

**Public Joint Stock Company
Novorossiysk
Commercial Sea Port
and Subsidiaries**

**Condensed Consolidated
Interim Financial Statements**

**For the three months
ended 31 March 2008 and 2007
(Unaudited)**

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED):	
Condensed consolidated income statement	1
Condensed consolidated balance sheet	2
Condensed consolidated statement of changes in equity	3
Condensed consolidated statement of cash flows	4
Selected explanatory notes to the condensed consolidated interim financial statements (unaudited)	5-21

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars, except earnings per share)**

	Notes	Three months ended 31 March 2008	Three months ended 31 March 2007
Revenue	3	151,628	93,536
Cost of services	4	(75,083)	(51,042)
GROSS PROFIT		76,545	42,494
Selling, general and administrative expenses	5	(14,521)	(14,025)
OPERATING PROFIT		62,024	28,469
Interest income		987	70
Finance cost	6	(8,247)	(10,600)
Foreign exchange gain		20,714	6,045
Other income/ (expenses), net	7	(100)	(5,650)
PROFIT BEFORE INCOME TAX		75,378	18,334
INCOME TAX	8	(19,082)	(6,179)
PROFIT FOR THE PERIOD		56,296	12,155
Attributable to:			
Equity shareholders		53,254	11,511
Minority interest		3,042	644
		56,296	12,155
Weighted average number of common shares outstanding		19,259,815,400	19,072,719,190
Earnings per share, basic and diluted (US Dollars)		0.0028	0.0006

The notes on pages 5 to 22 form an integral part of these unaudited condensed consolidated interim financial statements

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	31 March 2008	31 December 2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	779,677	755,451
Goodwill		511,556	490,077
Mooring rights and other intangible assets		15,599	14,836
Investments in securities and other financial assets		16,049	15,863
Non-current VAT recoverable		598	998
Spare parts		6,477	6,585
Deferred tax assets		3,084	3,078
		1,333,040	1,286,888
CURRENT ASSETS:			
Inventories	11	16,162	7,875
Trade and other receivables	12	98,954	71,185
Investments in securities and other financial assets		8,569	3,999
Cash and cash equivalents	13	80,347	66,660
		204,032	149,718
TOTAL ASSETS		1,537,072	1,436,606
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	14	10,471	10,471
Share premium	14	10,063	10,063
Foreign currency translation reserves		113,366	80,045
Retained earnings		672,796	630,650
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		806,696	731,229
MINORITY INTEREST		43,724	38,883
TOTAL EQUITY		850,420	770,112
NON-CURRENT LIABILITIES:			
Long-term debt	15	519,841	508,189
Retirement benefit obligation		80,493	8,181
Deferred tax liabilities		8,456	77,304
		608,790	593,674
CURRENT LIABILITIES:			
Short-term debt		24,922	30,426
Trade payables	15	18,594	17,481
Other payables and accruals	16	34,346	24,913
		77,862	72,820
TOTAL EQUITY AND LIABILITIES		1,537,072	1,436,606

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**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

	Note	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2007		10,366	-	32,533	569,024	611,923	41,734	653,657
Profit for the period		-	-	-	11,511	11,511	644	12,155
Buy-out of treasury shares		(10)	-	-	(792)	(802)	-	(802)
Effect of translation into presentation currency		-	-	7,652	-	7,652	521	8,173
Balance at 31 March 2007		10,356	-	40,185	579,743	630,284	42,899	673,183
Balance at 1 January 2008		10,471	10,063	80,045	630,650	731,229	38,883	770,112
Profit for the period		-	-	-	53,254	53,254	3,042	56,296
Purchase of unrecognised minority interest	17	-	-	-	(11,108)	(11,108)	-	(11,108)
Effect of translation into presentation currency		-	-	33,321	-	33,321	1,799	35,120
Balance at 31 March 2008		10,471	10,063	113,366	672,796	806,696	43,724	850,420

The notes on pages 5 to 21 form an integral part of these unaudited condensed consolidated interim financial statements

