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PRESENTATION

Mikhail Borovikov - NCSP OAO - Director - IR

Good afternoon, ladies and gentlemen, and welcome to NCSP's conference call to discuss the group's ninth month 2012 financial and operating results.

Before getting started, I would like to remind everyone that all statements in this presentation would address company's business, other than historical facts are forward-looking statement. Although, NCSP believes that expectations expressed in such forward looking statements are based on reasonable assumptions, such statements should not in any way be construed as guarantees of future performance.

Factors that could cause developments to differ materially from those expressed include overall market conditions. The Company is subject to specific risks inherent in the stevedoring business and general economic and business conditions. Any statement or number in this presentation may be changed, depending on market conditions or other relevant developments.

At this time, I would like to turn the call over to Rado Antolovic, Chief Executive Officer of Novorossiysk Commercial Seaport. Rado, please go ahead.

Rado Antolovic - NCSP OAO - CEO

[Mikhail], thank you. Ladies and gentlemen, hi from Novorossiysk. It is a pleasure to deliver the nine month IFRS results. Allow me to start with the work, you have all shared the presentations. Let's turn to page three and start with the highlights. Do you hear me, ladies and gentlemen? Hello?

Operator

Yes, Rado, please go ahead with your presentation.

Rado Antolovic - NCSP OAO - CEO

Yes. Thank you. Just to make sure. It's very quiet. So operational performance, the highlight of operation performance, a strong growth in all products, grain and ferrous metals. And, of course, if you look and compare it to '11, nine months from 2011, we see that overall, we are growing by 3.5% year-on-year.

Recovery in grain was the strongest driver. We have it 10%. That is due to the release of export ban in July 2011. We also see a very solid growth in crude oil of 1.3% and strong growth in all products of oil 7%.



In addition, we are recovering very fast in ferrous metals, which is year-on-year growth on -- over 22%. We also see timber increase certainly after this more stable economic situation, or rather, say, political situation in Egypt and North Africa, and we also see some new cargos like cement, which has been increase over 100% year-on-year.

In respect to financial performance, though our revenue has grown only less than the percent from last year, from \$782 million to -- close to \$786 million, I will explain you later that these are behind. Our EBITDA has grown by 16% which is extraordinary performance, and from \$403.8 million to \$468.8 million. EBITDA margin which demonstrate our efficiency and optimization from 51.6% in two months '11 to 59.7% in nine months 2012.

This is extraordinary result in my books. I'm proud of it. Strong operation in cash flow is another demonstration that we are stable and improving from last year of -- by 72%, almost 73%, our cash flow today for nine months was \$344 million.

In other respect, our debt, our debt is continuously decreasing. Today, our net debt is -- nine months I'm saying, \$2.142 billion. So, net debt EBITDA decreased to 3.5 times EBITDA at September 30th.

These are the highlights for nine months. Let me turn to page four and go more into details. You see on the upper left corner, our position Novorossiysk and Primorsk, as you know, we are positioned in three geographic segments, Novorossiysk, Primorsk and [Calimingrat], that includes also Calimingrat.

Our group has handled for nine months, over highly 121 million tons, which is of course giving us and continue being number one operator. In Russia, a very strong performance on the right side, top corner, you see that we have actually included some other segments to be number one market drivers, both in crude oil, grain, ferrous metals, non-ferrous metals, oil products.

On the bottom, you see two pies. On the left side, you see the market share in all export from Russia by sea. We are handling around 48% of the market share. So, we are stable. And on the right side, you see the total cargo handled from Russian ports. We are stable on 29%. This is the market share leadership.

So turning to page five, let's analyze more in details the growth by key segments. Liquid cargo, as I mentioned before, I don't want to repeat myself, in overall, we increase considering all the liquid cargo increase by 2.4% which certainly is our performing market both in oil products, in oil in particular 1.3% outperforming market.

And we are focusing in continuous expansion of oil handling operations facilities later when you have questions. You can ask me that. I can give you more details on that. Going further, bulk cargo, we are also increasing our export and import in that respect to bulk cargo by year-on-year over 5%.

And we are actually replacing some of the lost market, like ferrous metal -- like iron ore with coal and ferrous metal. It's important to say. General cargo, again, general cargo is also strongly growing over 17%, 16.7%. And in this respect, we become leader in export in ferrous metals. We increase by 21.1% from previous years.

Despite the average decline of Russian market export by 14.5%, so obviously we're doing something very good there. In containers, I'm proud to say that we are increased by 3.7%. This might seem quite low for the Russian market. But let me assure you that our facilities are earning to capacity. As we talked, we are increasing our capacities to be able to handle the growth which is coming online.

Let me move to page six. We are now starting to discuss our financial performance for nine months. Sustainable revenue, those are revenues that are not substantially grown when we catch more details, I will explain you why. We kept a very strong growth in two segments, which I would like to highlight both in grain and ferrous metals, which add total almost \$60 million.

