the carrying value of the investment is adjusted as necessary.

As of December 31, 2004 the Group had investments in two companies, in which it has ownership interests of 25% and 34%, respectively. Due to the absence of historical information for these investments, the Group has accounted for these based on its share in the fair value of companies' net assets at the balance sheet date, and recognized the change in this fair value during the year in the statement of operations. Such accounting is a departure from the Group's accounting policy and from US GAAP.

Advances Received—Advances received represent the amounts received from customers in advance of the ordering transshipment services.

Income Taxes—Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Group will be able to realize the benefit, or the future deductibility is uncertain.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

Retirement and Post-Retirement Benefits—Contributions are made to the Russian state social and medical insurance and retirement benefit schemes at the statutory rates in force during the year. Contributions for the year ended December 31, 2004 amounted to \$8,419.

All social contributions, including contributions to the pension fund, were substituted with a unified social tax (“UST”) calculated by the application of a regressive rate from 35.6% to 2% of the annual gross remuneration of each employee. UST is allocated to three social funds, including the pension fund, where the rate of contributions to the pension fund vary from 28% to 2%, respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

Dividends—Dividends are recognized at the date they are declared by the shareholders in general meeting. Distributable retained earnings of the Group are based on amounts extracted from the statutory accounts of NCSP (Note 13).

Comprehensive Income—Comprehensive income is defined as net income plus all other changes in net assets from non-owner sources.

Earnings per Share—Basic and diluted earnings per share is calculated on the basis of the net profit for the year and the weighted average number of common shares outstanding during the year.

Leases—Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks of ownership of property are accounted for as capital leases. Assets acquired under capital leases are amortized over the estimated useful lives of the underlying assets. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

New Accounting Pronouncements

- (a) In January 2003, the Financial Accounting Standards Board (the “FASB”) issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51” (the “Interpretation”). The Interpretation requires the consolidation of variable interest entities (“VIE”) in which an enterprise absorbs a majority of the entity’s expected losses, receives a majority of the entity’s expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. In December 2003, the FASB issued a revision of the Interpretation (Revised Interpretation 46). The Group’s adoption in 2004 of Revised Interpretation 46 did not have a material impact on its consolidated financial statements.
- (b) In December 2004, the FASB issued Statement 123(Revised 2004) “Share Based Payment,” which requires compensation costs related to share-based payment transactions to be recognized in the financial statements. Management believes that the adoption of SFAS 123(R) will not have a material impact on the Group’s consolidated financial statements.
- (c) In December 2004, the FASB issued Statement 153 “Exchanges of Nonmonetary Assets.” FASB 153 replaces the exception for nonmonetary exchanges of similar productive assets in APB Opinion No. 29 “Accounting for Nonmonetary Transactions” with a more general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. Management believes that the adoption of SFAS 153 will not have a material impact on the Group’s consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

- (d) In March 2005, the FASB issued Interpretation 47 “Accounting for Conditional Asset Retirement Obligations.” This interpretation clarifies that the term “conditional asset retirement obligation,” as used in FASB Statement No. 143 “Accounting for Asset Retirement Obligations,” refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The Interpretation also provides indicators that would preclude an entity from recognizing a liability for such obligations because the timing and (or) method of settlement are uncertain. Interpretation 47 is effective for fiscal years ending after December 15, 2005. Management believes that the adoption of Interpretation 47 will not have a material impact on the Group’s consolidated financial statements.
- (e) In March 2004, the Emerging Issues Task Force (the “EITF”) reached consensus on Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” (“EITF 03-1”). EITF 03-1 provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. Management believes that the adoption of EITF 03-1 is not expected to have a material impact on the Group’s consolidated financial statements.
- (f) In May 2003, the EITF reached a consensus on Issue No. 00-21, “Accounting for Revenue Arrangements with Multiple Deliverables”, which addresses certain aspects of accounting by a vendor for arrangements with multiple revenue-generating activities. The guidance in EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have an impact on the Group’s financial consolidated financial statements.
- (g) In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections” (“SFAS 154”), which requires retrospective application to prior period financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management believes that the adoption of SFAS 154 is not expected to have a material impact on the Group’s consolidated financial statements.
- (h) In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (“FIN 48”). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company’s financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Management has not yet determined the impact of adopting FIN 48.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2004 consisted of the following:

