

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

Independent Accountants' Report

**Condensed Consolidated
Interim Financial Statements**

**For the six months
ended 30 June 2007
(Unaudited)**

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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 2007 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 these condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements 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 condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2007 and of its financial performance, its changes in equity and its cash flows for the six months period then ended in accordance with IFRS.

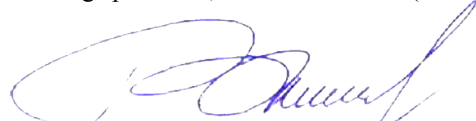


16 October 2007

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

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)**
(in thousands of US Dollars, except earnings per share)

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Revenue	3	197,932	98,032
Cost of services	4	(111,595)	(52,934)
GROSS PROFIT		86,337	45,098
Selling, general and administrative expenses	5	(30,565)	(11,362)
OPERATING PROFIT		55,772	33,736
Share of profit of associates		-	3,011
Investment income		432	3,015
Finance costs	6	(24,313)	(1,699)
Other income/ (expenses), net	7	6,311	(9,416)
Excess of the Group's interest in the fair value of acquired companies' net assets over cost	17	2,890	607
PROFIT BEFORE INCOME TAX		41,092	29,254
INCOME TAX	8	(12,549)	(6,915)
PROFIT FOR THE PERIOD		28,543	22,339
Attributable to:			
Equity shareholders		28,133	22,339
Minority interest		410	-
		28,543	22,339
Weighted average number of common shares outstanding		19,140,154,250	19,159,457,580
Earnings per share, basic and diluted (US Dollars)		0.0015	0.0012



Vilinov I.E.
Chief Executive Officer



Kachan G.I.
Chief Accountant

The notes on pages 6 to 20 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED BALANCE SHEETS
AT 30 JUNE 2007 (UNAUDITED) AND 31 DECEMBER 2006
(in thousands of US Dollars)**

	Notes	30 June 2007	31 December 2006
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	693,634	664,166
Goodwill		465,969	456,856
Mooring rights and other intangible assets		14,003	14,195
Investments in securities and other financial assets		13,109	12,903
Non-current VAT recoverable		8,281	11,095
Spare parts		5,899	4,840
Deferred tax assets		1,039	580
		<u>1,201,934</u>	<u>1,164,635</u>
CURRENT ASSETS:			
Inventories	11	7,347	6,581
Trade and other receivables, net	12	59,405	65,155
Investments in securities and other financial assets		3,297	23,470
Cash and cash equivalents	13	50,619	37,037
		<u>120,668</u>	<u>132,243</u>
TOTAL ASSETS		<u>1,322,602</u>	<u>1,296,878</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	14	10,469	10,366
Share premium	14	9,867	-
Foreign currency translation reserves		44,810	32,533
Retained earnings		566,172	569,024
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		631,318	611,923
MINORITY INTEREST		<u>37,399</u>	<u>41,734</u>
TOTAL EQUITY		<u>668,717</u>	<u>653,657</u>
NON-CURRENT LIABILITIES:			
Long-term debt	15	516,920	482,297
Retirement benefit obligation		7,587	6,451
Deferred tax liabilities		70,708	68,252
		<u>595,215</u>	<u>557,000</u>
CURRENT LIABILITIES:			
Trade payables		12,495	7,086
Short-term debt	15	16,498	60,400
Other payables and accruals	16	29,677	18,735
		<u>58,670</u>	<u>86,221</u>
TOTAL EQUITY AND LIABILITIES		<u>1,322,602</u>	<u>1,296,878</u>

The notes on pages 6 to 20 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (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 2006		10,464	-	(18,200)	543,884	536,148	-	536,148
Profit for the period		-	-	-	22,339	22,339	-	22,339
Dividends and distributions	9	-	-	-	(10,437)	(10,437)	-	(10,437)
Minority interest acquired		-	-	-	-	-	40,074	40,074
Buy back of ordinary shares	14	(71)	-	-	(5,131)	(5,202)	-	(5,202)
Effect of translation into presentation currency		-	-	39,146	-	39,146	-	39,146
Balance at 30 June 2006		10,393	-	20,946	550,655	581,994	40,074	622,068
Balance at 1 January 2007		10,366	-	32,533	569,024	611,923	41,734	653,657
Profit for the period		-	-	-	28,133	28,133	410	28,543
Dividends and distributions	9	-	-	-	(11,076)	(11,076)	-	(11,076)
Purchase of non-controlling minority interest		-	-	-	(19,117)	(19,117)	(5,525)	(24,642)
Buy-back of ordinary shares	14	(10)	-	-	(792)	(802)	-	(802)
Reissuance of treasury stock		113	9,867	-	-	9,980	-	9,980
Effect of translation into presentation currency		-	-	12,277	-	12,277	780	13,057
Balance at 30 June 2007		10,469	9,867	44,810	566,172	631,318	37,399	668,717