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Three months ended 31 March 2008	Three months ended 31 March 2007
Cash flows from operating activities			
Cash generated from operations		55,765	41,801
Income tax paid		(13,972)	(5,312)
Interest paid		(4,621)	(11,164)
		<u>37,172</u>	<u>25,325</u>
Net cash generated by operating activities			
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		69	1,596
Payments for property, plant and equipment		(15,202)	(12,689)
Payments for securities and other financial assets		(2,780)	-
Proceeds from disposal of short term investments		-	6,322
Payment for minority interest acquisition		(11,108)	-
		<u>(29,021)</u>	<u>(4,771)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from long-term borrowings		4,948	7,056
Repayments of long-term borrowings		(2,079)	(15,052)
Proceeds from short-term borrowings		-	494
Repayments of short-term borrowings		(278)	(380)
Treasury shares purchased		-	(802)
Repayments of obligations under finance leases		(304)	(206)
		<u>2,287</u>	<u>(8,890)</u>
Net cash from/(used in) financing activities			
Net decrease in cash and cash equivalents			
		10,438	11,664
Cash and cash equivalents at the beginning of the period			
		66,660	37,037
Effect of translation into presentation currency			
		<u>3,249</u>	<u>596</u>
Cash and cash equivalents at the end of the period			
		<u>80,347</u>	<u>49,297</u>

The notes on pages 5 to 21 form an integral part of these unaudited condensed consolidated interim financial statements

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

1. GENERAL

Organisation

Public Joint Stock Company Novorossiysk Commercial Sea Port (“NCSP”) was founded in 1845. NCSP was transformed from a state-owned enterprise to a public joint stock company in December 1992. NCSP’s principal activities include liquid and bulk cargo transshipping services, storage, sea vessel services and passenger transit. NCSP and its subsidiaries (the “Group”) primarily operate in the Russian Federation. The principal activities and entities of the Group as of 31 March 2008 were as follows:

Subsidiaries by country of incorporation	Nature of business
<i>Russian Federation</i>	
OJSC IPP	Stevedoring and storage
OJSC Fleet of Novorossiysk Commercial Sea Port	Tug & bunkering services
OJSC Novorossiysk Shipyard	Stevedoring & marine vessels repairs
OJSC Novoroslesexport	Stevedoring and storage
OJSC Novorossiysk Grain Terminal	Stevedoring and storage
LLC Baltic stevedore company	Stevedoring and storage
OJSC NPK Zarubezhneft	Owns land for future construction of transshipping terminals
<i>Cayman Islands</i>	
NR Air Ltd.	Transportation services

Novorossiysk Port Capital S.A. (“Novorossiysk Capital”) was created as a special purpose entity during the three months ended 31 March 2008 and was used as a vehicle for the issuance of loan participation notes on the Irish Stock Exchange.

Russian companies of the Group are located in the Eastern sector of the Black Sea in Tsemesskaya bay.

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

Open Joint Stock Company IPP (“IPP”)

IPP is a liquid-cargo processing enterprise. Starting from 2008 IPP also provides bunkering services.

Open Joint Stock Company Fleet of NCSP (“Fleet”)

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

Open Joint Stock Company Novorossiysk Shipyard (“Shipyard”)

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

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

Open Joint Stock Company Novoroslesexport (“Timber Export”)

Timber Export provides cargo handling, shipping and storage services for the export of the timber, containerised cargo and nonferrous metals. It engages in all year-round cargo operations.

Open Joint Stock Company Novorossiysk Grain Terminal (“Grain Terminal”)

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

Baltic Stevedore Company LLC (“Baltic Stevedore”)

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

Statement of compliance

The condensed consolidated interim financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements as of and for the year ended 31 December 2007 and in compliance with the requirements of International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. These financial statements do not include all of the information required for disclosure in annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements at and for the year ended 31 December 2007. These financial statements reflects all adjustments (consisting of normal recurring adjustments), which are, in the opinion of Group management, necessary to fairly state the results of interim periods. Interim results are not necessarily indicative of results to be expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2007.

Functional and presentation currency

The functional currency of NCSP and each of its subsidiaries, except for NR Air Ltd, is the Russian Rouble (“RUR”). The functional currency of NR Air Ltd is the United States of America Dollar (“USD” or “US Dollar”). The functional currency reflects the economic substance of the underlying events and transactions of each entities’ respective operations.

