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CONCLUSION

of the expert group
of FSE RI FRCEC

of Ministry of Education and Science of Russian Federation
on the project of the YACONTO Integrated Program
according to the YACONTO List of Projects of 28.04.2004
for the construction of a “Commercial Black Sea port YACONTO”
and the establishment of the Tuapse Naval Base

The express conclusion was initiated by a Letter of the Advisor to the President of Russian Federation A.G. Burutin to FSE RI FRCEC (out. № A60-2-164 from 29.07.2004) with a Letter of the President of YACONTO LLC S.P. Yakunin (Russia, Moscow) to the Presidential Executive Office of Russian Federation (out. № 2-40720 from 20.07.2004) and 182 documents on 338 sheets according to the List of documents № 1 on 6 pages.

The Letter of the Advisor to the President of Russian Federation A.G. Burutin to FSE RI FRCEC requesting an express conclusion contains following questions on the project of the YACONTO Integrated non-state investment Program, which, according to the YACONTO List of Projects from 28.04.2004, includes the construction in the Tuapse region of Krasnodar Territory of a “Commercial Black Sea port YACONTO” for the transshipment of 100 million tons of cargo per year and a creation of a modern Tuapse Naval Base in the Tuapse city, with their common production, transport and social infrastructure:

1. Evaluate the project of the YACONTO Integrated non-state investment Program in general.
2. Assess the importance of the YACONTO Integrated Program for the socio-economic development of Russia.
3. Assess the importance of the YACONTO Integrated Program for the defense capability and security of Russia.
4. Assess the Integrated Program’s compliance with the regulatory framework.
5. Assess the expediency of supporting the YACONTO Integrated Program on a federal level.

1. General characteristics of the YACONTO Integrated Program

The initiator, investor and general contracting for the YACONTO Integrated Program (Comprehensive Program): YACONTO LLC (Russia, Moscow).

Location for the implementation of the Integrated Program: Krasnodar Territory.

Purpose of the Integrated Program: construction in Tuapse region of Krasnodar Territory of a “Commercial Black Sea port YACONTO” (“YACONTO Port”) for the transshipment of 100 million tons of cargo per annum and an establishment of a modern Tuapse Naval Base (TNB) with common production, transport and social infrastructure.

Timing of construction for the Integrated Program: 2004 - 2010.

Payback period of the Integrated Program as a whole: 10 (ten) years from the beginning of operation of the “YACONTO Port”. The claimed amount of funding for the Integrated Program as a whole: 10 (ten) billion U.S. dollars.

2. Objectives and reasons for the development of the YACONTO Integrated Program

YACONTO LLC developed an Integrated program consisting of large promising projects and programs of federal significance, intended for implementation in Russia and abroad by attracting nongovernmental investment. The Integrated program is aimed at socio-economic development and improving defense capabilities of Russia, as well as addressing the energy security of the industrial world, strengthening Russia’s position in the international division of labor, protection of the southern borders of Russia on the Black Sea coast, prevention of military threats and suppression of terrorist acts, smuggling of drugs, weapons and other goods. The implementation of the Integrated Program will significantly increase trade with Europe, America, Asia, Africa and Australia, including the CIS, the Middle East, and strengthen cooperation with them.

In order to ensure a coordinated economic development of the Krasnodar Territory and Southern Russia, YACONTO LLC proposed to implement a set of interrelated and complementary projects identified in the YACONTO List of Projects from 28.04.2004 as a single Integrated program.

The Integrated program has been developed in order to address the problem of an acute shortage of port facilities on the Russian Black Sea arising from the transition of several major commercial and military ports under the jurisdiction of Ukraine and Georgia. The loss of those ports causes billions of dollars worth of damage to Russia per year and keeps the country dependent on the political and economic interests of the former Soviet republics which inherited the military and commercial ports. Insufficient capacity of Russian ports is particularly sharp in the Azov-Black Sea basin, which has geographic opportunities for expansion and favorable conditions for sea and river transportation.

Today, Russia’s revenues from transit traffic service are 8 times less than its real possibilities.

Tuapse Trade Port (TTP), designed in the late XIX century, was not capable of growing its transshipment capacity to levels that are required at the beginning of the XXI century. That’s why the TTP cannot meet Russia’s growing needs for the handling of cargo through commercial seaports, and does not meet the sanitary and environmental standards.

