

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

**Interim Condensed Consolidated
Financial Statements (Unaudited)**

For the Six Months Ended 30 June 2011

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 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Management is responsible for the preparation of interim condensed consolidated financial statements that present fairly the interim condensed consolidated financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (the "Group") as of 30 June 2011, and the consolidated results of its operations, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's interim condensed consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:


- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the interim condensed consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 were approved by management on 23 September 2011:

On behalf of the management:


Vilinov I.E.
Chief Executive Officer




Kachan G.I.
Chief Accountant

INDEPENDENT AUDITOR'S REPORT ON THE REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders and board of directors of Public Joint Stock Company Novorossiysk Commercial Sea Port:

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of financial position of Public Joint Stock Company Novorossiysk Commercial Sea Port and its subsidiaries (collectively – the "Group") as of 30 June 2011 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated 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 condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche

Moscow, Russia
23 September 2011

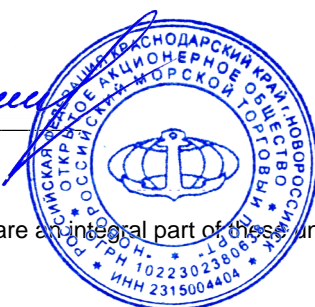
**PUBLIC JOINT STOCK COMPANY
NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)
(in thousands of US Dollars, except earnings per share)**

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
REVENUE	5	494,117	348,267
COST OF SERVICES	6	(254,883)	(118,168)
GROSS PROFIT		239,234	230,099
Selling, general and administrative expenses	7	(37,718)	(17,208)
Gain/(loss) on disposal of property, plant and equipment		257	(57)
Impairment of property, plant and equipment		(2,757)	-
OPERATING PROFIT		199,016	212,834
Interest income		2,253	11,431
Finance costs	8	(69,169)	(14,137)
Foreign exchange gain/(loss), net		143,384	(16,765)
Other income/(expense), net		3,502	(702)
PROFIT BEFORE INCOME TAX		278,986	192,661
Income tax expense		(57,243)	(38,204)
Deferred tax benefit		729	1,102
PROFIT FOR THE PERIOD		222,472	155,559
OTHER COMPREHENSIVE INCOME/(LOSS)			
Effect of translation to presentation currency		85,519	(27,640)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		307,991	127,919
Profit for the period attributable to:			
Equity shareholders of the parent company		221,088	150,301
Non-controlling interests		1,384	5,258
		222,472	155,559
Total comprehensive income attributable to:			
Equity shareholders of the parent company		304,533	123,397
Non-controlling interests		3,458	4,522
		307,991	127,919
Weighted average number of ordinary shares outstanding	16	19,087,586,568	19,259,815,400
BASIC AND DILUTED EARNINGS PER SHARE (US Dollars)		0.0116	0.0078



I.E. Vilinov
Chief Executive Officer




G.I. Kachan
Chief Accountant

The notes on pages 7 to 26 are an integral part of these unaudited interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011 (UNAUDITED) AND 31 DECEMBER 2010
(in thousands of US Dollars)**

	Notes	30 June* 2011	31 December 2010
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	10	2,232,786	563,839
Goodwill	11	1,708,367	391,618
Mooring rights		9,473	9,024
Investments in securities and other financial assets	12	31,095	22,219
Investment in joint venture	13	17,866	15,578
Non-current VAT recoverable		831	858
Spare parts		5,647	4,862
Deferred tax assets		1,756	1,156
Other intangible assets		1,448	1,286
		<u>4,009,269</u>	<u>1,010,440</u>
CURRENT ASSETS:			
Inventories		11,763	8,991
Advances to suppliers		5,861	2,608
Trade and other receivables, net	14	71,044	29,866
VAT recoverable and other taxes receivable		49,965	12,683
Income tax receivable		18,116	6,183
Investments in securities and other financial assets	12	24,267	46,919
Cash and cash equivalents	15	48,249	265,017
		<u>229,265</u>	<u>372,267</u>
TOTAL ASSETS		<u>4,238,534</u>	<u>1,382,707</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	16	10,471	10,471
Share premium		-	9,255
Treasury shares		(281)	-
Foreign currency translation reserve		32,760	(50,685)
Retained earnings		1,123,316	996,330
Equity attributable to shareholders of the parent company		<u>1,166,266</u>	<u>965,371</u>
Non-controlling interests		<u>27,384</u>	<u>23,927</u>
TOTAL EQUITY		1,193,650	989,298
NON-CURRENT LIABILITIES:			
Long-term debt	17	2,186,660	305,412
Defined benefit obligation		7,810	6,906
Deferred tax liabilities		320,206	30,937
		<u>2,514,676</u>	<u>343,255</u>
CURRENT LIABILITIES:			
Current portion of long-term debt	17	408,429	15,900
Advances received from customers		57,139	6,432
Trade and other payables		28,905	10,898
Taxes payable		5,978	4,812
Income tax payable		3,375	579
Accrued expenses		26,382	11,533
		<u>530,208</u>	<u>50,154</u>
TOTAL EQUITY AND LIABILITIES		<u>4,238,534</u>	<u>1,382,707</u>

*As a part of assets and liabilities included provisional values of acquired assets and liabilities of LLC PTP (Note 18).