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

Rates of exchange

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

	31 March 2008	31 December 2007
Period-end rates		
RUR / 1 US Dollar	23.5156	24.5462
	Three months ended 31 March 2008	Three months ended 31 March 2007
Average rates for the period		
RUR / 1 US Dollar	24.2510	26.3062
 3. REVENUE		
	Three months ended 31 March 2008	Three months ended 31 March 2007
Stevedore services (including bunkering services)	137,090	77,411
Fleet services	11,337	11,965
Construction and repairs	-	336
Other	3,201	3,824
Total	151,628	93,536
 4. COST OF SALES		
	Three months ended 31 March 2008	Three months ended 31 March 2007
Payroll	16,214	14,372
Depreciation and amortisation	10,744	11,943
Fuel	31,870	10,228
Insurance	1,116	4,064
Unified social tax	3,731	3,617
Repairs and maintenance	2,921	2,013
Rent	1,592	1,396
Raw materials	2,052	1,212
Subcontractors	3,588	2,949
Energy and utilities	377	444
Actuarial losses/(gain) recognised during the year	828	585
Change in allowance for slow-moving inventory	44	(1,834)
Other	6	53
Total	75,083	51,042

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March 2008	Three months ended 31 March 2007
Personnel expenses	5,210	4,030
Taxes other than income tax	2,702	2,171
Charity	275	1,753
Depreciation and amortisation	1,300	697
Rent	709	497
Repairs and maintenance	270	638
Unified social tax	791	683
Advertising	224	320
Bank charges	441	426
Representative expenses	246	277
Information technology and communication services	164	174
Professional services	221	41
Security services	1,529	342
Raw materials	97	103
Change in allowance for doubtful receivables	(315)	86
Insurance	44	1,375
Energy and utilities	90	145
Other expenses	523	267
Total	14,521	14,025

6. FINANCE COST

	Three months ended 31 March 2008	Three months ended 31 March 2007
Interest on borrowings	8,242	9,989
Loss on early repayment of debt	-	603
Other	5	8
Total	8,247	10,600

Upon acquisition of OJSC Novorossiysk Grain Terminal and OJSC Novoroslesexport in June 2006, the Group acquired long-term loans at interest rates lower than market rates. In the purchase price allocation, those loans were recorded at fair value, which was determined using market interest rates. During the three months ended 31 March 2007, the Group repaid some of those loans which resulted in a loss of 603.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)**
(in thousands of US Dollars)

7. OTHER INCOME/ (EXPENSES), NET

	Three months ended 31 March 2008	Three months ended 31 March 2007
Loss on disposal of property, plant and equipment	54	(5,321)
Other expenses, net	46	(1,119)
Total	100	(6,440)

8. INCOME TAX

	Three months ended 31 March 2008	Three months ended 31 March 2007
Current tax expense	19,335	7,109
Deferred tax benefit	(253)	(1,055)
Total	19,082	6,054

9. DIVIDENDS AND DISTRIBUTIONS

The Group neither paid nor declared dividends during the reporting periods.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)**
(in thousands of US Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Marine vessels</u>	<u>Aircraft</u>	<u>Vehicles</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost									
1 January 2007	<u>20,770</u>	<u>266,757</u>	<u>245,881</u>	<u>78,516</u>	<u>26,632</u>	<u>20,793</u>	<u>61,565</u>	<u>154,441</u>	<u>875,355</u>
Additions	-	208	1,293	-	-	107	375	10,825	12,808
Disposals	-	-	(76)	-	-	(51)	(78)	-	(205)
Effect of translation into presentation currency	910	8,685	8,026	2,555	1,167	677	2,008	5,243	29,273
31 March 2007	<u>21,680</u>	<u>275,650</u>	<u>255,124</u>	<u>81,071</u>	<u>27,799</u>	<u>21,526</u>	<u>63,870</u>	<u>170,509</u>	<u>917,231</u>
Accumulated depreciation									
1 January 2007	<u>-</u>	<u>(23,976)</u>	<u>(61,812)</u>	<u>(14,119)</u>	<u>(2,663)</u>	<u>(5,244)</u>	<u>(12,090)</u>	<u>-</u>	<u>(119,904)</u>
Depreciation charge	-	(3,227)	(4,955)	(1,312)	(449)	(709)	(1,367)	-	(12,019)
Disposals	-	6	23	-	-	8	45	-	82
Effect of translation into presentation currency	-	(1,157)	(2,887)	(660)	(131)	(260)	(618)	-	(5,713)
31 March 2007	<u>-</u>	<u>(28,354)</u>	<u>(69,631)</u>	<u>(16,091)</u>	<u>(3,243)</u>	<u>(6,205)</u>	<u>(14,030)</u>	<u>-</u>	<u>(137,554)</u>
Carrying value									
1 January 2007	<u>20,770</u>	<u>242,781</u>	<u>184,069</u>	<u>64,397</u>	<u>23,969</u>	<u>15,549</u>	<u>49,475</u>	<u>154,441</u>	<u>755,451</u>
31 March 2007	<u>21,680</u>	<u>247,296</u>	<u>185,493</u>	<u>64,980</u>	<u>24,556</u>	<u>15,321</u>	<u>49,840</u>	<u>170,509</u>	<u>779,677</u>