When we move to EBITDA. EBITDA margin again highlighting, we are almost hitting 60%. And this is, of course, recovery of some cargo segment, which I already mentioned grain and some other new cargos including ferrous metals, which are highly margin on cargoes. But at the same time, a very strong cost control and improvement of efficiencies in stevedoring services. Our strong cash flow of \$344 million, which is almost 73% better

than last year and our net debt decreases by \$237 million to leave us with \$2,142 million. And again, I'm repeating myself continued deleveraging to 3.5% net debt EBITDA.

Let me move to page seven to analyze revenue. You can see starting to explain why our revenue has grown only by 0.5% from previous year. You see the bunkering. Obviously, our bunkering revenue has substantially decreased. And in this respect, we have compensated these revenues with other cargoes, with other stevedoring services.

And though we are slightly ahead of last year, I would say that this is very strong results, because the bunkering could be very volatile, is going up and down and we demonstrated that we can diversify it and find new revenues, which we had demonstrated in the past years on several occasions.

On the bottom, you have revenue breakdown by cargo. I will not touch each of these lines. If you have questions, obviously, you have presentation in front you, you can ask me later and I can more in detail -- explain more in details to you.

Let me move to page eight, cost analysis. Obviously, our cost has been -- has declined by almost \$60 million. Big chunk of that is the fuel -- purchasing of fuel, which is related to the bunkering of course. But not only to bunkering, also to efficiencies which we have internally.

And there are some, again, demonstration of cost. And if you look also SG&A, the increase of SG&A is much less than inflation in Russia this year. So this is another demonstration of our efficiencies. Let me then -- you have cost breakdown on the right bottom line, if you need to compare it more in details to 2011.

Let me continue to page nine. The balance sheet, how we are deleveraging our balance sheet, repeating for the third time, our net debt is down to \$2.142 billion in nine-month 2012 and the net debt EBITDA at comfortable level of 3.5.

So obviously, we had a good decline from last year, which was -- when it was 4.3 times. That is done by few reasons, by paying and also our strong cash flow. I'm sure you'll have some questions on our debt later, so we can explain you what we are doing. In the future, you can see on the top right hand our schedule of repayment. Obviously, 2014 to '16 -- or '17 is important timing where we need to do something to minimize our debt, our repayment. By 2013, we are comfortable.

I shall finish my short presentation with that. Back to you Mikhail.

Mikhail Borovikov - NCSP OAO - Director - IR

Okay. I think that right now our CEO will be happy to answer all of your questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And our first question is going to come from the line of [Nadezhda Timokhova], JPMorgan. Please go ahead.

Nadezhda Timokhova - JPMorgan - Analyst

Hello? I would like to first to highlight the brilliant presentation and say the transparency is increasing, and to thank you for this. My first question is related to the volumes of bunkering. Do you think that for the next year you will have increased or decrease on this type of business?



Rado Antolovic - NCSP OAO - CEO

Nadezhda, good day to you. Let me just explain about the bunkering. As you know, the bank is factor of many things of which one of the most important driver is the number of the most important drivers is the number of vessels calling to that particular ports. It's also the price of the fuel and at the stage there are -- some of the price for the fuel are very, very competitive.

And of course, the third but not important, is the competition. You know, there is a competition, no question of us. But we are rather comfortable because we are good path, we have good services for banking, both alongside the peer, both in our bunkering barges, which can serve us in Primorsk for the larger crude oil tankers.

And here, in Novorossiysk and [Ornosy], we are looking to diversify and looking to enter a new market, so we believe that of all situation we'll be at today levels but we are working in all respect to grow in that bunkering businesses and to -- let's call it increase our geographic presence. Hope I had an answer to your question.

Nadezhda Timokhova - JPMorgan - Analyst

Yes. Thanks a lot. And also about the volumes, I have a little concern about the volumes for wells for the next year. As we see, Ust-Luga is actually developing and launching new capacities, do you see any increasing sales from that side, increased competition or you expect the volumed of oil to be relatively the same next year as in this year?

Rado Antolovic - NCSP OAO - CEO

You know, I will be very straightforward to all of you. Ust-Luga is a competitor and saying that it's not would be wrong. We understand the strength and weaknesses. They have done internal and independent analysis in the market.

But I would be also very frank and objectively frank that there is sufficient cargo-base for all of the players in north. I mean, Ust-Luga is going to consolidate mostly the cargo, which is coming from [Mohga, Trapeida, BeloRussia] and also whatever is still moving in St. Petersburg. So we do not see -- we are talking oil, we're talking crude. We're talking all products. In overall, we do not see declined.