The notes on pages 7 to 26 are an integral part of these unaudited interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Attributable to shareholders of the parent company					Total	Non-controlling interests	Total
		Share capital	Treasury shares	Share premium	Foreign currency translation reserve	Retained earnings			
At 1 January 2010		10,471	-	9,255	(43,959)	823,035	798,802	18,170	816,972
Profit for the period		-	-	-	-	150,301	150,301	5,258	155,559
Effect of translation to presentation currency		-	-	-	(26,904)	-	(26,904)	(736)	(27,640)
Total comprehensive (loss)/income for the period		-	-	-	(26,904)	150,301	123,397	4,522	127,919
Dividends	9	-	-	-	-	(80,069)	(80,069)	(1)	(80,070)
At 30 June 2010		10,471	-	9,255	(70,863)	893,267	842,130	22,691	864,821
At 1 January 2011		10,471	-	9,255	(50,685)	996,330	965,371	23,927	989,298
Profit for the period		-	-	-	-	221,088	221,088	1,384	222,472
Effect of translation to presentation currency		-	-	-	83,445	-	83,445	2,074	85,519
Total comprehensive income for the period		-	-	-	83,445	221,088	304,533	3,458	307,991
Buy-back of shares	16	-	(281)	(9,255)	-	(79,042)	(88,578)	-	(88,578)
Dividends	9	-	-	-	-	(15,060)	(15,060)	(1)	(15,061)
At 30 June 2011		10,471	(281)	-	32,760	1,123,316	1,166,266	27,384	1,193,650

The notes on pages 7 to 26 are an integral part of these unaudited interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)
(in thousands of US Dollars)**

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
Cash flows from operating activities			
Cash from operations	20	246,194	232,830
Income tax paid		(66,108)	(30,712)
Interest paid		(67,688)	(14,930)
		<u>112,398</u>	<u>187,188</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		759	437
Payments for property, plant and equipment		(41,121)	(22,781)
Proceeds from investments in securities and other financial assets		120,083	121,106
Purchases of investments in securities and other financial assets		(101,843)	(306,245)
Acquisition of subsidiary, net of cash acquired	18	(2,100,577)	-
Investment in joint venture		499	(14,967)
Interest received		2,680	2,673
Purchases of other intangible assets		(344)	(222)
		<u>(2,119,864)</u>	<u>(219,999)</u>
Cash flows from financing activities			
Repayments of borrowings		(63,935)	(8,342)
Proceeds from borrowings		1,938,300	-
Dividends paid		(93)	(180)
Payment for buy-back of shares		(88,448)	-
Payment for shares buy-back costs		(130)	-
		<u>1,785,694</u>	<u>(8,522)</u>
Net decrease in cash and cash equivalents			
		<u>(221,772)</u>	<u>(41,333)</u>
Cash and cash equivalents at the beginning of the period	15	265,017	159,075
Effect of translation into presentation currency on cash and cash equivalents		5,004	(8,639)
		<u>48,249</u>	<u>109,103</u>
Cash and cash equivalents at the end of the period	15	<u>48,249</u>	<u>109,103</u>

The notes on pages 7 to 26 are an integral part of these unaudited interim condensed consolidated financial statements.

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED) (in thousands of US Dollars)

1. GENERAL INFORMATION

Organisation

Public Joint Stock Company ("PJSC") Novorossiysk Commercial Sea Port ("NCSP") was founded in 1845. NCSP was transformed from a state-owned enterprise to a PJSC in December 1992. NCSP's principal activities include stevedoring, additional port services, and sea vessel services. NCSP and its subsidiaries (the "Group") primarily operate in the Russian Federation. The principal activities and significant entities of the Group as at 30 June 2011 were as follows:

<u>Subsidiaries</u>	<u>Nature of business</u>
OJSC IPP	Stevedoring and additional port services
PJSC Fleet Novorossiysk Commercial Sea Port	Tug and towing services and bunkering
OJSC Novorossiysk Shipyard	Stevedoring and marine vessels repair services
OJSC Novoroslesexport	Stevedoring and additional port services
PJSC Novorossiysk Grain Terminal	Stevedoring and additional port services
LLC Baltic Stevedore company	Stevedoring and additional port services
LLC Primorsk trade port	Stevedoring and additional port services
CJSC Sovfracht-Primorsk	Tug and towing services

The main subsidiaries of the Group are located in the Eastern sector of the Black Sea in Tsemesskaya Bay as well as in Kaliningrad and Leningrad District.

NCSP is the largest stevedore of the Group and the holding company. It has the main cargo-loading district, the Sheskhari oil terminal, the technical support base and the passenger terminal in Novorossiysk. NCSP has eight significant subsidiaries, the primary activities of which are as follows:

OJSC IPP ("IPP")

IPP is a liquid-cargo processing enterprise, and also provides bunkering services.

PJSC Fleet NCSP ("Fleet")

Fleet is a maritime tug and towing company. It provides most of the tug and towing, mooring and bunkering services for ships and other maritime vessels at and around the Novorossiysky Port (the "Port"). In addition, it carries out emergency services such as transferring vessels to shelter zones during emergencies, 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 the Krasnodar District under the Russian Ministry of Natural Resources.

OJSC Novorossiysk Shipyard ("Shipyard")

Shipyard is the largest ship-repair enterprise in the south of Russia that has a major universal port at its disposal. The cargo specialization of Shipyard is the transshipment of ferrous metals. It also handles loose goods in soft containers and big bags, construction cargo, oversized cargo, food and perishable cargo, and roll-on roll-off cargo at its own ferry berth.

OJSC Novoroslesexport ("Novoroslesexport")

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

PJSC Novorossiysk Grain Terminal ("Grain Terminal")

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

PUBLIC JOINT STOCK COMPANY NOVOROSSIYSK COMMERCIAL SEA PORT AND SUBSIDIARIES

SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED) (in thousands of US Dollars)

LLC Baltic Stevedore Company (“BSC”)

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

LLC Primorsk trade port (“PTP”)

PTP is involved in the transshipment of oil and oil products in the port of Primorsk, Leningrad District. The Group acquired 100% of the shares in PTP, in order to materially increase the scale of its operations and to become a market leader in port management in Russia’s two key regions, the North-Western and Southern basins (Note 18).

