

**NCSP Q3 2011 IFRS Results Conference Call**  
**Wednesday, 21<sup>st</sup> December 2011**  
**14:00 Hrs UK time**  
**Chaired by Andrei Bubnov**  
**Deputy CEO for Finance and Economics**

**Andrei Bubnov**

Hi everyone, thanks for dialling into our nine months results call. We're going to start with the presentation, which you can find and download on our website. Then, after we're finished with the presentation, we'll open the floor up for questions.

So let's start, slide two, with key highlights: total cargo turnover increased by 1% during nine months of 2011. Just to note that you have the benefit of two extra months of operating statistics, which we also disclose on our website. But for comparison purposes we are reporting nine months. To continue, grain export ban removal obviously was the biggest driver in terms of operational and financial results plus other point of note are stable oil handling volumes. You see only 0.9% contraction year-on-year and you will see some interesting statistics further down the presentation.

We saw growth in containers, we saw growth in oil products, iron ore and ore concentrate, mineral fertilisers, sugar and non-ferrous metals. We saw reduction for ferrous metals and timber; this is the same trend as we reported based on six months results. In terms of financial performance you saw a considerable increase in revenue and marginality, quarter-on-quarter; in Q3 11 the revenue was \$288 million, which represents a 10% increase versus Q2 11, and 57% for the nine months of 2011 versus nine months of 2010. However, we understand that nine-month comparison based on IFRS is not fully representative because of the effect of PTP consolidation.

Another bright spot for the quarter was the decrease in cost of service, down 8% and SG&A down 17% quarter-on-quarter. Q3 EBITDA of 161 million, which is a 28% increase versus second quarter of 2011 and 17% versus nine months. Very important to note, EBITDA margin, which jumped from 48% in the second quarter to 55.8% in the third quarter, and now we are averaging 51.6% for the nine months of 2011. We incurred 150 million foreign exchange loss from devaluation of the rouble, which impacts our net income plus there was another accounting change for 40 million; it's the effect of translation to presentation currency.

Gradual decrease in leverage: we saw net debt in Q3 decrease by 74 million or 2.9%; this is the effect of scheduled amortisation plus we prepaid one loan from Raiffeisenbank, plus there is increase in the accumulated cash. So our LTM net debt/EBITDA decreased to 5.3X from 6.2X as of 30<sup>th</sup> June.

Then you will see that our operating cash flow is steadily increasing throughout the year. In the third quarter it's increased by 22% versus the second quarter to almost 200 million.

Let's move on to operating results because, in the end, this is what drives our financial

performance. On slide number four you see total cargo handling volumes in January-September 2011 of 117 million tons, which is a 1% increase year-on-year. If we break it down into quarters then you see a quarter-on-quarter increase of 2.1% and 6% increase versus third quarter of 2010. We also give, bottom right hand side, a chart showing dynamics of the year-on-year growth rate and based on Q1 results we saw a decrease of 4.1%. In third quarter of 2011 we see a 6% increase.

Moving on to largest items in our total cargo turnover. Slide five, oil: handling volumes are stable, again only 0.9% contraction year-on-year despite a drop in total crude oil export volumes by 6.4%. And another interesting statistic is -6.6% for total oil going through Russian ports. So we are outperforming the market and again you have two more months of statistics, based on January-November numbers. The result is only 0.1% below the 2010 schedule so we are catching up.

Slide number six, oil products: again, interesting dynamics in the market. We saw an increase in production but an increase in domestic consumption as well, which led to a decrease in exports by 3.2%. And our statistics here look favourable because you see a growth of 35.8%; this is the effect of diesel, which we started to handle in PTP.

Moving on to containers, slide seven, containers and grain: these remain our major growth drivers. On containers, nine months increase versus nine months of 2010 is 37.4. We know that we are growing slightly faster than the market plus we give interesting statistics on the breakdown between our terminals, which we never did before. And for your benefit we are starting to disclose that as well.