Nadezhda Timokhova - JPMorgan - Analyst

So you can say that for the next year you don't expect a decline in crude oil volumes, am I correct?

Rado Antolovic - NCSP OAO - CEO

We see rather stable situation, yes. But again, all depends of the global economy is, you know, globally the crude oil start to be, you know, the price is decreasing. And they are decreasing the total export down, and also depend on the other side internal demand of Russia. So these are the factors which we are beyond our control.

But if you're talking purely competition, at Ust-Luga we know where they're getting the fuel from where and, of course, it is all seen in interest of Russia to utilize their own facilities. And that's what Russia is doing and Russian ports are doing.

Nadezhda Timokhova - JPMorgan - Analyst

Okay. Great. And next question is on production regarding the fuel oil terminal that was expected to be launch at the end of this year. Can you update us the feasible data towards working at full capacity of 4 million tons next year or probably slower volumes?

Rado Antolovic - *NCSP OAO - CEO*

I am very pleased to answer to you. If you're referring to NMT, Novorossiysk Mazut Terminal, for the last quarter is working to its full capacity, we've done all kind of test to assure the local government, federal government, the local people in Novorossiysk that this is the state-of-the-art facility with all Russian international higher safety standards, ecological standards. We have absolutely convinced everybody that this is done and now we're working to full capacity.

Nadezhda Timokhova - *JPMorgan - Analyst*

Oh, that's really good news. Thanks a lot. And probably my last question is regarding your projections for the full year. If you can share with us your view for the full year on EBITDA and the revenues, that would be really nice.

Rado Antolovic - *NCSP OAO - CEO*

You know, it is too early to discuss all there is for the future. There could be some other changes. But let me see something that, you know, we had a very difficult year. There's no doubt. You know, you had followed us through the year starting at the beginning of the year with terrible weather of almost -- over 30 days being actually hit by weather conditions, severe weather conditions. Then we started to recover ourselves, which we managed well and nine months results demonstrate.

Then we were hitting July by unprecedented flooding in Novorossiysk I'm talking, which basically blocked one rail line and supply of general cargo metals. And bulk cargo has been, you know, reduced substantially. And this cargo is found in other ports, unfortunately. Again, we're looking to justify in finding new cargoes which was successfully deep.

But whatever we did as in a cargo based and all it cost certainly is compensating for the loss, to some extent, but not to all extent, regardless, maybe on the cargo side. We have lost some ground, but not in 11 years. We are growing, still continue to grow. We find new cargoes as I mentioned, coal is new to start to handle coal, for example, or cement.

We needed a new certificate for ecology which we had to obtain. And I am pleased to say to you that now we are handling per months all that hundred thousand tons of coals, which is good in a very efficient way. And this is a long term client and a long term cargo buyers. So this is good news.

The other hand, we also lost some cargo where we know why we lost some cargo, some was for example, fertilizer which require cargo storages. We are already working on that to get this cargo back. We have already agreements with the client for next year to recover these cargoes and another cargo which was I don't know went to Ukraine or not because we are not competitor in sense of stevedoring but because we could not handle (inaudible) [20,000] debt rates.

We handle rest is up to 80,000. So we got finally permission that we can handle this to complete loading at the Anchorage and we are now working to provide us some technical issues, like barges and floating cranes to resume this operation and recover this cargo some time next year. So everything we have we always look in solutions. But I will leave the result for year end when we have announcement year end and you will see the details.

Nadezhda Timokhova - *JPMorgan - Analyst*

Okay. Many thanks for your answers.



Operator

Thank you. Our next question comes from the line of [Tanya Kormiltseva], Renaissance Capital. Please go ahead.

Tanya Kormiltseva - Renaissance Capital - Analyst

Yes, hello. Thank you very much for your presentation. I just have a couple of questions for you. So first of all, we recently saw your operating results as for oil. I'm just wondering why there is such big decline in November? You had very big decline in Novorossiysk, it's a minus 23% year-on-year, recent press release that you explained by the bad weather that was at the beginning of November and last week of November. Is there any other reasons why there is such decline, because we saw the market results, and it seems that it was flat in November year-on-year? That's my first question.

And as the same field as oil, in Primorsk, you have also quiet big decline, how is it explained, also weather or something else?

Rado Antolovic - NCSP OAO - CEO

Are you referring just for oil? Or you referring for something -- are you referring for general, all the cargo or for oil?

Tanya Kormiltseva - Renaissance Capital - Analyst

No, no, no. I'm referring to oil. You showed quite big decline in November in --.

Rado Antolovic - NCSP OAO - CEO

Most decline in November, correct me -- just one second please, one second. [Tatiana], correct?

Tanya Kormiltseva - Renaissance Capital - Analyst

Yes.

Rado Antolovic - NCSP OAO - CEO

Hello?

Tanya Kormiltseva - Renaissance Capital - Analyst

Yes.

