Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Consolidated Financial Statements

For the Year Ended 31 December 2008

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 2008

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 2008, the consolidated results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

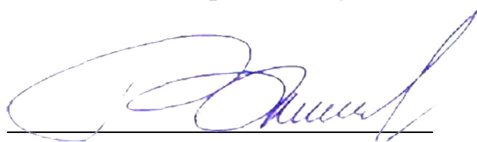
In preparing the consolidated financial statements, management is responsible for:

- 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:

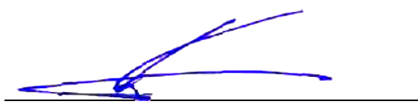
- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure 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 2008 were approved and authorised for issue on 15 April 2009 by:



I.E. Vilinov

Chief Executive Officer



G.I. Kachan

Chief Accountant

Deloitte.

ZAO Deloitte & Touche CIS
Business Center "Mokhovaya"
4/7 Vozdvizhenka St., Bldg. 2
Moscow, 125009
Russia

Tel: +7 (495) 787 0600
Fax: +7 (495) 787 0601
www.deloitte.ru

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 2008, 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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Member of Deloitte Touche Tohmatsu

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

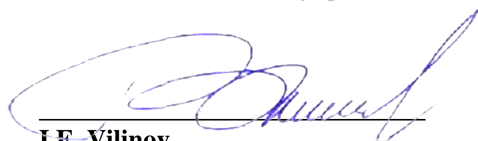
Deloitte & Touche

15 April 2009
Moscow, Russia

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of US Dollars, except earnings per share)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
REVENUE	6	653,777	483,380
COST OF SERVICES	7	(342,239)	(252,176)
GROSS PROFIT		**311,538**	**231,204**
Selling, general and administrative expenses	8	(67,189)	(76,631)
Loss on disposal of property, plant and equipment		(6,556)	(13,470)
Impairment losses on goodwill	14	(3,456)	-
OPERATING PROFIT		**234,337**	**141,103**
Interest income on deposits		5,384	1,025
Finance costs	9	(39,932)	(44,793)
Foreign exchange (loss)/gain		(82,715)	34,776
Gain from disposal of subsidiaries	25	2,718	-
Excess of Group's interest in net assets acquired over consideration paid on acquisition of subsidiaries	25	-	2,956
Other income/(expenses), net		779	(1,659)
PROFIT BEFORE INCOME TAX		**120,571**	**133,408**
INCOME TAX	10	(24,789)	(39,734)
PROFIT FOR THE YEAR		**95,782**	**93,674**
Attributable to:			
Equity shareholders		90,498	93,713
Minority interest		5,284	(39)
		95,782	**93,674**
Earnings per share	12		
Weighted average number of ordinary shares in issue during the year		19,259,815,400	19,196,480,589
Basic and diluted earnings per share (US Dollars)		0.0047	0.0049



I.E. Vilinov
Chief Executive Officer

G.I. Kachan
Chief Accountant

The notes on pages 8 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(in thousands of US Dollars)

	Notes	31 December 2008	31 December 2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	576,367	755,451
Goodwill	14	406,234	490,077
Mooring rights	15	10,615	13,560
Investments in securities and other financial assets	16	3,216	15,863
Non-current VAT recoverable		5,100	998
Spare parts		5,023	6,585
Deferred tax assets	10	2,213	3,078
Other intangible assets		1,480	1,276
		1,010,248	1,286,888
CURRENT ASSETS:			
Inventories	17	6,011	7,875
Advances to suppliers		2,115	3,468
Trade and other receivables	18	29,887	30,736
VAT recoverable and other taxes receivable		29,348	36,980
Investments in securities and other financial assets	16	85,976	3,999
Cash and cash equivalents	19	42,868	66,660
		196,205	149,718
TOTAL ASSETS		**1,206,453**	**1,436,606**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	20	10,471	10,471
Share premium		9,255	9,255
Foreign currency translation reserve		(37,748)	80,045
Retained earnings		606,383	631,458
Equity attributable to shareholders of the parent		588,361	731,229
Minority interest		27,117	38,883
TOTAL EQUITY		615,478	770,112
NON-CURRENT LIABILITIES:			
Long-term debt	21	463,231	508,189
Defined benefit obligation	22	7,643	8,181
Deferred tax liabilities	10	41,294	77,304
		512,168	593,674
CURRENT LIABILITIES:			
Current portion of long-term debt	21	42,254	29,650
Trade and other payables	23	7,026	20,101
Advances received from customers		11,348	9,053
Taxes payable		7,188	5,240
Interest rate swap liability		4,741	-
Accrued expenses		6,250	8,776
		78,807	72,820
TOTAL EQUITY AND LIABILITIES		**1,206,453**	**1,436,606**

The notes on pages 8 to 57 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 2008
(in thousands of US Dollars)

	Note	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Equity attributable to shareholders of the parent	Minority interest	Total
As at 1 January 2007		**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 recognised income and expense		-	-	47,512	93,713	**141,225**	2,811	**144,036**
Dividends	11	-	-	-	(11,295)	**(11,295)**	-	**(11,295)**
Other distributions to shareholders	11	**-**	-	-	(489)	**(489)**	-	**(489)**
Increase of ownership in subsidiaries	25	**-**	-	-	(19,495)	**(19,495)**	(5,636)	**(25,131)**
Disposal of subsidiaries	25	-	-	-	-	**-**	(26)	**(26)**
Buy-back of ordinary shares	20	(10)	(808)	-	-	**(818)**	-	**(818)**
Issue from treasury shares	20	115	10,063	-	-	**10,178**	-	**10,178**
As at 31 December 2007		**10,471**	**9,255**	**80,045**	**631,458**	**731,229**	**38,883**	**770,112**
Effect of translation into presentation currency		-	-	(117,793)	-	**(117,793)**	(5,360)	**(123,153)**
Net income recognised directly in equity		-	-	(117,793)	-	**(117,793)**	(5,360)	**(123,153)**
Profit for the year		-	-	-	90,498	**90,498**	5,284	**95,782**
Total recognised income and expense		-	-	(117,793)	90,498	**(27,295)**	(76)	**(27,371)**
Dividends	11	-	-	-	(14,818)	**(14,818)**	-	**(14,818)**
Increase of ownership in subsidiaries	25	-	-	-	(100,755)	**(100,755)**	(11,690)	**(112,445)**
As at 31 December 2008		**10,471**	**9,255**	**(37,748)**	**606,383**	**588,361**	**27,117**	**615,478**

The notes on pages 8 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of US Dollars)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities			
Cash generated from operations	24	373,693	228,188
Income tax paid		(62,250)	(49,987)
Interest paid		(35,957)	(40,413)
Net cash generated by operating activities		**275,486**	**137,788**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		3,652	5,742
Purchase of property, plant and equipment		(88,330)	(93,992)
Proceeds from maturity of securities and other financial assets		77,503	24,494
Purchase of securities and other financial assets		(166,030)	(7,037)
Proceeds from disposal of OJSC Office Centre Pokrovsky and City Park	16	14,372	-
Acquisitions of subsidiaries, net of cash acquired	25	-	(6,663)
Increase of ownership in subsidiaries	25	(112,445)	(25,131)
Proceeds from disposal of subsidiaries, net of cash disposed	25	26,281	(260)
Interest received		5,384	1,689
Purchase of intangible assets		(893)	-
Loans given to employees		(1,470)	(778)
Net cash used in investing activities		**(241,976)**	**(101,936)**
Cash flows from financing activities			
Proceeds from long-term borrowings		-	423,261
Repayments of long-term borrowings		(34,052)	(430,443)
Dividends paid		(12,694)	(11,584)
Buy back of ordinary shares		-	(818)
Proceeds from sale of treasury shares		-	10,178
Distribution to shareholders		-	(489)
Net cash used in financing activities		**(46,746)**	**(9,895)**
Net (decrease)/increase in cash and cash equivalents		**(13,236)**	**25,957**
Cash and cash equivalents at the beginning of the year	19	66,660	37,037
Effect of translation into presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(10,556)	3,666
Cash and cash equivalents at the end of the year		**42,868**	**66,660**

The notes on pages 8 to 57 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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 stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. The principal activities and significant entities of the Group as at 31 December 2008 were as follows (Note 31):

Subsidiaries	Nature of business
OJSC IPP	Stevedoring and additional port 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 additional port services
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services
LLC Baltic stevedore company	Stevedoring and additional port 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 (Note 21).