	<u>2004</u>
U.S. dollars	\$64,303
Roubles	11,192
EUR	<u>24</u>
Total	<u><u>\$75,519</u></u>

4. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2004 consisted of the following:

	<u>Annual interest rate</u>	<u>Maturity</u>	<u>Currency</u>	<u>2004</u>
Promissory notes purchased from LLC Saviola FinTrust	6%-10%	2005	RUR	11,558
Promissory notes purchased from PJSC TPS	6%	2005	RUR	360
Certificates of deposit with RGB	12%-14%	2005	RUR	<u>8,132</u>
Total				<u><u>\$20,050</u></u>

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of allowance for doubtful accounts, as of December 31, 2004 consisted of the following:

	<u>2004</u>
Trade receivables	\$13,020
Allowance for doubtful accounts	<u>(648)</u>
Total	<u><u>\$12,372</u></u>

6. INVENTORIES

Inventories as of December 31, 2004 consisted of the following:

	<u>2004</u>
Materials	\$3,843
Fuel	465
Other	<u>351</u>
Total	<u><u>\$4,659</u></u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

7. TAXES RECEIVABLE

Taxes receivable as of December 31, 2004 consisted of the following:

	<u>2004</u>
VAT receivable	\$12,331
Prepaid income tax	1,915
Other	<u>569</u>
Total	<u>\$14,815</u>

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as of December 31, 2004 consisted of the following:

	<u>2004</u>
Machinery and equipment	\$104,919
Buildings	94,136
Transport equipment	73,887
Other	<u>4,913</u>
Gross book value of property, plant and equipment	277,855
Less: accumulated depreciation	(97,043)
Construction in progress	41,304
Advance payments for property, plant and equipment	<u>3,411</u>
Total	<u>\$225,527</u>

Depreciation expense during the year ended December 31, 2004 amounted to \$21,345.

Construction in progress and advance payments in the amounts of \$41,304 and \$3,411, respectively, were not depreciated as these do not represent assets put into use as of December 31, 2004.

9. INVESTMENTS IN EQUITY METHOD INVESTEEES

As a result of the restatement as disclosed in Note 22, the Group's investments in equity method investees as of December 31, 2004 are as follows:

<u>Name of associate</u>	<u>Principal activity</u>	<u>Investment carrying value</u>	<u>Ownership and voting interest, %</u>
	Tug and bunkering activities		
Fleet NCSP		14,730	34.1%
Promfinservicebank	Finance	<u>553</u>	24.7%
Total		<u>15,283</u>	

The Group's income from investees recorded in the consolidated statement of operations and other comprehensive income for the year ended December 31, 2004 amounted to \$3,393.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

10. LONG-TERM INVESTMENTS AND LOAN RECEIVABLE

Long-term investments as of December 31, 2004 consisted of the following:

	<u>2004</u>
Debt investments ⁽¹⁾	36,481
Other long-term investments ⁽²⁾	<u>8,036</u>
	<u><u>44,517</u></u>

(1). Investments in debt securities as of December 31, 2004 consisted of the following:

	<u>Maturity</u>	<u>2004</u>
Certificates of deposit of RGB ^(a)	February 2011	\$19,807
Promissory notes of RGB ^(b)	February 2011	11,479
Certificate of deposit of RGB ^(c)	January 2005	3,577
OVGVZ ^(d)	November 2007	<u>1,618</u>
Total		<u>\$36,481</u>

(a) Certificates of deposit of RGB denominated in RUR bear 2% interest per annum.

(b) Promissory notes at December, 31 2004 consisted of 2% notes from RGB.

(c) Certificate of deposit of RGB denominated in USD bears 4% interest per annum.

