Public Joint Stock Company Novorossiysk Commercial Sea Port and Subsidiaries

Independent Auditors' Report
Consolidated Financial Statements
For the Years Ended 31 December 2006 and 2005 (restated)

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as at 31 December 2006 and 2005, and the consolidated income statements, the consolidated statements of changes in equity and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries as of 31 December 2006 and 2005, and of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

As discussed in Note 35, the accompanying consolidated financial statements for the years ended 31 December 2006 and 2005 have been restated.

Deloitte & Touche

16 October 2007
Moscow, Russia

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)
(in thousands of US Dollars, except earnings per share)

	Notes	Year ended 31 December 2006 (As restated, see Note 35)	Year ended 31 December 2005 (As restated, see Note 35)
Revenue	6	277,277	189,246
Cost of services	7	(172,897)	(101,997)
Gross profit		**104,380**	**87,249**
Selling, general and administrative expenses	8	(33,979)	(20,540)
OPERATING PROFIT		70,401	66,709
Share of profit of associates	18	3,065	2,500
Investment income	9	4,542	6,906
Finance costs	10	(22,703)	-
Other income, net	11	1,813	2,099
Excess of Group's interest in the fair value of acquired companies' net assets over cost	28	618	-
PROFIT BEFORE INCOME TAX		**57,736**	**78,214**
INCOME TAX	12	(13,647)	(20,935)
PROFIT FOR THE YEAR		**44,089**	**57,279**
Attributable to:			
Equity shareholders		44,469	57,279
Minority interest		(380)	-
		44,089	**57,279**
Earnings per share			
Basic and diluted (US Dollars)	14	0.0023	0.0030

Vilinov I.E.
Chief Executive Officer

Kachan G.I.
Chief Accountant

The notes on pages 7 to 47 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2006 AND 2005 (RESTATED)
(in thousands of US Dollars)

	Notes	31 December 2006 (As restated, see Note 35)	31 December 2005 (As restated, see Note 35)
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	15	664,166	334,343
Goodwill	16	456,856	-
Mooring rights and other intangible assets	17	14,195	489
Investments in associates	18	-	57,326
Investments in securities and other financial assets	19	12,903	38,123
Non-current VAT recoverable		11,095	7,817
Spare parts		4,840	3,544
Deferred tax assets	12	580	-
		1,164,635	441,642
CURRENT ASSETS:			
Inventories	20	6,581	3,362
Trade and other receivables, net	21	65,155	23,969
Investments in securities and other financial assets	19	23,470	76,607
Cash and cash equivalents	22	37,037	43,915
		132,243	147,853
TOTAL ASSETS		**1,296,878**	**589,495**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	23	10,366	10,464
Foreign currency translation reserve		32,533	(18,200)
Retained earnings		569,024	543,884
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		611,923	536,148
MINORITY INTEREST		41,734	-
TOTAL EQUITY		**653,657**	**536,148**
NON-CURRENT LIABILITIES:			
Long-term debt	24	482,297	500
Deferred tax liabilities	12	68,252	41,274
Retirement benefit obligation	25	6,451	2,508
		557,000	44,282
CURRENT LIABILITIES:			
Short-term debt	24	60,400	284
Trade payables		7,086	131
Other payables and accruals	26	18,735	8,650
		86,221	9,065
TOTAL EQUITY AND LIABILITIES		**1,296,878**	**589,495**

The notes on pages 7 to 47 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)
(in thousands of US Dollars)

	Note	Share capital	Foreign currency translation reserve	Retained earnings	Attributable to share-holders of the parent	Minority interest	Total
Balance at 1 January 2005 – as previously reported		**10,464**	**-**	**498,860**	**509,324**	**-**	**509,324**
Prior period adjustments (See Note 35)	35	-	-	(2,218)	(2,218)	-	**(2,218)**
Balance at 1 January 2005 – as restated		**10,464**	**-**	**496,642**	**507,106**	**-**	**507,106**
Profit for the year		-	-	57,279	57,279	-	**57,279**
Dividends	13	-	-	(10,037)	(10,037)	-	**(10,037)**
Effect of translation into presentation currency		-	(18,200)	-	(18,200)	-	**(18,200)**
Balance at 31 December 2005 – as restated		**10,464**	**(18,200)**	**543,884**	**536,148**	**-**	**536,148**
Profit for the year		-	-	44,469	44,469	(380)	**44,089**
Dividends	13	-	-	(10,624)	(10,624)	-	**(10,624)**
Minority interest acquired	28	-	-	-	-	40,793	**40,793**
Buy-back of ordinary shares	23	(98)	-	(8,705)	(8,803)	-	**(8,803)**
Effect of translation into presentation currency		-	50,733	-	50,733	1,321	**52,054**
Balance at 31 December 2006 – as restated		**10,366**	**32,533**	**569,024**	**611,923**	**41,734**	**653,657**

The notes on pages 7 to 47 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (RESTATED)
(in thousands of US Dollars)

	Notes	Year ended 31 December 2006 (As restated, see Note 35)	Year ended 31 December 2005 (As restated, see Note 35)
Cash flows from operating activities			
Cash generated from operations	27	122,942	102,670
Income tax paid		(18,770)	(24,272)
Interest paid		(21,316)	-
Net cash generated by operating activities		**82,856**	**78,398**
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		1,715	311
Payments for property, plant and equipment		(99,812)	(15,659)
Proceeds from disposal of securities and other financial assets		34,593	3,743
Acquisitions of subsidiaries, net of cash acquired		(537,610)	(28,454)
Proceeds from disposal of short-term investments		61,183	-
Purchases of short-term investments		-	(57,263)
Net cash used in investing activities		**(539,931)**	**(97,322)**
Cash flows from financing activities			
Proceeds from long-term borrowings		519,964	499
Repayments of long-term borrowings		(48,936)	-
Proceeds from short-term borrowings		1,043	-
Repayments of short-term borrowings		(11,382)	(459)
Dividends paid		(10,205)	(10,035)
Treasury shares purchased		(3,507)	-
Repayments of obligations under finance leases		(521)	-
Net cash from/(used in) financing activities		**446,456**	**(9,995)**
Net decrease in cash and cash equivalents		**(10,619)**	**(28,919)**
Cash and cash equivalents at the beginning of the year	22	**43,915**	**75,519**
Effect of exchange rate changes on cash and cash equivalents		**3,741**	**(2,685)**
Cash and cash equivalents at the end of the year	22	**37,037**	**43,915**

