

1.4. Strategy and Outlook

1.4.1. Strategy

NCSP Group's strategic goals:

- Long-term growth of NCSP Group's business in the interests of shareholders, employees and local communities by improving the efficiency of operations, increasing handling volume and applying new technologies
- Serving all stages of the logistics chain for foreign trade activities and continuously improving the quality of services and increasing customer loyalty
- Maintaining traditions and ensuring social stability and development in Novorossiysk and other cities and regions of operations
- Strengthening the Group's image as the most attractive employer in the region
- Compliance with the latest standards for environmental stewardship and prioritizing green technology

NCSP Group's vision

We drafted a strategy for the Group's development in 2018 that will be considered by the boards of directors of Transneft and PJSC NCSP in the near future of 2019.

The strategy considers two scenarios for the Group's development, sets out key strategic goals and approaches to development, measures to transform the Group's management model and a roadmap for implementing the strategy.

The Group plans to review and update the Long-term Development Program after the development strategy is approved.

Implementation of priority projects

Baltic basin

Reconstruction of Primorsk Trade Port

Following the completion of the reconstruction of facilities to support offloading of diesel fuel at Berths 3 and 4, the throughput capacity of the PTP terminal is 25.0 million tonnes per year for oil products and 60 million tonnes per year for crude oil.

Reconstruction of container terminal in Baltiysk

The reconstruction of BSC's container terminal is continuing. The first phase calls for expanding the terminal's throughput capacity to 290,000 TEU per year and should be completed by the end of 2019. The second phase will move forward if planned projects to build automobile assembly plants in Kaliningrad Region are carried out.

Azov-Black Sea basin

Reconstruction and modernization of Quay No. 4 for handling liquid cargo. Reconstruction of moorings 25 and 25A at Quay No. 4 (second start-up facility)

The reconstruction of Quay No. 4, with the laying of additional pipelines and installation of loading arms, will make it possible to handle additional volumes of bunkering fuel.

Reconstruction of Sheskhari's Oil Terminal

The project will ensure stable and safe transshipment of both oil and oil products through the Sheskhari's Oil Terminal in Novorossiysk. Also the project will pave the way for switching some facilities to handling light oil products transferring by pipeline of Transneft's Yug (South) pipeline project. The transfer of part of the volume of diesel fuel shipments from the railway to the pipeline will free up capacity for other types of cargo.

Reconstruction of NLE container terminal

The reconstruction of berths was completed in 2018, making it possible to accommodate vessels with capacity of up to 4,200 TEU and increase the throughput capacity of the terminal to 350,000 TEU. The Company will continue reconstruction of support storage facilities and purchase additional handling equipment in 2019.

Reconstruction of Area 6 at NLE

The Company is drawing up plans for the reconstruction of the terminal so it can serve vessels with deadweight of up to 50,000 tonnes in order to increase transshipment of general cargo such as nonferrous and ferrous metals, timber and perishable goods. The project will make it possible to maintain existing cargo traffic in the amount of 0.85 million tonnes per year and create the necessary infrastructure to handle an additional 0.5 million tonnes of cargo per year.

Construction of terminal to handle 2 million tonnes of vegetable oil per year: Phase I (wagon/vessel)

Design, survey, construction and installation work on the project was completed in 2018. The project will make it possible to diversify operations by expanding the cargo mix and increase cargo turnover by up to 2 million tonnes per year.

Reconstruction of specialized container terminal at PJSC NCSP with acquisition of Mega terminal

This project will make it possible to expand transshipment to 750,000 TEU and accommodate vessels with capacity of up to 10,000 TEU, the largest that can sail into the Azov-Black Sea basin. There are also plans to build a support container terminal with an area of up to 20 hectares for storage of empty containers and provision of additional services such as repacking, storage of refrigerated containers and processing of container trains. Tender procedures were carried out in 2018 to buy out the assets of Mega Terminal LLC and OJSC Mega.

Reconstruction of NMT – Light Oil Products

This project is aimed at diversifying the LLC NMT's main business by repositioning part of the terminal's capacity to handle light oil products. Design and survey work began in 2018.

Reconstruction of Novorossiysk Grain Terminal and Quay No. 3

The Company drew up plans in 2018 for the reconstruction of the NGT terminal and Quay No. 3, which will make it possible to accommodate vessels with capacity of up to 80,000 tonnes. The project is on hold due to the revision of the PJSC NCSP development plans.

Port of Taman

The project to build a dry cargo area at the Port of Taman calls for building a Russian deepwater port on the Black Sea under a concession. PJSC NCSP and state company Rosmorport signed the main conditions of an agreement between the participants of RMP-Taman LLC – an agreement of intent on the joint implementation of the project to build a dry cargo area at the Port of Taman on June 16, 2016. PJSC NCSP is now considering the possibility of participating in the project by moving a portion of bulk cargo traffic that creates dust pollution from the Port of Novorossiysk.

1.4.2. Evaluation and audit of the Long-term Development Program

In line with the recommendations of federal government authorities, NCSP Group has drawn up and is implementing a Long-term Development Program (LDP) for the period from 2015 to 2020, and the implementation of the LDP is audited annually by a professional expert organization.

An audit of the LDP's implementation in 2017 was carried out in 2018, and the auditor issued a report. PJSC NCSP's Board of Directors approved the auditor's conclusion on the program's implementation on October 31, 2018.

1.4.3. Key performance indicators of LDP¹

PJSC NCSP has approved and introduced a system of KPI within the context of the LDP. The composition of KPI and their target values for the current and subsequent year are selected according to methodological guidelines².

KEY PERFORMANCE INDICATORS IN 2018

LDP KPI	Target 2018	Actual 2018	Achievement, %
Change of Group market share for general and bulk cargo in Russian segment of Azov-Black Sea basin compared to 2014, in % ³	10.0	-2.5	0
Reduction of energy costs per tonne of cargo, %	5.5	3.28	30
Building of new management model with introduction of staff incentive principles (% of plan completed)	100	100	100
Labor productivity, (revenue ('000 RUB) / number of employees)	3,802	8,262	100
Level of customer satisfaction, %	92	100	100
ROE, %	12.7	52.7	100
TSR, %	12.6	31.9	100
EBITDA, USD million	631	669	100
Reduction of cost of sales per tonne of cargo in % compared to 2014 ⁴	2.5	34.8	100
Growth of gross vessel loading time efficiency compared to average for all types of cargo in 2014, %	20	25.2	100
Implementation of Innovative Development Program, %	100	100	100
Growth of EBITDA compared to three-year average (2012-2014), %	12.2	20.2	100

1. The presented information on the value of LDP KPI is preliminary. The final values of indicators will be presented after an audit of LDP implementation is carried out no later than June 1, 2019.

2. Guidelines for the Use of KPI by state corporations, state companies and state unitary enterprises, as well as companies in which the combined equity interest of the Russian Federation and a constituent member of the Russian Federation exceeds 50%.

3. For comparability of figures with 2014, calculations do not include ports in Crimea (lack of full statistics for 2014) and the Port of Kavkaz (expansion of port boundaries with inclusion of previously uncounted volumes of roadstead transshipment in cargo turnover).

4. Calculated at cost, expressed in USD.