At 31 March 2008, construction in progress included 12,794 (2007: 18,834) of advances paid for property, plant and equipment. Plant and equipment with carrying value of 30,722 were pledged to secure bank overdrafts and loans granted to the Group (Note 15).

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

11. INVENTORIES

	31 March 2008	31 December 2007
Raw materials and low value items	14,106	9,451
Goods for resale	4,397	877
Fuel	1,168	1,257
Other	558	143
Less: allowance for slow-moving inventories	(4,067)	(3,853)
Total	16,162	6,581

12. TRADE AND OTHER RECEIVABLES

	31 March 2008	31 December 2007
Trade accounts receivable	27,328	23,265
VAT recoverable	35,750	26,997
Taxes receivable	895	9,983
Advances to suppliers	16,988	3,468
Other receivables and prepayments	20,330	10,075
Less: allowance for doubtful debt	(2,337)	(2,604)
Total:	98,954	71,184

13. CASH AND CASH EQUIVALENTS

	31 March 2008	31 December 2007
Current accounts in RUR	18,830	20,032
Current accounts in USD	1,768	2,836
Bank deposits in RUR	6,591	-
Bank deposits in USD	53,153	43,790
Cash in hand	5	2
Total	80,347	66,660

Bank deposits at 31 March 2008 mainly represent deposits of NCSP and Timber Export with interest rate in range of 5.5%-5.9% and maturity within the end of 2008.

14. SHARE CAPITAL

The share capital of the Group is contributed by shareholders in RUR and consists of 19,259,815,400 shares authorised, issued and outstanding with a par value of USD 0.000425 each. 9,629,907,701

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

(50% plus 1 share) are pledged as a collateral under the loan agreement with Sberbank (Note 15).
Authorised share capital at par is 8,190.

At 31 March 2008 the outstanding share capital of the Group was 10,471 (31 December 2007: 10,471; 31 March 2007: 10,356). During the three months ended 31 March 2007, the Group repurchased some of its own shares with a par value of 10 and a premium of 792.

15. DEBT

	Interest rate	Maturity	31 March 2008	31 December 2007
Long term				
<i>Unsecured bank loans, all USD</i>				
Loan participation notes	7%	May 2012	309,309	294,741
IMB + Bank Austria Credianstalt	LIBOR + 1.6%	July 2010	117,929	117,219
<i>Secured bank loans, all USD</i>				
Sberbank	8.2%	August 2011	40,530	40,335
Sberbank	8.2%	November 2010	16,341	17,804
Sberbank	8.2%	June 2010	9,313	9,268
Sberbank	8.2%	September 2011	7,838	7,800
Sberbank	8.0%	March 2010	6,381	6,350
Sberbank	8.2%	December 2011	3,642	3,624
Sberbank	8.2%	July 2011	1,755	3,043
Sberbank	8.0%	December 2009	1,891	2,520
IMB	8.95%	September 2011	2,211	2,365
Sberbank	8.2%	August 2011	1,708	1,700
Sberbank	8.2%	December 2011	993	1,420
Total long-term			<u>519,841</u>	<u>508,189</u>
Short-term				
Current-portion of long-term loans			24,425	29,650
Finance lease liability			497	776
			<u>24,922</u>	<u>30,426</u>
			<u>544,763</u>	<u>538,615</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

The secured portion of Group debt is secured by property, plant and equipment. At 31 March 2008 and 31 December 2007, property, plant and equipment with a carrying value of 30,722 and 35,111, respectively, were pledged to secure bank overdrafts and loans granted to the Group.