CJSC Sovfracht-Primorsk (“Sovfracht-Primorsk”)

Sovfracht-Primorsk is the subsidiary of PTP. Sovfracht-Primorsk is an operator of towing, pilotage and tug and towing services in the Port of Primorsk in the Leningrad District.

Golden Share

According to decree No.1343-r dated 12 August 2010, which was issued by the Government of the Russian Federation, the Government has the right to obtain a golden share in companies. This golden share provides it with special rights in comparison with other shareholders, and allows the state to block a decision made by shareholders for amendments to the charter, as well as decisions on liquidation, corporate restructuring and significant transactions. During 2010, the Government enacted this right to hold a golden share in the Group so that it may exercise significant influence over the Group without the actual need to hold a significant ownership.

Going concern assumption

The accompanying unaudited interim condensed consolidated financial statements of the Group have been prepared assuming that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realise its assets and discharge its liabilities in the normal course of business.

At 30 June 2011 current liabilities of the Group exceeded its current assets by 300,943. The Group is however profitable (six months ended 30 June 2011, 222,472; year ended 31 December 2010, 258,440) and also historically generated cash from operations (six months ended 30 June 2011, 112,398; year ended 31 December 2010, 309,969).

Management has plans to raise additional funds through the treasury shares placement and if required, attract additional financing in order to settle a substantial portion of its current liabilities and improve working capital ratios. Management has prepared a detailed forecast of cash flows for 2011 and 2012 and believes that future cash flows from operating and financing activities will be sufficient for the Group to meet its obligations as they become due.

Based on the measures described above, management believes that it continues to be appropriate for the Group to prepare its consolidated financial statements on a going concern basis

Statement of compliance

These unaudited interim condensed consolidated financial statements of the Group have been prepared using accounting policies as set forth in the consolidated financial statements as at and for the year ended 31 December 2010, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) including the standards and interpretations as approved by the International Accounting Standards Board (“IASB”), and in compliance with the requirements of International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). 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 2010. These financial statements reflect all adjustments which are, in the opinion of Group management, necessary to fairly state the results of the interim period. Interim results are not necessarily indicative of results to be expected for the full year.

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

**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)
(in thousands of US Dollars)**

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies applied in the unaudited interim condensed consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2010.

Standards and Interpretations in issue but not yet effective

The following new or amended IFRSs standards have been issued by the IASB in the six months ended 30 June 2011, but are not mandatory for the current reporting period and therefore have not been applied:

	Effective for periods annual periods beginning on or after
• IFRS 10 “Consolidated financial statements” – New standard published May 2011	1 January 2013
• IFRS 11 “Joint arrangements” – New standard published May 2011	1 January 2013
• IFRS 12 “Disclosure of interests in other entities” – New standard published May 2011	1 January 2013
• IFRS 13 “Fair value measurement” – New standard published May 2011	1 January 2013
• IAS 1 “Presentation of financial statements” – Amendment to revise the presentation of other comprehensive income	1 July 2012
• IAS 19 “Employee benefits” – Amendment regarding post-employment and termination benefits	1 July 2013
• IAS 27 “Separate financial statements” – Amendment to modify the consolidation principles in accordance with IFRS 10	1 January 2013
• IAS 28 “Investments in associates” – Amendment to reissue as Investments in Associates and Joint Ventures	1 January 2013

Functional and presentation currency

The functional currency of NCSP and each of its subsidiaries is the Russian Rouble (“RUR”), except for Henford Logistics Ltd. for which the US Dollar (“USD”) is the functional currency. The unaudited interim condensed consolidated financial statements are presented in US Dollars as Management considers the USD to be a more relevant presentational currency for international users of the unaudited interim condensed consolidated financial statements of the Group.

Exchange rates

The Group used the following exchange rates in the preparation of these unaudited interim condensed consolidated financial statements:

	30 June 2011	31 December 2010
Period-end rates		
RUR / 1 USD	28.0758	30.4769
RUR / 1 EUR	40.3870	40.3331
	Six months ended 30 June 2011	Six months ended 30 June 2010
Average for the period		
RUR / 1 USD	28.6242	30.0676
RUR / 1 EUR	40.1647	39.9787

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

**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)
(in thousands of US Dollars)**

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 unaudited interim condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2010.

4. SEGMENT INFORMATION

The Group's operations are divided into four reportable segments by type of service: stevedoring services and additional port services; fleet services; ship repair services; and other services mainly comprised of rent and resale of energy and utilities to external customers (which individually do not constitute separate reportable segments). Substantially all of the Group's operations are located within the Russian Federation. All segments have different segment managers responsible for the segments' operations. The chief operating decision maker (the Board of Directors) is responsible for allocating resources to and assessing the performance of each segment of the business.

Segment results are evaluated based on operating profit or loss in management accounts, as determined under Russian statutory accounting standards. Items and adjustments to reconcile segment profit/(loss) to profit before income tax include the following: operating profit/(expenses) not allocated to the segments, differences between Russian Statutory accounts and IFRS, interest income, finance costs, foreign exchange rate gains/(loss), and other income/(expense), net.