Grain: obviously, as I mentioned at the beginning, grain export ban removal, starting from 1<sup>st</sup> July, was a major event for us. We posted record volumes in the third quarter, almost 3 million tons, which you see on the right hand chart. This is an all-time record for NCSP and we continue to post healthy numbers, which you see for October-November, and we are gaining on 2011 schedule. We are expecting to minimize the gap versus 2010. For nine months it's a 47% decrease; for 11 months it's already -17% decrease. But again this spread is going to be narrowed. .

Moving on to slide eight, where we look at iron ore and timber: in iron ore we saw an increase of 92% across the Group, versus nine months of 2010. This is primarily due to higher deadweight ships at berth; this is a key variable for this market because it allows us to grow for next year by contracting with key suppliers of iron ore. And you see again statistics, a comparison vis-à-vis total Russian exports. So our market share is growing from 8.7% in nine months of 2010 to 12.5% in 2011.

Timber: it's been a difficult market throughout the year. It's impacted by political instability in Northern Africa and the Middle East; this is the major market for Russian timber producers. But the effect of this cargo is marginal on total handling volumes of the Group.

Moving on to slide nine, ferrous metals: similar story to timber. It's been a difficult market for the year and we are down 12.8% for the nine months. This is generally in line with the market and this decrease is subject to supply/demand dynamics in the market and the market is difficult for these types of cargoes. For non-ferrous metals we saw an increase in the nine months of 2011. It's marginal, only 2/100<sup>ths</sup> of a ton, which is 2.8% for the year.

This is much better than total Russian exports, which is down -8.2% and better than exports via Russian seaports, which is down -2.7%.

Now I'd like to move to financials. On slide 11 you see summary statistics; I'm not going to go and read line by line but things that are important to note, and I will come back to them further down the presentation, is EBITDA marginality, 55.8% in the third quarter, is a very good result for us. And a big increase versus 48.1% in the second quarter of 2011. Decrease in net debt of 74 million or 2.9% is also an important factor for us.

On slide 12 for your benefit we are giving revenue reconciliation, nine months of 2010 versus nine months of 2011, moving from 499 million in 2010. PTP acquisition gave us 188 million; grain, -30 million, obviously this is effect of only one operational quarter in 2011 versus two and a half quarters in 2010. Stevedoring services, this is volumes and tariffs and it was +3.2 million; and an increase of bunkering operations in +121 million, which in total gives us \$782 million revenue for nine months of 2011. Important to note, and we mentioned that in our financials, that if PTP were accounted starting from 1<sup>st</sup> January, the number would have been around \$797 million.

Moving on to costs: for your benefit, on slide 13, we give effect of PTP consolidation in the consolidated numbers that you see; cost of services effect 67.1 million, SG&A 13.1 million. And then we break down the largest line items in detail. Bunkering services, as I already mentioned and as we have mentioned in the past, our increase in volumes of bunkering services leads to an increase in revenue, and corresponding increase in cost of purchased fuel. So out of a total of \$121 million increase that you see, 116 million is attributed to bunkering. Important to note in bunkering is increase in marginality; in six months 2011 presentation you saw a number of 1.7 million margin from bunkering operations. It has increased to 4.2 million since then, or exactly how we forecast it back at the time three months ago.

Diesel, in PTP, we are renting two berths for transshipment of diesel and the rent payment for those two berths is \$21 million. Insurance, this is something interesting that happened, you see a negative number here. But what happened is actually we were reimbursed for repairs and maintenance of three tugboats in Primorsk for a total of almost \$500,000, which exceeded nine months 2011 insurance costs.

Personnel, again 56% of the total increase in staff costs was attributed to PTP, the rest is a collective agreement in NCSP and inflation; we're moving generally in line with inflation. Costs, we're saying that adjusted for PTP and bunkering and change in pension provision, we are 11.3% up during the nine months; this is generally in line with inflation and a similar number for SG&A, it's 8%, which is you can say below inflation or also generally in line with inflation.