The notes on pages 7 to 47 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Public Joint Stock Company Novorossiysk Commercial Sea Port ("NCSP") was founded in 1845. NCSP was transformed from a state-owned enterprise to an open joint stock company in December 1992. NCPS's principal activities include liquid and bulk cargo transhipping services, storage, sea vessel servicing and passenger transit. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. On 14 June 2006, NCSP purchased controlling stakes in subsidiaries in which it previously had minority interests. The principal activities and the significant entities of the Group as of 31 December 2006 were as follows (Note 34):

Subsidiaries by country of incorporation	Nature of business
Russian Federation	
OJSC IPP	Stevedore and storage services
PJSC Fleet of Novorossiysk Commercial Sea Port	Tug & bunkering services
OJSC Novorossiysk Shipyard	Stevedore services & marine vessels repairs
OJSC Novoroslesexport	Stevedore and storage services
PJSC Novorossiysk Grain Terminal	Stevedore and storage services
PJSC TPS	Consulting services
LLC Baltic stevedore company	Stevedore and storage services
LLC Kuban security services	Security services
Cayman Islands	
NR Air Ltd.	Transportation services

Most of the Group operations are located in the Eastern sector of the Black sea in Tsemesskaya bay.

NCSP is the largest stevedore of the Group and the holding company. It has three cargo-loading districts (Western, Central and Eastern), the 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.

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

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

Open Joint Stock Company Novorossiysk Shipyard ("Shipyard")

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

Open Joint Stock Company Novoroslesexport ("Timber Export")

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

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

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

Baltic Stevedore Company LLC ("Baltic Stevedore")

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

Management believes the Group operates in a single operating segment, which is composed of the stevedore services and other related services. The revenues from the transhipping services constitute substantially all revenues and are attributed to the Russian Federation. All significant assets, production and management and administrative facilities are located in the city of Novorossiysk, the Russian Federation.

2. BASIS OF PRESENTATION

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

In preparing these consolidated financial statements, management complied with existing standards and interpretations that are effective or available for early adoption at the Group's first IFRS annual reporting date, 31 December 2006.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for the valuation of property, plant and equipment, which has been presented at fair value, as determined by independent appraisers.

New accounting pronouncements

At the date of authorization of these consolidated financial statements, certain new standards and interpretations have been issued and are mandatory for adoption for accounting periods beginning on or after 1 January 2007:

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

(in thousands of US Dollars)

- IFRIC 9 “Reassessment of Embedded Derivatives”;
- IFRIC 10 “Interim Financial Reporting and Impairment”;
- IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”;
- IFRIC 12 “Service Concession Arrangements”;
- IFRIC 13 “Customer Loyalty Programmes”;
- IFRIC 14 “IAS 19 – The Limit on a Benefit Asset, Minimum Funding Requirements and their Interaction”.

The impact of adopting these standards and interpretations in future periods is currently being assessed by management, however they do not anticipate any material financial impact on the financial statements of the Group. IFRS 7 “Financial Instruments: Disclosures” and IFRS 8 “Operating Segments” are expected to significantly increase the volume of disclosures in the consolidated financial statements.

3. BASIS OF TRANSITION TO IFRS

The Group applied IFRS 1, “First Time Adoption of International Financial Reporting Standards”, in the preparation of its consolidated balance sheet at 1 January 2005 as this is the Group’s transition date for the first time adoption of IFRS. For such associates acquired prior to the date of transition, the Group applied an exemption permitted by IFRS 1, and adjusted the carrying amounts of these associates’ assets and liabilities to the amounts that IFRS would require to be reflected in the associates’ balance sheets. The Group also elected under IFRS 1 to re-measure its property, plant and equipment, including property, plant and equipment held by its associates, at fair value on the date of transition to IFRS. The Group then used these fair values as deemed cost.

In preparing consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and the optional exemption on acquisitions from full retrospective application of IFRS.

Effect of the transition from Russian GAAP to IFRS on the Group’s consolidated financial position and financial performance

Reconciliation of equity at the date of the transition to IFRS and at 31 December and 1 January, 2005:

	Notes	31 December 2005 (As restated, see Note 35)	1 January 2005 (As restated, see Note 35)
Equity under Russian GAAP		**419,104**	**376,501**
Allowance for slow-moving inventories	(a)	(3,478)	(2,705)
Fair value adjustment on property, plant and equipment	(b)	148,012	166,290
Consolidation of subsidiaries not consolidated under Russian GAAP	(c)	17,131	15,378
Deferred income tax	(d)	(39,919)	(43,602)
Accruals for employees’ holidays and compensations	(e)	(1,630)	(1,761)
Retirement benefit obligation	(g)	(2,508)	(2,218)
Other adjustments		(564)	(777)
Equity under IFRS		**536,148**	**507,106**

(in thousands of US Dollars)

Reconciliation of net profit for the year ended 31 December 2005:

	Note	Year ended 31 December 2005 (As restated, see Note 35)
Profit for the year under Russian GAAP		**66,146**
Allowance for slow-moving inventories	(a)	(203)
Additional depreciation charge	(b)	(10,304)
Consolidation of subsidiaries not consolidated under Russian GAAP	(c)	1,694
Deferred income tax	(d)	2,920
Accruals for employees' holidays and compensations	(e)	(1,202)
Retirement benefit obligation	(g)	(369)
Other adjustments		(1,403)
Profit for the year under IFRS		**57,279**

Reconciliation of property, plant and equipment at 1 January 2005:

	Note	1 January 2005
Carrying value under Russian GAAP		**184,307**
Fair value adjustment on property, plant and equipment	(b)	166,290
Reclassification of prepayments for construction in progress	(f)	3,340
Consolidation of subsidiaries not consolidated under Russian GAAP	(c)	6,603
Other adjustments		242
Carrying value under IFRS		**360,782**

(a) Additional provision created for the difference between net realizable value of inventory and its carrying value under IFRS.

(b) This is the difference between the fair value of the property, plant and equipment and its cost under Russian GAAP at 1 January 2005. The additional depreciation charge is due to the difference between the fair value of the property, plant and equipment used in IFRS and its cost under Russian GAAP.

(c) Under Russian GAAP companies are not obliged to prepare consolidated financial statements.

(d) The calculation method of deferred income tax under Russian GAAP (income statement method) is different from IFRS (balance sheet method) (see Note 12).

(e) The accrual of a provision for employees' holidays and compensation as per IAS 37 "Provisions, contingent liabilities and contingent assets" is not required under Russian GAAP.

(f) Advances made to suppliers of certain fixed assets reclassified to property, plant and equipment.

(g) Retirement benefit obligation recognised under IAS 19 is not defined under Russian GAAP (see Note 35).