Segment revenue and segment results

The segment information for the six months ended 30 June 2011 and 30 June 2010:

	Segment revenue		Inter-segments sales		Segment profit/(loss)	
	Six months ended		Six months ended		Six months ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Stevedoring and additional services	442,069	318,774	4,803	2,089	176,430	194,241
Fleet services	44,354	23,592	2,574	1,233	20,062	18,534
Ship repair services	118	631	109	-	(468)	2
Other services	7,576	5,270	7,408	6,218	8,172	7,054
Total reportable segments	494,117	348,267	14,894	9,540	204,196	219,831
Adjustments and eliminations (see following table)					74,790	(27,170)
Consolidated					278,986	192,661

During the six months ended 30 June 2011 and 30 June 2010, revenue from PORATH SERVICES LIMITED of 112,878 and 34,199, respectively, represents more than 10% of segment revenue. Management of the Group believes that it adequately deals with the corresponding credit risk related to the above customer.

A loss on advance for property, plant and equipment in the amount of 8,456 attributable to the Fleet services segment was recognised in the year ended 31 December 2009. This loss was subsequently reversed in the six months ended 30 June 2010.

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

**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)
(in thousands of US Dollars)**

Total reportable segment profit/(loss) reconciles to the Group consolidated profit before tax through the following adjustments and eliminations:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Total segment profit	204,196	219,831
Unallocated amounts:		
Impairment of property, plant and equipment	(2,757)	-
Gain/(loss) on disposal of property, plant and equipment	257	(57)
Defined benefit obligation charge/(benefit)	(307)	1,858
Differences between Russian statutory accounts and IFRS		
Bank commission	12,227	-
Depreciation and amortisation	(10,870)	(10,305)
Other	(3,730)	1,507
Operating profit	<u>199,016</u>	<u>212,834</u>
Interest income	2,253	11,431
Finance costs	(69,169)	(14,137)
Foreign exchange gain/(loss), net	143,384	(16,765)
Other income/(expense), net	<u>3,502</u>	<u>(702)</u>
Profit before income tax	<u>278,986</u>	<u>192,661</u>

Other segment information

	Depreciation and amortisation charge		Capital expenditures	
	Six months ended		Six months ended	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Stevedoring and additional services	30,286	27,414	40,515	22,916
Fleet services	2,078	387	1,201	60
Ship repair services	403	592	2	-
Other services	4,503	2,163	521	238
Total reportable segments	<u>37,270</u>	<u>30,556</u>	<u>42,239</u>	<u>23,214</u>
Adjustments and eliminations	<u>3,290</u>	<u>2,723</u>	<u>1,202</u>	<u>1,074</u>
Consolidated	<u>40,560</u>	<u>33,279</u>	<u>43,441</u>	<u>24,288</u>

Capital expenditures consist of additions of property, plant and equipment, which include construction in progress and the related advances paid in the period (Note 10).

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

**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)**
(in thousands of US Dollars)

Geographical information

The Group's entities operate in different geographical regions. The following geographical segments were allocated: Novorossiysk, Primorsk, Baltiysk (assuming the anticipated growth in this segment) to estimate financial results and economic conditions of activities of the Company by users of financial statements.

The Group's revenue from external customers by geographical location (place where services rendered) is as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Revenue		
Novorossiysk	363,246	343,913
Primorsk	122,874	-
Baltiysk	6,767	4,354
Other	1,230	-
Total	494,117	348,267

5. REVENUE

	Six months ended 30 June 2011	Six months ended 30 June 2010
Stevedoring services	399,444	273,668
Additional port services	42,625	45,106
Fleet services	44,354	23,592
Ship repair services	118	631
Other services	7,576	5,270
Total	494,117	348,267

6. COST OF SERVICES

	Six months ended 30 June 2011	Six months ended 30 June 2010
Fuel	116,098	34,376
Depreciation and amortisation	38,388	31,517
Personnel expenses	32,636	24,948
Rent	32,212	4,925
Taxes directly attributable to salaries	10,078	6,478
Subcontractors	7,769	3,023
Repairs and maintenance	6,481	5,831
Energy and utilities	4,892	3,352
Raw materials	3,525	4,210
Defined benefit obligation charge/(benefit)	596	(1,572)
Insurance	116	224
Other	2,092	856
Total	254,883	118,168

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7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2011	Six months ended 30 June 2010
Personnel expenses	14,712	10,163
Taxes other than income tax	5,063	4,364
Taxes directly attributable to salaries	2,907	1,763
Charge in allowance for doubtful receivables	2,833	154
Security services	2,435	2,003
Depreciation and amortisation	2,172	1,762
Charity	1,142	1,078
Bank charges	1,124	805
Advertising	1,025	345
Travel and representation expenses	833	662
Repairs and maintenance	490	432
Raw materials	466	332
Rent	326	726
Reversal of loss on advances for property, plant and equipment	-	(8,456)
Other	2,190	1,075
Total	37,718	17,208

8. FINANCE COSTS

	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest on borrowings	69,169	13,961
Net loss on interest rate swap	-	176
Total	69,169	14,137

9. DIVIDENDS

During the first six months ended 30 June 2011, NCSP declared dividends in respect of the year ended 31 December 2010 in the amount of 15,060 (0.0008 USD per 1 share).

During the first six months ended 30 June 2010, NCSP declared dividends in respect of the year ended 31 December 2009 in the amount of 80,069 (0.0042 USD per 1 share).