Main subsidiaries of the Group are located in the Eastern sector of the Black Sea in Tsemesskaya bay and in Kaliningrad.

NCSP is the largest stevedore of the Group and the holding company. It has main cargo-loading district, 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, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysky Port (the "Port"). In addition, it carries out 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 region under the Russian Ministry of Natural Resources.

Open Joint Stock Company Novorossiysk Shipyard ("Shipyard")

Shipyard manages 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 stevedoring services, such as bulk cargo transhipment.

Open Joint Stock Company Novoroslesexport ("Timber Export")

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

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

Grain Terminal manages grain storage and shipment terminal in the western part of the Tsemesskaya bay.

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

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

2. BASIS FOR 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 (the "IAS") 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.

The following interpretations issued by IFRIC are effective for the current period: IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; IFRIC 11 – IFRS 2 Group and Treasury Share Transactions; IFRIC 12 Service concession agreements. The adoption of these interpretations has not led to any changes in the Group's accounting policies or disclosures provided in the financial statements.

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 new and revised Standards and Interpretations have been issued but not effective for the current year:

Standards and Interpretations	Effective for annual periods beginning on or after
IASs:	
IAS 1 "Presentation of Financial Statements" – Comprehensive revision including requiring a statement of comprehensive income	1 January 2009
IAS 16 "Property, Plant and Equipment" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 19 "Employee Benefits" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 20 "Government Grants and Disclosure of Government Assistance" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 27 "Consolidated and Separate Financial Statements" – Consequential amendments arising from amendments to IAS 1	1 January 2009
IAS 27 "Consolidated and Separate Financial Statements" – Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 28 "Investments in Associates" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009

Standards and Interpretations	Effective for annual periods beginning on or after
IASs:	
IAS 28 "Investments in Associates" – Consequential amendments arising from amendments to IAS 27	1 July 2009
IAS 31 "Interests in Joint Ventures" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 31 "Interests in Joint Ventures" – Consequential amendments arising from amendments to IAS 27	1 July 2009
IAS 32 "Financial Instruments: Presentation" – Amendments relating to puttable instruments and obligations arising on liquidation	1 July 2009
IAS 36 "Impairment of Assets" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 38 "Intangible Assets" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 39 "Financial Instruments: Recognition and Measurement" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 39 "Financial Instruments: Recognition and Measurement" – Amendments for eligible hedged items	1 July 2009
IAS 40 "Investment Property" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IAS 41 "Agriculture" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 January 2009
IFRSs:	
IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Amendment relating to cost of an investment on first-time adoption	1 January 2009
IFRS 2 "Share-based Payment" – Amendment relating to vesting conditions and cancellations	1 January 2009
IFRS 3 "Business Combinations" – Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" – Amendments resulting from May 2008 Annual Improvements to IFRSs	1 July 2009
Interpretations issued by IFRIC:	
IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	1 January 2009
IFRIC 15 "Agreements for the Construction of Real Estate"	1 January 2009
IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"	1 October 2008
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009
IFRIC 18 "Transfers of Assets from Customers"	1 July 2009

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.

During 2007 the Group has adopted 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 (Note 5), but has had no impact on the reported results or financial position of the Group.

Functional and presentation currency

The functional currency of NCSP and each of its subsidiaries is the Russian Rouble ("RUB").
The presentation currency of the consolidated financial statements is the US Dollar (USD). 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 RUB (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;
- Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used. As RUB significantly depreciated against USD in the year ended 31 December 2008 with the most part of depreciation falling on the 4th quarter of 2008, income and expense items for 2008 have been translated using average exchange rates for first nine months and 4th quarter of 2008 separately;
- All resulting exchange differences are included in equity and presented separately as an effect of translation into presentation currency (foreign currency translation reserve);
- 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 of the beginning and end of each year. All cash flows are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case exchange rates at the dates of transactions are used. As RUB significantly depreciated against USD in the year ended 31 December 2008 with the most part of depreciation falling on the 4th quarter of 2008, cash flows for 2008 have been translated using average exchange rates for first nine months and 4th quarter of 2008 separately. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of exchange rate changes on cash and cash equivalents"; and
- All items included in shareholder's equity, other than net profit for the reporting period, have been translated at historical rate, except for balances converted to USD at the rate in effect on 1 January 2005, the date of transition to IFRS.

Exchange rates

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

	2008	2007
Year-end rates		
RUB / 1 US Dollar	29.3804	24.5462
Average rates		
RUB / 1 USD		
1st January – 30th September (9 months 2008)	24.0454	-
1st October – 31st December (4th quarter 2008)	27.2672	-
Average for the year ended		
RUB / 1 US Dollar	24.8553	25.5770

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NCSP and its subsidiaries (Note 32), from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Group 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 in 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 acquire, plus any costs directly attributable to the business combination. The acquirer'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 financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". 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 recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

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

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

Non-current assets held for sale

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

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

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 separate component.

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) Stevedoring services (liquid, dry bulk cargo, general cargo and containers transhipment) 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) Additional port services provided to customers by their requests (e.g.: forwarding, storage, custom documentation, repacking, etc.);
(iii) Fleet services include tag, towing and other fleet services;
(iv) Ship repair services mostly represent all types of vessel repairs and maintenance in docks;
(v) Other services include passenger transit, vessel rent and other services provided at the Port.

Revenue from cargo-transhipment, ship repair, fleet and additional port services is recognised when the services are accepted by the customers (typically after the loading or unloading of cargo, as defined by the sales terms).

Revenue from other services is recognised when the services are provided to the customers.

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.

Prices for cargo transhipment and storage services are subject to Government regulations. The Group can provide discounts to its customers only within the limits set by the statutory legislation.

Prices for port additional services, fleet services, ship repair and other services are set by the Group.

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

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 recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed

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. Depreciation of these assets is recorded on the same basis as for other property assets, and commences when the assets are put into operation.

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

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

Employee benefits

Defined contribution plans

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

The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to income 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 Federal Budget and three state social funds, including the Russian Federation State Pension Fund, where the rate of contributions to that fund vary from 14% 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.

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 RUB 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.

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 consolidated 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 at 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
Machinery and equipment	8-20
Marine vessels	4-20
Aircraft	15
Vehicles	5
Office and other equipment	3

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. Amortisation of mooring rights and other intangible assets is charged to profit or loss.