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of NSCP and its subsidiaries (Note 34), from the date that control effectively commenced until the date that control effectively ceased.

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

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

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

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

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

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

Business combinations

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

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

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

Investments in associates

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

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

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

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

Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill

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

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

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

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

(in thousands of US Dollars)

Non-current assets held for sale

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

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

Functional and presentation currency

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

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

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

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

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

Rates of exchange

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

	31 December 2006	31 December 2005
Year-end rates		
RUR / 1 US dollar	26.3311	28.7825
Average rates for the year ended		
RUR / 1 US dollar	27.1920	28.7900

Foreign currencies

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

Exchange differences are recognised in profit or loss in the period in which they arise as a component of other income or expense except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings.

For the purpose of the consolidated financial statements, the assets and liabilities of a foreign operation with a functional currency different from the functional currency of the reporting entity are translated at the exchange rates prevailing on the balance sheet dates. Income statement items are translated at the average exchange rates for the period. Exchange differences arising on translation are included in the statement of changes in equity.

Revenue recognition

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

The Group's revenue is derived as follows: (i) stevedore services (liquid, dry, bulk cargo, general cargo and containers transhipment services, including storage services), (ii) fleet services, and (iii) other services.

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

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

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

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

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

Leasing

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

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

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

Borrowing costs

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

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

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

Employee benefits

Defined contribution plans

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

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

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

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

Defined benefit plans

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

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

The Group has defined benefit plans for employees of NCSP and some of its subsidiaries. Under the plans, the employees are entitled to one-time retirement benefits of 10% of final salary for every year worked for the eligible companies of the Group on attainment of a retirement age of 55 for women and 65 for men. Also post-retirement benefits are provided to these employees amounting to RUR 350 per month depending on the employee’s actual years of services and qualifications.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

Current and deferred taxes are recognised as an expense or income in the consolidated income statement, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or they arise from the initial accounting for a business combination. In case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over the cost.

Property, plant and equipment

As discussed in Note 3, the Group has adopted IFRS for the first time effective 1 January 2005. The Group has elected to utilize exemptions available for first-time adopters under IFRS 1 and has recorded property, plant and equipment at fair value. The valuations were performed by an independent appraiser as of 1 January 2005. The difference between the fair value of the property, plant and equipment and its cost in Russian GAAP at 1 January 2005 is recorded as retained earnings at that date (Note 3). Property, plant and equipment acquired through acquisitions are recorded at fair value on the date of the acquisition, as determined by an independent appraiser.

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

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

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

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

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

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

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

Mooring rights and other intangible assets

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

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial assets

General description

Financial assets are classified into the following specified categories: at fair value through profit or loss ("FVTPL"); held-to-maturity investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Effective interest method

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

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

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual arrangement of the instrument and include investments, loans receivable, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

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

AFS financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Where a quoted market price does not exist, these instruments are measured at management's estimate of fair value.

Loans and receivables

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

Cash and cash equivalents

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

Impairment of financial assets

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

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

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

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

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities of the Group, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Provisions

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

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

Dividends declared

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

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The most significant areas requiring the use of management estimates and assumptions are described below.

Allowance for trade and other receivables

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

Useful lives of assets

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

Impairment of goodwill

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

Income tax

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

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

(in thousands of US Dollars)

Allowance for slow-moving inventory

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

6. REVENUE

	Year ended 31 December 2006	Year ended 31 December 2005
Stevedore services	244,746	184,139
Fleet services	22,369	-
Ship repair services	4,032	-
Vessel rent	2,742	5,107
Other	3,388	-
Total	**277,277**	**189,246**

In 2005 vessel rent income was received from Fleet which became a subsidiary of the Group in 2006.

7. COST OF SERVICES

	Year ended 31 December 2006	Year ended 31 December 2005
Payroll	42,406	29,299
Depreciation	36,590	26,796
Fuel	20,857	-
Insurance	18,093	14,830
Repairs and maintenance	12,566	8,603
Rent	10,027	5,658
Raw materials	9,142	4,706
Unified social tax	7,917	5,851
Energy and utilities	5,725	4,578
Subcontractors	2,467	-
Other	7,107	1,676
Total	**172,897**	**101,997**

(in thousands of US Dollars)

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Payroll	10,491	4,025
Taxes other than income tax	6,752	3,072
Professional services	4,036	4,183
Transport	3,485	3,297
Charity	3,374	2,466
Depreciation and amortisation	2,046	347
Unified social tax	1,066	320
Bank charges	990	768
Allowance for slow-moving inventories and doubtful receivables	413	145
Repairs and maintenance	358	427
Rent	261	343
Other expenses	707	1,147
Total	**33,979**	**20,540**

9. INVESTMENT INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income on deposits	4,117	6,846
Discount of long-term debt	371	-
Coupon income	54	60
Total	**4,542**	**6,906**

10. FINANCE COSTS

	Year ended 31 December 2006	Year ended 31 December 2005
Interest on borrowings	22,666	-
Other	37	-
Total	**22,703**	**-**

(in thousands of US Dollars)

11. OTHER INCOME, NET

	Year ended 31 December 2006	Year ended 31 December 2005
Foreign exchange gain	5,391	3,406
Gain on disposal of shares of Investsberbank and PFS	740	-
Loss on disposal of property, plant and equipment	(3,931)	(1,537)
Other	(387)	230
Total	**1,813**	**2,099**

12. INCOME TAX

	Year ended 31 December 2006	Year ended 31 December 2005
Current tax expense	18,712	23,177
Deferred tax benefit	(5,065)	(2,242)
Total	**13,647**	**20,935**

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

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before tax	57,736	78,214
Tax at the statutory rate of 24%	13,857	18,771
Effect of (income)/expenses that are not (taxable)/deductible in determining taxable profit	(210)	2,164
Total	**13,647**	**20,935**

(in thousands of US Dollars)

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

	31 December 2006	31 December 2005
Net liability	41,274	45,138
Deferred tax benefit	(5,065)	(2,242)
Deferred tax liability assumed on acquisition of subsidiaries	26,905	-
Effect of translation into presentation currency	4,558	(1,622)
Net deferred tax liability	**67,672**	**41,274**

The deferred tax position of the Group by subsidiary was:

	31 December 2006	31 December 2005
JSC NCSP	36,575	41,274
JSC Fleet of NCSP	149	-
JSC IPP	4,917	-
JSC Shipyard	12,205	-
JSC TPS	(580)	-
JSC Grain Terminal	2,122	-
LLC Baltic Stevedore	46	-
JSC Timber Export	12,238	-
Total	**67,672**	**41,274**

