

**NCSP H1 Results**  
**Wednesday, 28th September 2011**  
**14:00 Hrs UK time**  
Chaired by Andrei Bubnov

**Andrei Bubnov**

Hi everyone thanks a lot for dialling into the NCSP first half results call. Hopefully the technology works and everyone has been able to download the presentation, which is available on our website. Plus everyone has seen our press release, which was disclosed over an hour ago, plus our financials. Let me start today by going through the presentation which works together with the press release. And we'll structure the conversation accordingly and then I'll pass the floor on to Q&A, as with previous calls we are going to keep this in English. If you ask a question in Russian I will translate and respond in English.

So let me start with the presentation. We start with operating results, obviously this should not be news for anyone because we disclose them on a monthly basis. Nevertheless we think it's important to read our financial results in the context of operations. Therefore we start with operations and turn immediately to slide four where we give a breakdown of developments in each of our most important cargoes. We start with oil and we see a reduction of 0.52 million tons in the first two quarters of 2011. This is 0.9% reduction across the group. We are explaining this by bad weather conditions in January and February 2011, both in Primorsk and Novorossiysk. We also saw export duty reduction by \$17 per ton starting from July. That's why certain clients decided to defer their volumes into July and August, plus obviously we see a general trend with delay of introduction of new upstream capacities, especially in Eastern Siberia, which are supposed to supply the Chinese and the ESPO pipeline.

If we turn to oil products we see an increase of 2.3 million tons or 33% across the group versus first half 2010. This is explained by the start of transshipment of diesel in PTP, this gives three million tons. And we also saw the trend of clients preferring to delay or defer volumes into July and August because of reductions in export duty, in this case \$11.4 per ton starting from July.

Turning on to page five, we'll look at containers. Containers continue to be one of the main growth drivers for the group. We saw an increase of 0.8 million tons, which translates into 100,000 TEUs which gives 54% increase versus first half of 2010. This is explained by general increase of container cargo turnover and our efforts of increasing existing container handling capacities in Novorossiysk and Baltiysk.

We turn to grain. Obviously we suffered from grain export ban, what you see on the slide number five in the right hand side chart is marginal volumes of grain from Kazakhstan. We saw 98% reduction vs the same period last year subject to these transit amounts from Kazakhstan. And you all saw that starting from July transshipments of grain resumed. We are running at record pace and this is another bright spot. We handled over 800,000 in July and over 980,000 tons in August. And August is an all-time record month for NCSP.

If we go to page six, iron ore and ore concentrate, this is another steadily growing cargo for us. We are working with key producers of iron ore and ore concentrate in Russia to align our interests. I understand this is a rather broad explanation but this is what it is in reality. We are trying to attract volumes that go through Ukraine and other ports of Russia to Novorossiysk. In order to do that we have started to load larger deadweight vessels which is essential for the stevedoring business as a whole and for iron ore concentrate handling in particular.

And we look at ferrous metals and timber, we decided to combine them because they demonstrate similar dynamics and they more or less suffered from the same events. Political situation in Northern Africa and the Middle East, which is the largest market for these two types of cargo - that was the key driver for reduction for ferrous metals and timber. And if you go into numbers ferrous metals - minus 0.67 million tons or 15%, timber minus 2.9 million tons or minus 48%.

Going into financial performance I'm going to skip slide eight, go directly to slide nine which is something we have not shown officially before. And we give the reconciliation of revenue first half 2010 into 2011. You see PTP's \$122.9 million of revenue. I can't say much more about that, this is objective. We see a reduction in grain, again, enough said about that \$61.6 million. Volumes accounts for \$5.7 million of increase. That's again the bright spot and that's what we would like to draw to your attention to. Despite absence of grain in Novorossiysk the revenue increased. Revenue increased due to volumes increase, which are substituting the fall in grain plus the tariffs of \$2.5 million. We have not raised tariffs in first half 2011, while we expect tariff increase further down the year. This is what we say in our press release, this is the change in cargo mix and better use of our technology. If you asked me how we come to this number this is the effect of separation, which we started doing this year. Separation of cargo plus the change in cargo mix, we are assigning different classification to the same cargoes, which transfers them from one bucket into the other, which runs at a different tariff. So while headline tariff numbers have not changed in the first half of '11 the difference in cargo mix and, again, better use of our technology, additional services, result in this number, 2.6 million.

Bunkering, this is increase in revenue, this is the same trend as we saw in the first quarter of 2011. We are increasing volumes of bunkering operations, we are therefore increasing revenue from bunkering operations, and this is. -we're going to come again to that further down the slide - this is increasing the cost of purchased fuel. This is impacting the margin of the group as a whole but there is a reason for that. And thus adjusted for other revenues we come a number of \$494 million revenue for first half of 2011. Our point again that we would like to make is that if you take out PTP, grain and bunkering, the NCSP Group still gives an increase in revenue, which is very important for us because this is the true effectiveness, basically, of the operating and management team on the ground.