The notes on pages 6 to 20 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2007	Six months ended 30 June 2006
Cash flows from operating activities			
Cash generated from operations		92,130	46,189
Income tax paid		(14,690)	(9,242)
Interest paid		(18,411)	(1,699)
		<u>59,029</u>	<u>35,248</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		618	262
Payments for property, plant and equipment		(28,805)	(2,037)
Acquisition of subsidiaries, net of cash acquired		(31,096)	(449,871)
Proceeds from disposal of securities and other financial assets		-	37,602
Payments for securities and other financial assets		50	-
Proceeds from disposal of short-term investments		20,431	-
Purchases of short-term investments		-	(15,947)
		<u>(38,802)</u>	<u>(429,991)</u>
Cash flows from financing activities			
Proceeds from long-term borrowings		207,786	559,498
Repayments of long-term borrowings		(217,138)	(130,920)
Proceeds from short-term borrowings		631	-
Repayments of short-term borrowings		(2,858)	-
Buy-back of ordinary shares		(802)	-
Proceeds from sale of treasury stock		9,970	-
Repayments of obligations under finance leases		753	-
		<u>(1,658)</u>	<u>428,578</u>
Net cash (used in)/generated by financing activities		<u>(1,658)</u>	<u>428,578</u>
Net increase in cash and cash equivalents		18,569	33,835
Cash and cash equivalents at the beginning of the period		37,037	43,915
Effect of exchange rate changes on cash and cash equivalents		<u>(4,987)</u>	<u>3,542</u>
Cash and cash equivalents at the end of the period		<u>50,619</u>	<u>81,292</u>

The notes on pages 6 to 20 form an integral part of these unaudited condensed consolidated interim financial statements.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
(in thousands of US Dollars)**

1. GENERAL

Organisation

Public Joint Stock Company Novorossiysk Commercial Sea Port (“NCSP”) was founded in 1845. NCSP was transformed from a state-owned enterprise to an open 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. On 14 June 2006 NCSP purchased controlling stakes in subsidiaries in which it previously had minority interests (see Note 17). The principal activities and entities of the Group as of 30 June 2007 were as follows:

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

Novorossiysk Port Capital S.A. (“Novorossiysk Capital”) was created as a special purpose entity during the six months ended 30 June 2007 and was used as a vehicle for the issuance of loan participation notes on the Irish Stock Exchange.

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

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

Open Joint Stock Company IPP (“IPP”)

IPP is a liquid-cargo processing enterprise. Starting from 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 Novorossiysk Port (the “Port”). In addition, it provides emergency services such as transferring vessels to shelter zones during emergencies, provides cleaning and containment services for oil or other liquid spills in and around the Port and provides hazardous material response and waste management services pursuant to its agreement on water use with Kubanskoye Basin Department of Krasnodar Krai under the Russian Ministry of Natural Resources.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
(in thousands of US Dollars)**

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.

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 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 2006 and in compliance with the requirements of International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. These financial statements do not include all of the information required for disclosure in annual financial statements and should be read in conjunction with the last issued audited consolidated financial statements at and for the year ended 31 December 2006. 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 2006.

Functional and presentation currency

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

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
(in thousands of US Dollars)**

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 2007</u>	<u>31 December 2006</u>
Period-end rates		
RUR / 1 US Dollar	25.8162	26.3311
	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Average rates for the period		
RUR / 1 US Dollar	26.0827	27.6799

3. REVENUE

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Stevedore services (including bunkering services)	165,708	91,505
Fleet services	23,295	-
Other	8,929	6,527
Total	<u>197,932</u>	<u>98,032</u>

During the six months ended 30 June 2007, fleet services were provided by companies which became subsidiaries of the Group as a result of acquisitions on 14 June 2006.

