

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

**Condensed Consolidated
Interim Financial Statements**

For the Six Months Ended 30 June 2008
(Unaudited)

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

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

Management is responsible for the preparation of the condensed consolidated interim financial statements that present fairly the consolidated financial position of the Group as at 30 June 2008 and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

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

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

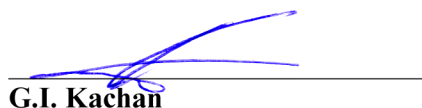
Management is also responsible for:

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

The condensed consolidated interim financial statements for the six months ended 30 June 2008 were approved and authorised for issue on 18 September 2008 by:


I.E. Vilinov

Chief Executive Officer


G.I. Kachan

Chief Accountant

INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

We have reviewed the accompanying condensed consolidated interim balance sheet of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as of 30 June 2008 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and selected explanatory notes. Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche

18 September 2008

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

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US Dollars, except earnings per share)**

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007
Revenue	5	314,662	197,932
Cost of services	6	(178,104)	(111,595)
GROSS PROFIT		136,558	86,337
Selling, general and administrative expenses	7	(34,282)	(30,565)
OPERATING PROFIT		102,276	55,772
Investment income		1,834	432
Finance costs	8	(15,553)	(24,313)
Foreign exchange gain		22,217	9,408
Other expenses, net	9	(591)	(3,097)
Excess of the Group's share in the fair value of net assets acquired over cost of acquisition		-	2,890
PROFIT BEFORE INCOME TAX		110,183	41,092
INCOME TAX EXPENSE			
Current income tax expense		37,128	14,757
Deferred tax benefit		(11,487)	(2,208)
PROFIT FOR THE PERIOD		84,542	28,543
Attributable to:			
Equity shareholders		78,713	28,133
Minority interest		5,829	410
		84,542	28,543
Weighted average number of common shares outstanding		19,259,815,400	19,140,154,250
Earnings per share, basic and diluted (US Cents)		0.41	0.15


Vilinov I.E.
Chief Executive Officer


Kachan G.I.
Chief Accountant

The notes on pages 7 to 23 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
AT 30 JUNE 2008 (UNAUDITED) AND 31 DECEMBER 2007
(in thousands of US Dollars)**

	Notes	<u>30 June 2008</u>	<u>31 December 2007</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	11	750,270	755,451
Goodwill		512,827	490,077
Mooring rights and other intangible assets		14,904	14,836
Investments in securities and other financial assets	12	10,008	15,863
Non-current VAT recoverable		3,162	998
Spare parts		6,797	6,585
Deferred tax assets		5,965	3,078
		<u>1,303,933</u>	<u>1,286,888</u>
CURRENT ASSETS:			
Inventories	13	9,632	7,875
Trade and other receivables	14	98,988	71,184
Investments in securities and other financial assets	12	6,398	3,999
Cash and cash equivalents	15	44,642	66,660
		<u>159,660</u>	<u>149,718</u>
TOTAL ASSETS		<u>1,463,593</u>	<u>1,436,606</u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES:			
Share capital		10,471	10,471
Share premium		10,063	10,063
Foreign currency translation reserve		113,706	80,045
Retained earnings		582,925	630,650
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		<u>717,165</u>	<u>731,229</u>
MINORITY INTEREST		<u>33,169</u>	<u>38,883</u>
TOTAL EQUITY		<u>750,334</u>	<u>770,112</u>
NON-CURRENT LIABILITIES:			
Long-term debt	16	489,410	508,189
Retirement benefit obligation		10,820	8,181
Deferred tax liabilities		71,992	77,304
		<u>572,222</u>	<u>593,674</u>
CURRENT LIABILITIES:			
Trade payables		9,049	17,481
Short-term debt	16	40,352	30,426
Minority interest liability	18	20,316	-
Other payables and accruals	17	71,320	24,913
		<u>141,037</u>	<u>72,820</u>
TOTAL EQUITY AND LIABILITIES		<u>1,463,593</u>	<u>1,436,606</u>