(d) OVGZ represent Russian Ministry of Finance bonds denominated in USD which bear 3% coupon per annum.

All debt investments are non-marketable securities and are accounted for at cost.

(2). Other long-term investments consisted of investments in the common stock of companies with ownership interest less than 20%.

Loan receivable as of December 31, 2004 represents an unsecured interest-free RUR-denominated loan with original maturity in November 2011 to PJSC Novorossiysk Grain Terminal, a related party, in the amount of \$6,126.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2004 consisted of the following:

	<u>2004</u>
Payroll and other accrued expenses	\$2,272
Dividends payable	<u>169</u>
Total	<u>\$2,441</u>

12. INCOME TAX

The Group's provision for income taxes for the year ended December 31, 2004 was as follows:

	<u>2004</u>
Current income tax	\$16,549
Deferred taxes	<u>1,716</u>
Total income tax expense	<u>\$18,265</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

The actual provision for income taxes reconciled to the theoretical tax provision at the statutory rate was as follows:

	<u>2004</u>
Income tax provision computed on income before income tax at statutory rate (24%)	\$14,462
Adjustments due to:	
Non-deductible items	1,382
Effect of change in exchange rates	725
Other	1,696
Income tax expense	<u>\$18,265</u>

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are presented below:

	<u>2004</u>
Deferred tax assets – current	
Allowance for doubtful accounts receivable	\$ 617
Total deferred tax assets – current	<u>\$ 617</u>
Net deferred tax liabilities – long term	
Property, plant and equipment depreciation	11,359
Undistributed earnings of equity method investees	3,504
Total net deferred tax liabilities – long term	<u>\$14,863</u>

13. SHARE CAPITAL

As of December 31, 2004, the share capital of the Group consisted of 19,259,815,400 shares authorized, issued and outstanding with par value of 0.01 Roubles. There was no movement in the share capital during 2004.

In the year ended December 31, 2004, the Group declared dividends of \$10,411 which relate to the financial performance of the Group in the previous financial year. These dividends were not fully paid as of 31 December 2004.

14. REVENUE

Revenue for the year ended December, 31 2004 consisted of the following:

	<u>2004</u>
Oil loading services	\$ 82,387
Transshipment services	73,016
Other services	11,409
Total	<u>\$166,812</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

15. COST OF SERVICES

Cost of services for year the ended December 31 2004, consisted of the following:

	<u>2004</u>
Payroll and related taxes	\$30,440
Maintenance and repair expenses	12,134
Utilities	4,187
Materials	2,900
Rent, including land	5,674
Total	<u>\$55,335</u>

16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 2004, consisted of the following:

	<u>2004</u>
Insurance costs	\$14,911
Maintenance	1,418
Operating taxes other than income tax	3,116
Payroll and related taxes	3,489
Writ-down of obsolete inventories	1,248
Utilities and support services	2,918
Professional services	4,669
Rent, including land	507
Advertising	348
Reversal of bad debt allowance	(6,333)
Other	583
Total	<u>\$26,874</u>

The reversal of the bad debt allowance primarily relates to cash received during the year from Transneft, a state-controlled enterprise, as a result of a litigation settlement with this customer. This amount was previously provided for and recognized as bad debt expense. See also Note 17.

17. OTHER EXPENSES, NET

Other expenses, net of other income for the year ended December, 31 2004, consisted of the following:

	<u>2004</u>
Litigation settlement received ^(a)	\$ 1,185
Charitable donations	(2,102)
Gain on sale of property, plant and equipment	242
Penalties, duties and fines paid	(55)
Other	(602)
Total	<u>\$(1,332)</u>

(a) The amount of litigation settlement of \$1,185 recorded in other income represents the compensation received from Transneft based on the court decision in favor of the Group for disputable accounts receivable balances due from Transneft.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

18. RELATED PARTY TRANSACTIONS

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

Transactions (primarily the purchases and sales of services) with state-owned companies such as Transneft (oil-transporting) and Russian Railways (transport services) are considered transactions with related parties because the Russian Government holds a 20% stake in NCSP through the Federal Agency on Management of Federal Property.