4. COST OF SERVICES

	<u>Six months ended 30 June 2007</u>	<u>Six months ended 30 June 2006</u>
Payroll	30,625	14,396
Fuel	24,119	1,192
Depreciation	22,398	13,217
Insurance	10,620	7,597
Unified social tax	6,139	3,238
Repairs and maintenance	5,544	2,642
Raw materials	4,024	2,809
Rent	2,692	3,536
Energy and utilities	2,292	844
Subcontractors	1,155	744
Change in allowance for slow-moving inventories	265	2,231
Other	1,722	488
Total	<u>111,595</u>	<u>52,934</u>

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)**

(in thousands of US Dollars)

5. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2007	Six months ended 30 June 2006
Payroll	10,661	3,159
Taxes other than income tax	4,140	1,687
Charity	2,127	1,030
Depreciation and amortisation	2,089	248
Transport	1,669	1,620
Unified social tax	1,452	328
Advertising	1,329	210
Rent	1,304	396
Bank charges	1,238	555
Security services	817	1,063
Representative expenses	721	122
Repairs and maintenance	656	167
Raw materials	482	89
Information technology and communication services	342	108
Change in allowance for doubtful receivables	326	182
Insurance	174	1
Energy and utilities	148	145
Other expenses	890	252
Total	30,565	11,362

6. FINANCE COSTS

	Six months ended 30 June 2007	Six months ended 30 June 2006
Interest on borrowings	19,943	1,699
Loss on early repayment of debt	4,347	-
Other	23	-
Total	24,313	1,699

Upon acquisition of PJSC Novorossiysk Grain Terminal and Timber Export in June 2006, the Group acquired long-term loans at interest rates lower than market rates. In the purchase price allocation, those loans were recorded at fair value, which was determined using market interest rates.

During the six months ended 30 June 2007, the Group repaid the majority of those loans which resulted in a loss of 4,347.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)**
(in thousands of US Dollars)

7. OTHER INCOME/ (EXPENSES), NET

	Six months ended 30 June 2007	Six months ended 30 June 2006
Foreign exchange gain/ (loss)	9,408	(7,590)
Loss on disposal of property, plant and equipment	(1,832)	(2,192)
Gain on disposal of shares of Investsberbank and PFS	-	1,005
Other expenses, net	(1,265)	(639)
Total	6,311	(9,416)

8. INCOME TAX

	Six months ended 30 June 2007	Six months ended 30 June 2006
Current tax expense	14,757	8,787
Deferred tax benefit	(2,208)	(1,872)
Total	12,549	6,915

9. DIVIDENDS AND DISTRIBUTIONS

Dividends declared in 2007 and 2006 were 11,076 and 10,437, respectively. The Group did not paid dividends during the six month periods ended 30 June 2007 and 2006.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)**
(in thousands of US Dollars)

10. 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 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

At 30 June 2007, construction in progress included 19,824 (31 December 2006: 28,981) of advances paid for property, plant and equipment. Plant and equipment with carrying value of 85,353 were pledged to secure bank overdrafts and loans granted to the Group (Note 15).

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)
(in thousands of US Dollars)**

11. INVENTORIES

	30 June 2007	31 December 2006
Raw materials and low value items	7,109	7,088
Goods for resale	1,803	913
Fuel	1,126	1,084
Other	159	151
Less: allowance for slow-moving inventories	<u>(2,850)</u>	<u>(2,655)</u>
Total	<u>7,347</u>	<u>6,581</u>

12. TRADE AND OTHER RECEIVABLES, NET

	30 June 2007	31 December 2006
Trade accounts receivable	20,762	18,803
VAT recoverable	15,959	24,480
Taxes receivable	10,258	13,320
Advances to suppliers	7,623	4,555
Other receivables and prepayments	6,471	5,504
Less: allowance for doubtful debt	<u>(1,668)</u>	<u>(1,507)</u>
Total:	<u>59,405</u>	<u>65,155</u>

13. CASH AND CASH EQUIVALENTS

	30 June 2007	31 December 2006
Current accounts in RUR	21,958	15,464
Current accounts in USD	17,497	20,539
Bank deposits in USD	11,157	1,029
Cash in hand	<u>7</u>	<u>5</u>
Total	<u>50,619</u>	<u>37,037</u>

Bank deposits at 30 June 2007 mainly represent two deposits amounting to 11,078 with Investsberbank with 5.0% and 5.5% interest and original maturities of 30 July 2007 and 28 August 2007, respectively.