The unsecured 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 notes at 101% of par value.

The unsecured IMB + Bank Austria Credianstalt borrowing facility is subject to certain financial covenants, which are to be computed in as defined in the facility agreement using amounts in the Group's IFRS audited consolidated annual 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%;
- (iii) The minimum credit rating awarded to the Group by Moody's shall not be lower than Ba3

All of the Group borrowings except finance leases are denominated in USD.

	31 March 2008	31 December 2007
	<hr/>	<hr/>
Due within three months	8,740	11,600
Due from three to six months	7,262	8,740
Due from six months to twelve months	8,920	10,086
Total short-term	<hr/> 24,922	<hr/> 30,426
Due in 2009-2010	151,855	213,835
Due in 2011-2013	367,986	294,354
Total long-term	<hr/> 519,841	<hr/> 508,189

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

16. OTHER PAYABLES AND ACCRUALS

	Three months ended 31 March 2008	Three months ended 31 March 2007
Dividends payable	423	402
Payroll accruals	7,173	6,324
Taxes payable	13,673	5,240
Advances received from customers	9,602	9,053
Other accounts payable	2,536	3,894
Current portion of employee benefits	939	-
	<u>34,346</u>	<u>24,913</u>

17. ACQUISITIONS

During three months ended 31 March 2008, the Group acquired additional 50% of the share capital of LLC Baltic stevedore company ("Baltic stevedore"). Consideration of USD 11,108 thousand, was paid in full. Cost of acquisition was recognized in equity in accordance with the accounting policies of the Group.

18. RELATED PARTY TRANSACTIONS

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

The Group's ultimate beneficiaries are members of the families of Mr. Ponomarenko and Mr. Scorobogatko. A 20%-share of the Group is owned by the Federal Agency on Federal Property Management.

Significant balances and transactions with state-controlled entities are considered transactions with related parties and are disclosed below.

Material balances with related parties were as follows:

	31 March 2008	31 December 2007
Long-term loans from Sberbank	117,028	123,019
Short-term loans to other related parties	286	274
Cash and cash equivalents held with Sberbank	13,879	12,779
Promissory notes and term deposits held with Sberbank	2,386	4,685

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

Material transactions with related parties were as follows:

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

	Three months ended 31 March 2008	Three months ended 31 March 2007
<i>Sales</i>		
Military divisions	556	1,194
Russian Railways	232	114
Transneft	903	2,074
	<u>1,690</u>	<u>3,382</u>

Other related parties represent affiliates of the ultimate beneficiaries.

Compensation of key management personnel

For the three months ended 31 March 2008 and 2007 the remuneration of the directors and other members of key management was USD thousand 982 and USD thousand 252, respectively.

The remuneration of directors and key executives is determined by the Board of Directors based on the performance of individuals and market trends.

19. COMMITMENTS AND CONTINGENCIES

Litigation

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

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

Taxation contingencies in the Russian Federation

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

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

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that the tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant. Management did not estimate the total unprovided amount of these tax risks, as it believes that they are rather possible than probable.

Environmental matters

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

Insurance

As of 31 March 2008, the Group has insurance coverage in respect of potential damage of its major facilities. The Group does not have any business interruption insurance or any third party liability insurance in respect of environmental damage. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position.

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)
(in thousands of US Dollars)**

Operating lease arrangements

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

	31 March 2008
2008	2,743
2008	3,657
2009	3,362
2010	3,309
2011	3,309
Thereafter	75,758
Total	<u>92,138</u>

20. CAPITAL COMMITMENTS

At 31 March 2008, the Group had the following capital commitments to purchase items which will increase the transshipment capacities:

	<u>31 March 2008</u>
Commitments for acquisition of property, plant and equipment and construction works:	
IPP	23,035
NCSP	9,347
Total	<u>32,382</u>

**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2008 AND 2007 (UNAUDITED)**
(in thousands of US Dollars)

21. EVENTS AFTER THE BALANCE SHEET DATE

During the second quarter of 2008 the Group acquired 50% stake in the share capital of Closed Joint-Stock Company “Lomonosovski Cargo Terminal” for, approximately, USD 120 million .

The effect of this acquisition on the Group’s consolidated financial statements has not been determined yet by the management of the Group.