Moving on to EBITDA, providing a similar reconciliation as per revenue. Starting from 345 million in nine months 2010; 3.6 million is revenue change, this is tariffs and volumes. Then you see cost of sales, -33 million, this is effect nine months versus nine months whereas at the beginning we were saying quarter-on-quarter contraction of costs.. This is to do with the fact that nine months 2010 average exchange rate was 30.25, nine months 2011 average exchange rate is 28.76. So our costs increased in dollar terms year-on-year.

Then you see 4.2 million, that's bunkering margin, which is another bright spot for us and something that we had promised to the market before and now we are delivering. On the grain side, -27 million; again, we are aiming to close this gap as we move closer to the end of the year and we catch on the volumes of 2010. And then PTP consolidation gives us \$117 million of EBITDA, which brings us to nine months 2011 EBITDA of 403.8 or 404 million. Again, important to note that if PTP were purchased on 1<sup>st</sup> January or if it were consolidated starting as of 1<sup>st</sup> January, EBITDA for nine months 2011 would have been around \$413-414 million.

Moving to the last slide of the presentation, slide 15, cash flow: you see gradual increase in our operating cash flow. This is another bright spot for us in the third quarter: 18.7% increase versus second quarter of 2011 and 37.8% versus third quarter of 2010. This healthy cash flow generation allowed us to reduce our leverage and, we prepaid a loan from Raiffeisen in the total of \$20 million, plus we are following our scheduled amortisation, plus we are accumulating cash. So we are now at 5.2X net debt/last 12 months EBITDA and are gradually decreasing.

We are done with the presentation, now I'm opening the floor for questions.

### **Questions and Answers**

***Ivan Kim - Rencap, Moscow***

*Yes, good afternoon, two questions please, if I may. The first is on dividends, so basically whether we should expect a significant or insignificant dividend payment next year and whether maybe your shareholders want some money. And the second one is on the bunkering revenues actually. So, if I calculate correctly, the bunkering revenues in the third quarter decreased by 20% compared to second quarter of this year. So basically the question is what is the reason for that and whether this is the reason for the margin increase? Thank you.*

Starting with dividends, as you know, we have an approved dividend policy and it's available on the website. However, there is no defined minimal payout ratio or payout in absolute terms. Decision on dividends is taken every year separately based on our operating and financial results. We are finalising the budgeting process. I'm not going to give out any forward looking statements or I'm not going to give out any specific numbers but yes, the shareholders and the management are aware that dividends must be paid. And if the financial situation in the company allows that to happen then that's the way it's going to work. Sorry I cannot give out more detailed answers to this question.

On bunkering revenue, look, this is a competitive market; think of it as a gas petrol station. There are various providers of bunkering services in the port of Novorossiysk; as we had mentioned and reported before, the competitive situation in Novorossiysk is such that we managed to increase the revenue from bunkering operations in the first six months of 2011, at the expense of marginality of the business. Now the situation is turning back to normal so we are, as expected, reducing slightly revenues from bunkering operations but increasing the margin.

*Okay, that's clear, thank you.*

***Irina Stupachenko - Otkritie Capital, Moscow***

*I have a question, what was the volume of bunkering services, I mean in terms of physical volume.*

We don't usually disclose that number, it's not relevant because the biggest variables there are costs of fuel itself; that's the key variable, not the volume. But we generally don't disclose that number, as you know.

*Okay.*

At least not yet.

*Okay, thank you.*

I hope you appreciate the amount of work on disclosure of information and on the way of presenting it to you.

*Yes, we really appreciate the breakdown for Baltiysk and Novorossiysk and Primorsk and Novorossiysk, it's very useful, thank you.*

***Vincent Resillot - Credit Suisse, London***

*Hi, good afternoon, my question is about crude oil. How do you explain the differential between your relatively stable flows and the exports going down 6%? I mean, is it coming from a specific client and what do you see going forward in the schedule for next year? Thank you.*

Hi Vincent, I know you're on vacation.