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

	31 December 2005	Acquired	Charged	Effect of translation into presentation currency	31 December 2006
Fixed assets	38,375	28,036	(4,525)	4,340	66,226
Mooring rights	-	3,242	(85)	103	3,260
Bad debt provision	(88)	150	(83)	(6)	(27)
Obsolescence provision	273	(214)	(415)	5	(351)
Investments valuation	3,163	(5,205)	232	136	(1,674)
Vacation accruals	(305)	(328)	(41)	(41)	(715)
Long-term debt	-	1,057	80	37	1,174
Deferred income	54	-	(57)	3	-
Loss carryforward	(316)	(429)	(507)	(60)	(1,312)
Other	118	(154)	336	16	316
	-	-	-		-
Less: valuation allowance	-	750	-	25	775
Total	**41,274**	**26,905**	**(5,065)**	**4,558**	**67,672**

(in thousands of US Dollars)

13. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2006 and 2005 were 10,624 and 10,037, respectively. The total amounts of dividends paid during 2006 and 2005 were 10,205 and 10,035, respectively.

8,705 represents the excess of the treasury shares purchase price over their par value (of which 5,296 were assumed within assets of new subsidiaries acquired in 2006).

14. EARNINGS PER SHARE

Basic and diluted earnings per share for 2006 and 2005 have been calculated on the basis of the net profit for the year and the weighted average number of common shares in issue during the year, which excludes treasury stock.

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

	Year ended 31 December 2006	**Year ended 31 December 2005**
Profit attributed to shareholders of the parent company	44,469	57,279
Weighted average number of shares during the year	19,124,483,167	19,259,815,400
Basic and diluted earnings per share (US Dollars)	**0.0023**	**0.0030**

(in thousands of US Dollars)

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
Cost									
1 January 2005	**-**	**122,169**	**113,754**	**69,252**	**-**	**4,053**	**17,366**	**34,188**	**360,782**
Additions	-	28,715	11,388	-	-	278	2,004	(26,916)	**15,469**
Disposals	-	(185)	(1,465)	-	-	(303)	(304)	-	**(2,257)**
Effect of translation into presentation currency	-	(4,388)	(4,086)	(2,487)	-	(146)	(624)	(1,228)	**(12,959)**
31 December 2005	**-**	**146,311**	**119,591**	**66,765**	**-**	**3,882**	**18,442**	**6,044**	**361,035**
Acquisition of subsidiaries	8,411	72,907	47,017	3,786	24,418	3,950	16,676	56,203	**233,368**
Additions	21	17,422	14,112	876	409	614	28,843	48,237	**110,534**
Disposals	-	(1,929)	(2,343)	(1,079)	-	(418)	(1,196)	-	**(6,965)**
Effect of translation into presentation currency	-	13,558	11,059	6,180	-	348	1,678	563	**33,386**
31 December 2006	**8,432**	**248,269**	**189,436**	**76,528**	**24,827**	**8,376**	**64,443**	**111,047**	**731,358**

(in thousands of US Dollars)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Aircraft	Vehicles	Office and other equipment	Construction in progress	Total
Accumulated depreciation & impairment									
1 January 2005	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation charge	-	(4,033)	(16,359)	(4,175)	-	(454)	(2,076)	-	**(27,097)**
Disposals	-	5	352	-	-	39	16	-	**412**
Effect of translation into presentation currency	-	(1)	(5)	(1)	-	-	-	-	**(7)**
31 December 2005	**-**	**(4,029)**	**(16,012)**	**(4,176)**	**-**	**(415)**	**(2,060)**	**-**	**(26,692)**
Depreciation charge	-	(7,847)	(19,357)	(4,807)	(801)	(765)	(4,551)	-	**(38,128)**
Disposals	-	75	482	348	-	91	323	-	**1,319**
Effect of translation into presentation currency	-	(629)	(2,108)	(535)	(27)	(61)	(331)	-	**(3,691)**
31 December 2006	**-**	**(12,430)**	**(36,995)**	**(9,170)**	**(828)**	**(1,150)**	**(6,619)**	**-**	**(67,192)**
Carrying Value									
31 December 2005	**-**	**142,282**	**103,579**	**62,589**	**-**	**3,467**	**16,382**	**6,044**	**334,343**
31 December 2006	**8,432**	**235,839**	**152,441**	**67,358**	**23,999**	**7,226**	**57,824**	**111,047**	**664,166**

As of 31 December 2006, construction in progress included 28,981 (2005: 1,260) of advances paid for property, plant and equipment. Property, plant and equipment with carrying value of 120,932 were pledged to secure bank overdrafts and loans granted to the Group (Note 24). The net carrying value of machinery and equipment under a finance lease at 31 December 2006 and 2005 amounted to 998 and nil, respectively.

An independent valuation of the Group's property, plant and equipment was performed by Centre of Professional Valuation to determine the fair value of the property, plant and equipment as of 1 January 2005, the date of Group first time adoption of IFRS. The valuation was performed in accordance with International Valuation Standards.

(in thousands of US Dollars)

16. GOODWILL

Cost	
At 1 January 2006	-
Additional amounts recognised from business combinations	442,393
Effect of translation into presentation currency	14,463
At 31 December 2006	**456,856**
Carrying amount	
1 January 2006	-
31 December 2006	**456,856**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill recognised from the business combination has been allocated as follows:

IPP	30,375
Fleet	79,573
Shipyard	13,752
Timber Export	140,924
Grain Terminal	174,626
Baltic Stevedore	3,143
Total	**442,393**

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that no goodwill associated with the Group's operations was impaired.

(in thousands of US Dollars)

17. MOORING RIGHTS AND OTHER INTANGIBLE ASSETS

Cost	**2006**
Balance as of 31 December 2005	**857**
Amounts of mooring rights recognised from business combinations:	
Fleet	664
Shipyard	5,252
Timber Export	7,591
Software and other additions	232
Effect of translation into foreign currency	529
Balance as of 31 December 2006	**15,125**
Accumulated amortisation and impairment as of 31 December 2005	**(368)**
Amortisation charge	(508)
Effect of translation into foreign currency	(54)
Accumulated amortisation and impairment as of 31 December 2006	**(930)**
Carrying value as of 31 December 2005	**489**
Carrying value as of 31 December 2006	**14,195**

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

18. INVESTMENTS IN ASSOCIATES

Movement of the Group's associates are as follows:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Balance as of 1 January	57,326	14,709
Investments in IPP	-	28,454
Investments in Timber Export and TPS	-	12,183
Group share of income for the year	3,065	2,500
Transfer from associate to subsidiary	(63,853)	-
Effect of translation into presentation currency	3,462	(520)
Balance as of 31 December	**-**	**57,326**

During July 2005, the Group acquired 16.38% of IPP for the total consideration of 28,454. During 2005, the Group also acquired a 16.37% of Timber Export and 5.33% of PJSC TPS for total consideration of $12,183.