Rado Antolovic - NCSP OAO - CEO

Yes, Tatiana. Look, I just look in the figures. I'm a bit confused when you're talking about Novorossiysk oil. Yes, we did have some bad weather. And of course, where we load oil is -- we load oil on large crude versus here 150,000 debt rate and we are exposed to the weather and obviously, there are some delays when -- where the weather is.



But I don't see a big decline in Novorossiysk in oil. While we did held in Primorsk, you're right. And I think we already informed people that this is due to the forecasted capital repair of the main old pipe at the second half of November in Primorsk, caused by Primorsk and which was done by Trustnet. And this repair is under completion now.

They had to prepare themselves and do -- I don't really understand what exactly there was done on the pipeline. I'm not expert of pipelines, but we have been notified by Trustnet that they had reduced the [volume] to the pressures, they are reinforcing certain levels of pipelines, which has been -- supposed to be done next year, but they have done it earlier.

Tanya Kormiltseva - *Renaissance Capital - Analyst*

And it is going to resume in December, right?

Rado Antolovic - *NCSP OAO - CEO*

The repairs are almost completed.

Tanya Kormiltseva - *Renaissance Capital - Analyst*

And I am talking about Novorossiysk about year-on-year decline in November, probably -- you're talking maybe, I don't know, month per month.

Rado Antolovic - *NCSP OAO - CEO*

You know, when we look, okay, you have year-on-year, I see the figures here plan and the (inaudible) effect for 11 months. And I can say that our oil -- crude oil for Novorossiysk is in line of budget. So I'm referring to this, but, you know, it goes up and down.

You might have -- for example, you might have a tank which comes earlier in October or November and then you have a vessel which is delayed because he has to go to (inaudible), nearly two big tanks of 150,000. You can straight away have a difference of 300,000 to 400,000 tons easily for two vessels. So I think this might happen because of weather delay in November.

Tanya Kormiltseva - *Renaissance Capital - Analyst*

Okay. Okay. Thank you. That's clear. And my second question will be about grain. Maybe you can give us some update on your -- this year, full year 2012 target what is going to be because in 11 month '12, it seems that you have, like, 7.6 million tons of grain. And the last time we heard, your target was something like about 10 million. Maybe you can update us obviously what you expect about the volume.

Rado Antolovic - *NCSP OAO - CEO*

Well, you know, we handle grain. We have actually three ways of handling grain in Novorossiysk. As you know perhaps, one is our own dedicated facility is called (inaudible), Novorossiysk [Zenobi] Terminal, very sophisticated facility which can handle the largest vessels in Russia which carry grain, 64,000 debt rate. And we plan this to expand in the future, to handle larger up to 80,000 plus.

And then we also handle through our key site, the grain which goes to [Anky Heppe] which is all the car group, and we have so called [Naprimoey variant] which is type of grain like [Kokoris] corn and the grain which is actually imported in Israel, which I know is not allowed to go to the silos.

Now, to give you exact figure would be inappropriate. Yes, there is a decline because the crop in August and September for the year 2012, '13 is not a good crop. Is not the worst crop but it's not a good crop and there are certain limitations for export. We are doing everything to attract our

clients. We have committed clients, and certainly the figures which we focus are not -- is not going to be rich. But if I say, you know, around 7.5 million to 8 million, that is something which we're looking. But we are working very hard to help this part.

Tanya Kormiltseva - Renaissance Capital - Analyst

Yes. Okay. Thank you so much. Probably my last question will be regarding containers. As I see on your result on revenue, you have nine months 2012 growth which was quite impressive. I think it was about 20%, right? And on volumes in nine months 2012, we see just single digit growth. What are the --?

Rado Antolovic - NCSP OAO - CEO

Tanya a very simple explanation. I don't know if you are present on my previous presentation, in particular the one which we disclosed about master plan. And one of my tasks in 2011 was to review all the tariffs. And though we are regulated, still regulated, we look into all the segments of this tariffs which discusses clients, we look for the added value services which we implemented. And this was actually drive to increase our revenue per TEU. And that is the driver of our increase in revenue, total revenue for containers.

Tanya Kormiltseva - Renaissance Capital - Analyst

So it's pure tariff, right?

Rado Antolovic - NCSP OAO - CEO

Its tariff combined with growth, and also combined with type of containers we handle, you know, and the storages and [that is why] services. For example, we see a very strong increase in percent wise for the [lead] boxes for export. Previously, we exported around 25%, 24% of leaden containers. Now, we are in a top 30% -- not top 30% but mid 30%, mostly timber products are now all loaded in container, asbestos, metal.

So we -- Russian exporter is starting this containerization. This is called containerization factor. And we are working very hard on our facility to offer to our shipping clients, container shipping clients, their clients, such services.