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.

Useful lives of mooring rights and other intangible assets are as follows:

	Number of years
Mooring rights	20
Marine vessels rights	10
Other intangible assets	3-5

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.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

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 as 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 as 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 31.

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 as 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 as at FVTPL; and
- Other financial liabilities.

Financial liabilities as 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 29.

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.

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.

Derivative financial instruments

The Group enters into interest rate swap derivative financial instruments to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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 ended 31 December). These amounts may differ significantly from the amounts calculated on the basis of IFRSs.

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 Group creates allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. As at 31 December 2008, the allowance for doubtful receivables amounted to 1,141 (2007: 2,604). When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful receivables.

Useful lives of fixed 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.

During the financial year, the Group reassessed the useful life of certain property, plant and equipment items should be changed. The prospective effect of such change is presented in Note 13.

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.

The carrying amount of goodwill at the balance sheet date was 406,234 after an impairment loss of 3,456 which was recognised during 2008. Details of the Group annual impairment testing are presented in Note 14.

Impairment of assets (excluding goodwill)

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

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.

In addition, the Group records deferred tax assets at each balance sheet date based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recorded on the consolidated balance sheet. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an increase in valuation reserve will be required, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the valuation reserve could be reduced, with a corresponding credit to income.

Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted. However, in some jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws).

Allowance for slow-moving inventory

The Group creates an allowance for obsolete and slow-moving raw materials. As at 31 December 2008, the allowance for obsolete and slow-moving items amounted to 3,135 (2007: 3,853). Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products, any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving raw materials.

5. SEGMENT INFORMATION

The Group has adopted IFRS 8 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 of segments, 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.

Prior to the adoption of IFRS 8, the Group has historically had one segment. As a result of adoption of IFRS 8, the Group's reportable segments are as follows:

- Stevedoring services (liquid and bulk cargo transhipping services, including bunkering) and additional port services (forwarding, storage, custom documentation, repacking, etc.);
- Fleet services; and
- Ship repair services.

The Group's reportable segments are based on the information reported to the Group's chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

Other operations mainly comprise of passenger transit, rent and resale of energy and utilities to external customers. Neither of these services constitutes a separate reportable segment.

Information regarding the Group's reportable segments as at 31 December 2008 and for the year then ended and the comparative information as at 31 December 2007 and for the year then ended is presented below.

The segment information for the year ended 31 December 2008:

	Stevedoring and additional	Fleet	Ship repair	Other	Adjustments and eliminations	Conso-lidated
Segment revenue						
Third parties	592,895	50,741	1,109	9,032	-	653,777
Inter-segments	5,463	4,431	42	8,002	(17,938)	-
Total revenue	**598,358**	**55,172**	**1,151**	**17,034**	**(17,938)**	**653,777**
Segment profit/(loss)	283,727	11,756	(5,101)	5,310	(175,121)	120,571
Segment assets	**760,837**	**125,391**	**4,025**	**51,167**	**265,033**	**1,206,453**
Segment liabilities	**(495,094)**	**(909)**	**(32)**	**(3,341)**	**(91,599)**	**(590,975)**
Other segment information						
Depreciation and amortisation charge	83,133	13,094	1,626	3,801	21,124	122,778
Capital expenditures	86,938	1,112	-	805	2,207	91,062
Goodwill impairment	-	-	(3,456)	-	-	(3,456)

Capital expenditure consists of additions of property, plant and equipment, construction in progress and advances paid in the period in relation to it.

During 2008 revenue from Axial Marine Services LTD (68,458) comprises more than 10% of revenue. No other customer accounted for more than 10% of the total revenues during 2008.

Segment profit is adjusted (eliminated) against the following items to be reconciled to profit before tax:

	Year ended 31 December 2008
Unallocated:	
Interest income on deposits	5,384
Other income, net	779
Loss on disposal of property, plant and equipment	(6,556)
Depreciation	(21,124)
Finance costs	(39,932)
Other unallocated expenses included in cost of sales	(48,895)
Foreign exchange gain	(82,715)
Eliminated:	
Inter-segment purchases	17,938
Total adjustments and eliminations	**(175,121)**

Segment assets and liabilities are adjusted/eliminated against the following items to be reconciled to total assets and liabilities:

	31 December 2008
ASSETS	
Unallocated (corporate assets):	
Current investments in securities and other financial assets	137,833
Property, plant and equipment	106,999
Cash and cash equivalents	42,868
Trade and other receivables	22,739
Inventories	3,012
Non-current investments in securities and other financial assets	2,637
Deferred tax assets	2,213
Other intangible assets	1,502
Eliminated:	
Inter-segment	**(54,770)**
Total adjustments and eliminations for assets:	**265,033**
LIABILITIES	
Unallocated (corporate liabilities):	
Long-term debt	(82,813)
Deferred tax liabilities	(41,294)
Trade payables, other payables and accruals	(12,850)
Retirement benefit obligations	(7,643)
Short-term debt	(1,769)
Eliminated:	
Inter-segment	54,770
Total adjustments and eliminations for liabilities	**(91,599)**

The segment information for the year ended 31 December 2007:

	Stevedoring and additional	Fleet	Ship repair	Other	Adjustments and eliminations	Conso-lidated
Segment revenue						
Third parties	418,011	46,102	4,024	15,243	-	483,380
Inter-segments	19,774	4,024	335	8,441	(32,574)	-
Total revenue	**437,785**	**50,126**	**4,359**	**23,684**	**(32,574)**	**483,380**
Segment profit/(loss)	105,882	18,153	(590)	4,248	5,715	133,408
Segment assets	**891,279**	**154,726**	**8,691**	**31,307**	**350,603**	**1,436,606**
Segment liabilities	**(568,052)**	**(4,818)**	**(2,717)**	**(8,558)**	**(82,349)**	**(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

Capital expenditure consists of additions of property, plant and equipment, construction in progress and advances paid in the period in relation to it.

During 2007 revenue from COMINCOM S.A. (89,457) and Axial Marine Services LTD (47,498) individually comprises more than 10% of revenue. No other customer accounted for more than 10% of the total revenues during 2007.

The segment profit is adjusted (eliminated) against the following items to be reconciled to profit before tax:

	Year ended 31 December 2007
Unallocated:	
Foreign exchange gain	34,776
Excess of Group's interest in net fair value of assets acquired over cost of subsidiaries	2,956
Interest income on deposits	1,025
Other expenses, net	(1,659)
Loss on disposal of property, plant and equipment	(13,470)
Finance costs	(44,793)
Other unallocated expenses included in cost of sales	(5,694)
Eliminated:	
Inter-segment purchases	32,574
Total adjustments and eliminations	**5,715**

Segment assets and liabilities are adjusted/eliminated against the following items to be reconciled to total assets and liabilities:

	31 December 2007
ASSETS	
Unallocated (managed on a group basis):	
Property, plant and equipment	204,209
Cash and cash equivalents	66,660
Non-current investments in securities and other financial assets	65,382
Trade and other receivables	51,681
Inventories	6,738
Current investments in securities and other financial assets	7,562
Deferred tax assets	3,078
Other intangible assets	1,075
Eliminated:	
Inter-segment	(55,782)
Total adjustments and eliminations for assets:	**350,603**
LIABILITIES	
Unallocated (managed on a group basis):	
Deferred tax liabilities	(64,124)
Long-term debt	(49,722)
Retirement benefit obligations	(8,181)
Other payables and accruals	(7,650)
Trade payables	(5,000)
Short-term debt	(3,454)
Eliminated:	
Inter-segment	55,782
Total adjustments and eliminations for liabilities	**(82,349)**