Russia is becoming globally competitive on the world market of transportation services and must use its own vehicles for the export of domestic products to foreign markets and imports of foreign goods for domestic consumption.

In this regard, building in the Tuapse region of a modern “YACONTO Port” with the production, transport and social infrastructure for handling up to 100 million tons of dry and liquid cargo per year is the key project of the Integrated Program for the Krasnodar Territory.

Major construction, industrial and financial companies in Germany, Spain, France, the United States, Britain, Turkey and Russia expressed to YACONTO LLC their interest and willingness to participate in the financing, design, construction of the “YACONTO Port” and its production, transport and social infrastructure, and equipping those with modern equipment.

Bureaucratic delays in the adoption of a fundamental decision to support the Integrated Program lead to huge losses for the country worth tens of billions of dollars a year due to a shortage of Russian transportation services.

The tragic events of September 11, 2001 and the beginning of military action in Afghanistan and then Iraq have turned the world’s public opinion, which sharply realized the need to fight with terrorism and to protect innocent people from the extremists. But this is just the tip of the iceberg of colossal new challenges, among which raises a fundamental global problem of supplying developed countries with energy resources, primarily oil and gas. This is a critical vulnerable link of international economic relations. The current threat of the oil embargo and energy crisis is an ongoing dread of industrialized nations, the main consumers of oil and gas. To protect against energy blackmail and to ensure the reliability of the global energy system, it is necessary to use all the transport options for the delivery of Russian energy resources to the advanced industrial countries. We must also take into account the increasing demand for dry cargo flows through the Black Sea ports of Russia.

The Integrated program is aimed at addressing the energy security of the industrialized world, strengthening Russia’s position in the international division of labor, protection of the southern borders of Russia on the Black Sea coast, prevention of military threats and suppression of terrorist acts, smuggling of drugs, weapons and other merchandise.

3. Regarding the construction of a «Commercial Black Sea port YACONTO» with industrial, transport and social infrastructure

Under Terms of Reference of YACONTO LLC from 15.04.2002, Design Enterprise “Soyuzproektverf” of the Federal State Unitary Enterprise "Central Scientific-Research Institute of Shipbuilding Technology" (FSUE CRIST, St. Petersburg) has developed a Declaration (Petition) of 12.11.2002 of Intent to construct in the Tuapse region of Krasnodar Territory a “Commercial Black Sea port YACONTO” with the Explanatory Note and the master plan Scheme of the “YACONTO Port”.

The “YACONTO Port” will be placed 1.8 km south-east of TTP between Vesna and Dederkoi settlements. The “YACONTO Port” will handle 60 million tons of cargo per annum in 2010, and 100 million tons in 2015, including at least 40 million tons

annually for petroleum products and 3 million tons annually for compressed and liquefied petroleum gases. The “YACONTO Port” will be capable of simultaneously loading 5 oil tankers with deadweight up to 150 thousand tons in compliance with the requirements of navigation and environmental safety.

“YACONTO Port” will secure the demand of “Russian Railways” JSC in transportation of goods by 25 million tons of cargo annually by year 2010 and by 45 million tons of cargo annually by year 2015, including usage of 103-car railroad ferries.

Such volumes of transshipment will be made possible due to great depths (up to 20 meters) of the “YACONTO Port” water area, its modern layout, technical equipment and design features, combined with favorable geographical and climatic conditions that allow the port to work round the clock. The interests of investors will ensure Turkey’s most favorable position on the unobstructed passage of ships loaded with the “YACONTO Port” cargo through Bosphorus - Dardanelles.

The “YACONTO Port” needs its own port station and a railway line entering its territory. In this regard it is proposed that the existing railway line passing through the town of Tuapse towards Sochi, is turned in a southeasterly direction near the village of Krivenkovskoe at a distance of 18 km from the city of Tuapse. The railway will be constructed along a new strengthened 20-km route outside the coastal zone in the direction of the Shepsie village with a branch entering the “YACONTO Port”. After that the railroad will be built 3 - 11 km away from the coastline bypassing Vishnevka, Lazarevskoye, Dagomys, Sochi, Hosta, Adler settlements and towns up to the border with Georgia. This will allow to eliminate the existing railroad, occupying 110-km strip of invaluable territory of coastal resorts of Sochi, which will ensure an intensive development of existing and creation of new recreational areas for the massive organization of world class recreational industry in the Krasnodar Territory and ensure socio-economic development of Southern Russia; this project is supported by the Administration of Krasnodar Territory and “Russian Railroads” JSC.