Tanya Kormiltseva - Renaissance Capital - Analyst

And you said, anyway, that you could elaborate, what is your tariff per TEU now --?

Rado Antolovic - NCSP OAO - CEO

You know, this -- it is around -- we have comparative, I would say -- I think it's around in the mid-160.

Tanya Kormiltseva - Renaissance Capital - Analyst

Okay. Thank you very much. Thanks.

Operator

Thank you. Our next question comes from the line of Irina Stupachenko, Otkritie Capital at. Please go ahead.



Irina Stupachenko - *Otkritie Capital - Analyst*

Hello, good afternoon, sir. Thank you very much for your presentation. I have several questions. My first question is what was the bunkering volume actually in terms of -- for nine months or for the first quarter of this year?

Rado Antolovic - *NCSP OAO - CEO*

Let me come back to you with these details.

Irina Stupachenko - *Otkritie Capital - Analyst*

Okay. Okay. Then my second question also relates to volumes. As far as coal handling is concerned, so it's a new cargo for you. And what is your plan for 2013? I mean, how many tons have you contracted to handle or do you plan to handle?

Rado Antolovic - *NCSP OAO - CEO*

Can you repeat, somehow I lost you, what kind of cargo are you referring here?

Irina Stupachenko - *Otkritie Capital - Analyst*

Coal. I'm speaking about coal. My question is how many tons --.

Rado Antolovic - *NCSP OAO - CEO*

Coal? We are -- yes, I understood.

Irina Stupachenko - *Otkritie Capital - Analyst*

-- you can do in one year.

Rado Antolovic - *NCSP OAO - CEO*

I understood. So I told you that there was a month. We just got all the certificates few -- actually a month and a half ago, we are in initial stage to handle that. Our coal facilities is basically an open storage, so it's not sophisticated, but we are getting more and more new cranes, which is allowing us to handle additional cargo more efficiently.

We have locked ourselves. We are just on the final negotiation with the contract for the volume. So I cannot disclose you that. But I think I already mentioned enough when I told you how much we handle per month. So I think that is something we're looking forward.

Irina Stupachenko - *Otkritie Capital - Analyst*

Okay. So it's a sustainable -- sort of sustainable --?



Rado Antolovic - NCSP OAO - CEO

Oh, absolutely. Absolutely, and on growing pipe. But because we're negotiating now and, you know, there are different ways -- or I would say different requirements for this level of services type of vessels market which we are covering. And all this -- and storage, more of storage, the less you can handle, you know, all these things affect us. We are in the process.

By end of this month, we should be here in place all -- many, many contracts in the Company, most of them are done basically some of them are not to be done in the next week and a half, whatever time is left.

Irina Stupachenko - Otkritie Capital - Analyst

Okay. My next question is about liberalization of stevedore interiors. So we saw the announcements that the government has taken the decision and it may start already next year. So, could you please update on this process. So are you -- have you submitted some documents? And so, what's going on?

Rado Antolovic - NCSP OAO - CEO

We have worked on this issue for the last year and a half, and as a result, there is obviously finally an announcement of this. We have provided all kind of documents required for this -- on all kind of tariffs required for this. You know, how much of this tariff will be increased or change, the structure of tariffs will be changed, I give an example of two containers.

You know, today, we are -- we are pushed to charge 20 and 40 food containers the same level, which is absolutely wrong, wrong to us, wrong to clients because our cost is different. And also, for example, first of all, we're looking for restructuring our tariffs because they are wrongly structured. There are some tariffs which doesn't cover all the levels services we held. So we need to provide to the clients all level of services which we use and then it's up to the client to choose which kind of level services we would like to have in the contract.

So not necessarily clients will be seeing a big increase in tariff straight away, but what will be, it's going to be a more robust and is going to be more properly setup so that we exactly can control our cost later to the services we offer. And also, we are more flexible in case if the economic condition do not influence, you know, we are cautious, optimistically cautious that the situation would be the same.

Probably it was next year, so we prepare ourselves in the next year budget in this respect. And if something happened if we did see that we are not competitive, we first increase the level of services. But if we see that the cargo base can be low and we are just a few dollars not in line with our competitors, then we must do it fast. And, you know, do something to keep this cargo with us.

So these are the elements we are looking at the moment. But in long term, yes, the tariffs will increase because our level of services, again, I'm repeating myself, is increasing. You heard me that we are not only ordering, we already have received quite few cranes, new cranes.

In the general terminal, we have many sophisticated facilities like grain, Mazut, which you heard and all which is linked to the pipe but we are actively moving to improve our technology in container terminal and, general cargo terminal. You heard about coal, you heard about cement, you heard that the timber is increasing and all that requires good technology, good systems and motivated labor to increase our performance. Stevedoring performance has increased by over 10% -- probably close to 11% on average this year.