Geographical information

A majority of the Group's entities operate and their non-current assets are located in one principal geographical area – the Eastern sector of the Black Sea in Tsemesskaya bay. The Novorossiysk Capital and BSSC, registered on the territory of the Luxemburg and Ukraine 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 2008	Year ended 31 December 2007
Revenue		
Export	313,291	344,833
Russian Federation	340,486	138,547
Total	**653,777**	**483,380**

6. REVENUE

	Year ended 31 December 2008	Year ended 31 December 2007
Stevedoring services	505,957	385,867
Additional port services	86,938	32,144
Fleet services	50,741	46,102
Ship repair services	1,109	4,024
Other	9,032	15,243
Total	**653,777**	**483,380**

7. COST OF SERVICES

	Year ended 31 December 2008	Year ended 31 December 2007
Depreciation and amortisation	115,250	44,058
Fuel	94,170	85,814
Payroll	62,228	53,447
Repairs and maintenance	17,804	17,261
Unified social tax	14,117	10,845
Rent	11,113	7,649
Raw materials	9,413	8,241
Subcontractors	8,698	5,644
Energy and utilities	4,871	2,861
Insurance	1,429	10,549
Other	3,146	5,807
Total	**342,239**	**252,176**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2008	Year ended 31 December 2007
Payroll	25,347	29,407
Taxes other than income tax	8,623	7,466
Depreciation and amortisation	7,528	5,656
Security services	5,704	2,166
Unified social tax	3,149	3,450
Professional services (audit, consulting and legal fees)	2,861	5,979
Charity	2,676	4,375
Travel and representation expenses	2,273	1,586
Advertising	1,992	2,985
Bank charges	1,967	2,140
Repairs and maintenance	1,324	1,775
Rent	1,258	2,276
Raw materials	1,146	1,657
Other	1,341	5,713
Total	**67,189**	**76,631**

9. FINANCE COSTS

	Year ended 31 December 2008	Year ended 31 December 2007
Interest on borrowings	34,156	36,532
Net loss on interest rate swap	5,418	-
Loss on early redemption of debts	-	6,025
Other	358	2,236
Total	**39,932**	**44,793**

10. INCOME TAX

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax expense	51,981	41,962
Deferred tax benefit	(27,192)	(2,228)
Total	**24,789**	**39,734**

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

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before tax	120,571	133,408
Tax at the statutory rate of 24%	28,937	32,018
Effect of other expenses that are not deductible in determining taxable profit	4,281	6,664
Non-deductible impairment losses	910	-
Loss on disposals of property, plant and equipment	295	1,052
Impact of change in income tax rate in the Russian Federation	(9,634)	-
Total	**24,789**	**39,734**

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

	31 December 2008	31 December 2007
Net balance at the beginning of the year	**74,226**	**67,672**
Benefit recognised during the year	(17,558)	(2,228)
Deferred tax liability acquired on acquisition of subsidiaries	-	2,905
Deferred tax asset disposed of sale of subsidiaries	-	860
Impact of change in income tax rate in the Russian Federation	(9,634)	
Effect of translation into presentation currency	(7,953)	5,017
Net balance at the end of the year	**39,081**	**74,226**

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was 63,382 (2007: 6,382). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

In November 2008, an amendment to the Tax Code was enacted to reduce the income tax rate from 24% to 20% effective from 1 January 2009. Current year Russian income tax is measured at 24% (2007: 24%) of the estimated assessable profit for the year. The Group has measured its deferred taxes as at 31 December 2008 at 20% (31 December 2007: 24%)

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 2008	31 December 2007
Deferred tax assets		
Allowance for slow-moving inventories	740	975
Vacation accruals	738	695
Investment valuation	423	831
Allowance for doubtful receivables	119	577
Other adjustments	193	-
Total	**2,213**	**3,078**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	36,746	72,655
Mooring rights	2,119	3,254
Long-term debt	2,081	199
Other adjustments	348	1,196
Total	**41,294**	**77,304**
Net deferred tax liability	**39,081**	**74,226**

11. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2008 and 2007 were 14,818 and 11,295, respectively. The total amounts of dividends paid during 2008 and 2007 were 12,694 and 11,584, respectively. Also, in 2007 the Group has paid for certain expenses of shareholders. This was recorded as a distribution to shareholders in amount of 489.

12. EARNINGS PER SHARE

Basic and diluted earnings per share for 2008 and 2007 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 2008	Year ended 31 December 2007
Profit attributable to shareholders of the parent	90,498	93,713
Weighted average number of shares during the year	19,259,815,400	19,196,480,589
Basic and diluted earnings per share (US Dollars)	**0.0047**	**0.0049**

There were no dilutive equity instruments outstanding, that would require the calculation of separate diluted earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
As at 1 January 2007[(1)]	**8,565**	**226,236**	**207,194**	**76,551**	**24,827**	**12,930**	**64,035**	**111,020**	**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
As at 31 December 2007[(1)]	**22,738**	**268,039**	**237,191**	**78,685**	**26,632**	**17,895**	**69,761**	**154,414**	**875,355**
Additions	434	9,127	13,342	-	-	1,526	3,588	63,045	91,062
Transfer	-	103,348	43,927	72	-	80	4,869	(152,296)	-
Disposals	-	(6,975)	(3,620)	(855)	-	(277)	(461)	(2,501)	(14,689)
Disposal of subsidiary	-	-	-	-	(27,187)	-	-	-	(27,187)
Effect of translation into presentation currency	(3,773)	(57,508)	(48,002)	(12,805)	555	(3,172)	(12,286)	(14,864)	(151,855)
As at 31 December 2008	**19,399**	**316,031**	**242,838**	**65,097**	**-**	**16,052**	**65,471**	**47,798**	**772,686**

(1) The 1 January 2007 and 31 December 2007 balances in these consolidated financial statements have been adjusted to reflect the reclassification of certain assets between the various assets categories. The reclassification is due to the Group’s review of the use of the asset.

Accumulated depreciation	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
As at 1 January 2007[(1)]	**-**	**(10,824)**	**(36,451)**	**(9,277)**	**(828)**	**(1,829)**	**(7,983)**	**-**	**(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
Disposal of subsidiary	-	-	-	-	-	-	247	-	247
Effect of translation into presentation currency	-	(1,291)	(3,227)	(839)	(131)	(281)	(762)	-	(6,531)
As at 31 December 2007[(1)]	**-**	**(23,863)**	**(60,819)**	**(14,273)**	**(2,663)**	**(4,710)**	**(13,576)**	**-**	**(119,904)**
Charge for the year	-	(28,295)	(57,264)	(12,599)	(906)	(4,102)	(18,278)	-	(121,444)
Disposals	-	2,297	843	856	-	154	331	-	4,481
Disposal of subsidiary	-	-	-	-	3,625	-	-	-	3,625
Effect of translation into presentation currency	-	7,893	18,718	4,134	(56)	1,352	4,882	-	36,923
At 31 December 2008	**-**	**(41,968)**	**(98,522)**	**(21,882)**	**-**	**(7,306)**	**(26,641)**	**-**	**(196,319)**
Carrying value									
At 31 December 2007	**22,738**	**244,176**	**176,372**	**64,412**	**23,969**	**13,185**	**56,185**	**154,414**	**755,451**
At 31 December 2008	**19,399**	**274,063**	**144,316**	**43,215**	**-**	**8,746**	**38,830**	**47,798**	**576,367**

(1) The 1 January 2007 and 31 December 2007 balances in these consolidated financial statements have been adjusted to reflect the reclassification of certain assets between the various assets categories. The reclassification is due to the Group's review of the use of the asset.