The notes on pages 7 to 23 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Share capital	Share premium	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2007		10,366	-	32,533	569,024	611,923	41,734	653,657
Effect of translation into presentation currency		-	-	12,277	-	12,277	780	13,057
Total income and expense for the period recognized directly in equity		-	-	12,277	-	12,277	780	13,057
Profit for the period		-	-	-	28,133	28,133	410	28,543
Total recognised income and expense		-	-	12,277	28,133	40,410	1,190	41,600
Dividends	10	-	-	-	(11,076)	(11,076)	-	(11,076)
Increase of ownership in subsidiaries		-	-	-	(19,117)	(19,117)	(5,525)	(24,642)
Buy-back of ordinary shares		(10)	-	-	(792)	(802)	-	(802)
Reissuance of shares from treasury stock		113	9,867	-	-	9,980	-	9,980
Balance at 30 June 2007		10,469	9,867	44,810	566,172	631,318	37,399	668,717
Balance at 1 January 2008		10,471	10,063	80,045	630,650	731,229	38,883	770,112
Effect of translation into presentation currency		-	-	33,661	-	33,661	1,652	35,313
Net income recognised directly in equity		-	-	33,661	-	33,661	1,652	35,313
Profit for the period		-	-	-	78,713	78,713	5,829	84,542
Total recognized income and expense		-	-	33,661	78,713	112,374	7,481	119,855
Dividends	10	-	-	-	(15,190)	(15,190)	-	(15,190)
Purchase of non-controlling minority interest	18	-	-	-	(93,326)	(93,326)	(10,801)	(104,127)
Minority interest liability	18	-	-	-	(17,922)	(17,922)	(2,394)	(20,316)
Balance at 30 June 2008		10,471	10,063	113,706	582,925	717,165	33,169	750,334

The notes on pages 7 to 23 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007
Cash flows from operating activities			
Cash generated from operations		139,646	92,130
Income tax paid		(39,861)	(14,690)
Interest paid		(17,974)	(18,411)
Net cash generated by operating activities		<u>81,811</u>	<u>59,029</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		570	618
Payments for property, plant and equipment		(29,913)	(28,805)
Proceeds from disposal of OJSC Office Centre Pokrovsky		8,458	-
Proceeds from disposal of securities and other financial assets		7,346	20,481
Payments for securities and other financial assets		(10,235)	-
Increase of ownership in subsidiaries		(84,916)	-
Proceeds from disposal of subsidiaries, net of cash disposed		9,842	-
Interest received		1,834	-
Acquisition of subsidiaries, net of cash acquired		-	(31,096)
Net cash used in investing activities		<u>(97,014)</u>	<u>(38,802)</u>
Cash flows from financing activities			
Proceeds from long-term borrowings		-	207,786
Repayments of long-term borrowings		-	(217,138)
Proceeds from short-term borrowings		-	631
Repayments of short-term borrowings		(9,399)	(2,858)
Buy-back of ordinary shares		-	(802)
Proceeds from reissuance of shares from treasury stock		-	9,970
Repayments of obligations under finance leases		-	753
Net cash used in financing activities		<u>(9,399)</u>	<u>(1,658)</u>
Net (decrease)/increase in cash and cash equivalents		(24,602)	18,569
Cash and cash equivalents at the beginning of the period	15	66,660	37,037
Effect of exchange rate changes on cash and cash equivalents		<u>2,584</u>	<u>(4,987)</u>
Cash and cash equivalents at the end of the period	15	<u>44,642</u>	<u>50,619</u>

The notes on pages 7 to 23 form an integral part of these unaudited condensed consolidated interim financial statements.

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED) *(in thousands of US Dollars)*

1. GENERAL

Organisation

Public Joint Stock Company Novorossiysk Commercial Sea Port (“NCSP”) was founded in 1845. NCSP was transformed from a state-owned enterprise to a public joint stock company in December 1992. NCSP’s principal activities include liquid and bulk cargo transshipping services, storage, sea vessel services and passenger transit. NCSP and its subsidiaries (the “Group”) primarily operate in the Russian Federation. The principal activities and entities of the Group as of 30 June 2008 were as follows:

<u>Subsidiaries</u>	<u>Nature of business</u>
OJSC IPP	Stevedoring and storage
PJSC Fleet of Novorossiysk Commercial Sea Port	Tug and bunkering services
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repairs
OJSC Novoroslesexport	Stevedoring and storage
PJSC Novorossiysk Grain Terminal	Stevedoring and storage
LLC Baltic stevedore company	Stevedoring and storage
OJSC NPK Zarubezhneft	Owens land for future construction of transshipping terminals

All subsidiaries presented above are registered on the territory of the Russian Federation.