(in thousands of US Dollars)

As of 31 December 2005 the Group has significant influence in Fleet, IPP and Timber Export. The existence of significant influence was caused by the representation on the Board of Directors.

On 14 June 2006, the Group acquired controlling stakes in its associates: IPP, Fleet and Timber Export (Note 28). It increased its shareholdings from 22.65% to 72.65% and from 34.13% to 85.68% in IPP and Fleet, correspondingly and from 16.37% to 91.38% in Timber Export. Those companies became subsidiaries and were consolidated in the Group financial statements at the date of acquisition (Note 28).

19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December 2006	31 December 2005
Current		
Loans and other		
Investenergo loan (Note 29)	21,285	-
Vnesheconombank bonds (“Min-fin bonds” or “OGVVZ”)	1,805	-
Promissory notes	380	-
Deposits in USD (Investsberbank & Nikoil)	-	76,607
Total current	**23,470**	**76,607**
Non-current		
Available-for-sale		
Office centre Pokrovsky	7,691	-
City Park	5,129	-
Investments in Investsberbank and PFS Bank	-	5,027
Vnesheconombank bonds (“Min-fin bonds” or “OGVVZ”)	-	1,778
Depositary notes of Investsberbank	-	28,149
Loans and other		
Loans	-	3,049
Other	83	120
Total non-current	**12,903**	**38,123**

On 28 March 2006, the Group received the par amount of the depositary notes of Investsberbank. During 2006, the short-term Investsberbank and Nikoil deposits were redeemed. Interest income for 2006 amounted to 3,831 and was included in investment income.

During 2006, the Group granted two non-interest bearing short-term loans to Investenergo, related party, amounting to 21,285. Due to the short-term nature these loans were not discounted as of the year end.

OGVVZ (bonds) are not listed on any stock exchange. At 31 December 2006 total coupon income amounted to 54 (60 in 2005).

(in thousands of US Dollars)

As a result of the acquisition of subsidiaries, the Group obtained an additional 6,626 equity investment in Investsberbank. The shares were sold for 11,880 and gain of 511 was recognized in the 2006 income statement.

During 2006, the Group invested in 4.21% of OJSC City Park share capital and 7.4% OJSC Office Centre Pokrovsky. The fair value of these unlisted available-for-sale investments cannot be measured reliably. Management believes that based on internal analysis there were no indicators of impairment loss and the cost of these investments is the most appropriate basis to carry those assets at the balance sheet date.

20. INVENTORIES

	31 December 2006	31 December 2005
Raw materials and low value items	7,088	5,653
Fuel	1,084	-
Goods for resale	913	-
Other	151	113
Less: allowance for slow-moving inventories	(2,655)	(2,404)
Total	**6,581**	**3,362**

21. TRADE AND OTHER RECEIVABLES, NET

	31 December 2006	31 December 2005
Trade accounts receivable	18,803	14,993
VAT recoverable	24,480	3,967
Other taxes receivable	13,320	4,769
Advances to suppliers	4,555	140
Other receivables and prepayments	5,504	1,174
Less: allowance for doubtful receivables	(1,507)	(1,074)
Total	**65,155**	**23,969**

22. CASH AND CASH EQUIVALENTS

	31 December 2006	31 December 2005
Current accounts in RUR	21,264	39,174
Current accounts in USD	14,739	-
Bank deposits in USD	1,029	96
Cash in hand	5	4,645
Total	**37,037**	**43,915**

(in thousands of US Dollars)

Bank deposits as of 31 December 2006 mainly represent a 1,019 Investsberbank deposit with 9% interest and maturity date 9 March 2007.

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

23. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 shares authorized, issued and outstanding with a par value of 0.000375 USD. 9,629,907,701 (50% plus 1 share) are pledged against the loan agreement with Sberbank (Note 24). Authorised share capital at par is 7,213.

At 31 December 2006, the outstanding share capital of the Group was 10,366 (2005: 10,464). During 2006, the Group repurchased its own shares at nominal value of 98.

24. DEBT

	Interest Rate	Maturity Date	31 December 2006	31 December 2005
Long-term				
Sberbank (USD)	8.8-9.2%	June 2009	388,000	-
Sberbank (USD)	9.5-10.5%	August 2011	21,903	-
Sberbank (USD)	9.2%	November 2010	17,400	-
Sberbank (USD)	9.2%	June 2010	13,924	-
Sberbank (USD)	8.8-9.2%	July 2011	7,173	-
Sberbank (USD)	8.95%	September 2011	5,040	-
Sberbank (USD)	8.8-9.2%	December 2011	4,300	-
MIB (USD)	8.95%	June 2009	3,025	-
Sberbank (USD)	9.2-10.2%	September 2011	2,076	-
Sberbank (USD)	9.5-10.5%	August 2011	1,700	-
Sberbank (USD)	8.8-9.2%	December 2011	1,685	-
Loans from related parties (Note 29)	0.1%-6%	2008-2012	14,146	-
Other			1,925	500
Total long- term			**482,297**	**500**
Short- term				
Current portion of long-term loans			57,551	-
Loans from related parties (Note 29)			2,094	-
Other			227	284
Current portion of finance lease liability			528	-
Total short-term			**60,400**	**284**
Total debt			**542,697**	**784**

(in thousands of US Dollars)

The Group entered into a non-revolving loan agreement with Open Joint Stock Company Commercial Savings Bank of the Russian Federation ("Sberbank") No. 3620 on 14 June 2006 (the "Sberbank Loan"). The Sberbank Loan provided the Group with a non-revolving credit line in the aggregate amount of 450,000. This loan is due in full on 11 June 2009 unless extended in accordance with its terms until 11 June 2013.

The Sberbank Loan carries an annual interest rate of 8.8% or 9.2% depending upon whether the Group achieves certain stated average monthly current account turnover. Increases in the interest rate become effective 30 days after the Group notifies Sberbank of its prior quarter's average monthly current account turnover, and the Group retains the ability to prepay the entire unpaid principal and accrued interest within such 30 day period based on the interest rate in effect prior to the notified increase. To date, the Sberbank Loan has accrued interest at 8.8% without any increase. The loan agreement also provides for a default interest rate of 14% per annum above the interest rate then in effect for any amounts due and unpaid. The Group may repay the remaining principal amount of the Sberbank Loan with accrued interest at any time prior to maturity without penalty upon five business days' advance notice to Sberbank.