As of 31 December 2008 construction in progress included 29,345 (2007: 18,834) of advances paid for property, plant and equipment.

Property, plant and equipment with carrying value of 16,269 (2007: 35,111) were pledged to secure bank overdrafts and loans granted to the Group (Note 21). The total amount of capitalised interest expenses for the years ended 31 December 2008 and 2007 amounted to 3,205 and 6,211, respectively.

During the 2008 financial year, the Group reassessed the useful life of certain property, plant and equipment due to the completion of significant investment programs, such as building of grain terminal and reconstruction of container terminal. As a result of the assessment, the useful life of certain assets was changed. Despite the change in the useful lives, the range of useful lives by class of assets disclosed in Note 3 remains consistent with prior periods.

The change in useful life is treated as a change in accounting estimate and is accounted for prospectively. The financial effect of the change in useful life, assuming the assets are held until the end of their estimated useful lives, is an increase in the consolidated depreciation expense in the current financial year and for the next 3 years of the following amounts:

	Amount
2008	64,951
2009	12,408
2010	6,977
2011	1,561
Total	**85,897**

14. GOODWILL AND GOODWILL IMPAIRMENT

Cost	
As at 1 January 2007	**456,856**
Effect of translation into presentation currency	33,221
As at 31 December 2007	**490,077**
Effect of translation into presentation currency	(80,636)
As at 31 December 2008	**409,441**
Accumulated amortisation	
As at 1 January 2008	**-**
Impairment losses recognised during the year	(3,456)
Effect of translation into presentation currency	249
As at 31 December 2008	**(3,207)**
Carrying amount	
As at 31 December 2007	**490,077**
As at 31 December 2008	**406,234**

As part of Group annual impairment test in 2008 the Group determined that the goodwill associated with Shipyard was impaired. For the purpose of impairment testing as at 31 December 2008 management of the Group used a certified independent appraiser to assist management in estimating the recoverable amount of each of the Group’s cash-generating unit.

The recoverable amount of each cash-generating unit has been determined based on value in use calculation. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a corresponding discount rate which reflects time value of money and risks associated with each individual cash generating unit.

Key assumptions used by the management in the value in use calculation are as follows:

- For all cash generating units cash flow projections cover a period of five years, from 2009 to 2013;
- Cash flow projections were prepared in nominal terms;
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation.

Consumer price inflation expectations during the forecast period are as follows:

Year	**Inflation expectations, %**
2009	15.0
2010	12.0
2011	9.0
2012	7.0
2013	6.0
Thereafter	6.0

Discount rates for each cash-generating unit were estimated in nominal terms on the weighted average cost of capital basis. These rates are as follows:

Year	**Discount rates, %**
2009	16.89
2010	15.59
2011	14.29
2012	12.99
2013	11.69
Thereafter	11.69

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most probable assessment of future trends.

The recoverable amount of each of the cash-generating unit was greater than the carrying value of the goodwill for each of the cash-generating unit with the exception of Shipyard. Based on the performed analysis, the Group recorded an impairment loss of 3,456 associated with Shipyard. The impairment is mainly related to the decrease in Shipyard's estimated future cash flows. The following specific assumptions were used in estimated future cash flows for Shipyard:

- The forecast of transhipment volume at the level of 2000 ktns of main cargo (metal) remains constant for all 5 years of forecast;
- The forecast has the following growth rates for transhipment: by average 2% per annum;
- The revenue from ship-repair services has a forecast to increase by average 2% per annum;
- Operating costs have a forecast to increase by average 2% per annum.

If the future increase of inflation applied in the determination of value-in-use had been 1% higher in each of the following years, the Group would have recognised an impairment loss on goodwill of 7,127. No additional write-offs of tangible and intangible assets would be necessary.

The carrying amount of goodwill as at 31 December 2008 is allocated to the following cash-generating units:

	Carrying amount	
	31 December 2008	**31 December 2007**
Grain Terminal	161,618	193,448
Timber Export	130,427	156,114
Fleet	73,646	88,150
IPP	28,114	33,649
Shipyard	9,520	15,234
Baltic Stevedore	2,909	3,482
Total	**406,234**	**490,077**

15. MOORING RIGHTS

Cost	
Balance as at 1 January 2007	**13,948**
Effect of translation into presentation currency	1,014
Balance as at 31 December 2007	**14,962**
Disposal of mooring rights	(447)
Effect of translation into presentation currency	(2,383)
Balance as at 31 December 2008	**12,132**
Accumulated amortisation	
Balance as at 1 January 2007	**(366)**
Charge for the year	(969)
Effect of translation into presentation currency	(67)
Balance as at 31 December 2007	**(1,402)**
Charge for the year	(843)
Disposal of mooring rights	447
Effect of translation into presentation currency	281
Balance as at 31 December 2008	**(1,517)**
Carrying value as at 31 December 2007	**13,560**
Carrying value as at 31 December 2008	**10,615**

Mooring rights represent mainly the rights to enter into long-term leases with the State of hydro technical infrastructure (e.g. berths, piers and vessels).

16. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December 2008	31 December 2007
Current		
Financial assets carried at amortised cost		
Deposits	76,900	-
Promissory notes	7,000	3,259
Loans issued	2,076	-
Other	-	740
Total current	**85,976**	**3,999**
Non-current		
Available-for-sale investments (unquoted) at cost		
OJSC Office centre Pokrovsky	-	8,250
OJSC City Park	-	5,500
Financial assets carried at amortised cost		
Promissory notes and other financial assets	3,216	687
Deposits with maturity period over year	-	1,426
Total non-current	**3,216**	**15,863**

Short-term RUB promissory notes consist of the Open Joint Stock Company Commercial Savings Bank of the Russian Federation (“Sberbank”) promissory notes amounted to 7,000 with maturity on demand and interest rate 4.5% per annum. (2007: 7.5% per annum).

Long-term RUB Sberbank promissory notes amounted to 3,131 with maturity after December 2010 and interest rate 7.5–10.5% per annum.

Total amount of short-term deposits in USD is placed in Sberbank (related party) with interest rate 5.05-6.1% per annum.

Shares of OJSC City Park and OJSC Office Centre Pokrovsky are represented by non-marketable securities which do not have fixed maturities and are stated at cost as there is no reliable estimate of fair value. During 2007 these shares were sold to a related party, for a total cash consideration of 14,372. No income or expense was recognised as a result of this operation.

Loans issued include loans given to employees of the Group and to related parties.

17. INVENTORIES

	31 December 2008	31 December 2007
Raw materials and low value items	7,663	9,451
Fuel	926	877
Goods for resale	548	1,257
Other	9	143
Less: allowance for slow-moving inventories	(3,135)	(3,853)
Total	**6,011**	**7,875**

18. TRADE AND OTHER RECEIVABLES

	31 December 2008	31 December 2007
Trade accounts receivable (USD)	14,598	11,197
Trade accounts receivable (RUB)	10,593	12,068
Other receivables and prepayments	5,837	10,075
Less: allowance for doubtful receivables	(1,141)	(2,604)
Total	**29,887**	**30,736**

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.