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

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

Open Joint Stock Company IPP (“IPP”)

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

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

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

Open Joint Stock Company Novorossiysk Shipyard (“Shipyard”)

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

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)
(in thousands of US Dollars)**

Open Joint Stock Company Novoroslesexport ("Timber Export")

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

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

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

Baltic Stevedore Company LLC ("Baltic Stevedore")

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

Statement of compliance

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

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2007. During the period the Group entered into new contracts for which it did not previously disclose its accounting policies, these include the following:

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 12.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

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

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)**
(in thousands of US Dollars)

Functional and presentation currency

The functional currency of NCSP and each of its subsidiaries is the Russian Rouble (“RUR”). The functional currency reflects the economic substance of the underlying events and transactions of each entity’s respective operations.

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

Rates of exchange

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

	<u>30 June 2008</u>	<u>31 December 2007</u>
Period-end rates		
RUR / 1 US Dollar	23.4573	25.8162
	Six months ended 30 June 2008	Six months ended 30 June 2007
Average rates for the period		
RUR / 1 US Dollar	23.9440	26.0827

**3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY**

The critical accounting judgments, estimates and assumptions made by management of the Group and applied in the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2008 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2007.

During the period the Group has changed its accounting estimates concerning remaining useful life of certain fixed assets. All changes were made within stipulated by the Group policy useful life range. The effect of changes in accounting estimates was prospectively recognised in profit or loss.

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)**
(in thousands of US Dollars)

4. SEGMENT INFORMATION

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

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

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

Information regarding the Group's reportable segments as at 30 June 2008 and for the six months then ended is presented below. Comparative information as at 30 June 2007 and for the six months then ended could not be reliably produced by the management of the Group.

	Stevedoring	Fleet	Ship repair	Other	Adjustments and eliminations	Consolidated
Segment revenue						
Third parties	271,079	23,646	-	19,937	-	314,662
Inter-segments	7,793	2,567	-	-	(10,360)	-
Total revenue	278,872	26,213	-	19,937	(10,360)	314,662
Segment results						
Operating profit/(loss)	93,698	6,305	(1,099)	5,831	(2,459)	102,276
Unallocated						
Investment income						1,834
Finance costs						(15,553)
Other income, net						21,626
Profit before tax						110,183
Income tax expense						(25,641)
Profit for the year						84,542
Segment assets						
Inter-segment assets	56,429	20,738	2	2,461	(79,630)	-
Other segment assets	1,284,034	23,284	11,543	138,767	-	1,457,628
Total assets	1,340,463	44,022	11,545	141,228	(79,630)	1,457,628
Segment liabilities						
Inter-segment liabilities	70,405	107	1,219	7,163	(78,894)	-
Other segment liabilities	595,089	2,849	4,469	38,860	-	641,267
Total liabilities	665,494	2,956	5,688	46,023	(78,894)	641,267
Other segment information						
Depreciation and amortisation	52,214	291	981	4,135	-	57,621
Capital expenditures	41,342	180	608	1,796	-	43,926

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)**
(in thousands of US Dollars)

5. REVENUE

	Six months ended 30 June 2008	Six months ended 30 June 2007
Stevedore services (including bunkering services)	271,079	165,708
Fleet services	23,646	23,295
Other	19,937	8,929
Total	314,662	197,932

6. COST OF SERVICES

	Six months ended 30 June 2008	Six months ended 30 June 2007
Fuel	59,382	24,119
Depreciation	53,937	22,398
Payroll	31,324	30,625
Unified social tax	7,574	6,139
Repairs and maintenance	6,002	5,544
Raw materials	4,982	4,024
Rent	4,839	3,613
Subcontractors	3,068	234
Energy and utilities	2,331	2,292
Insurance	1,101	10,620
Change in allowance for slow-moving inventories	(509)	265
Other	4,073	1,722
Total	178,104	111,595

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2008	Six months ended 30 June 2007
Payroll	10,308	10,661
Taxes other than income tax	5,066	4,140
Depreciation and amortisation	3,684	2,089
Security services	2,770	817
Unified social tax	1,913	1,452
Charity	1,546	2,127
Repairs and maintenance	1,137	656
Representative expenses	1,053	721
Bank charges	922	1,238
Rent	777	1,304
Transport	329	1,669
Advertising	103	1,329
Other expenses	4,674	2,362
Total	34,282	30,565