Simultaneously with the construction of a new railway it is planned to build a straightened high-speed six-lane highway from the town of Goryachi Klyuch to the border with Georgia through Tuapse region and the Big Sochi area in parallel to the said railroad and to the existing federal highway Tuapse - Sochi (M27).

Construction of the “YACONTO Port” will accelerate the handling of import and export cargoes from Russia and neighboring countries of Asian destinations, since the first berths will be operational in just three years after the start of construction. It will also provide the shortest distance to transit containers in the direction of the European South - Far East. The “YACONTO Port” will give an opportunity to expand the range of transshipped cargo and take the lead in handling non-traditional goods, including 40-foot containers.

Due to specialization in the handling of containers, the “YACONTO Port” will have practically no rivals in the Southern Basin in the next 30 years, as the existing Russian ports do not possess sufficient technical and storage capabilities for that. Container Terminal of the “YACONTO Port” will be constructed by the most modern world standards.

4. Justification of transshipment volumes of the “YACONTO Port”

Table 1 contains main indicators of the planned volume and range of cargo handling through the “YACONTO Port” defining the economic efficiency of construction of a large transport complex.

Table 1

Liquid (oil)	40 mln tons annually
Liquefied hydrocarbons	3 mln tons annually
Coal	5 mln tons annually
Alumina / clay	5 mln tons annually
Chemical fertilizers	5 mln tons annually
Ferrous and nonferrous metals	3 mln tons annually
Timber (lumber)	2 mln tons annually
Industrial production	5 mln tons annually
Agricultural products (including grain)	7 mln tons annually
Cargo in containers	2 mln TEU annually

Table 2 contains volumes (in millions of tons) and shares (in %) of annual freight turnover of cargo through the “YACONTO Port” by main means of transport in Russia.

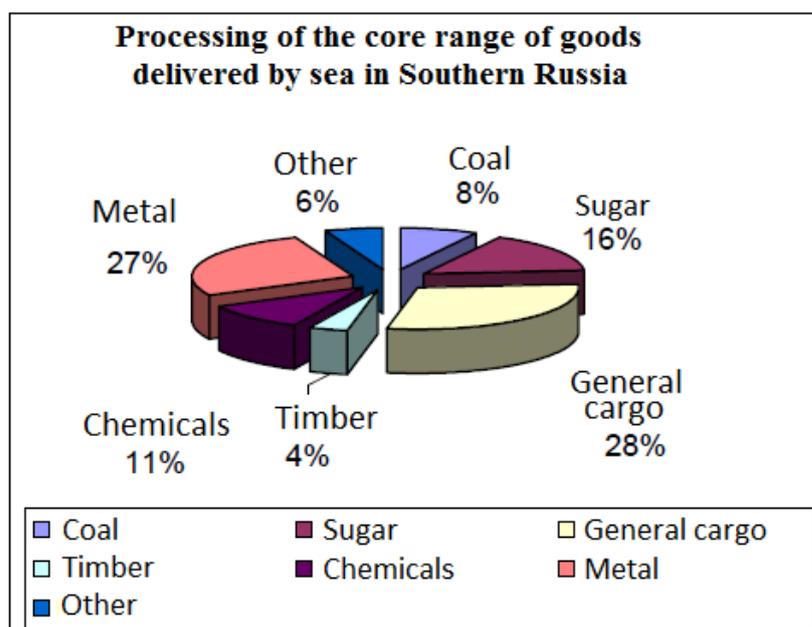
Table 2

Railway turnover	45 million tons annually	45%
Pipeline turnover	40 million tons annually	40%
Automobile turnover	15 million tons annually	15%

The National transport policy of Russia up to 2025 is focused on switching 5 - 7% of Euro-Asian transit to Russian communications, which should bring Russia more than U.S. \$3 billion a year.

Table 3 contains the structure of processing of the core range of cargo delivered by sea in the Southern Russia.