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 59% (2007: 77%) from the outstanding balance.

The summary below shows the outstanding balances of top main counterparties at the respective balance sheet dates (other counterparties are shown for comparative information):

	Customer location	31 December 2008	31 December 2007
Axial Marine Services LTD	Limassol, Cyprus	6,714	9,287
ELISA SERVICES LTD	Limassol, Cyprus	2,375	627
LLC Morservice group	Novorossiysk, Russia	2,044	1,623
MIKYNET LTD	Limassol, Cyprus	1,973	249
LLC Ruskon	Novorossiysk, Russia	1,601	703
LLC Trans Oil Service	Novorossiysk, Russia	104	744
LLC Chernomorskaya Buksirnaya Company	Novorossiysk, Russia	142	5,486
Total		**14,953**	**18,719**

Included in the Group's receivable balance are debtors with a carrying amount of 4,423 (2007: 6,451) which are past due at the respective reporting date and which the Group still considers recoverable (i.e. but not impaired).

Maturity analysis of trade and other receivables excluding advances and VAT recoverable is as follows:

	31 December 2008	31 December 2007
Not past due and not impaired:	**25,464**	**24,285**
Past due but not impaired:		
less than 45 days	2,869	6,431
45-90 days	442	10
90-180 days	294	3
180-365 days	818	7
Past due and impaired	**1,141**	**2,604**
Total	**31,028**	**33,340**

The Group does not hold any collateral over these outstanding balances. No credit limits are set for the customers.

Movement in allowance for doubtful trade and other receivables:

	31 December 2008	31 December 2007
As at beginning of the year	**2,604**	**2,536**
Recognised in the income statement	731	2,797
Effect of translation into presentation currency	(274)	213
Amounts written-off as uncollected	(664)	(968)
Amount recovered during the year	(1,256)	(1,974)
As at end of the year	**1,141**	**2,604**

Trade receivables and other receivables between 45 and 365 days are provided for based on estimated irrecoverable amounts, which were determined by reference to past experience, and are regularly reassessed based on the facts and circumstances existing as at each reporting date. The Group has provided fully for all receivables with due dates over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

No collaterals are held over these outstanding balances. There are no individually impaired receivables as at 31 December 2008 and 2007.

19. CASH AND CASH EQUIVALENTS

	31 December 2008	31 December 2007
Bank deposits	31,901	43,790
Current accounts in USD	8,033	2,836
Current accounts in RUB	2,914	20,032
Cash in hand	20	2
Total	**42,868**	**66,660**

Bank deposits as at 31 December 2008 mainly represent deposits with Sberbank, a related party, with 4.5–8.2% per annum. (2007: 5% – 7% per annum of Vneshtorgbank and OTP Bank) that mature before 31 March 2009.

Current accounts in USD as at 31 December 2007 included 1,160 of cash to guarantee a letter of credit. The letter of credit is opened with 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 was closed on 31 January 2008.

20. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 ordinary shares authorised, issued, fully paid and outstanding with a par value of 0.0047 USD. Authorised share capital at par is 10,471 (2007: 10,471). Each ordinary share has equal voting rights.

During 2007, the Group repurchased 2,557,700 of its own shares for a total cash consideration of 818. Historically, the Group recorded the excess of the cash paid over the par value in retained earnings. During 2008, the excess was reclassified to share premium. The 2007 share premium and retained earnings balances have been adjusted to reflect this reclassification.

During 2007, the Group issued 29,413,550 of treasury shares in order to achieve total quantity of outstanding shares which had a fair value of 10,063. As at December 31, 2007 and 2008, the Group had no treasury stock.

On 8 November 2007, the Group was admitted to the listing on LSE with the offfering of 3,375,156,114 ordinary shares of NCSP which were held by the Group's shareholder in form of shares and Global Depository Receipts.

21. DEBT

	Interest rate	Maturity Date	31 December 2008	31 December 2007
Non-current				
Unsecured bank loans				
Loan participation notes (USD)	7%	May 2012	296,787	294,741
UniCredit Bank + Bank Austria Creditanstalt (USD)	LIBOR + 1.6%	July 2010	117,547	117,219
Sberbank (USD)*	10.0%	September 2011	4,964	-
Sberbank (USD)*	10.75%	November 2010	3,222	-
Sberbank (USD)*	10.5%	March 2010	1,905	-
Sberbank (USD)*	10.5%	June 2010	1,678	-
Secured bank loans				
Sberbank (USD)	8.0%	August 2011	32,240	40,335
Sberbank (USD)	11.0%	December 2011	2,416	3,624
UniCredit Bank (USD)	8.95%	September 2011	1,525	2,365
Sberbank (USD)	11.0%	December 2011	947	1,420
Sberbank (USD)	8.2%	August 2011	-	1,700
Sberbank (USD)*	8.2%	November 2010	-	17,804
Sberbank (USD)*	8.2%	June 2010	-	9,268
Sberbank (USD)*	8.2%	September 2011	-	7,800
Sberbank (USD)*	8.0%	March 2010	-	6,350
Sberbank (USD)	8.2%	July 2011	-	3,043
Sberbank (USD)	8.0%	December 2009	-	2,520
Total non-current			**463,231**	**508,189**
Current				
Current portion of long-term loans			42,254	29,650
Total debt			**505,485**	**537,839**

*The loans denoted with an asterix are the secured notes which were modified during 2008 and as a result of the modification the loans were unsecured. See discussion below for further detail.

In 2008, certain loan agreements with Sberbank totalling 11,769 were modified. As a result of the removal of the security interest, interest rates increased from 8.0%-8.2% to interest rates varying between 10% to 10.75%.

The interest on the Sberbank loans is accrued on a monthly bases and is payable at the end of each month.

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 UniCredit Bank and Bank Austria Creditanstalt AG. The Group drew down the Facility in full on 19 July 2007, and used the proceeds to repay a portion of the outstanding principal amount of the loan under the Sberbank loan.

The Facility is unsecured. The outstanding principal amount must be repaid in full at final maturity, 17 July 2010, and may be prepaid in whole or in part on 10 business days' notice in 5.0 thousand increments above a minimum prepayment of 10.0 thousand. Amounts prepaid or repaid under the Facility may not be reborrowed. The Facility bears interest at a rate of one month US dollar LIBOR plus 1.60% (declining to 1.40%, if the Group obtains a rating of Ba3 (or the equivalent) by Moody's (or an equivalent rating agency), which is payable monthly.

The Group is subject to certain financial covenants measured which are to be computed as defined in the Facility agreement.

The Group's secured debt is secured by property, plant and equipment. At 31 December 2008 and 31 December 2007, property, plant and equipment with a carrying value of 16,269 and 35,111, respectively, were pledged to secure bank overdrafts and loans granted to the Group (Note 13).

As at 31 December 2008, the average effective borrowing rate was 7.02% per annum (2007: 7.26% per annum.). A majority of the Group's debt have interest rates that are fixed at the contract date. The Group has one loan with a variable interest rates and thus exposes the Group to interest rate risk. To mitigate the risk, the Group entered into interest rate swap agreement to fix the LIBOR rate on the loan provided by Unicredit Bank + Bank Austria Creditanstalt (Note 30).

