Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Independent Auditors' Report
Consolidated Financial Statements

For the Year Ended 31 December 2007

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

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

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

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

Management is also responsible for:

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

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

I.E. Vilinov	**G.I. Kachan**
Chief Executive Officer	Chief Accountant

Deloitte.

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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 (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

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

Deloitte & Touche

21 April 2008
Moscow, Russia

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in thousands of US Dollars, except earnings per share)

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

I.E. Vilinov
Chief Executive Officer

G.I. Kachan
Chief Accountant

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

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2007
(in thousands of US Dollars)

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

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

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(in thousands of US Dollars)

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

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in thousands of US Dollars)

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

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

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 transhipping services, storage, sea vessel servicing and passenger transit. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. On 14 June 2006, NCSP purchased controlling stakes in subsidiaries in which it previously had minority interests. The principal activities and the significant entities of the Group as of 31 December 2007 were as follows (Note 35):

Subsidiaries by country of incorporation	Nature of business
Russian Federation	
OJSC IPP	Stevedoring and storage services
PJSC Fleet of Novorossiysk Commercial Sea Port	Tug and towing services
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services
OJSC Novoroslesexport	Stevedoring and storage services
PJSC Novorossiysk Grain Terminal	Stevedoring and storage services
LLC Baltic stevedores company	Stevedoring and storage services
OJSC NPK Zarubezhneft	Owns land for future construction of transhipping terminals
Cayman Islands	
NR Air Ltd.	Transportation services

Novorossiysk Port Capital S.A. ("Novorossiysk Capital") was created as a special purpose entity during financial year 2007 and was used as a vehicle for the issuance of loan participation notes.

Russian companies of the Group (except for LLC Baltic stevedores company) are located in the Eastern sector of the Black Sea in Tsemesskaya bay.

NCSP is the largest stevedore of the Group and the holding company. It has three cargo-loading districts (Western, Central and Eastern), the Sheskharis oil terminal, the technical support base and the passenger terminal in Novorossiysk. NCSP has six significant subsidiaries, the primary activities of which are as follows:

Open Joint Stock Company IPP ("IPP")

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

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

Fleet is a maritime tug and towing company. It provides most of the tug and towing and other services for ships and other maritime vessels at and around the Novorossiysky Port (the "Port"). In addition, it provides emergency services such as transferring vessels to shelter zones during emergencies, provides cleaning and containment services for oil or other liquid spills in and around the Port and provides hazardous material response and waste management services pursuant to its agreement on water use with Kubanskoye Basin Department of Krasnodar Kray under the Russian Ministry of Natural Resources.

Open Joint Stock Company Novorossiysk Shipyard ("Shipyard")

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

Open Joint Stock Company Novoroslesexport ("Timber Export")

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

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

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

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

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

2. BASIS OF PRESENTATION

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

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

Standards and interpretations effective in current period

In the current year, the Group has adopted all new International Financial Reporting Standards and interpretations issued by International Financial Interpretation Reporting Interpretation Committee that are mandatory for adoption in the annual periods beginning on or after 1 January 2007. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group; however give rise to additional disclosures.

The principles effects of these changes are as follows:

IAS 1 Presentation of Financial Statements (amendment)

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

IFRS 7 Financial Instruments: Disclosures

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

(in thousands of US Dollars)

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

Early adoption of Standards and Interpretations

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

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

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

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

Standards and interpretations in issue but not yet adopted

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Basis of consolidation

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

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

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

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

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

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

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

Business combinations

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

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

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

Investments in associates

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

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Profit and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

Goodwill

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

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

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

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

(in thousands of US Dollars)

Non-current assets held for sale

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

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Functional and presentation currency

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

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

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

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

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

Rates of exchange

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

	31 December 2007	31 December 2005
Year-end rates		
RUR / 1 US Dollar	24.5462	26.3311
Average rates for the year ended		
RUR / 1 US Dollar	25.5770	27.1920

Foreign currencies

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

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

Revenue recognition

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

The Group's revenue is derived as follows:

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

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

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

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

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

Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to finance costs, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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

Borrowing costs

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

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

Defined contribution plans

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

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

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax (“UST”) calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund, where the rate of contributions to that fund vary from 20% to 2%, depending on the annual gross remuneration of each employee.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service.

Defined benefit plans

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

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

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

Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are put into operation.

Construction in progress comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

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

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

Mooring rights and other intangible assets

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial assets

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

Financial assets are classified into the following specified categories:

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

AFS financial assets

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

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

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

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

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

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

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

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

Financial liabilities

Financial liabilities are classified into the following specified categories:

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Effective interest method

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

Derecognition of financial liabilities

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

Provisions

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

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

Dividends declared

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

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

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

Taxation

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods of the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Allowance for trade and other receivables

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

Useful lives of assets

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

Impairment of goodwill

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

Income tax

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

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

Allowance for slow-moving inventory

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

5. SEGMENT INFORMATION

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

Services from which reportable segments derive their revenues

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

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

(in thousands of US Dollars)

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

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

Other Group operations mainly comprise passenger transit, other services provided at the Port and resale of energy and utilities to external customers. Neither of these services constitutes a separate business segment.

Information regarding the Group's reportable segments as at 31 December 2007 and for the year then ended is presented below. Comparative information as at 31 December 2006 and for the year then ended could not be reliably produced by the management of the Group.