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10. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Vehicles	Office and other equipment	Construction in progress	Total
Cost								
As at 1 January 2010	18,904	312,452	270,672	64,397	16,567	68,894	57,950	809,836
Additions	-	2,814	2,749	1,662	686	809	15,568	24,288
Acquisitions through business combinations	-	-	-	22,974	-	-	-	22,974
Transfer	-	21	7	-	-	1,133	(1,161)	-
Disposals	-	(31)	(745)	(1,450)	(448)	(186)	(9)	(2,869)
Disposal of advances for property, plant and equipment	-	-	-	-	-	-	(30,375)	(30,375)
Effect of translation into presentation currency	(577)	(9,629)	(8,325)	(2,803)	(514)	(2,163)	(1,638)	(25,649)
As at 30 June 2010	18,327	305,627	264,358	84,780	16,291	68,487	40,335	798,205
Accumulated depreciation								
As at 1 January 2010	-	(59,386)	(130,644)	(23,810)	(8,759)	(28,500)	(8,870)	(259,969)
Depreciation expense	-	(10,375)	(14,030)	(1,937)	(1,090)	(5,207)	-	(32,639)
Disposals	-	5	706	1,118	389	157	-	2,375
Reversal of impairment on advances for property, plant and equipment	-	-	-	-	-	-	8,456	8,456
Effect of translation into presentation currency	-	2,186	4,465	756	292	1,052	414	9,165
As at 30 June 2010	-	(67,570)	(139,503)	(23,873)	(9,168)	(32,498)	-	(272,612)
Carrying value								
As at 1 January 2010	18,904	253,066	140,028	40,587	7,808	40,394	49,080	549,867
As at 30 June 2010	18,327	238,057	124,855	60,907	7,123	35,989	40,335	525,593

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	Land	Buildings and constructions	Machinery and equipment	Marine vessels	Vehicles	Office and other equipment	Construction in progress	Total
Cost								
As at 1 January 2011	18,991	315,764	284,816	88,639	16,736	69,016	77,003	870,965
Additions	-	1,435	2,058	1,781	1,440	730	35,997	43,441
Acquisitions through business combinations*	1,274,775	119,058	21,023	55,116	937	280	50,727	1,521,916
Transfers	-	893	14,110	-	90	24	(15,117)	-
Disposals	-	(366)	(1,627)	(94)	(303)	(292)	(25)	(2,707)
Effect of translation into presentation currency	85,119	34,840	26,019	9,597	1,516	5,930	10,315	173,336
As at 30 June 2011	1,378,885	471,624	346,399	155,039	20,416	75,688	158,900	2,606,951
Accumulated depreciation								
As at 1 January 2011	-	(80,171)	(157,159)	(26,740)	(9,599)	(33,457)	-	(307,126)
Depreciation expense	-	(17,102)	(14,454)	(5,193)	(593)	(2,523)	-	(39,865)
Disposals	-	33	1,610	8	282	271	-	2,204
Impairment of property, plant and equipment	-	-	-	-	-	-	(2,757)	(2,757)
Effect of translation into presentation currency	-	(7,189)	(13,692)	(1,954)	(828)	(2,905)	(53)	(26,621)
As at 30 June 2011	-	(104,429)	(183,695)	(33,879)	(10,738)	(38,614)	(2,810)	(374,165)
Carrying value								
As at 1 January 2011	18,991	235,593	127,657	61,899	7,137	35,559	77,003	563,839
As at 30 June 2011	1,378,885	367,195	162,704	121,160	9,678	37,074	156,090	2,232,786

* Provisional value of property, plant and equipment (Note 18).

As at 30 June 2011 total amount of advances paid for property, plant and equipment equals to 96,273 (31 December 2010: 44,194), including advances paid by PTP in amount of 53,847.

Impairment of property, plant and equipment relates to the design work on several projects under construction which has become obsolete.

The total amount of capitalised interest expenses for the six months ended 30 June 2011 amounted to 563.

During the year ended 31 December 2010 no interest expenses were capitalised.

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11. GOODWILL

	<u>30 June 2011</u>	<u>31 December 2010</u>
Cost	1,711,723	394,710
Accumulated impairment loss	(3,356)	(3,092)
Carrying amount	<u>1,708,367</u>	<u>391,618</u>
	<u>30 June 2011</u>	<u>31 December 2010</u>
Cost		
Balance at the beginning of year	394,710	397,747
Acquisitions through business combinations (Note 18)	1,204,373	-
Effect of translation into presentation currency	112,640	(3,037)
Balance at the end of the period	<u>1,711,723</u>	<u>394,710</u>
Accumulated impairment loss		
Balance at the beginning of year	(3,092)	(3,115)
Effect of translation into presentation currency	(264)	23
Balance at the end of the period	<u>(3,356)</u>	<u>(3,092)</u>

Before recognition of impairment losses, the carrying amount of goodwill was allocated to cash-generating units as follows:

	<u>Carrying amount</u>	
	<u>30 June 2011</u>	<u>31 December 2010</u>
Stevedoring and additional services segment:		
PTP	872,911	-
Grain Terminal	169,128	155,804
Novoroslesexport	136,488	125,735
IPP	29,419	27,101
Shipyard	13,319	12,270
BSC	3,044	2,804
Fleet services segment:		
Sovfracht-Primorsk	410,346	-
Fleet	77,068	70,996
Total	<u>1,711,723</u>	<u>394,710</u>

12. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	<u>30 June 2011</u>	<u>31 December 2010</u>
Current		
Financial assets carried at amortised cost		
Deposits	18,105	46,323
Loans issued	5,946	596
Promissory notes	216	-
Total current	<u>24,267</u>	<u>46,919</u>
Non-current		
Financial assets carried at amortised cost		
Loans issued and other financial assets	31,095	22,219
Total non-current	<u>31,095</u>	<u>22,219</u>

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Short-term deposits denominated in RUR with an interest rate of 4.60% per annum and in USD with an interest rate of 0.8% per annum are placed with the Russian Agricultural Bank, a related party of the Group.