As collateral for its obligations under the Sberbank Loan, the Group pledged all of its shares in Novorossiysk Shipyard, Timber Export, Fleet, IPP and Grain Terminal and also its shareholders pledged 50% plus 1 share of the shares of NCSP. The number of pledged shares and the percentage of each pledged company's share capital represented by the pledged shares is stated below:

Subsidiary	Number of shares	Share of share capital
Fleet	8,289,492	51.55%
Grain Terminal	2,999,655	99.99%
Timber Export	2,322,579	75.01%
IPP	10,303	50.01%
Novorossiysk Shipyard	2,166,460	
	(common shares)	50.03%
	948,749	
	(preferred shares)	

The Group also has other agreements with Sberbank for loans and letters of credit, which bear interest at 8.8%-10.5%. Under these agreements, the Group has pledged certain real property as collateral. Sherbank also has the right to require additional collateral should the outstanding amount exceed the value of the pledged debt.

The Sberbank Loan and certian other debt is secured by property, plant and equipment.
At 31 December 2006, property, plant and equipment with a carrying value of 120,932 were pledged to secure bank overdrafts and loans granted to the Group (Note 15).

The Group's borrowings are denominated in the following currencies:

	31 December 2006	31 December 2005
Russian Roubles	563	-
US Dollars	542,134	784
Total	**542,697**	**784**

(in thousands of US Dollars)

The Group borrowings are repayable as follows:

	31 December 2006	31 December 2005
During 2007	60,400	284
During 2008-2009	445,522	500
During 2010-2012	36,775	-
Total	**542,697**	**784**

As of 31 December 2006, the average effective borrowing rate was 9.2 per cent. Interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

25. EMPLOYEE BENEFITS

Defined benefit plan

The most recent actuarial valuation of the defined benefit obligation was carried out at 31 December 2006. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

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

	Valuation at	
	31 December 2006 %	31 December 2005 %
Discount rate	7.62	7.62
Expected return on plan assets	n/a	n/a
Expected annual rate of salary increase	5	5
Employees turnover	7	7
Average residual period of work	8 years	8 years

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

	Year ended 31 December 2006	Year ended 31 December 2005
Current service cost	86	76
Interest on obligation	342	314
Actuarial gains recognised during the year	(145)	(58)
Past service cost	267	252
Total	**550**	**584**

(in thousands of US Dollars)

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

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

	31 December 2006	31 December 2005
Present value of defined benefit obligation	8,103	4,271
Past service cost not yet recognised	(1,652)	(1,763)
Net liability arising from defined benefit obligation	**6,451**	**2,508**

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

	Year ended 31 December 2006	Year ended 31 December 2005
Balance as of 1 January	2,508	2,218
Current service cost	86	76
Interest on obligation	342	314
Actuarial gains recognised during the year	(145)	(58)
Past service cost	267	252
Liabilities assumed in a business combination	3,278	-
Benefits paid	(236)	(215)
Effect of translation to presentation currency	351	(79)
Balance as of 31 December	**6,451**	**2,508**

The defined benefit plan is unfunded.

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to 8,983 and 6,171 for the year ended 31 December 2006 and 2005, respectively.

26. OTHER PAYABLES AND ACCRUALS

	31 December 2006	31 December 2005
Payroll accruals	5,966	4,252
Taxes payable	3,725	2,316
Advances received from customers	3,293	1,419
Dividends payable	644	371
Other accounts payable	5,107	292
Total	**18,735**	**8,650**

(in thousands of US Dollars)

27. CASH GENERATED FROM OPERATIONS

	Year ended 31 December 2006	Year ended 31 December 2005
Profit for the year	**44,089**	**57,279**
Adjustments for:		
Depreciation and amortisation	38,636	27,143
Interest expense	22,666	-
Excess of interest in net assets acquired over contribution paid on acquisition of subsidiaries	(618)	-
Discount amortisation	(371)	-
Change in allowance for doubtful receivables	7	348
Change in allowance for slow-moving inventories	406	(203)
Loss on disposal of property, plant and equipment	3,931	1,537
Share of profit of associates	(3,065)	(2,500)
Gain on disposal of shares of Investsberbank and PFS	(740)	-
Finance lease charge	37	-
Income tax	13,647	20,935
Foreign exchange gain	(5,391)	(3,406)
Working capital changes:		
Decrease in inventories	252	192
Decrease/(increase) in trade and other receivables	11,861	(1,020)
(Decrease)/increase in trade and other payables and accruals	(2,405)	2,365
Cash generated from operating activities	**122,942**	**102,670**

(in thousands of US Dollars)

28. ACQUISITION OF SUBSIDIARIES

Net assets of subsidiaries acquired	**Fleet**	**IPP**	**Shipyard**	**Timber Export**	**Grain Terminal**	**TPS**	**Baltic Stevedore**	**NR Air Ltd.**	**14 June 2006 fair value total**
Property, plant and equipment	9,216	38,784	57,349	63,449	40,333	294	298	23,645	233,368
Mooring rights and other intangible assets	664	-	5,252	7,591	-	62	-	-	13,569
Non-current VAT recoverable	-	-	169	186	1,413	-	-	-	1,768
Spare parts	403	-	313	343	-	-	-	-	1,059
Long -term investments	18,023	216	74	10	-	-	-	-	18,323
Retirement benefit obligation	-	(257)	(942)	(2,079)	-	-	-	-	(3,278)
Inventories	2,116	421	402	356	5	46	7	-	3,353
Accounts receivable	25,962	6,521	6,045	5,687	3,039	1,170	491	-	48,915
Short- term investments	2,023	-	-	37	588	-	-	-	2,648
Cash and cash equivalents	3,000	624	125	1,539	8,199	371	243	396	14,497
Debt	(1,876)	(13,228)	(12,574)	230	(38,480)	(151)	(3,506)	-	(69,585)
Accounts payable	(1,719)	(185)	(1,357)	(230)	(3,165)	(5)	(568)	-	(7,229)
Other accruals	(1,219)	(736)	(4,428)	(2,040)	(74)	(700)	(143)	-	(9,340)
Deferred tax	(136)	(4,543)	(12,195)	(8,436)	(1,951)	321	35	-	(26,905)
Net assets	**56,457**	**27,617**	**38,233**	**66,643**	**9,907**	**1,408**	**(3,143)**	**24,041**	**221,163**
Minority interest	(8,084)	(7,553)	(19,105)	(5,372)	(1)	(678)	-	-	(40,793)
Goodwill	79,573	30,375	13,752	140,924	174,626	-	3,143	-	442,393
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	-	-	-	-	-	(618)	-	-	(618)
									-
Fair value of net assets acquired companies	**127,946**	**50,439**	**32,880**	**202,195**	**184,532**	**112**	**-**	**24,041**	**622,145**
Consideration paid in cash	107,605	19,927	32,880	189,307	178,347	-	-	24,041	552,107
Previously held interest in the acquired companies	20,341	30,512	-	12,888	6,185	112	-	-	70,038
Net cash used in acquisition of subsidiaries:									
Consideration paid in cash	(107,605)	(19,927)	(32,880)	(189,307)	(178,347)	-	-	(24,041)	(552,107)
Cash and cash equivalents acquired	3,000	624	125	1,539	8,199	371	243	396	14,497
Net cash outflow on acquisition of subsidiaries	**(104,605)**	**(19,303)**	**(32,755)**	**(187,768)**	**(170,148)**	**371**	**243**	**(23,645)**	**(537,610)**