Balances with related parties as of December, 31 2004 were as follows:

Cash and cash equivalents

Bank Nikoil (Uralsib)	24,945
Russian General Bank (RGB)	47,951
Others	2,190

Short-term certificates of deposits and promissory notes purchased

LLC Saviola FinTrust	11,558
Russian General Bank (RGB)	8,132
OJSC TPS	360

Long-term certificates of deposits and promissory notes purchased

Russian General Bank (RGB)	34,863
Others	7,306

Long-term loans to related parties

Novorossiysk Grain Terminal	6,126
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Loans from related parties

Long-term

Others	411
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Short-term

Others	360
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Transactions with related parties for the year ended December, 31 2004 were as follows:

Revenue

Fleet NCSP	4,977
Transneft	4,702

Cost of services

Nikoil Group	(15,118)
Russian Railways	(2,579)

Interest income received

Russian General Bank (RGB)	2,476
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The majority of transactions and balances with related parties represent purchases of depositary notes, investments in deposits and cash and cash equivalents held with the Russian General Bank, Nikoil Bank (Uralsib) and parties related to these companies.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

19. COMMITMENTS AND CONTINGENCIES

Commitments

Leases

The Group entered into certain operating lease arrangements on mooring installations and land. These arrangements have terms of between 5 and 49 years. All operating lease contracts contain market rent 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. The Group recognizes rent expense on a straight-line basis over the term of the lease, excluding renewal periods, unless renewal of the lease is reasonably assured. Rental expense for the year ended December 31, 2004 amounted to \$6,181. Non-cancellable operating leases with initial terms in excess of one year are as follows:

2005	2,921
2006	2,135
2007	2,135
2008	2,135
2009	2,135
Thereafter	13,967
Total	<u>\$25,428</u>

Purchase Obligations

The Group has agreements with suppliers to purchase property, plant and equipment. The aggregate amount of commitments under such agreements as of December 31, 2004 is approximately \$14,848.

20. BUSINESS RISKS

Operating Environment—The Russian economy continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets and the existence of currency controls that cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal and economic reforms.

Concentration of credit risk

Credit risk is the risk that a customer or supplier may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. In 2004 approximate 85% of the Group's sales were made to 10 customers. In order to mitigate this risk the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate.

Tax Environment—Russian tax authorities are increasingly directing their attention to the business community as a result of the overall Russian Federation economic environment. The local and national tax environment in the Russian Federation is constantly changing and subject to inconsistent application, interpretation and enforcement. There have been

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

many new laws and related regulations introduced in recent years which are not always clearly written. Non-compliance with Russian Federation laws and regulations can lead to the imposition of punitive penalties and interest. Future tax examinations could raise issues or assessments, which are different from the Group's filings. Such assessments could include taxes, penalties and interest, or other fines, and these amounts could be material.

Litigation—The Group is involved in litigation and other claims that are in the ordinary course of its business activities. Management believes that the resolution of such matters will not have a material impact on its consolidated financial position or its consolidated results of operations.

Insurance—As of December 31, 2004, the Group had insurance coverage for its major facilities. Until Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position. The Group had also taken out third party liability insurance in respect of losses to third parties arising from accidents related to the Group's operations and liability insurance covering accidents occurring in certain areas of the Group with operations using high risk facilities.

Environmental Matters—The Group is subject to extensive federal, state and local environmental controls and regulations in the areas in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment, disturbance of land, potential to impact flora and fauna and other environmental concerns.

The Group's management believes that the Group is in compliance with all current existing environmental laws and regulations in the areas in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernize technology to meet more stringent standards.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

21. SUBSEQUENT EVENTS

In 2005, the Group acquired 16.38% of OJSC IPP (the “IPP”), 16.37% of OJSC Novoroslesexport and 5.33% of PJSC TPS for total consideration of \$40,637.