Current loans issued in USD include a short-term loan to LLC Novorossiysk Fuel Oil Terminal ("LLC NFT"), a joint venture created in 2009 (Note 13), in the amount of 5,000 with an interest rate of 7% per annum. Current loans issued in RUR include short-term loans given to employees of the Group and to related parties with an interest rates varying from 5% to 12% per annum.

Non-current loans issued and other financial assets consist of long-term loans to third parties and other related parties, including two long-term loans denominated in USD to LLC NFT for 14,600 maturing in August 2012 with an interest rate of 7% per annum, and 13,300 maturing in December 2019 with an interest rate of 7% per annum each to be paid on the last day of the granted period. Other long-term loans are denominated in USD with interest rate of 5% per annum and in RUR with interest rates varying from 3% to 12% per annum.

13. INVESTMENT IN JOINT VENTURE

LLC NFT is a fuel oil terminal with expected transshipment capacity of 4 million tons per year. LLC NFT is in the start up stage consisting of construction of storage facilities and reconstruction and modernization of liquid cargo berths in order to facilitate loading of oil products from the terminal to tanker ships. The financial result of the joint venture for the period ended 30 June 2011 and 30 June 2010 was amounted to 1,436 and nil, respectively.

	Ownership % held	
	30 June 2011	31 December 2010
Joint venture		
LLC NFT	50.00%	50.00%

Summarised financial information LLC NFT is represented below:

	30 June 2011	31 December 2010
Total assets	149,447	89,657
Total liabilities	(112,698)	(58,501)
Net assets	36,749	31,156
Group's share of joint venture net assets	18,375	15,578
Elimination of unrealized profit	(509)	-
Carrying value of investment	17,866	15,578

14. TRADE AND OTHER RECEIVABLES, NET

	30 June 2011	31 December 2010
Trade accounts receivable (RUR)	29,279	10,152
Trade accounts receivable (USD)	24,798	15,557
Trade accounts receivable (EUR)	64	59
Other receivables and prepayments	20,629	4,514
Interest receivables	2,196	2,425
Less: Allowance for doubtful receivables	(5,922)	(2,841)
Total	71,044	29,866

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The movement in the allowance for doubtful trade and other receivables is as follows:

	30 June 2011	31 December 2010
As at beginning of the year	2,841	1,511
Recognised in the statement of comprehensive income	2,783	1,588
Effect of translation into presentation currency	298	(17)
Amount recovered during the year	-	(131)
Amounts written-off as uncollectable	-	(110)
As at end of the year	5,922	2,841

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

15. CASH AND CASH EQUIVALENTS

	30 June 2011	31 December 2010
Bank deposits in RUR	39,084	23,029
Bank deposits in USD	2,486	226,740
Bank deposits in EUR	-	5,323
Current accounts in RUR	3,850	6,867
Current accounts in USD	2,777	2,250
Current accounts in EUR	18	787
Cash in hand	34	21
Total	48,249	265,017

Bank deposits as at 30 June 2011 mainly represent deposits with Sberbank, a related party of the Group and Raiffeisenbank with an original maturity of three months or less.

16. SHARE CAPITAL

The share capital of the Group consists of 19,259,815,400 ordinary shares authorised, issued, fully paid with a par value of 0.054 US cents per share. Authorised share capital at par is 10,471 (2010:10,471). Each ordinary share has equal voting rights.

During the period from 24 February to 1 March 2011, NCSP repurchased 516,686,496 of its own shares for RUR 4.9 per share from shareholders of the NSCP for a total of RUR 2,531,763 thousand (USD 88,448 thousand). The obligatory purchase was performed in accordance with the Federal Law on Joint Stock Companies and the resulting decisions of NCSP's board of directors dated 4 February 2011 which approved obligatory purchase from shareholders who voted against or did not participate in the vote to approve the transaction to acquire 100% of the PTP share capital through a loan for 1,950,000 from Sberbank. The Group's repurchased shares are held as treasury shares in equity as of 30 June 2011.

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17. DEBT

	<u>Interest rate</u>	<u>Maturity date</u>	<u>30 June 2011</u>	<u>31 December 2010</u>
Unsecured bank loans(USD)				
Loan Participation Notes	7%	May 2012	301,695	301,312
Raiffeisenbank	4.5%	June 2012	12,342	20,000
Unsecured bank loans(RUR)				
Sberbank*	8.5%	November 2014	327,534	-
Sberbank*	8.5%	November 2014	12,481	-
Total unsecured bank loans			654,052	321,312
Secured bank loans(USD)				
Sberbank	LIBOR 3M + 4.85%	January 2018	1,941,037	-
Total debt			2,595,089	321,312
Current portion of long-term loans			(408,429)	(15,900)
Total non-current debt			2,186,660	305,412

* Borrowings by PTP prior to the date of acquisition.

Sberbank

On 21 January 2011, NCSP received a loan in the amount of 1,950,000 from Sberbank pursuant to a contract dated 19 January 2011 relating to a new credit line to be used for the acquisition of PTP. The loan was provided with the following conditions:

- the term of the facility is 7 years;
- floating interest rate of LIBOR 3M + 4.85% per annum is applied during the first 3 years of the loan;
- fixed interest rate of 7.48% is applied during the remaining 4 years of the loan;
- a lump sum commission in amount of 11,700 (or 0.6%) was payable for the provision of the loan;
- no principal is due for the first 36 calendar months from the date of the loan agreement ("the grace period"), after which the principal amount of the loan is to be paid by equal quarterly instalments;
- the loan is secured by a pledge of 50.1% of NCSP shares and guarantee of PTP; and
- certain financial covenants are imposed on the Group (e.g. restrictions as to the Group's debt to equity ratio and debt to earnings before interest, income taxes, depreciation and amortization ratio, and reduction of NCSP's share price, etc).