And we plan to do it even better next year. We commit to our clients and that's why what we're doing, when we talk to clients, we're looking into slight increase, more volumes. There is some discount because volumes mean that you can be more operational efficient, economy of scale. That's when you see that you need to, you know, plan more and have pockets of labor servicing certain kind of cargo, and that increase your cost.

All these things are taking in elements, but in long term, yes, our tariff will increase as our labor service will increase and we will not be found by regulations for every cent or every dollar we do it.



Irina Stupachenko - *Otkritie Capital - Analyst*

Okay. So can we expect that this regulation of tariffs will start already from the beginning of the next year or is it some more distant deadline for middle of the year, second quarter?

Rado Antolovic - *NCSP OAO - CEO*

We are ready to start as soon as possible. Soon everything is fully approved and, you know, announcement is an announcement, but they need to follow by very clear definition, very clear, so-called [commercial] pre cost that you can do something. We are ready on everything. We discuss with clients on this issue and we know if this doesn't happen this way, this happen, we have this way.

Irina Stupachenko - *Otkritie Capital - Analyst*

Okay. But you do not know when these pre costs will be signed, right?

Rado Antolovic - *NCSP OAO - CEO*

I would say that we should see that in the first quarter next year. I would say like that. But this is not what -- we forecast this but let's see what happen.

Irina Stupachenko - *Otkritie Capital - Analyst*

Okay. Okay.

Rado Antolovic - *NCSP OAO - CEO*

And obviously think some of it. But, you know, it's maybe regulated for some tariffs. They maybe not regulated for some tariffs. We are in a continuous discussion with the government. We presented all the necessary documentation. We know where we -- what we do, where we do and this might take some, you know, detailed analysis by the government to finally say, okay, go ahead.

Irina Stupachenko - *Otkritie Capital - Analyst*

Okay. Okay. And so my last question is about your CFO, so could you please clarify to us what happened with Anton? And do you have any candidates for CFO position?

Rado Antolovic - *NCSP OAO - CEO*

Thank you very much. I mean, this is a bit of a question, which is -- for somebody hard to answer. I will answer to you. As you know, I am kind of acting -- responsible for that, though I'm not, you know, professional CFO but I'm also taking that obligation through my experience and I'm doing that.

I have very good team. And let me assure you that our financial department is, you know, are working on time, everything which need to be delivered, as you can see today, delivered. As for Anton, our former CFO, he has done a very good job but he needed -- he came to conclusion that he would like to proceed his future endeavor in a different direction.



Whatever that direction is, I let him to talk. I'm not obliged to say this. And really frankly speaking, you know, people come, people go unfortunately. I like stability myself. I am with the Company for two years. I'm here in good or bad times, and I can talk about myself. And that is all I can say about our future.

What about candidates? Of course, we are looking, when we get the right candidate, a stable candidate for long term, we will be very happy to announce to you. At the moment, I have a good team, excellent team and I'm confident with this team, we can continue as long as we don't find a good replacement.

Irina Stupachenko - *Otkritie Capital - Analyst*

Thank you very much.

Operator

Thank you. Our next question comes from the line of Sergey Komaev, VTB Capital. Please go ahead.

Sergey Komaev - *VTB Capital - Analyst*

Yes, good evening. Thank you for the presentation. I would like two questions. First one on capital expenditures. What is your expectation for the CapEx for 2012 and 2013? Will some of the investments roll over to next year? These [initiatives] in the national (inaudible) schedule due to the flood at this time? Also, could you please provide an update on the previous plans to expand the grain terminal in 2013?

Rado Antolovic - *NCSP OAO - CEO*

Let me ask you one by one. First, our CapEx in 2012, you see what we do, we held certain direction and we had announced those directions when we had announced master plan. Any investment has to help -- first of all, has to be in area which we have a long-term committed cargo. Number one, we have to utilize existing facility to its maximum for at least two consecutive years.

Number three, we need to make sure that the investment in that facility makes the return on investment in no longer than seven years, preferably five years. We are very aggressive on that. And also for 2012 to ask you our CapEx is in vicinity of slightly more than \$100 million, probably \$120 million. And we invested exactly in the facilities which are going to give us (inaudible). One of that is finishing Mazut Terminal, in Novorossiysk you know.

The difference by -- from barges to that was mostly we suppose to purchase some land. I mentioned that before in this press conferences in Novorossiysk. And once we did very thorough due diligence by our professionals, we came to conclusion that this land is not really of that value for us. I'm repeating and this is not the right time to do that because it doesn't give us immediate return and would take us more investment for that and much better project, which have a cargo based rate, and that's where we're focusing.