On June 14, 2006 the Group acquired controlling stakes in its associates: IPP and Fleet. It increased its shareholdings from 22.65% to 72.65% and from 34.13% to 85.68% in IPP and Fleet NCSP, respectively. On 14 June 2006, the Group also acquired controlling stakes in the following entities:

<u>Company</u>	<u>Interest Acquired in 2006</u>	<u>Effective % held after acquisition</u>
PJSC Novorossiysk Grain Terminal	99.99%	99.99%
OJSC Novoroslesexport	75.01%	91.38%
OJSC Novorossiysk Shipyard	51.55%	85.68%
Fleet NCSP ^(a)	50.78%	50.00%
IPP	50.00%	72.65%
PJSC TPS	30.00%	51.83%

(a) NCSP bought 51.55% of Fleet, which own 50% of Baltic Stevedore Company. At the year end NCSP acquired 50.00% of Baltic Stevedore Company from Fleet.

(b) Group owns 51.83% of PJSC TPS, which owns 50% of LLC Kuban security services. Accordingly, the Group effectively holds 25.91% of LLC Kuban security services through its ownership of OJSC TPS.

These companies were purchased from U.F.G.I.S. Structured Holdings Limited for total cash consideration of \$528,046.

To fund the acquisition, the Group entered into a non-revolving loan agreement with Open Joint Stock Company Commercial Savings Bank of the Russian Federation (“Sberbank”) on June 14, 2006 (the “Sberbank Loan”). Sberbank Loan provided the Group with a non-revolving credit line in the aggregate amount of \$450,000. This loan is due in full on June 11, 2009 unless extended in accordance with its terms until June 11, 2013.

The Sberbank Loan carried an annual interest rate of 8.8% or 11.0% depending upon whether the Group achieves certain stated average monthly current account turnover. The loan agreement also provided for a default interest rate of 14% per annum above the interest rate then in effect for any amounts due and unpaid. As a collateral for its obligations under the Sberbank loan agreement, the Group pledged all of its shares in Novorossiysk Shipyard, Timber Export, Fleet, IPP and Grain Terminal and also its shareholders pledged 50% plus 1 share of the shares in NCSP.

During May 2007, the Group acquired additional 15.04% of shares in Shipyard and 0.01% of shares in Grain Terminal for a cash consideration of 24,642, 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 interest was 36,711. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 5,525. Excess of consideration paid over the Group’s share in net assets acquired in the amount of 19,117 was recognised in the statement of changes in equity as decrease of retained earnings as of 30 June 2007.

On May 17, 2007, the Group, through a newly formed special purpose entity, Novorossiysk Port Capital S.A., issued loan participation notes due 2012 (the “Loan Participation Notes”) in an aggregate principal amount of US\$300.0 million bearing 7% per annum. These notes mature on May 17, 2012, and interest is payable semi-annually on May 17 and November 17, commencing November 17, 2007. Notes were admitted to the official Irish

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

Stock Exchange listing. The proceeds of these notes were used in part to repay indebtedness under the Sberbank Loan Agreement.

Up to the date of approval of these consolidated financial statements the Group raised additional \$10,011 of long-term debt under existing loan agreements with Sberbank. In July 2007 the Group also refinanced the non-revolving loan from Sberbank of \$118,000 with the new LIBOR + 1.6% syndicated term loan provided by CJSC International Moscow Bank and Bank Austria Creditanstalt AG which matures on July 17, 2010 (the "Facility"). 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 US\$5.0 million increments above a minimum prepayment of US\$10.0 million. 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 loan agreement with amounts in the Group's IFRS audited consolidated financial statements, including: (i) from and after 31 December 2006, 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 Eurobonds, the proceeds of the Facility and our own funds, and the loan agreement was terminated in July 2007. The repayment led to the release of all pledged shares under the Sberbank Loan.