Current accounts in USD as of 30 June 2007 and 31 December 2006 included 5,800 of cash to guarantee a 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 transshipment equipment. The letter of credit matures on 31 January 2008.

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

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2007 (UNAUDITED)**

(in thousands of US Dollars)

14. SHARE CAPITAL

The share capital of the Group is contributed by shareholders in RUR and consists of 19,259,815,400 shares authorised, issued and outstanding with a par value of USD 0.000375. 9,629,907,701 (50% plus 1 share) are pledged as a collateral under the loan agreement with Sberbank (Note 15). Authorised share capital at par is 7,213.

At 30 June 2007 the outstanding share capital of the Group was 10,469 (31 December 2006: 10,366). During the six months ended 30 June 2007, the Group repurchased its own shares at par value of 10 and sold all of its treasury shares for 9,980 creating share premium in amount of 9,867.

15. DEBT

	<u>Interest rate</u>	<u>Maturity date</u>	<u>30 June 2007</u>	<u>31 December 2006</u>
Long-term				
<i>Unsecured bond issue:</i>				
Loan Participation Notes	7%	May 2012	296,014	-
<i>Secured bank loans:</i>				
Sberbank (USD)	8.8-9.2%	June 2009	117,692	388,000
Sberbank (USD)	9.5%	August 2011	28,689	21,903
Sberbank (USD)	9.2%	November 2010	26,747	17,400
Sberbank (USD)	8.8%	June 2010	13,924	13,924
Sberbank (USD)	8,8%	March 2010	6,350	-
Sberbank (USD)	9.2%	July 2011	6,268	7,173
Sberbank (USD)	8.8%	December 2009	4,410	5,040
Sberbank (USD)	8.8-9.2%	December 2011	4,300	4,300
IMB (USD)	8.95%	September 2011	3,025	3,025
Sberbank (USD)	9.2%	September 2011	2,888	2,076
Sberbank (USD)	9.5%	August 2011	1,700	1,700
Sberbank (USD)	8.8-9.2%	December 2011	1,685	1,685
Other loans from related parties	0.5-6.0%	February 2012	3,189	14,146
Other			39	1,925
Total long-term			<u>516,920</u>	<u>482,297</u>
Short-term				
Current portion of long-term loans			14,201	57,551
Short-term loans from related parties			431	2,094
Other			634	227
Current portion of finance lease liability			1,232	528
Total short-term			<u>16,498</u>	<u>60,400</u>
Total debt			<u>533,418</u>	<u>542,697</u>

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On 17 May 2007 Loan Participation Notes were issued by the Group for 300,000 bearing 7% per annum (7.27% effective interest rate) which mature on 17 May 2012. Interest is paid semi-annually in arrears on 17 May and 17 November, commencing 17 November 2007. The Notes were admitted to the official Irish Stock Exchange listing.

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 14 June 2006, the Group entered into a non-revolving loan agreement with Sberbank, a state-owned company, (the "Sberbank Loan Agreement"). This agreement provided the Group with a non-revolving credit line in the aggregate amount of 450,000. The loan is due in full on 11 June 2009 unless extended in accordance with its terms until 11 June 2013.

The 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 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.

As collateral for its obligations under the Sberbank loan agreement, 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 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)	50.02%
	948,749	
	(preferred shares)	

The rest of Group debt is secured by property, plant and equipment. At 30 June 2007 and 31 December 2006, property, plant and equipment with a carrying value of 85,353 and 120,932, respectively, were pledged to secure bank overdrafts and loans granted to the Group.

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The Group borrowings are denominated in the following currencies:

	30 June 2007	31 December 2006
Russian Roubles	943	563
US Dollars	532,475	542,134
Total	533,418	542,697

The Group borrowings are repayable as follows:

	30 June 2007	31 December 2006
Within 1 year	16,498	60,400
Within 2-3 years	181,068	445,522
Within 3-6 years	335,852	36,775
Total	533,418	542,697

16. OTHER PAYABLES AND ACCRUALS

	30 June 2007	31 December 2006
Dividends payable	10,853	644
Payroll accruals	7,588	5,966
Taxes payable	5,482	3,725
Advances received from customers	3,264	3,293
Other accounts payable	2,490	5,107
Total	29,677	18,735