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

(in thousands of US Dollars)

Geographical information

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

	Year ended 31 December 2007
Revenue	
Export	344,833
Russian Federation	138,547
Total	**483,380**

6. REVENUE

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

7. COST OF SERVICES

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

(in thousands of US Dollars)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

9. INVESTMENT INCOME

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

(in thousands of US Dollars)

10. FINANCE COSTS

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

11. OTHER EXPENSES, NET

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

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

12. INCOME TAX

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

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

(in thousands of US Dollars)

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

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

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

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:

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

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

(in thousands of US Dollars)

13. DIVIDENDS AND DISTRIBUTIONS

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

14. EARNINGS PER SHARE

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

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

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

(in thousands of US Dollars)

15. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
1 January 2006	**-**	**146,311**	**119,591**	**66,765**	**-**	**3,882**	**18,442**	**6,044**	**361,035**
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	**8,432**	**248,269**	**189,436**	**76,528**	**24,827**	**8,376**	**64,443**	**111,047**	**731,358**
Reclassification	(1,835)	(23,315)	26,448	(146)	-	7,452	(8,604)	-	-
Reclassified at 31 December 2006	**6,597**	**224,954**	**215,884**	**76,382**	**24,827**	**15,828**	**55,839**	**111,047**	**731,358**
Additions	-	4,394	7,997	-	-	3,959	2,368	98,096	116,814
Acquired on acquisition of subsidiaries	13,139	-	-	-	-	6	3	506	13,654
Transfer	-	30,214	7,085	-	-	465	446	(38,210)	-
Disposals	-	(10,189)	(1,362)	(3,282)	-	(771)	(542)	(26,020)	(42,166)
Disposal of subsidiary	-	-	-	-	-	-	(735)	-	(735)
Effect of translation into presentation currency	1,034	17,384	16,277	5,416	1,805	1,306	4,186	9,022	56,430
31 December 2007	**20,770**	**266,757**	**245,881**	**78,516**	**26,632**	**20,793**	**61,565**	**154,441**	**875,355**

(in thousands of US Dollars)

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

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

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

(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	14,463
At 31 December 2006	**456,856**
Effect of translation into presentation currency	33,221
At 31 December 2007	**490,077**
Carrying amount	
31 December 2006	**456,856**
31 December 2007	**490,077**

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

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

17. MOORING RIGHTS AND OTHER INTANGIBLE ASSETS

Cost	
Balance as of 1 January 2006	**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	529
Balance as of 31 December 2006	**15,125**
Software and other additions	787
Effect of translation into foreign currency	1,325
Balance as of 31 December 2007	**17,237**

(in thousands of US Dollars)

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

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

18. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

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

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

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

(in thousands of US Dollars)

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

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

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

19. INVENTORIES

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

20. TRADE AND OTHER RECEIVABLES

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

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

(in thousands of US Dollars)

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

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

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

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

Movement in allowance for doubtful trade and other receivables:

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

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

(in thousands of US Dollars)

Ageing of impaired trade and other receivables:

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

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

21. CASH AND CASH EQUIVALENTS

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

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

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

22. SHARE CAPITAL

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

At 31 December 2007, the outstanding share capital of the Group was 10,471 (2006: 10,366). During 2007, the Group repurchased its own shares at nominal value of 10.

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

(in thousands of US Dollars)

23. DEBT

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

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

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

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

(in thousands of US Dollars)

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

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

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

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

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

The Group borrowings are repayable as follows:

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

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

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

(in thousands of US Dollars)

24. EMPLOYEE BENEFITS

Unfunded defined benefit plan

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

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

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

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

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

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

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

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

(in thousands of US Dollars)

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

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

Defined contribution plans

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

25. TRADE PAYABLES

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

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

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

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

(in thousands of US Dollars)

26. OTHER PAYABLES AND ACCRUALS

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

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

27. CASH FLOW FROM OPERATING ACTIVITIES

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

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

(in thousands of US Dollars)

28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

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

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

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

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

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

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

(in thousands of US Dollars)

29. RELATED PARTY TRANSACTIONS

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

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

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

Material balances with related parties were as follows:

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

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

(in thousands of US Dollars)

Material transactions with related parties were as follows:

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

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

Compensation of key management personnel

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

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

30. COMMITMENTS AND CONTINGENCIES

Litigation

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

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

Taxation contingencies in the Russian Federation

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

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

(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 estimates total unprovided amount of possible tax risks to be approximately 752.

Environmental matters

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

Russian Federation risk

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

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

Insurance

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

Operating lease arrangements

Operating lease arrangements relate to the lease of land and mooring installations from the Russian State. These arrangements have lease terms of between 5 and 49 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the land and mooring installations at the expiry of the lease period.

Non-cancellable operating leases with initial terms in excess of one year are as follows:

2008	3,657
2009	3,657
2010	3,362
2011	3,309
2012	3,309
Thereafter	75,758
Total	**93,052**

(in thousands of US Dollars)

31. CAPITAL COMMITMENTS

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

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

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

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

33. RISK MANAGEMENT

Capital risk management

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

Major categories of financial instruments

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

(in thousands of US Dollars)

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

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

Foreign currency risk

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

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

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

(in thousands of US Dollars)

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

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

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure, at the same time the majority of the Group's financial assets and liabilities are at fixed rates and thus risk is limited.

The table below details the Group's sensitivity to increase or decrease of floating rate by 1%. The analysis was applied to loans and borrowings (financial liabilities) based on the assumptions that amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

	LIBOR – impact	
	31 December 2007	31 December 2006
Profit or Loss	1,180	-

Credit risk

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

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

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

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

(in thousands of US Dollars)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The summaries of maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual payments are presented in Notes 23 and 25.

34. EVENTS AFTER THE BALANCE SHEET DATE

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

35. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

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

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

(in thousands of US Dollars)

36. RECLASSIFICATIONS

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

The effect of the reclassifications is summarised below:

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