The Group borrowings as of 31 December 2008 are repayable as follows:

	Capital element	**Contractual interest liability**
Due within three months	6,889	-
Due from three to six months	5,584	-
Due from six months to twelve months	29,781	34,612
	42,254	**34,612**
Between 1 and 2 years	166,443	52,746
Between 2 and 5 years	296,788	7,790
Total	**505,485**	**95,148**

The Group borrowings as of 31 December 2007 are repayable as follows:

	Capital element	Contractual interest liability
Due within three months	11,600	-
Due from three to six months	8,740	-
Due from six months to twelve months	9,310	36,240
	29,650	**36,240**
Between 1 and 2 years	213,835	71,668
Between 2 and 5 years	294,354	6,509
Total	**537,839**	**114,417**

22. EMPLOYEE BENEFITS

Unfunded defined benefit plan

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2008. 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 2008	31 December 2007
Discount rate	9%	8.65%
Employees turnover per annum	7%	6%
Expected annual rate of salary increase	10%	7%
Average residual period of work	7 years	8 years

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

	Year ended 31 December 2008	Year ended 31 December 2007
Interest on obligation	800	634
Past service cost	302	284
Current service cost	263	238
Actuarial losses recognised during the year	339	580
Total	**1,704**	**1,736**

The defined benefit obligation charge for the year has been included in cost of services.

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 2008	31 December 2007
Present value of defined benefit obligation	8,630	9,658
Past service cost not yet recognised	(987)	(1,477)
Net liability arising from defined benefit obligation	**7,643**	**8,181**

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

	Year ended 31 December 2008	Year ended 31 December 2007
Balance as at 1 January	**8,181**	**6,451**
Interest on obligation	800	634
Actuarial losses/(gains) recognised during the year	339	580
Past service cost	302	284
Current service cost	263	238
Benefits paid	(588)	(525)
Effect of translation to presentation currency	(1,654)	519
Balance as at 31 December	**7,643**	**8,181**

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to 17,266 and 13,671 for the year ended 31 December 2008 and 2007, respectively.

23. TRADE AND OTHER PAYABLES

	31 December 2008	31 December 2007
Trade payables (RUB)	4,739	16,604
Trade payables (USD)	97	877
Payables for property, plant and equipment	2,190	2,620
Total	**7,026**	**20,101**

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 25 days. No interest charge on the outstanding balance for trade and other payables during credit period. Thereafter, interest may be charged from 3% to 9% per month on the outstanding balance.

Maturity profile of trade payables and payables for property, plant and equipment:

	31 December 2008	31 December 2007
Past due	1,546	4,974
Due within three months	3,058	10,510
Due from three to six months	955	1,968
Due from six months to twelve months	450	149
Due in next financial year	1,017	2,500
Total	**7,026**	**20,101**

24. CASH FLOWS FROM OPERATING ACTIVITIES

	Year ended 31 December 2008	Year ended 31 December 2007
Profit for the year	95,782	93,674
Adjustments for:		
Depreciation and amortisation	122,778	49,714
Finance costs	39,932	36,532
Excess of Group’s interest in net assets acquired over consideration paid on acquisition of subsidiaries	-	(2,956)
Discount amortisation	-	1,595
Loss on disposal of property, plant and equipment	6,556	13,471
Gain on disposal of subsidiaries	(2,718)	-
Foreign exchange loss/(gain)	91,046	(34,776)
Income tax expense	24,789	39,734
Change in retirement benefit obligation	1,116	1,211
Finance income	(5,384)	(1,689)
Impairment of goodwill	3,456	-
Other adjustments	(1,763)	1,713
Loss on early redemption of debts	-	6,025
	375,590	204,248
Working capital changes:		
Decrease/(increase) in inventories	873	(2,825)
Increase in trade and other receivables	(1,263)	(6,638)
(Increase) decrease in long-term VAT receivables	(5,585)	10,464
Increase in trade and other payables and accruals	4,078	22,939
Cash flows from operating activities	**373,693**	**228,188**

25. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

2008:

Acquisitions

During 2008, the Group acquired additional 24.9% of interest in IPP, 0.108% of interest of Shipyard and 50% Baltic stevedore for a cash consideration of 112,445 increasing its ownership to 97.56%, 65.18% and 100%, respectively. The carrying value of IPP, Shipyard and Baltic stevedore net assets in the consolidated financial statements on the dates of acquisition of additional interests was 80,240 in total. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 11,690. Excess of consideration paid over the Group's share in net assets acquired in the amount of 100,755 was recognised in the statement of changes in equity as a decrease of retained earnings.

Minority put option

In accordance with the Russian Joint Stock Company Law, minority shareholders may require the Group to purchase their voting shares and securities convertible into voting shares ("Minority put option), or the Group may require the remaining minority shareholders to sell such securities to the Group (minority squeeze-out) following the acquisition of more than 95% of the voting shares of a company during the period. On 27 May 2008, the Group increased its ownership in OJSC IPP to greater than 95% of the voting shares and the fair value of the cash obligation associated with the minority put option was 20, 316 on that date. In accordance with IFRS, the Group did not recognise a financial liability as statutory obligations are not considered financial liabilities under IAS 39. In addition, the Group determined that the minority put option did not meet the criteria for an onerous contract under IAS 37.

Subsequent to May 2008, the Group acquired 2.4% of additional minority interest in IPP which has been included in the total 24.9% additional minority interest discussed in the paragraphs above. At 31 December 2008, the fair value of the remaining cash obligation associated with the minority put option was 6,277 based on the stock price on that date. Subsequent to 31 December 2008, the Group acquired an additional 2.4% interest in IPP. See Note 33 for details.

Disposals

On 24 July 2008, the Group sold 100% of its subsidiary NR Air for a cash consideration of 26,281. Net assets of the subsidiary at the date of disposal equal to 23,563 and was mainly presented by property, plant and equipment. As a result of this transaction income at the amount of 2,718 was recognised as a separate component of the Consolidated Income Statement.

2007:

Acquisitions

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

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

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.

The operation of Zarubezhneft were not significant during the year, as such the impart of Zarubezhneft on the Group's revenue and profit before tax following the acquisition was not material.

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 consolidated statement of changes in equity as a decrease of retained earnings.

Disposals

During 2007, the Group sold its 59.98% of PJSC TPS and 50% of LLC Kuban Security Service for a total cash consideration of 115. Included in the disposal the net assets were a cash balance of 372, which let to a cash outflow of 260. 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.

26. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The related party receivables and payables resulting from operating activities are settled in the normal course of business. Details of transactions with related parties are disclosed below.

Due to 20% stake owned by Federal Agency significant balances and transactions with state-controlled entities are considered transactions with related parties. In 2007 and 2008 the Group had balances and transactions with Sberbank, Transneft and its subsidiaries, Rosneft, Military divisions, Russian Railways, etc.