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17. ACQUISITIONS

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

Fair value of net assets of the subsidiary acquired

Property, plant and equipment	13,389
Trade receivables	542
Cash and cash equivalents	2
Short-term debt	(1,468)
Other payables and accruals	(272)
Deferred tax	(2,849)
Net assets	9,344
Excess of the Group's interest in the fair value of the acquiree's net assets over cost	(2,890)
Purchase price	<u>6,454</u>
Settled in cash	(6,456)
Cash acquired	2
Net cash outflow on acquisition	<u>(6,454)</u>

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

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

During May 2007, the Group acquired additional 15.04% of interest in Shipyard and 0,01% of interest in Grain Terminal for a cash consideration of USD 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 interests 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 a decrease of retained earnings.

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18. RELATED PARTY TRANSACTIONS

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

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

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

Material balances with related parties were as follows:

	30 June 2007	31 December 2006
<i>Loans from related parties</i>		
Long-term		
Entities under common control ^(a)	-	4,702
Sberbank	214,653	463,201
Other related parties	3,189	9,444
	<u>217,842</u>	<u>477,347</u>
Short-term		
Entities under common control ^(a)	-	680
Sberbank	11,263	57,318
Other related parties	431	1,359
	<u>11,694</u>	<u>59,357</u>
<i>Short-term loans to related parties</i>		
Entities under common control ^(a)	-	21,285
Sberbank	518	-
Other related parties	388	-
	<u>906</u>	<u>21,285</u>
<i>Cash and cash equivalents</i>		
Sberbank	22,530	17,128

- (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:

	Six months ended 30 June 2007	Six months ended 30 June 2006
<i>Sales</i>		
Military divisions	1,231	-
Russian Railways	32	11
Transneft	2,278	3,900
Other related parties	-	2,967
	<u>3,541</u>	<u>6,878</u>
<i>Interest on borrowings</i>		
Sberbank	19,802	1,698
Other related parties	141	-
	<u>19,943</u>	<u>1,698</u>

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Other related parties represent affiliates of the ultimate beneficiaries and companies which became subsidiaries as a result of acquisition in June 2006.

Compensation of key management personnel

For the six months ended 30 June 2007 and 2006 the remuneration of the directors and other members of key management was 63 and 1,092, respectively.

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

19. COMMITMENTS AND CONTINGENCIES

Litigation

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

On 24 November 2006, the Russian Federal Agency on Property management applied to the court to impose a penalty on Timber Export. The penalty includes rent payment of 676 and penalty fees of 486 for the period from 1 January 2006 through 21 November 2006. Timber Export considers the rent amount to be inappropriately high and applied to the court to oblige the Russian Federal Agency on Property management to recalculate rent payments. The court will hear the case on 14 November 2007.

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 716.

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.

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Insurance

As of 30 June 2007, the Group has insurance coverage in respect of potential damage of its major facilities. The Group does not have any business interruption insurance or any third party liability insurance in respect of environmental damage. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on 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:

	<u>30 June 2007</u>
2007	1,738
2008	3,477
2009	3,477
2010	3,197
2011	3,147
Thereafter	<u>90,076</u>
Total	<u><u>105,112</u></u>

20. CAPITAL COMMITMENTS

At 30 June 2007, the Group had the following capital commitments to purchase items which will increase the transshipment capacities:

	<u>30 June 2007</u>
Commitments for acquisition of property, plant and equipment and construction works:	
NCSP	87,652
Timber Export	25,096
Grain Terminal	5,670
IPP	1,265
Shipyard	<u>1,012</u>
Total	<u><u>120,695</u></u>

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21. EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of approval of the condensed consolidation financial statements the Group raised additional 10,011 of long-term debt under existing loan agreements with Sberbank. In July 2007, the Group also refinanced the non-revolving loan with Sberbank of 118,000 with a syndicated loan provided by CJSC International Moscow Bank and Bank Austria Creditanstalt AG which matures on 17 July 2010 and accrues interest at LIBOR + 1.6%. This refinancing led to the release of all pledged shares under the Sberbank Loan Agreement (Note 15).

The following changes in interest rates occurred up to the date of approval of the condensed 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%

On 1 July 2007, the Group 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. During the six months ended 30 June 2007, insurance premium was accrued based on the insurance agreement effective during the period.

During July and August 2007 according to the amendments to the pledge agreements property, plant and equipment with carrying value of 25,998 was released from the pledge.

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.