On 28 June 2007, the Group acquired 100% of the share capital of OJSC NPK Zarubezhneft ("Zarubezhneft") for a cash consideration of 6,456. The carrying value of OJSC NPK Zarubezhneft net assets in the consolidated financial statements on the date of acquisition was 9,346. Excess of the Group's share in net assets acquired over the consideration paid in the amount of 2,890 was recognised in the income statement of the Group for the six months ended 30 June 2007.

The following changes in interest rates occurred up to the date of approval of the condensed consolidated financial statements:

<u>Secured bank loans</u>	<u>Maturity date</u>	<u>30 June 2007</u>	<u>Interest rate at 30 June 2007</u>	<u>Interest rate after 1 July 2007</u>
Sberbank (USD)	03.08.2011	28,689	9.5%	8.2%
Sberbank (USD)	09.11.2010	26,747	9.2%	8.2%
Sberbank (USD)	04.06.2010	13,924	8.8%	8.2%
Sberbank (USD)	25.03.2010	6,350	8.8%	8.0%
Sberbank (USD)	11.07.2011	6,268	9.2%	8.2%
Sberbank (USD)	23.12.2009	4,410	8.8%	8.0%
Sberbank (USD)	09.09.2011	2,888	9.2%	8.2%
Sberbank (USD)	02.08.2011	1,700	9.5%	8.2%

On 1 July 2007, the Group signed the addendum to the existing insurance agreement with OJSC Russia. Based on the terms of this addendum the 2007 annual insurance premium was decreased from 16,269 to 8,565. During the six months ended 30 June 2007, insurance premium was accrued based on the insurance agreement effective during the period.

On 11 October 2007, the FSFM approved the placement and circulation of up to 3,909,742,526 Ordinary Shares of NCSP, representing 20.3% of all Ordinary Shares, in the form at GDRs.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 (RESTATED)**
(in thousands of U.S. dollars, unless otherwise stated)

22. RESTATEMENT

Subsequent to the issuance of the Group's consolidated financial statements for the year ended December 31, 2004, the Group's management changed its accounting for investments in companies with ownership interests in excess of 20%. Although its accounting policy was consistent, these investments were previously accounted for by cost because the Group lacked certain historical information in order to appropriately account for these investments under the equity method. Such accounting was not in accordance with the Group's accounting policy or with US GAAP. The Group changed its accounting for these investments to be based on the equity method. However due to the absence of historical information for these investments, the Group accounted for them based on its share in the fair value of the companies net assets at the balance sheet date, with the change in the fair value during the year being recognized in the statement of operations. Management believes this more closely approximates equity method accounting; however, this accounting is also a departure from the Group's accounting policy and US GAAP.

Also subsequent to the issuance of the Group's consolidated financial statements for the year ended December 31, 2004, the Group's management determined that it had erroneously accounted for held-to-maturity investments and a loan receivable from a related party, by discounting the expected future cash flows. As a result, long term investments and loan have been restated to measure these assets at amortised costs. Additionally, the loss recorded in 2006 on non-interest bearing loan to a related party was reversed. The related deferred tax liabilities previously recorded for these items were also reversed.

The Group restated its consolidated financial statements for the year ended December 31, 2004 to reflect these changes. Following is a summary of the effect of the restatement on the consolidated statement of operations and comprehensive income for the year ended December 31, 2004.

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Interest income	4,356	(1,822)	2,534
Imputed loss from non-interest bearing loan	(3,231)	3,231	—
Income tax expense	(15,826)	(2,439)	(18,265)
Income from equity method investees	—	3,393	3,393
Net income	43,023	2,363	45,386
Earnings per share, basic and diluted, US dollars	0.002	—	0.002

Following is a summary of the effect of the restatement on the consolidated balance sheet as of December, 31 2004:

	<u>As previously reported</u>	<u>Adjustments</u>	<u>As restated</u>
Investments in equity method investees	—	15,283	15,283
Long-term investments	29,963	14,554	44,517
Long-term loans to related party	—	6,126	6,126
Deferred tax liabilities	2,957	11,906	14,863
Accumulated other comprehensive income	35,999	1,201	37,200
Retained earnings	334,717	22,856	357,573

NCSP

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