Table 3



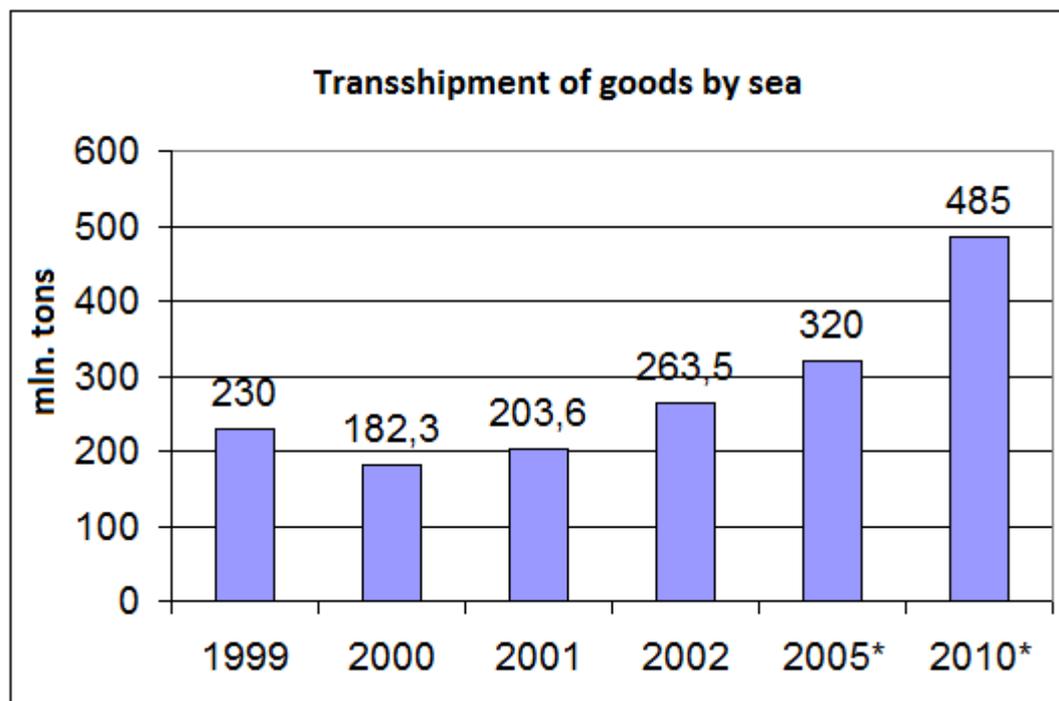
The following documents were used to verify the justification of the volumes and range of cargo:

- The main characteristics of Russia's socio-economic development in 2003 and until 2005, and the main features of the draft federal budget for 2003 and the period up to 2005.
- The Concept of the shipping policy of Russia.

Transport in general, and the port business in particular, are now the most actively developing branches of the Russian economy. Sea freight in Russia is becoming more and more profitable. Over the past three years there was a serious breakthrough in this sector, and today a big part of Russian exports goes through Russian port complexes (according to Russian Ministry of Transport - 75% of exports of goods). Freight turnover of Russian seaports grows at 15% a year, and container transportation - at 30% per year. In the coming years, Russia has planned to increase the level of processing of foreign trade goods up to 85%. However, already today the seaports of the South and West of Russia are working at maximum capacity, partially because of insufficient capacity of roads, railroads and pipelines for oil and gas.

Table 4 shows actual and projected annual volumes of goods by sea in Russia (million tons per year).

Table 4



The Integrated program for the construction of a large modern “Commercial Black Sea port YACONTO” with its production, transport and social infrastructure is supported by the Head of the Administration (Governor) of Krasnodar Territory A.N. Tkachyov and the Head of Administration of Tuapse region V.V. Koshel.