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)**
(in thousands of US Dollars)

8. FINANCE COSTS

	Six months ended 30 June 2008	Six months ended 30 June 2007
Interest on borrowings	16,533	19,943
Loss on early repayment of debt	-	4,347
Change in fair value of interest rate swap	(980)	-
Other	-	23
Total	15,553	24,313

9. OTHER EXPENSES, NET

	Six months ended 30 June 2008	Six months ended 30 June 2007
Gain on disposal of subsidiaries	2,718	-
Loss on disposal of property, plant and equipment	(1,830)	(1,832)
Other expenses, net	(1,479)	(1,265)
Total	(591)	(3,097)

10. DIVIDENDS

In 2008 the Company declared dividends in respect of the year ended 31 December 2007 in the amount of 15,190, As of 30 June 2008 the dividends were not paid.

In 2007 the Company declared dividends in respect of the year ended 31 December 2007 in the amount of 11,076. The main amount of the dividends was paid during the second half of 2007.

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

**SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008 (UNAUDITED)**
(in thousands of US Dollars)

11. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Marine vessels</u>	<u>Aircraft</u>	<u>Vehicles</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost									
1 January 2007	8,432	248,269	189,436	76,528	24,827	8,376	64,443	111,047	731,358
Acquisition of subsidiaries	13,019	-	-	-	-	6	3	361	13,389
Additions	-	4,688	3,816	-	-	2,963	3,721	16,074	31,262
Disposals	-	(2,079)	(397)	(1,643)	-	(262)	(559)	-	(4,940)
Effect of translation into presentation currency	168	4,922	3,767	1,509	495	165	1,263	2,215	14,504
30 June 2007	21,619	255,800	196,622	76,394	25,322	11,248	68,871	129,697	785,573
Accumulated depreciation									
1 January 2007	-	(12,430)	(36,995)	(9,170)	(828)	(1,150)	(6,619)	-	(67,192)
Depreciation charge	-	(6,213)	(10,473)	(2,506)	(835)	(626)	(3,012)	-	(23,665)
Disposals	-	38	182	183	-	21	75	-	499
Effect of translation into presentation currency	-	(313)	(843)	(207)	(25)	(30)	(163)	-	(1,581)
30 June 2007	-	(18,918)	(48,129)	(11,700)	(1,688)	(1,785)	(9,719)	-	(91,939)
Net book value									
1 January 2007	8,432	235,839	152,441	67,358	23,999	7,226	57,824	111,047	664,166
30 June 2007	21,619	236,882	148,493	64,694	23,634	9,463	59,152	129,697	693,634

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	<u>Land</u>	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Marine vessels</u>	<u>Aircraft</u>	<u>Vehicles</u>	<u>Office and other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost									
1 January 2008	20,770	266,757	245,881	78,516	26,632	20,793	61,565	154,441	875,355
Additions	-	665	2,549	72	-	1,056	748	38,836	43,926
Transfer	-	54,888	35,853	-	-	74	431	(91,246)	-
Disposals	-	(4,255)	(137)	(86)	-	(275)	(72)	(963)	(5,788)
Disposal of subsidiary	-	-	-	-	(27,302)	-	-	-	(27,302)
Effect of translation into presentation currency	964	13,299	12,207	3,644	670	984	2,813	7,030	41,611
30 June 2008	21,734	331,354	296,353	82,146	-	22,632	65,485	108,098	927,802
Accumulated depreciation									
1 January 2008	-	(23,976)	(61,812)	(14,119)	(2,663)	(5,244)	(12,090)	-	(119,904)
Depreciation charge	-	(16,151)	(24,400)	(6,320)	(910)	(2,048)	(6,804)	-	(56,633)
Disposals	-	1,690	111	86	-	125	51	-	2,063
Disposal of subsidiary	-	-	-	-	3,640	-	-	-	3,640
Effect of translation into presentation currency	-	(1,413)	(3,521)	(778)	(67)	(282)	(637)	-	(6,698)
30 June 2008	-	(39,850)	(89,622)	(21,131)	-	(7,449)	(19,480)	-	(177,532)
Net book value									
1 January 2008	20,770	242,781	184,069	64,397	23,969	15,549	49,475	154,441	755,451
30 June 2008	21,734	291,504	206,731	61,015	-	15,183	46,005	108,098	750,270

At 30 June 2008, construction in progress included 39,596 (31 December 2007: 18,834) of advances paid for property, plant and equipment. Plant and equipment with carrying value of 34,398 were pledged to secure bank overdrafts and loans granted to the Group (Note 16).