In November 2010, PTP entered into two loan agreements with Sberbank under a new credit line to be used for the acquisition of Sovfracht-Primorsk in the amount of 348,752 and for financing and refinancing costs, associated with the construction of a bunkering complex in the amount of 12,970, each with an interest rate of 8.5% per annum. The principal amounts of the loans are payable in equal installments at the end of each quarter beginning 31 March 2011 with maturity dates in November 2014. The loan interest for each is calculated and payable on a monthly basis.

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Loan Participation Notes

On 17 May 2007, the Group, through a newly formed special purpose entity, Novorossiysk Port Capital S.A., issued 7% loan participation notes due May 2012 (the "Loan Participation Notes") in an aggregate principal amount of 300,000. The Group applied the proceeds of the Loan Participation Notes to repay a portion of the outstanding principal amount of the Sberbank loans.

Interest on the Loan Participation Notes is payable semi-annually on 17 November and 17 May of each year. 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 an agreement can result in the Group being required to repay the Loan Participation Notes at 101% of par value.

Raiffeisenbank

In December 2010, the Group entered into loan agreement with Raiffeisenbank for 20,000 with an interest rate of 4.5% per annum. The loan was granted to repay the loan from Sberbank. The loan principal is to be repaid in equal instalments of 3,333 on a quarterly basis beginning 31 March 2011. The maturity date is 14 June 2012. Loan interest is calculated and payable on monthly basis.

As at 30 June 2011, the average effective borrowing rate relating to the Group's debt was 5.8 % per annum (31 December 2010: 6.84% per annum).

The Group borrowings as of 30 June 2011 are repayable as follows:

	<u>Principal amount</u>	<u>Contractual interest liability</u>
Due within three months	22,231	32,734
Due from three to six months	30,734	42,922
Due from six months to twelve months	355,464	73,299
	408,429	148,955
Between 1 and 2 years	99,338	121,506
Between 2 and 5 years	1,360,454	265,747
Over 5 years	726,868	45,274
Total	2,595,089	581,482

The financial obligations of the Group consist primarily of borrowings denominated in USD. The fluctuation of the USD exchange rate leads to exchange rate gains and losses which affects the financial performance of the Group. During the six months ended 30 June 2011 the net exchange rate gains on financial obligations increased the Group's profit by 152,568 and during the six months ended 30 June 2010 decreased the Group's profit by 12,391.

18. BUSINESS COMBINATIONS

On 21 January 2011, NCSP acquired 100% of the shares in PTP, an operator of oil and oil product transshipment at the port of Primorsk, Leningrad District, for cash consideration of 2,153,000 from OMIRICO LIMITED. The Group also incurred acquisition costs of 4,077 which have been recognised as an expense in profit or loss in December 2010. By acquiring PTP, management believes the Group will be able to materially increase the scale of its operations and to become a market leader in port management in Russia's two key regions, the North-Western and Southern basins.

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Due to the recent completion of the acquisition, the Group has not finalized its accounting for the acquisition. As at the issuance date of these financial statements, the Group has determined the following provisional fair values of the assets acquired and liabilities assumed as at the acquisition date:

	<u>21 January 2011</u>
Current assets	
Cash and cash equivalents	52,423
Trade and other receivables	33,419
Other current assets	1,715
Non-current assets	
Property, plant and equipment	1,521,916
Other non-current assets	1,980
Current liabilities	
Trade and other payables	18,774
Current portion of long-term debt	93,232
Non-current liabilities	
Deferred tax liabilities	269,450
Long-term debt	281,370
Net assets	<u><u>948,627</u></u>

	<u>21 January 2011</u>
Goodwill arising on acquisition	
Consideration transferred	2,153,000
Less fair value of identifiable net assets acquired	948,627
Goodwill	<u><u>1,204,373</u></u>

Goodwill arose in the acquisition of PTP because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of PTP. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Had this business combination occurred as at 1 January 2011, the revenue of the Group from operations would have been 509,382, the finance costs would have been 76,459 and the profit for the period from operations would have been 237,753. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

The receivables acquired (which principally comprised trade receivables) in these transactions with a fair value of 33,419 had gross contractual amounts of 33,419. The best estimate at acquisition date of the contractual cash flows not expected to be collected equals to nil.

PTP contributed 125,465 of revenue and 56,926 of profit before tax from the date of acquisition to 30 June 2011.

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19. RELATED PARTY TRANSACTIONS

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

Given that the Federal Agency of the Russian Federation owns a 20% interest in NCSP, significant balances and transactions with state-controlled entities are considered to be transactions with related parties. In 2011 and 2010, the Group operates with Sberbank, Russian Agricultural Bank, Rosneft, various military divisions, Russian Railways, and other state-controlled entities.

Transactions with state-controlled entities:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Sales and income received from related parties		
Sales and income received from related parties	51,389	42,692
Interest income	1,499	6,391
Purchases from related parties		
Services rendered and materials received	7,899	2,838
Interest expense	57,755	1,577

Balances with state-controlled entities:

	30 June 2011	31 December 2010
Cash and cash equivalents		
Cash and cash equivalents	27,616	258,069
Deposits with related party	18,105	46,323
Receivables from related parties		
Trade and other receivables	7,742	2,417
Advances to suppliers	610	375
Payables to related parties		
Trade and other payables	2,004	112
Advances received from customers	1,744	3,074
Financial debt to related parties		
Long-term debt	2,186,660	-
Current portion of long-term debt	94,392	-

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

In conjunction with the Group's acquisition of PTP, OMIRICO LIMITED sold PTP and acquired 100% of NOVOPORT HOLDING LTD, shares from Kadina, and therefore obtained control over the Group. OMIRICO LIMITED is registered under the legislation of the Republic of Cyprus. OMIRICO LIMITED is jointly controlled by OJSC Transneft and Z. Magomedov. The owner of 100% of the OJSC Transneft ordinary shares is the Russian Federation represented by the Federal Agency for the Management of Federal Property. The OJSC Transneft preferential shares are owned by various legal entities and private individuals and are traded on the secondary stock market.