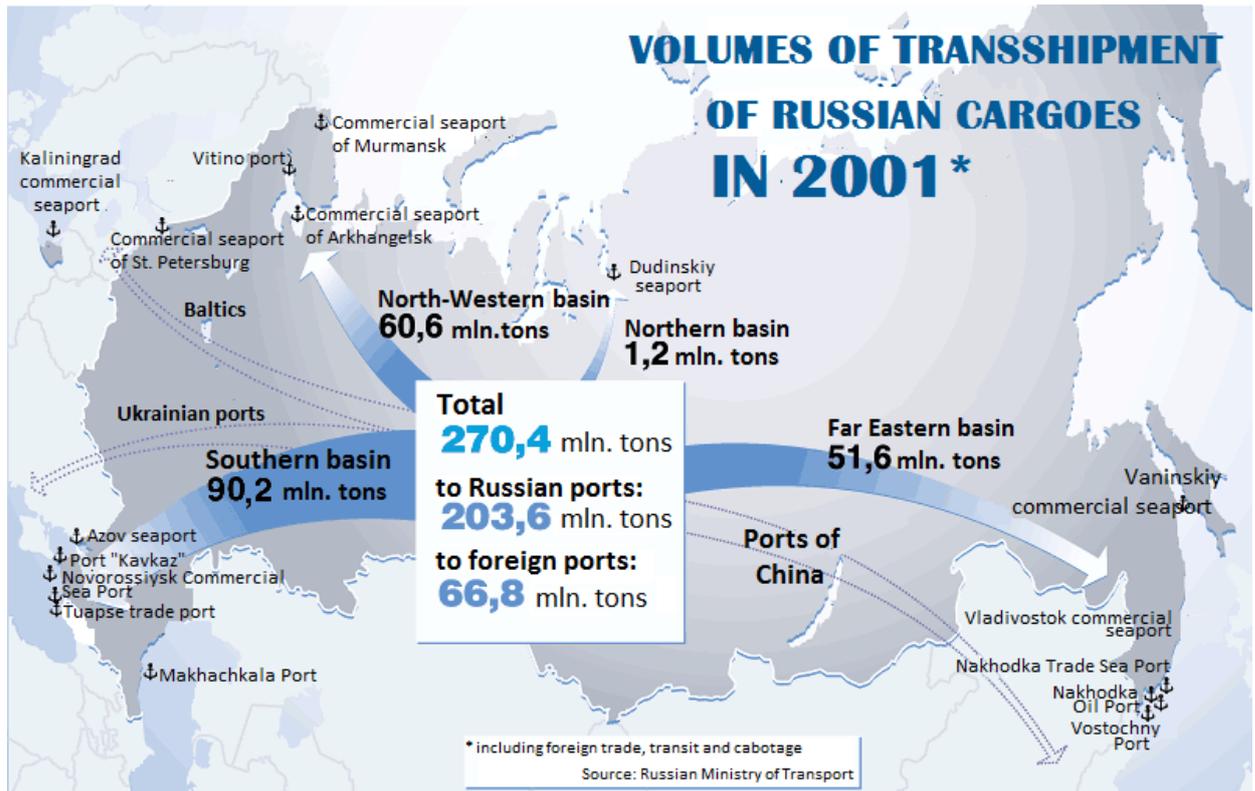


Table 5 illustrates economic effect from handling 1 million and 100 million tons of cargo in a Russian commercial seaport (in rubles and U.S. \$).

Table 5

Economic effect	1 million tons		100 million tons	
Total seaport revenue	230 mln rub.	7,93 mln \$	23 Bln. rub.	793 mln \$
coming: from handling	193 mln rub.	6,65 mln \$	19,3 Bln. rub.	665 mln \$
from port and other fees/charges	37 mln rub.	1,28 mln \$	3,7 Bln. rub.	128 mln \$
Taxes to the budget	64,9 mln rub.	2,24 mln \$	6,49 Bln. rub.	224 mln \$
Industrial development	16,7 mln rub.	0,58 mln \$	1,67 Bln. rub.	58 mln \$
Jobs created in the seaport	48 jobs		4800 jobs	

Speaking about the economy of design decisions of the YACONTO Integrated Program, we can state the following:

- Project of the construction of the “YACONTO Port” is in line with the Concept of shipping policy of Russia in the Azov-Black Sea basin.

- The traffic volumes data can be considered justified, since the increase in the volume of marine cargo handling due to the increase in GDP and the transfer of handling of cargo of neighboring countries significantly exceeds the projected capacity of the “YACONTO Port”.

- The planned structure of traffic through the “YACONTO Port” supplements the existing structure of the Southern Russia maritime traffic due to a significant growth of the share of transport of containers and petroleum products.

- The Integrated program includes a construction of a modern portside oil refinery.

- Payback period of the “YACONTO Port”, calculated based on revenue coming solely from transshipment, disregarding the effect of other infrastructural components listed in the YACONTO List of projects from 28.04.2004, will not exceed 6 years.