(in thousands of US Dollars)

On 14 June 2006, the Group acquired controlling stakes in the following entities (Note 34):

	Interest acquired	Effective % held at 31 December 2006
Grain Terminal	99.99%	99.99%
Timber Export	75.01%	91.38%
Fleet [(a)]	51.55%	85.68%
Shipyard	50.03%	50.03%
IPP	50.00%	72.65%
TPS [(b)]	30.00%	51.83%

(a) NCSP acquired 51.55% of Fleet, which owned 50% of Baltic Stevedore Company. At the year end NCSP acquired 50% of Baltic Stevedore Company from Fleet.

(b) NCSP owns 51.83% of OJSC TPS, which owns 50% of LLC Kuban security services. Accordingly, the Group holds 25.91% of LLC Kuban security services.

These entities were purchased from U.F.G.I.S. Structured Holdings Limited.

The net assets of subsidiaries purchased were subject to an independent appraisers' valuation, as shown in the preliminary purchase price allocation above. The Group recorded these fair values of the assets, liabilities and contingent liabilities of each acquired subsidiary.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire the above mentioned companies. In addition, the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development, the assembled workforce and future investment projects from the combination. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured. The purchased subsidiaries contributed 85,113 to the Group's revenue and 4,748 to the Group's profit before tax for the period from the date of acquisition to the balance sheet date.

Prior to acquisition, the certain acquired entities did not prepare financial statements in accordance with IFRS. Hence it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and such information is not presented in the consolidated financial statements of the Group. It is also not practicable to disclose the pro forma revenue and profit of the combined group as if the acquisition had occurred at the beginning of 2006.

29. RELATED PARTY TRANSACTIONS

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

(in thousands of US Dollars)

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

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

Material balances with related parties were as follows:

	31 December 2006	31 December 2005
Loans from related parties		
Long-term		
Entities under common control [(a)]	4,702	-
Sberbank	463,201	-
Other related parties	9,444	-
	477,347	**-**
Short-term		
Entities under common control [(a)]	680	-
Sberbank	57,318	-
Other related parties	1,359	-
	59,357	**-**
Short-term loans to related parties		
Entities under common control [(a)]	21,285	-
	21,285	**-**
Cash and cash equivalents		
Sberbank	17,128	676
Other related parties	-	42,995
	17,128	**43,671**
Deposits and depositary notes purchased		
Long-term		
Other related parties	-	28,149
Short-term		
Other related parties	-	76,607

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

Material transactions with related parties were as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Sales		
Military divisions	4,340	-
Russian Railways	416	-
Transneft	7,542	7,213
	12,298	7,213

During 2006, Investsberbank ceased to be a related party due to change of its owners.

Other related parties represent affiliates of the ultimate beneficiaries. Interest expense on loans from related parties during 2006 and 2005 amounted to 21,080 and nil thousand, respectively.

Compensation of key management personnel

For the year ended 31 December 2006 and 2005, the remuneration of the directors and other members of key management was 1,006 and 647, respectively.

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

30. COMMITMENTS AND CONTINGENCIES

Litigation

The Group has a large number of small claims and litigation relating to its operating activities. Management believes that none of these claims, individually or in aggregate, will have a material adverse impact on the Group.

On 24 November 2006, the Russian Federal Agency on Property management applied to the court to impose a penalty on JSC Timber Export. The penalty was accrued for wrong application of cadastral classification of land and includes rent payment of 662 and penalty fees of 476 for the period from 1 January 2006 till 21 November 2006. Based on the court decision of 21 February 2007 the cost of the rented land is being clarified.

Taxation contingencies in the Russian Federation

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

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

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that the tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant. Management estimates total unprovided amount of possible tax risks to be approximately 1,850.

Environmental matters

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

(in thousands of US Dollars)

Insurance

As of 31 December 2006, the Group has insurance coverage in respect of potential damage of its major facilities. The Group does not have any business interruption insurance or any third party liability insurance in respect of environmental damage. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Operating lease arrangements

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

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

2007	3,409
2008	3,409
2009	3,409
2010	3,134
2011	3,085
Thereafter	70,298
Total	**86,744**

31. CAPITAL COMMITMENTS

As of 31 December 2006, the Group had the following capital commitments:

	31 December 2006
Commitments for the acquisition of property, plant and equipment and construction works:	
NCSP	102,839
Timber Export	20,747
Grain Terminal	9,585
IPP	1,196
Shipyard	790
Total	**135,157**

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

32. RISK MANAGEMENT

In the normal course of its operations, the Group is exposed to credit, currency, liquidity and interest rate risks. The Group has implemented a risk management structure and has adopted a series of risk management and control procedures to facilitate the measurement, evaluation and control of these exposures and related risk management activities.

Concentration of credit risk

Credit risk is the risk that a customer or supplier may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. Sales made to 15 customers in 2006 and 2005 were approximate 78% and 88% of the Group's total sales, respectively. In order to mitigate credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. A significant amount of the Group's revenues (65% in 2006, and 76% in 2005) is denominated in foreign currency – US Dollar. In order to mitigate this risk the Group attracts borrowings in the same currency. The Group's results may be adversely impacted by appreciation of the Russian rouble against the US Dollar, however this impact will be mitigated by the borrowings that are denominated in USD. During 2006, the net effect of foreign exchange differences for the Group was a gain of 5,391 following the RUR appreciation against the USD of 8.6%. The Group did not enter into any forward foreign exchange contracts in 2006 and 2005.