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NCSP and its subsidiaries in the ordinary course of business enter into various sales, purchases and service transactions with related parties, including LLC NFT (Note 13), OJSC Transneft and its subsidiaries, etc. For the six months ended 30 June 2011 the transactions and balances with OJSC Transneft were reflected as transactions and balances with related parties while for the six months ended 30 June 2010 as transactions and balances with state-controlled entities.

Details of transactions between the Group and other related parties are disclosed below.

Transactions with other related parties:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Sales and income received from related parties		
Sales and income received from related parties	43,865	-
Interest income	609	194
Purchases from related parties		
Services rendered and materials received	60,534	654
Capital expenditures	8	-

Balances with other related parties:

	30 June 2011	31 December 2010
Receivables from related parties		
Trade and other receivables	3,834	358
Advances to suppliers	749	-
Advances for property, plant and equipment	63,540	-
Short-term loans to related parties	6,892	937
Long-term loans to related parties	32,157	22,792
Payables to related parties		
Trade and other payables	2,535	120
Advances received from customers	14,182	-

Compensation of key management personnel

For the six months ended 30 June 2011 and 30 June 2010, the remuneration of the directors and other members of key management was 4,944 and 3,266 respectively, which represented short-term employee benefits.

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

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20. CASH FLOWS FROM OPERATING ACTIVITIES

	Six months ended 30 June 2011	Six months ended 30 June 2010
Profit for the period	222,472	155,559
Adjustments for:		
Depreciation and amortisation	40,560	33,279
Finance costs	69,169	14,137
Impairment of property, plant and equipment	2,757	-
(Gain)/loss on disposal of property, plant and equipment	(257)	57
Foreign exchange (gain)/loss, net	(143,384)	16,765
Income tax expense	56,514	37,102
Change in retirement benefit obligation	307	(1,858)
Interest income	(2,253)	(11,431)
Change in allowance for doubtful receivables	2,833	154
Reversal of loss on advances for property, plant and equipment	-	(8,456)
Change in allowance for spare parts and slow-moving inventories	(38)	(491)
Other adjustments	(1,651)	3,992
	<u>247,029</u>	<u>238,809</u>
Working capital changes:		
(Increase)/ decrease in inventories	(2,148)	1,022
(Increase)/ decrease in trade and other receivables	(51,103)	3,544
Decrease/ (increase) in long-term VAT receivables	98	(2,042)
Increase/ (decrease) in trade and other payables and accruals	52,318	(8,503)
	<u>246,194</u>	<u>232,830</u>
Cash flows from operating activities	246,194	232,830

21. COMMITMENTS AND CONTINGENCIES

Proceedings

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

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

Taxation contingencies in the Russian Federation

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax legislation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with the practical implications 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 prior legislation, the risk remains that the tax authorities in the Russian Federation could take differing positions with regard to interpretative issues. In connection with this fact the Group has a risk of additional taxation, fines and penalties that could be significant.

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Environmental matters

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

Russian Federation risk

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Insurance

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains comprehensive insurance coverage exceeding the book value of property, plant and equipment, there is a risk that the loss or destruction of certain assets could have a material adverse effect on Group's operations and financial position.

Operating lease arrangements

Operating lease arrangements relate to the lease of land, mooring installation and vessels from the Russian State and related parties. These arrangements have lease terms between five 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.

Future minimum lease payments under non-cancellable operating leases with initial terms in excess of one year are as follows:

	<u>30 June</u>
2012	81,818
2013	78,255
2014	74,389
2015	73,562
2016	73,529
Thereafter	<u>1,246,565</u>
Total	<u><u>1,628,118</u></u>

The increase in operating lease arrangements is associated with commitments assumed through the acquisition of PTP (Note 18).

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22. CAPITAL COMMITMENTS

At 30 June 2011, the Group had the following commitments for the acquisition of property, plant and equipment and construction works at:

	<u>30 June 2011</u>	<u>31 December 2010</u>
NCSP	31,499	49,241
IPP	13,836	809
BSC	6,102	12,074
PTP	2,978	-
Novoroslesexport	854	2,028
Shipyard	567	4
Grain Terminal	-	7
Total	<u>55,836</u>	<u>64,163</u>

The above commitments were entered into in order to enhance the Groups' transshipment capacities during the following three to ten years.

23. EVENTS AFTER THE BALANCE SHEET DATE

On August 11, 2011, during the NCSP Board of Directors meeting, the Chairman of the Board of Directors, Magomedov Ziyaudin, was re-elected.

In September 2011, the Group received a waiver for early loan repayment from Sberbank with regard to the covenant breach that occurred in August 2011 when the market value of the NCSP shares decreased below the minimum price stipulated in the loan covenants for the Sberbank line of credit agreement dated 19 January 2011 (Note 17). In accordance with this loan covenant breach, the lender received the right to request early repayment on the 1,950,000 loan issued on 21 January 2011 under the credit line.

In August 2011, the Group paid dividends in the amount of 15,056 in respect of the year ended 31 December 2010.