*Not yet actually, very soon.*

Okay, on volumes of oil, look, we generally look at this cargo as stable, we don't forecast large peaks or troughs, we look at this as our main or one of the main stable revenue and EBITDA generators. You shouldn't look at monthly numbers you should more look at accumulated statistics for nine months; I know we're saying 6.4% down for exports and 6.6% down for Russian ports. The main message that I wanted to give you is that, again, this is stable volumes for us; we contract directly with cargo owners or their trading companies. But Transneft provides the throughput capacity through the pipeline network. So this is more of a question to Transneft, who is the operator of the pipeline network.

*Okay, thanks, but you haven't seen any big differences between the different cargo owners this year?*

No, not really, nothing worth mentioning, no.

*Nothing to doubt, okay, thanks very much.*

***Michael Ganelin - Troika Dialogue, Moscow***

*Good evening, I have two questions. First is regarding container statistics: we see that container volumes contracted in the third quarter, what is the reason for that? And my second question is coming to next year: there was speculation in newspapers that next year oil from BPS-2 will take from your ports, from PTP and NCSP, around 10 million tons. Can you comment on this? Thank you.*

Yes, first again on containers and our business as a whole. We should look at accumulated statistics not the quarter-on-quarter or month-on-month. For instance, as you saw in our I think press release in October, I know it's fourth quarter, but in October there was a drop because of bad weather. But all those volumes were shifted basically to November because all the ships were nearby, waiting for the weather conditions to improve. On containers, it's no longer a 60% growth market as we saw in Q1 but it's still a healthy double digit growth market.

The important fact is that we are slightly better than the market; the dynamics are different across our terminals because of the cargo mix for these containers. In Baltiysk this is primarily car components or local assembly plants; we reported that in the second quarter or in summer and maybe in the summer months there was a contraction due to replacement of two models of GM. The line, which was halted for two months, resulted in a decrease if I'm not mistaken of 7,500 TEUs per month for just Baltiysk, just because of this model.

In Novorossiysk it's a different cargo mix; it's both containers with perishable goods or refrigerated containers, our most profitable types of cargo. For instance, we started handling containers for Magnit, which opened its retail chain in Novorossiysk. That gave us a boost in Novorossiysk and that's why you see a larger per cent increase in Novorossiysk versus Baltiysk. But again, these are all local changes; you should look at year-on-year accumulated statistics.

And second question was about oil in Primorsk. Look, I'm not going to comment on paper speculations; 10 million, 15, 70 million, it doesn't matter, I'm not going to speculate about that. We are working with cargo owners, we are working with Transneft, who is our partner and shareholder, and we right now do not see a contraction for next year.

*But do you see it as a risk?*

Well, we can go into details and, as you know, the pipeline that goes to Ust-Luga is actually linked to Druzhba, as opposed to the pipeline that goes to Primorsk has a different origin. All in all if you were to say do you see that export capacity is growing in our country versus relatively flat oil production, yes, I see that. Is it a risk potentially, but could Ust-Luga take 10 million tons from us? I'm not going to respond to that because it's speculation. Right now we are working against budgeted numbers, we are finalising the budgeting process and we don't see a decrease in Primorsk.

*Thank you, also one more question. NCSP is going to issue rouble bonds or eurobonds of about 18 billion roubles as I understand; what's the purpose of this issue?*

Yes, be careful with that number. 18 billion roubles. This is a programme that we are registering of exchange bonds, as you know, and we are registering a programme for 18 billion. That does not mean we are planning or we have specific plans to draw on the full amount at once or at any specific point in time. We are planning to draw down the first tranche, it will not exceed 4-5 billion roubles, or a relatively small tranche. And the use of proceeds is general corporate purposes and refinancing of eurobonds.

*Thank you, thank you very much.*

### **Closing Comments**

That was a short Q&A session. Thanks everyone for dialling in; I want to leave a couple of messages before we all go. It's been a good quarter for us. We saw an increase in volumes, we saw an increase in revenue, we saw an increase in EBITDA and what's important, in EBITDA marginality. We saw a decrease in net debt, which is also very important for us, and we are looking towards the fourth quarter. And we'll hear each other based on 12 months results.

Thank you very much, bye.