Liquidity risk

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

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group is exposed to interest rate risk as entities in the Group borrow funds at fixed interest rates. In the case of a 1% decrease in the floating rate below the effective Group's borrowing rate the potential interest expense impact will be approximately 5,200. The risk is managed by the Group by timely monitoring the changes between the floating and the fixed rates.

33. EVENTS AFTER THE BALANCE SHEET DATE

During May 2007, the Group acquired additional 15.04% of shares in Shipyard and 0,01% of shares in Grain Terminal for a cash consideration of 24,642, increasing its ownership to 65,07% and 100%, respectively. The carrying value of Shipyard and Grain Terminal net assets in the consolidated financial statements on the date of acquisition of additional interest was 36,711. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 5,525. Excess of consideration paid over the Group's share in net assets acquired in the amount of 19,117 was recognised in the statement of changes in equity as decrease of retained earnings as of 30 June 2007.

(in thousands of US Dollars)

On 17 May 2007, the Group, through a newly formed consolidated special purpose entity, Novorossyisk Port Capital S.A., issued 7% loan participation notes due 2012 (the ‘‘Loan Participation Notes’’) in an aggregate principal amount of US$300.0 million. The Group applied the proceeds of the Loan Participation Notes to repay a portion of the outstanding principal amount of the Sberbank Loan. Interest on the Loan Participation Notes is payable semi-annually on 17 November and 17 May of each year, commencing on 17 May 2012. The Loan Participation Notes are subject to provisions, including representations and warranties, covenants, undertakings and events of default, including change of control, negative pledge and cross-default provisions. Violation of the change of control provisions can result in the Group being required to repay the Loan Participation Notes at 101% of par value.

On 28 June 2007, the Group acquired 100% of the share capital of OJSC NPK Zarubezhneft (“Zarubezhneft”) for a cash consideration of 6,456. The carrying value of OJSC NPK Zarubezhneft net assets in the consolidated financial statements on the date of acquisition was 9,346. Excess of the Group’s share in net assets acquired over the consideration paid in the amount of 2,890 was recognised in the income statement of the Group for the six months ended 30 June 2007.

Up to the date of approval of the consolidated financial statements the Group extinguished 26,956 of debt on the existing loan agreements with Sberbank and raised 6,350 of new debt on the existing loan agreement with Sberbank with interest rates of 8.8% and a maturity date of 25 March 2010.

On 1 July 2007, the Group negotiated and signed the addendum to the existing insurance agreement with OJSC Russia. Based on the terms of this addendum the 2007 annual insurance premium was decreased from 16,269 to 8,565.

The following changes in interest rates occurred up to the date of approval of the consolidated financial statements:

Secured bank loans	Maturity date	30 June 2007	Interest rate at 30 June 2007	Interest rate after 1 July 2007
Sberbank (USD)	03.08.2011	28,689	9.5%	8.2%
Sberbank (USD)	09.11.2010	26,747	9.2%	8.2%
Sberbank (USD)	04.06.2010	13,924	8.8%	8.2%
Sberbank (USD)	25.03.2010	6,350	8.8%	8.0%
Sberbank (USD)	11.07.2011	6,268	9.2%	8.2%
Sberbank (USD)	23.12.2009	4,410	8.8%	8.0%
Sberbank (USD)	09.09.2011	2,888	9.2%	8.2%
Sberbank (USD)	02.08.2011	1,700	9.5%	8.2%

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

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

(in thousands of US Dollars)

The Group is subject to certain financial covenants measured which are to be computed as defined in the loan agreement with amounts in the Group's IFRS audited consolidated financial statements, including: (i) from and after 31 December 2006, the ratio of consolidated indebtedness to EBITDA may not exceed 3.5; (ii) the Group's tangible net worth ratio must be at least 20%; and (iii) the minimum credit rating attributed to the Group by Moody's must not be lower than Ba3.

The Sberbank Loan was repaid in full from the proceeds of the Eurobonds, the proceeds of the Facility and our own funds, and the loan agreement was terminated in July 2007. The repayment led to the release of all pledged shares under the Sberbank Loan (Note 24).

On 11 October 2007, the FSFM approved the placement and circulation of up to 3,909,742,526 Ordinary Shares of NCSP, representing 20.3% of all Ordinary Shares in the form of GDRs.

34. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES

	Effective % held*		**Voting rights**	
Subsidiaries by country of incorporation	**Year ended 31 December 2006**	**Year ended 31 December 2005**	**Year ended 31 December 2006**	**Year ended 31 December 2005**
Russian Federation				
OJSC IPP	72.65%	22.65%	72.65%	22.65%
PJSC Fleet of Novorossiysk Commercial Sea Port	85.68%	34.13%	85.68%	34.13%
OJSC Novorossiysk Shipyard	50.03%	-	50.03%	-
OJSC Novoroslesexport	91.38%	16.37%	91.38%	16.37%
PJSC Novorossiysk Grain Terminal	99.99%	-	99.99%	-
PJSC TPS	51.83%	5.33%	59.98%	5.33%
LLC Baltic stevedores company	50.00%	-	50.00%	-
LLC Kuban security services	25.91%	-	50.00%	-
Cayman Islands				
NR Air Ltd.	100.00%	-	100.00%	-

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

35. RESTATEMENT

Subsequent to the issuance of the Group's consolidated financial statements for the year ended December 31, 2006, the Group's management performed actuarial evaluation of retirement benefit obligation. Respective plans were previously accounted for as defined contribution plans.

Accordingly, the Group restated its consolidated financial statements for the years ended December 31, 2005 and 2006 to account for retirement benefit obligation under these plans.

(in thousands of US Dollars)

Following is a summary of the effect of the restatement on the consolidated income statements:

	Year ended 31 December 2006			Year ended 31 December 2005		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Cost of sales	(172,347)	(550)	(172,897)	(101,413)	(584)	(101,997)
Gross profit	104,930	(550)	104,380	87,833	(584)	87,249
Other income and expenses	1,577	236	1,813	1,884	215	2,099
Profit before tax	58,050	(314)	57,736	78,583	(369)	78,214
Profit for the year	44,403	(314)	44,089	57,648	(369)	57,279

Following is a summary of the effect of the restatement on the consolidated balance sheets:

	31 December 2006			31 December 2005		
	As previously reported	Adjustments	As restated	As previously reported	Adjustments	As restated
Goodwill	454,215	2,641	456,856	-	-	-
Retained earnings	571,925	(2,901)	569,024	546,471	(2,587)	543,884
Foreign currency translation reserve	32,698	(165)	32,533	(18,279)	79	(18,200)
Minority interest	42,478	(744)	41,734	-	-	-
Retirement benefit obligation	-	6,451	6,451	-	2,508	2,508