Transactions with state-controlled entities:

	Year ended 31 December 2008	Year ended 31 December 2007
Sales and income received from related parties		
Sales and income received from related parties	49,804	7,008
Interest income	2,205	1,689
Purchases from related parties		
Non-capital expenditures	4,676	-
Capital expenditures	922	-
Interest expenses	5,495	39,531

Balances with state-controlled entities:

	31 December 2008	31 December 2007
Cash in related parties banks		
Cash and cash equivalents in related party bank	38,804	12,779
Deposit with related party bank	76,900	1,426
Receivables from related parties		
Trade accounts receivable	1,523	-
Advances paid	226	305
Interest receivable	331	-
Other receivables	31	-
Short-term loans to related parties	681	740
Short-term promissory notes	7,000	-
Long-term loans to related parties	3,131	3,259
Payables to related parties		
Trade accounts payables	84	85
Advances received	1,706	-
Other accounts payables	-	41
Long-term debt	47,371	93,865
Current portion of long-term debt	38,745	4,201

Other related parties are considered to include the ultimate controlling parties, affiliates and entities under common ownership and control with the Group.

As at the date of approval of these consolidated financial statements the ultimate controlling parties of the Group were members of the families of Mr. Ponomarenko and Mr. Scorobogatko.

NCSP, its subsidiaries and associates, in the ordinary course of their business, enter into various sales, purchases and service transactions with related parties: TPS, Kuban Security Company, Ekomarin, etc. Details of transactions between the Group and other related parties are disclosed below.

Transactions with other related parties:

	Year ended 31 December 2008	Year ended 31 December 2007
Sales and income received from related parties		
Sales and income received from related parties	1,058	-
Interest income	121	-
Purchases from related parties		
Services rendered	2,433	-
Interest expenses	345	-

Balances with other related parties:

	31 December 2008	31 December 2007
Receivables from related parties		
Trade accounts receivable	172	-
Advances paid	299	-
Other receivables	970	2,190
Short-term loans given to related parties	1,650	274
Payables to related parties		
Trade accounts payables	83	-

Compensation of key management personnel

For the year ended 31 December 2008 and 2007, the remuneration of the directors and other members of key management was 6,014 and 3,926, respectively, which represented short-term employee benefits.

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

27. COMMITMENTS AND CONTINGENCIES

Proceedings

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. These claims relate to, but are not limited to, its business practices and tax matters. The Group believes that they will not have a material adverse effect on its consolidated financial statements based on information currently available.

However, litigation is inherently unpredictable and, although the Group believes that it has valid defenses in these matters, unfavorable resolutions could occur, which could have a material adverse effect on the Group's consolidated financial statements in future reporting periods.

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.

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

The economy of the Russian Federation, while deemed to be of market status, continue to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

Recent volatility in global and Russian financial markets

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding

any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the entity's profitability.

Insurance

As at 31 December 2008, the Group has insurance coverage in respect of potential damage of its major facilities. NCSP has business interruption insurance and third party liability insurance in respect of environmental damage. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position.

Operating lease arrangements

Operating lease arrangements relate to the lease of land, mooring installation and vessels 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:

2009	7,411
2010	7,035
2011	6,992
2012	7,006
2013	6,906
Thereafter	120,435
Total	**155,785**

28. CAPITAL COMMITMENTS

As at 31 December 2008, the Group had the following commitments for the acquisition of property, plant and equipment and construction works:

	31 December 2008	**31 December 2007**
PJSC NCSP	22,388	12,782
OJSC Novorossiysk Shipyard	71	45
OJSC IPP	32	23,170
OJSC Novoroslesexport	23	6,175
OJSC Novorossiysk Grain Terminal	-	304
Total	**22,514**	**42,476**

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

29. 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.

As at 31 December 2008 and 2007, management believes that the carrying values of significant financial assets (refer to notes 16, 18 and 19) and financial liabilities (refer to notes 21 and 23) recorded at amortised cost in the consolidated financial statements approximated their fair value due to their short-term nature, except for the borrowings and long-term investments.

The fair value of financial liabilities as at 31 December 2008 and 31 December 2007 is as follows:

	31 December 2008	31 December 2007
Fixed rate financial liabilities	97,928	128,100
Participation notes	262,192	304,056
LIBOR+ rate agreement (fixed by SWAP)	107,027	121,574

Interest rate swap is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of financial assets as at 31 December 2008 and 31 December 2007 is as follows:

	31 December 2008	31 December 2007
Promissory notes and other financial assets	3,031	2,113

30. RISK MANAGEMENT

Capital risk management

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

Major categories of financial instruments

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

	31 December 2008	31 December 2007
Financial assets		
Cash and cash equivalents	42,868	66,660
Available-for-sale financial investments (unquoted)	-	13,750
Loans and receivables carried at amortised cost		
Promissory notes	10,131	3,259
Loans issued	2,157	740
Trade receivables	25,191	23,265
Total financial assets	**80,347**	**107,674**
Financial liabilities carried at amortised cost		
Loans and borrowings	505,485	537,839
Trade payables	4,836	17,481
Payables for property, plant and equipment	2,190	2,620
Total financial liabilities	**512,511**	**557,940**

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 2008	31 December 2007
Assets		
Trade and other receivables, net	14,598	11,627
Cash and cash equivalents	8,033	1,676
Total assets	**22,631**	**13,303**
Liabilities		
Loans and borrowings	(505,485)	(543,880)
Trade payables	(97)	(877)
Total liabilities	**(505,582)**	**(544,757)**
Total net position	**(482,951)**	**(531,454)**

The table below details the Group's sensitivity to depreciating of the Russian Rouble against US Dollar by 20%. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	31 December 2008	31 December 2007
Loss	(80,492)	(106,291)

Management consider that 20% of increase reflects the current RUB depreciation against USD.

Interest rate risk

To mitigate the interest rate risk during 2008 the Group entered into interest swap agreement with Morgan Stanley and fixed LIBOR rate at 3.2% per annum for the loan provided by UniCredit Bank+ Bank Austria Creditanstalt. The maturity date of the contract is 18 November 2010.

Credit risk

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

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

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

	Customer location	Turnover for 2008	31 December 2008
Axial Marine Services LTD	Cyprus	68,458	6,714
Palmpoint International	Panama	56,704	-
NLMK	Russia	27,854	1,304
LLC Morservice group	Russia	24,128	2,044
Morservice Group LTD	British Virgin Island	22,566	1,176
Total		**199,710**	**11,238**

	Customer location	Turnover for 2007	31 December 2007
COMINCOM S.A.	Switzerland	89,457	19
Axial Marine Services LTD	Cyprus	47,498	9,287
LLC Chernomorskaya Buksirnaya Company	Russia	23,062	5,489
MILESEATRANS LTD	USA	22,175	-
INTER-LOGISTICS	Germany	19,724	48
Total		**201,916**	**14,843**

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 following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Maturity analyses of financial liabilities are presented in Notes 21 and 23.

31. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

	Ownership % held* and voting rights	
Subsidiary	**31 December 2008**	**31 December 2007**
OJSC IPP	97.56%	72.65%
PJSC Fleet of NCSP	85.68%	85.68%
OJSC Novorossiysk Shipyard	65.18%	65.07%
OJSC Novoroslesexport	91.38%	91.38%
PJSC Novorossiysk Grain Terminal	100.00%	100.00%
LLC Baltic Stevedore Company	100.00%	50.00%

* 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.

32. RECLASSIFICATIONS

Certain comparative information, presented in the consolidated financial statements for the year ended 31 December 2007, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2008.

These reclassifications did not have an impact of equity or profit for the year.

33. EVENTS AFTER THE BALANCE SHEET DATE

On 25 February 2009 the Group has additionally acquired 497 shares of OJSC IPP for cash consideration of 5,000, from Advantage Alliance Ltd, increasing its ownership in the subsidiary to 99.976 %.