If we go to slide ten, cost of services, we are giving the breakdown and explanation to the largest line items, in terms of change both in percentage and in absolute terms. And we start with bunkering services. As I said, we are increasing volumes of bunkering services which translate into increased revenue from bunkering operations. This is a competitive market in Novorossiysk, we are gaining market share, and we are lining up to potentially increase margins of this business in Novorossiysk going forward. If we talk about numbers we saw revenue from bunkering services increase by 79.8 million to 114.6 million, which

in its turn leads to a 78 million increase in purchase of bunker fuel. This 78 million sits in 81.7 million, this is the number that you see in our financials in the breakdown of cost of services in fuel.

This number works together with the following slide, slide number 11, where we show increase in margin from bunkering services of \$1.7 million. I already mentioned diesel transshipment in Primorsk in PTP. We, in January 2011, started renting two berths for transshipment of diesel in addition to the two berths that have been already under rent agreements for transshipment of oil. The rent payment amounted to \$15.9 million for the six months of 2011, therefore as soon as we've started renting these two new berths the margin for PTP and obviously margins for the group as a whole were reduced by this number. What's good about that is the rent payment is fixed, which positions PTP well ahead of the potential increase in volumes and potential increase in tariffs for transshipment of diesel.

Moving further down, personnel expenses, we are saying that 85% of the total increase in personnel costs was attributed to consolidation of PTP, the rest is explained by the new collective agreements signed with NCSP employees. We've already mentioned in previous calls and obviously inflation factor also is present and has its own impact on this number. What we are saying is that the new collective agreement and inflation combined contributed less than 15% of the total increase in personnel expenses. And also another item which relates to selling general and administrative expenses, this is the reverse of a previously recorded loss on advances for our property plant and equipment of \$8.5 million, which obviously impacts the base on which we are calculating the change vs 2010 numbers.

We move into reconciliation of EBITDA, we see the \$4.1 million increase in revenue, this is net of bunkering and net of PTP consolidation. Again, this is to highlight that we are actually increasing revenue from our operations, our traditional operations. You see the cost of sales change of minus \$22 million. This includes the effect of one off charge in 2010. So make an adjustment for that.

Bunkering margin of \$1.7 million, already I think enough said about that. Next item is grain. We lost or better said we did not earn approximately \$57 million in EBITDA from grain, this is the true effect of the export ban. And you see PTP EBITDA of \$79.5 million, which altogether translates into \$243 million of EBITDA for first half of 2011.

Now, again, if we talk about highlights for the first half. I'd like to repeat that as a result of the grain export ban we lost one of the most profitable types of cargo for NCSP. We saw difficult weather conditions in January and February 2011. Our timber and ferrous metals transshipment was impacted by political instability in Middle East and Northern Africa. Plus we are living in increased general market volatility. But despite all that the Group managed to demonstrate stable turnover. First of all thanks to the growth reported across a number of cargoes, which compensated for the shortfall in grain. And those are iron ore, mineral fertilizers, sugar, cement and others. Plus containers continue to demonstrate rapid growth, plus 50% in the first half of 2011, plus diesel transshipment in Primorsk which resulted in an increase in oil products transshipment across the group by 33%. In addition we saw a 1.4% increase in revenue after adjustment for PTP consolidation bunkering and grain export ban. We saw stabilised quarter on quarter margins and we are looking forward into the third quarter. With that said I have run out of slides on my end and I would like to open the floor for Q&A. Operator.

## Questions and answers

*Nadia Timokhova – JPM Moscow*

*The question from Nadia Timokhova relates to the new terminal, the new fuel oil terminal in Novorossiysk that we are planning to launch shortly.*

And the answer is yes, the project is running according to schedule. We are starting to work in the test mode with a view to go into commercial exploitation of the terminal, starting from early 2012. In terms of tariffs the tariff is broken down into two parts, the fuel terminal does not operate its own berth. They work together with NCSP's berth number four. Now the tariff that NCSP charges for the usage of this berth is \$2.7 per ton and the stevedoring tariff for the fuel terminal itself, is \$11.8 per ton.

*Stella Cridge – Barclays, London*

*Good afternoon. I was just wondering if you could outline your plans to address the 2012 Eurobond maturity?*

The plans remain the same as previously stated. It matures in May 2012, 300 million, we're planning to partially refinance that, taken into consideration the capex program of the company. The exact amount of refinancing is to be determined based on the budgeting process which we are in the process of, as of today.