As of year 2013, we are still in final touches of the budget to be approved by the board, but we foresee -- you know, we have two ways of doing things. We have our priority projects and all together could be around \$160 million to \$200 million, it depends how it would go. But more so this project are something to complete like IPP, the diesel terminal here, like, [Baltic] container terminal, which is landing to capacity and we help potential clients to bring new volumes.

And some new things like purchasing of claims, so we -- a CapEx which is needed immediately, we will commit to that to get more equipment and more because we have cargo, we need to increase our services further to be the most competitor, not just in Russia but in the region and not just in the region also, you know, for certain bay of cargo handling.



And then our other projects which are under further investigation and negotiating with client which we believe should be take-or-pay basis in the long term.

And then, is implementation of this CapEx is stretched like that to see how we're going to perform in first quarter, what is going to happen in the market, and in order to say, okay, market is normal, stable. We are doing well. Let's proceed. Oh, market is not as good. We need cash for reasons you well know and I well know. Let's slow down with this CapEx. It's not immediately needed because there is no cargo for that, and let's focus only part of the CapEx, which is immediately to improve our facilities while the cargo is with us.

In the long-term master plan has not changed, in the long-term we're committed, only changed the remittance. I announced that in the beginning of the year in March. Our master plan is the living organism. And actually, we are reviewing it at the beginning of the year, next year.

Hello?

Sergey Komaev - VTB Capital - Analyst

I see. Thank you. But once again, can you please provide an update on your plans and explain the grain terminal in 2013?

Rado Antolovic - NCSP OAO - CEO

Grain terminal, in 2013 we shall in place projects and everything how to expand it. But, you know, we would like to see what is going to happen in the crop 2013, '14 because our expansion can be rather fast.

We need to six to seven months of expanding. And what we have done already in this grain terminal, we demonstrate it to us. And I'm very proud of their team in grain terminal that the technical capacities of the existing grain terminal interface 3.7 million. But we demonstrated we can handle the sufficiency and bigger party up to 6 million.

If you look towards half of the year, we handled 3 million ton on this terminal. So, which means pro rata 6 million per year. And this is basically much more than anybody had thought. What we need to do there is we have the discussion with the buyers or exporters of this cargo to see how to further extend the capacity alongside to handle larger resource. And to do that, we need to have a project which we're doing next year for all the Novorossiysk to see what dredging that is required by [national] board, how is the best positioning, what underwater technical works requires to make exact figures in the project. And then once we have this, we will decide to when and how to proceed.

Sergey Komaev - VTB Capital - Analyst

I see. Thanks. And my next question is on your expectations for the volume, grain for 2013 and also on ferrous metal and iron ore following (inaudible) [PS].

Rado Antolovic - NCSP OAO - CEO

Well, you know, when you do the budget for next year and, you know, this is a bit premature to discuss now. You always have to be prudent. You always have to do special when you have crop in the middle of the year. You know, that remaining export for grain is rather limited. Then you need to have kind of mid statistics to come to some conclusions based on information provided by independent parties. What they -- my forecast will be the crop for the second year because mostly our export for grain is focused on the second year because they are limited cargo.

However, I'm pleased to tell you that we are actively working for Uzbekistan, Kazakhstan to see some other volumes, and actually we are also handling rice in our facility now to compensate as much as they compensate for the limited export of grain.

Sergey Komaev - VTB Capital - Analyst

And how much you can substitute with that?

Rado Antolovic - NCSP OAO - CEO

Well, I cannot tell you this moment. For the budget, it's not approved and I think it's inappropriate to give you these figures now.

Sergey Komaev - VTB Capital - Analyst

But --.

Rado Antolovic - NCSP OAO - CEO

It's too much thinking forward. Speculation, let me -- let us first approve the budget and then next announcement we have 12 months, I'll be able to give you more information?

Sergey Komaev - VTB Capital - Analyst

I see. But just -- to tell that we know that the production of cost is probably high in (inaudible). So I think we should expect some -- at least some decline for grain in 2013. I think -- I don't know how much you can substitute, but I suppose that according to our estimate, this is going to be not less than 15% to 20% volumes in 2012?

Rado Antolovic - NCSP OAO - CEO

Well, you know, again, I'm repeating to you, I'm sorry I try to be more let's call clear. Firstly, we share volumes and why I'm saying we cannot deliver you, I think, it's inappropriate because we are in negotiation with client today to commit ourselves. Though those clients don't know what is the -- what will be the crop, so we don't know what will be the crop either. But if the crop is normal, nothing special, we have the figures. And, yes, there is some decline, I agree.

But our big advantage is that we are number one in respect to [gas energy]. We are number one facility in respect to level of services. We do everything consolidated together with all the clients, big parties and big results, which reduces the freight rate, ocean freight which is the biggest margin of the cost.

And for that reason, when you have 64,000 debt reversals, today nobody can compete with that in Russian debt. And this gives us a big advantage to people and also we are very disciplined and organized with delivery on rail and cars, sorry trucks, we have a special base located in front of the city, so we don't -- and everything is delivered according to the time windows.