- Today the Krasnodar Territory has no modern multi-lane highway through the North Caucasus Mountains to the Black Sea and through the resort area of Big Sochi to the border with Georgia, which would have provided substantial uninterrupted traffic and mass transport of passengers. In this regard, the YACONTO List of Projects from 28.04.2004 includes construction of a straightened modern high-speed six-lane dual purpose toll highway from the city of Krasnodar to the Tuapse town, which will create favorable economic conditions and will provide transportation of 2 million containers (27.6 million tons) per year passing through the “YACONTO Port”. The Shepsie rural area of Tuapse region has all necessary favorable conditions for the construction of the “YACONTO Port”: great depths near the shore for the reception of large vessels, lack of large settlements on the area of proposed construction, presence of the railroad, mild climate and weather conditions that ensure a round-the-clock and year-round activity of the “YACONTO Port”.

5. Comparison of the “YACONTO Port” with alternatives - existing and proposed for construction ports on the Black Sea coast of Russia

Analysis of comparative data contained in the Table 1 (Comparative data for operational and proposed for construction commercial ports of Russian Black Sea) from 28.04.2004 convincingly shows that the construction of the “YACONTO Port” with the production, transport and social infrastructure is the most reliable and profitable investment option.

The “Kadosh option”, an alternative to the “YACONTO Port” is to expand the TTP at the expense of the protected area of Cape Kadosh and to reserve a small part of the water area for the warships basing point, which does not solve the basic problem of the creation of an advanced naval base on the Black Sea coast of Russia. This option also has other fundamental disadvantages from ecological and economical perspective and fails to comply with the terms of the security of maritime activities, taking into consideration local natural features (presence of the phenomenon of “tyagun” - vibrational motion of water causing cyclic movement of vessels - created by the rivers flowing into the water area of the proposed port). The “Kadosh option” also proposes to eliminate the protected forested areas and natural monuments in the city of Tuapse (60% of the port area) and Tuapse region (40% of the port area). A new port within the city of Tuapse severely limits its potential for transshipment of dry cargo (data shown in Table № 1 of 28.04.2004), does not provide the appropriate development of the port infrastructure, and in the first place the refinery complex, as well as worsens the already adverse environmental conditions in the city of Tuapse. This also significantly complicates the joint implementation of economic and naval activities.

In all the options alternative to the “YACONTO Port” reliance is placed on an increase in exports of crude oil, which is fundamentally contrary to the strategy of accelerated development of the country’s economy and the task of doubling GDP by 2010 set

by the President of Russia to the Russian Government.

In accordance with the concept of the Integrated program, the “YACONTO Port” will not be exporting crude oil, but only products of its processing, which corresponds to the interests of the Russian economy and creates favorable conditions for its entry into the World Trade Organization (WTO).

With this concept YACONTO LLC shows that the state may regain the monopoly on the export of Russian crude oil, and private and public-private enterprises can be provided the right to export only petroleum products from Russia.

Opponents of the “YACONTO Port” make unsubstantiated claims that its construction would damage the ecology of Tuapse region, whereas the construction of a commercial sea port at Cape Kadosh and the reconstruction of TTP will be meeting all sanitary and environmental standards and requirements. Those statements are contradicted by totally opposite data presented by YACONTO LLC in Table 1 of 28.04.2004 and a Letter from the Tuapse Forestry (out. № 186 from 30.04.2004), which indicates that Cape Kadosh and adjoining territories of the city of Tuapse and Tuapse region are state-protected forest park zone and/or a resort sanitary protection zone, which occupy a large area and have high-quality wood, while the “YACONTO Port” only requires area of coastal mountains with low vegetation, unsuitable for organization of mass tourism and recreation.

6. Regarding the reasonableness of the creation of a modern Tuapse naval base (TNB) for hosting and repair of the Russian Black Sea Fleet warships

In order to ensure defense capability and security of Russia in the Azov - Black Sea basin, YACONTO LLC has included in the Integrated program a possibility to create a modern TNB for basing and repair of the Russian Black Sea Fleet warships.

YACONTO LLC proposes two options of the creation of TNB.

First option: TNB is created on the territory of the TTP and other enterprises located in the coastal zone of the water area of the TTP according to the Scheme of the master plan, providing for the reconstruction and expansion of the water area of TNB. This proposal is substantiated by the fact that the TTP is located in the heart of the city of Tuapse, has no opportunities for development and cannot accept modern large-capacity commercial vessels due to insufficient depth of the fairway (up to 13 meters).