*Nadia Timokhova – JPM Morgan*

*Now the question relates to our container terminals and container capacity, handling capacities. The question was are we running at full capacity or do we have further scope to improve or increase the turnover? And about our capex plans for containers.*

Now breaking down this question, and it's unfortunate that Rado Antolovich is not on the call with us today, I'm saying that there is a definite demand for containers and demand is increasing in the country and in the Black Sea basin and in the port of Novorossiysk and in BSK, which is our container terminal in the Baltic Sea Basin. We should take them separately. In BSK there is a running capex program which is intended to increase the capacity from 200,000 currently to 400,000 TEUs. We are in the progress of implementing this program. We are mentioning in the press release that there is a slight delay. This delay is caused by the land plot, which we expected to receive, to be able to start renting earlier this year, and therefore this is the trigger for the launch of the second stage of development of BSK. Nevertheless this is happening as we speak, therefore we are starting to basically follow the capex schedule in BSK. In Novorossiysk there are two terminals, as you know, NLE and NCSP. Now the annualised container volumes are approaching the passport capacity. You should not focus entirely on the passport capacity of these terminals because by increasing the effectiveness of the usage of the land plots that we have available and technology the factual turnover can surpass the installed passport capacity of the terminals. Now your first question relates to the 1.2 million, if I am not mistaken, to the 1.2 million TEU new container terminals that NCSP had previously announced. You are correct, we are delaying this project because we believe we have found a cheaper solution. Because if

you remember, and we discussed this together, when this project started – the total budget was around \$700 million for 1.2 million TEUs. Now that was back in '08 or '07 when the idea first started, if I'm not mistaken right now it could exceed \$1 billion, which is expensive. We are starting with increasing container handling capacities at NLE from 300,000 to 500,000 TEUs. This is already a project in realisation stage. Once we use the newly added capacity at NLE, we're going to turn to the next phase of our container handling development, which we're going to speak about separately. Did I answer your question?

*The question relates to the two million ton increase in grain handling*

And the answer is this project continues to be in the budget, in the plan for realisation in our capex program. We are in the process of confirming business plans and the project cost program with a view to launch the project next year. This is going to take us – the completion of the project is scheduled for 2013

*The question relates to the FX composition of our revenue. If you take...*

The answer is pretty simple, Primorsk receives revenue in Roubles and NCSP tariffs are established in Dollars, if you make that calculation that will give you an approximate number.

**Yulia Gerasimova** – GS Moscow

*Thank you. I will speak in English. My question relates to the margin expectations. So we understand that the margins in the second half 2011 should play catch up given that you expected a higher volume given that the grain transshipment is resumed. But it would be very helpful just to get your view of how much, how exactly could be the margin for the second half and for the full year, if possible. Thank you.*

I will not be able to give you the exact EBITDA number for our 2011 budget but you partially answered your own question. We expect obviously the grain EBITDA to start pumping up the EBITDA margin for the group as a whole. As you know, grain, EBITDA at these volumes could exceed 80%. You can make calculations based on that. Plus we expect certain tariff increases until the end of the year, which are also going to contribute to the EBITDA margin. Now, as usual, with tariffs, as we are a regulated entity it's always tough to speak and to give out forecasts because we like and we prefer to speak about them as they come due. And speak about factual numbers as opposed to forecasts because it is important that we don't miss.

**Kevin Whyte** – VTB Capital, Moscow

*Hello, I'd like to ask you about the progress on the railroad approaching Primorsk.*

Kevin, hi. This is, as you know, a very complex question and you may have seen a press announcement about a week ago about the fact that the ministry of finance declared that it will introduce into the federal budget of 2012 a direct contribution into the charter capital of Russian Railways and in the amount of 29 billion Roubles. Out of that number 21 billion will go for the Sochi Olympics and 7 billion, if I'm not mistaken, was the number that was allocated to Primorsk. Now, as you know, the situation there is complex. We

break it down into two radials, the lower and the upper. Upper radial is, we believe, and we are monitoring the situation obviously, we see work being done at the moment, which was discussed in the 2006 decree by the government and which was in the Russian Railways budget before. We believe the new announcement is exactly what we have been looking for and anticipating. This is definitely a good token for us, this is definitely a sign that we are heading in the right direction. Obviously we have no control over this process, this is not a dead certain event, this is a part of the federal budget, which has not been reviewed yet and even if it is approved we have little control over how this will be implemented by Russian Railways. If we talk about the lower radial going from Ruchy through Yermilovo into Primorsk and further on to Kamenogorsk we are finishing construction of our rail which will connect our port infrastructure to the main railroad, this is only 500 metres of rail. This alone will not resolve the bottleneck because we can receive only roughly a million tons by rail through, from Ruchi, now we have another 3.3 million capacity, this is from the upper radial. This is definitely also not enough and not in line with our plans to increase oil product transshipment and other types of cargo to Primorsk. And we believe the declared number and the declared basic intention to use this seven billion Roubles is enough to unlock the bottleneck and to resolve the current issues with rail in Primorsk. So we will continue to be carefully watching the situation, our shareholders are definitely involved, they are helping us with building an effective dialogue with Russian Railways so let's see the development. I think that the next sign you should be looking for the federal budget for 2012, which has a line item of direct target increase for Russian Railways charter capital.