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12. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	<u>30 June 2008</u>	<u>31 December 2007</u>
Current		
Financial assets carried at amortised cost		
Promissory notes	6,398	3,259
Other	-	740
Total current	<u>6,398</u>	<u>3,999</u>
Non-current		
Available-for-sale investments (unquoted)		
Office centre Pokrovsky	-	8,250
City Park	5,755	5,500
At fair value through profit and loss		
Currency swap contract	1,000	-
Financial assets carried at amortised cost		
Deposits	-	1,426
Loans issued	3,253	687
Total non-current	<u>10,008</u>	<u>15,863</u>

Promissory notes consist of Sberbank promissory notes with maturity on demand and interest rate 7.5% p.a.

The fair value of investments in shares of unlisted companies OJSC City Park 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 as of the balance sheet date.

Shares of Office Centre Pokrovsky were sold to a related party of the Group, for cost of the investment. No income or expense was recognised as a result of this operation.

For the six months ended 30 June 2008, no derivatives were designated as cash flow hedges. A net gain of 980 relating to a change in the fair value of currency swap contract was included in finance income in the condensed consolidated interim statement of income.

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

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13. INVENTORIES

	<u>30 June 2008</u>	<u>31 December 2007</u>
Raw materials and low value items	9,567	9,451
Goods for resale	2,815	1,257
Fuel	655	877
Other	-	143
Less: allowance for slow-moving inventories	<u>(3,405)</u>	<u>(3,853)</u>
Total	<u>9,632</u>	<u>7,875</u>

14. TRADE AND OTHER RECEIVABLES

	<u>30 June 2008</u>	<u>31 December 2007</u>
Trade accounts receivables	34,115	23,265
Other taxes receivable	21,517	9,983
VAT recoverable	15,508	26,997
Advances to suppliers	4,403	3,468
Other receivables and prepayments	25,878	10,075
Less: allowance for doubtful receivables	<u>(2,433)</u>	<u>(2,604)</u>
Total	<u>98,988</u>	<u>71,184</u>

Other accounts receivables includes amount of 17,823 of receivables from Logotax for sales of the investment in subsidiary. During August 2008 this amount was received by the Group.

15. CASH AND CASH EQUIVALENTS

	<u>30 June 2008</u>	<u>31 December 2007</u>
Bank deposits	29,294	43,790
Current accounts in RUR	9,993	20,032
Current accounts in USD	5,345	2,836
Cash in hand	<u>10</u>	<u>2</u>
Total	<u>44,642</u>	<u>66,660</u>

Bank deposits at 30 June 2008 mainly represent deposits with OTP Bank and Sberbank with 6.5% interest that mature in less than 3 months.

Bank deposits at 31 December 2007 mainly represent deposits with Investsberbank and Vneshtorgbank with 5% - 7% interest that mature in less than 3 months.

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Current accounts in USD as of 30 June 2008 and 31 December 2007 included 116 and 1,160 of cash to guarantee a letter of credit, respectively. As of 30 June 2008 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 with LLC Novorostekhflot dated 17/04/2008 for reconstruction of berth №1 at district “Shesharis”.

As of 31 December 2007, the letter of credit is opened with Open Joint Stock Company Commercial Savings Bank of the Russian Federation (“Sberbank”), a related party, according to the agreement dated 30 June 2006 with Shanghai Zenhua Port Machinery Co. Ltd for purchase and construction of transshipment equipment. The letter of credit matures on 31 January 2008.