So there is a lot of things we've done to reduce exporters cost both on the road, rail side and both of course the most biggest segment, ocean. So this gives us an advantage and our contracts are signed for a quarterly basis in advance, or category in advance in sense of quarters. But we also discuss the quarters by quarter by end of the year.

Plus, we are, you know, we open to our clients and we are actively working with new market, as I've mentioned to you Uzbekistan, Kazakhstan to attract new volumes in particular for the first year of 2013. And overall in Russia, of course, there's decline. No question asked. But how much of the decline will affect us, this is something which I will be able to tell only when I -- we sign all the agreements.



Sergey Komaev - VTB Capital - Analyst

I see. Thank you very much. And can you also comment please on the patients for ferrous metal and iron ore? As we saw this year the ferrous metal substituted the falling volumes of iron ore --.

Rado Antolovic - NCSP OAO - CEO

Very simple actually. Again, perhaps to some extent, I'm repeating myself. But, you know, if -- you always need to look the two freight rate not just your stevedoring charges. And what declines want is especially in the metals industry, they're always dealing with the trading, and they want the vessels to arrive, the vessels comes alongside and is served. They cannot afford today the vessel to be at Anchorage, so we have a lot of berth facilities. We have many cranes and, plus, we have a very efficient new cranes which came aligned this year and are coming new one next year.

We have forecasted another five, plus another four, minimum nine new big ship to shore cranes to handle this kind of cargo and also support your equipment in the yard, risk takers, big forklift, magnets, rail line cranes. And this provide us with able to handle for particular clients at the same time before we did three, maybe four vessels, now we can handle up to seven vessels any time.

And our labor is becoming more flexible. We reward our labor. We motivate. So we produce unprecedented level of services which are to benefit our clients and nobody else could do that in Russia, neither in Ukrania so that's why it's our increased.

And we are looking ourself for next year in very good agreement with these clients, without nominating them on the same way of thinking. As I told you before, there are sliding scaled tariffs, level of services, committed, dedicated level of services, and so on.

And this is about the iron metal, ferrous metals. When I talk iron ore, I mentioned already that we lost it to Ukrania, quite a bit of chunk. We knew this is happening because of larger vessels. We cannot handle long site. They're handling those vessels at in the Anchorage. We know that once we can handle these vessels, the same vessel security Anchorage will be more competitive because Anchorage is only 1.5 million miles outside break waters here.

And we also -- our rail freight is a little over than going to Ukrania, and we will again have few [berth] to handle these vessels while they come alongside and then when they load up to 80,000 they go to Anchorage. And already, the barges -- the large barges or small -- small [barges] will be loaded to come to the Anchorage to find a load, completed loading these large vessels.

So this is basically being approved by the authorities port [Caps] and their (inaudible) board. And now we are in search of this kind of barges and floating cranes to make sure that we are ready. And we focus to start sometime in midyear next year. I hope I answered all your questions.

Operator

Thank you. Ladies and gentlemen, that concludes our question and answer session. I will hand you back to Rado Antolovic for any closing comments he might have.

Rado Antolovic - NCSP OAO - CEO

Ladies and gentlemen, I would just like to summarize few things. Our utmost focus goes to not being just diversify which provide us a very strong and flexible platform for any kind of environment in sense of economic environment. Globally, we have demonstrated that on and on and particularly this year when we were stuck by the railways, when we lost some cargo base and we recovered by ferrous metals, we recovered by coal.

We have in place time to come new type of cargo, new level services which are coming to us. I cannot disclose this time but I mentioned about what we're doing for fertilizer, for iron ore on the Anchorage. But the big complement goes to our labor force and our middle management and



management which has put a lot of efforts in the last two years to improve the communication, improve the processes, improve the way of working together.

We also, as you can see, in our cost, we have substantially increase the level of salaries. And those salaries are actually segmented in the way that we -- if there is a cargo, the salaries has increased because it's based on the tariffs which motivates our labors. All our middle management receives on KPIs and we are now working to put also our labor on KPIs. Actually, they are in rail performance. We are increasing our performance. It's locked in our agreement with the clients.

And last but not least, we cannot perform a few dollar if you know how sophisticated other strong and robust efficient equipment, we are buying it, it's coming online, we are buying more next year to come. We believe this is the critical mass. We keep organizing our placing in the yard to be more efficient. We demonstrate today whether we can turn no [raggings] per day than any time in the past and we are working very close with all institutions and have all the players. And we are open to our clients.

We got quite few new clients this year, and I'm confident, actually, today we got another new clients which I'm announcing who is the client and we are confident that this trend will continue. We work for the best, but be prepared for the worst.

Thank you very much.

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