*Dedicated to the construction of the lower radial. And for the upper radials?*

I don't think it will specify, I think it will have the...again, I don't want to speculate.

*Right, but that's like our understanding.*

By that we will understand what is being meant.

*So to recap what you...the 500 metres that you are building you're saying that those could ensure 4.3 million tons?*

Again, this situation is complex, I don't think you should be adding anything together because this problem needs to be resolved as a whole and as a complex. I try to steer you away from making that calculation that comes out to 4.3 million ton increase in Primorsk.

*I understand. All right, thank you very much then.*

**Alexandra Serova** – Renaissance, Moscow

*Good afternoon ladies and gentlemen. I have a question on your bunkering, so you said you currently gained a market share, maybe you could elaborate a bit more about your current market share and your prospects in this business. How are you expecting to grow further? Thank you.*

Sure. This is still a variable, right. What I can say is that roughly we've gone from 20% to 40% of market share in Novorossiysk. We are capturing market share, this is a competitive market as we said before, and we expect once the competition or the first stage of increase

in bunkering services ends we will be in a good position to increase the marginality of the business. Again, this is all conditional because this is a competitive market.

*What are your main competitors there?*

There are a number of service providers in the port of Novorossiysk.

*Maybe you could give an update on your grain volumes because on the previous call, if I'm not mistaken, you were targeting about now you are showing very good volumes in July and August. Maybe you have an update on this number.*

Yes, first of all, I remember on the last call we said we have two million tons budgeted, but three million as a base case. Be careful about that number because we've always said that this is the volume that goes through our own silos. This is where we are able to charge 600 Roubles per ton tariff because most of it goes for storage in our silos. But we also have two other technologies that we use, one is the elevator that goes to one of the berths in NCSP where we are charging, again, only the stevedore tariff but storage tariff is being captured by NKHP. So that's a less profitable business for us. Plus we do direct handling, which is the least profitable business because it is done without formation of ship cargo parties, and we are not using the silos for that. So altogether this brings you to the numbers that we disclose on the operating side. While the three million tons what we declared will go through the grain terminal, through our own silos for the year. If we continue to be effective we'll exceed that number but to give it out to the market right now would not be prudent.

*All right, understood, thank you so much.*

***Ekaterina Andreyanova – RMG Securities, Moscow***

*The question relates to Ust-Luga). But there are two sides, which is going to be a competitor for the same volumes with our terminal Primorsk.*

And the answer to that is we are working under forecasts provided to us by Transneft. Right now the forecasts don't show reduction in the volumes, however we must be prepared, and we understand that the new export capacities are coming on stream. Production is not growing. The two terminals will be competing for the same volumes of oil. In addition, I mentioned that in addition to the west bound route for Russian oil from Western Siberia we see now an east bound route from Western Siberia for the same oil because of delay in new upstream oil producing capacities that were supposed to be launched by the time the pipelines came on stream. So on the one hand we have guidance from Transneft, but on the other, we are making an adjustment for ourselves, not budgeted but in our minds, that this amount can be different. I'm not going to speculate about those numbers because it's only our own opinion.

I think we give enough detail on page 11 of the presentation, if you look. The total increase of fuel purchases across the group in the first half of 2011 is 81.7 million. Of which 78 million comes from bunker fuel, this is bunkering. The rest is as you said, PTP consolidation plus inflation.

I don't think that they can continue to grow at the same pace that they have grown over the course of the year because there is a limit to any consolidation that we can realistically achieve in Primorsk and Novorossiysk. Therefore I think for your forecast you can extend or annualise the numbers that you see for the first half of 2011. And, as I said, you could expect increase in the marginality of the business because that's the whole point we're why doing this.

### **Concluding comments**

Thanks a lot for finding the time, and dialling into our conference call. I think our message was delivered and received. We have disclosed more information than we have previously done. This is a general trend for us, we appreciate your time, we look forward to receiving calls with additional follow up questions. You know how to find me. We have an addition, head of IR, who is Mikhail Grigoriev, you will see him on the website, plus his address is here in the back of the presentation, last line, and you can also channel your questions through to him. We look forward to being in touch once again, in three months.