16. DEBT

	Interest Rate	Maturity Date	30 June 2008	31 December 2007
Long-term				
<i>Unsecured bank loans (USD)</i>				
Loan participation notes	7%	May 2012	295,396	294,741
IMB and Bank Austria Creditanstalt	LIBOR + 1.6%	July 2010	117,342	117,219
Sberbank (USD)	8.2%	November 2010	17,787	-
Sberbank (USD)	8.2%	June 2010	9,268	-
Sberbank (USD)	8.2%	September 2011	6,382	-
Sberbank (USD)	9.2%	December 2011	2,633	-
<i>Secured bank loans</i>				
Sberbank (USD)	8.04%-8.2%	August 2011	36,270	40,335
IMB (USD)	8.95%	September 2011	1,770	2,365
Sberbank (USD)	8.2%	August 2011	1,530	1,700
Sberbank (USD)	9.2%	December 2011	1,032	1,420
Sberbank (USD)	8.2%	November 2010	-	17,804
Sberbank (USD)	8.2%	June 2010	-	9,268
Sberbank (USD)	8.2%	September 2011	-	7,800
Sberbank (USD)	9.2%	December 2011	-	3,624
Sberbank (USD)	8.0%	March 2010	-	6,350
Sberbank (USD)	8.2%	July 2011	-	3,043
Sberbank (USD)	8.0%	December 2009	-	2,520
Total long-term			489,410	508,189
Short-term				
Current portion of long-term loans			40,352	29,650
Current portion of finance lease liability			-	776
Total short-term			40,352	30,426
Total debt			529,762	538,615

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

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

In July 2007, the Group entered into an agreement for a 118,000 syndicated term loan facility (the "Facility") provided by CJSC International Moscow Bank and Bank Austria Creditanstalt AG. The Group drew down the Facility in full on 19 July 2007, and used the proceeds to repay a portion of the outstanding principal amount of the loan under the Sberbank loan. The Facility is unsecured. The outstanding principal amount must be repaid in full at final maturity, 17 July 2010, and may be prepaid in whole or in part on 10 business days' notice in 5.0 thousand increments above a minimum prepayment of 10.0 thousand. Amounts prepaid or repaid under the Facility may not be reborrowed. The Facility bears interest at a rate of one month US dollar LIBOR plus 1.60% (declining to 1.40%, if the Group obtains a rating of Baa3 (or the equivalent) by Moody's (or an equivalent rating agency), and principal repayments and accrued interest are payable monthly. The Group signed the interest rate swap agreement for the Facility that changed the LIBOR rate plus 1.6% to the fixed rate of 4.8%.

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

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

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

The part of Group's debt is secured by property, plant and equipment. At 30 June 2008 and 31 December 2007, property, plant and equipment with a carrying value of 34,398 and 35,111, respectively, were pledged to secure bank overdrafts and loans granted to the Group.

All unsecured Sberbank loans are guaranteed by NCSP.

The Group borrowings are repayable as follows:

	30 June 2008	31 December 2007
Due within three months	27	11,600
Due from three to six months	-	8,740
Due from six months to twelve months	40,325	10,086
	<u>40,352</u>	<u>30,426</u>
Due in 2009 and 2010 years	194,032	213,835
Due in 2011 and 2013 years	295,378	294,354
Total	<u>529,762</u>	<u>538,615</u>

As of 30 June 2008 and 30 June 2007, the average effective borrowing rates were 6.6% and 7.9%, respectively. Most of interest rates are fixed at the contract date, and thus expose the Group to fair value interest rate risk is limited.

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17. OTHER PAYABLES AND ACCRUALS

	30 June 2008	31 December 2007
Advances received from customers	13,283	9,053
Payroll accruals	8,193	6,324
Taxes payable	7,186	5,240
Payables for property, plant and equipment	5,537	2,620
Dividends payable	15,597	402
Other accounts payable and accruals	21,524	1,274
Total	71,320	24,913

Other accounts payable and accrual includes 19,610 of payable to Fournty Equities, a related party of the Group, for acquisition of additional shares in OJSC IPP.

18. ACQUISITIONS AND DISPOSALS

Increase of ownership in subsidiaries during the six months ended 30 June 2008

During 2008, the Group acquired additional 22.57% of interest in OJSC IPP, 0.108% of interest of OJSC Novorossiysk Shipyard and 50% LLC Baltic stevedores company for a cash consideration of 104,127, increasing its ownership to 95.22%, 65.18% and 100%, respectively. The carrying value of IPP, Shipyard and Baltic stevedore net assets in the consolidated financial statements on the dates of acquisition of additional interests was 80,240. As a result of this transaction, the Group recognised a decrease in net assets attributable to minority interest in the amount of 10,801. Excess of consideration paid over the Group's share in net assets acquired in the amount of 93,326 was recognised in the statement of changes in equity as a decrease of retained earnings.

Minority interest liability

In accordance with the Russian Joint Stock Company Law, minority shareholders may require the Group to purchase their voting shares and securities convertible into voting shares (put option), or the Group may require the remaining minority shareholders to sell such securities to the Group (minority squeeze-out) following the acquisition of more than 95% of the voting shares of a company during the period.

On 27 May 2008, the Group increased its ownership in OJSC IPP to greater than 95% of the voting shares. In accordance with IFRS, the Group derecognised minority interest in the amount of 2,397 and recognised a liability for the unavoidable cash obligation in the amount of 20,316. The Group recognised a liability equal to the fair value of the ultimate cash obligation. The difference between the carrying value of the minority interest derecognised in the statement of changes in equity and the fair value of the put option was recognised as decrease of retain earnings.

The Group made an offer of 21 per OJSC IPP share to the remaining minority shareholders to purchase their shares in cash.

The remaining minority interest relating to voting shares of 4.78% as at 30 June 2008 is reflected as a current liability in the amount of 20,316.

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Disposal of subsidiaries

On 24 June 2008, the Group sold 100% of its subsidiary NR Air for a cash consideration of 27,869. Net assets of the subsidiary at the date of disposal equal to 25,151 and was mainly presented by property, plant and equipment. As a result of this transaction income at the amount of 2,718 was recognised at other income. As of 30 June 2008 the defined sales proceeds in the amount of 17,823 were included in other receivables.

19. RELATED PARTY TRANSACTIONS

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

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

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

Material balances with related parties were as follows:

	<u>30 June 2008</u>	<u>31 December 2007</u>
<i>Loans from related parties</i>		
Long-term		
Sberbank	111,610	123,019
Short-term		
Entities under common control ^(a)	-	2,241
<i>Long-term loans to related parties</i>		
Other related parties	469	274
<i>Promissory notes</i>		
Sberbank	2,132	3,259
<i>Short-term deposits</i>		
Sberbank	25,241	1,426
<i>Cash and cash equivalents</i>		
Sberbank	12,964	12,779

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

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Material transactions with related parties were as follows:

	Six months ended 30 June 2008	Six months ended 30 June 2007
<i>Sales</i>		
Military divisions	-	1,231
Russian Railways	43	32
Rosneft	9,422	-
Transneft	8,762	2,278
Other related parties	139	-
	18,366	3,541
<i>Interest on borrowings</i>		
Sberbank	3,770	19,802
Other related parties	-	141
	3,770	19,943

Sales of services to related parties were made using tariffs similar to those that were used in the third parties transactions.

Loans to related parties were issued at market terms.

Compensation of key management personnel

For the six months ended 30 June 2008 and 2007 the remuneration of the directors and other members of key management was 3,268 and 63, respectively.

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

20. COMMITMENTS AND CONTINGENCIES

Litigation

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

On 24 November 2006, the Russian Federal Agency on Property management applied to the court to impose a penalty on Timber Export. The penalty includes rent payment and penalty fees of total amount of 5,116.

On 5 May 2008, court of first instance made a decision concerning reimbursement of Baltic Stevedore utilities for total amount of 1,412 to FGU "Administration of Kaliningrad Sea Port".

Currently at Arbitrage Court of Krasnodar region case about imposing penalties on OJCS IPP at the amount of 789 is under consideration. Hearing will take place on 14 October 2008.

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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 estimate total unprovided amount of possible tax risks to be approximately 2,208.

Environmental matters

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

Insurance

As of 30 June 2008, the Group has insurance coverage in respect of potential damage of its major facilities and third party liability insurance in respect of environmental damage from the shipment of hazardous cargo. In addition, NCSP has taken out business interruption insurance. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position.

Operating lease arrangements

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

	30 June 2008
2008	2,445
2009	4,813
2010	4,503
2011	4,152
2012	3,230
Thereafter	85,860
Total	105,003

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21. CAPITAL COMMITMENTS

At 30 June 2008, the Group had the following capital commitments to purchase items which will increase the transshipment capacities:

	30 June 2008
Commitments for acquisition of property, plant and equipment and construction works:	
NCSP	44,961
Timber Export	955
Grain Terminal	448
IPP	11,943
Shipyard	22
Total	58,329

22. EVENTS AFTER THE BALANCE SHEET DATE

On 4 July 2008, the Group signed the agreements of sales of shares of City Park with Oconedo Holdings Limited, a related party of the Group for total cash consideration of 6,083.