Transition of the territory of TTP to the Russian Ministry of Defense will allow to carry out a capital reconstruction of TTP into TNB and to eliminate the effect of “tyagun” fixing the design flaws of TTP made in the late XIX century, and will significantly expand the water area of the newly created TNB, as proposed in the Program of YACONTO LLC to build a Tuapse base of the Russian Navy from 08.10.2001 and the Layout of the Russian Navy base on 08.10.2001.

As far back as 2001 the Program of YACONTO LLC for the creation of TNB in the Tuapse city was officially approved and supported by the Commander-in-Chief of the Russian Navy V.I. Kuroedov and the Chief of the General Staff of the Russian Ministry of Defense A.V. Kvashnin.

To ensure the activities of the TNB, the Russian Ministry of Defense should obtain the entire territory of the compact town of Tuapse or a part of it limited by a federal

highway. Most of the townspeople will be relocated to new modern and comfortable neighborhoods with all necessary infrastructure in Tuapse region near the settlements of Vesna, Dederkoi and Shepsie.

The construction of new microdistricts is more socially and economically justified than the investment of large material resources to repair and reconstruct obsolete communal services and housing of the city of Tuapse. In addition, the “YACONTO Port” and its infrastructure will provide jobs for resettled residents of the city of Tuapse.

Freed from the civilian population, the city of Tuapse will be transferred under the jurisdiction of the Russian Navy to house officers, warrant officers, petty officers, sailors, civilian specialists and their families. The city of Tuapse will be reconstructed to meet the needs of the TNB; old and useless homes, buildings and businesses of Tuapse city will be pulled down.

Second option: the TNB can be established in the Tuapse region of Krasnodar Territory on the mountainous areas either between the settlements of Dederkoi and Shepsie, unequipped and unsuitable for beaches and public recreation, with the alienation of 2300 meters of coastal line, or between the settlements of Shepsie and Vishnevka with the alienation of 4000 meters of the coastline.

The first option of the TNB location is more preferable from the geographical standpoint, due to the compactness of the town of Tuapse and the presence of Cape Kadosh covering the TNB and the “YACONTO Port”. Also, the creation of the TNB with respective infrastructure in this location will demand much less material and time. The “YACONTO Port” and the TNB bodies (independently of the option chosen by the Ministry of Defense and the Russian Navy) will be built from rocks (crag) demolished during the construction and moved to the sea; on the place of the latter there will be a leveled area designed for the “YACONTO Port” with the respective infrastructure, which will house the port’s railways, communications, technical equipment, ground transportation, manufacturing facilities, consignment warehouses, office buildings, necessary structures, services, etc.

These areas are in a strategically advantageous geographical position between Ukraine and Georgia and have all the necessary conditions for the construction of TNB: mountainous terrain of the coastal territory, greater depths near the shore, lack of large settlements, presence of railway and highway, mild climate and weather conditions that allow efficient use of TNB all year round.

The YACONTO List of projects of 28.04.2004 provides for the development of the basing system for the Russian Black Sea Fleet vessels in the city of Tuapse and in the Tuapse region in the period from 2008 to 2020 with a rational view of current and projected business needs of the country and the needs of the Russian Navy.

First stage (2008 - 2012): complete conversion and renovation of the existing TTP for basing and repair of the Russian Black Sea Fleet warships after the transfer of freight traffic to the “YACONTO Port”, the first queue of which is scheduled for commissioning in 2007.

Second stage (2012 - 2015): continuation of the construction and operation of the “YACONTO Port” as a dual-purpose facility, at the same time ensuring the possibility of an emergency relocation of the main part of the Russian Black Sea Fleet to the Black Sea

coast of Krasnodar Territory. Under favorable foreign policy conditions, the capacities of the “YACONTO Port” during this period will be fully utilized in accordance with its economic purpose.

Third stage (2016 - 2020): depending on the prevailing situation - either further development of the naval base in the areas of settlements Dederkoi - Shepsie (Shepsie - Vishnevka), or the development of the “YACONTO Port” according to updated plans as a dual-purpose facility.

The TNB will be included in the single structure of the Russian Black Sea Fleet naval bases and in the geopolitical sense will become an important outpost of Russia in the Azov-Black Sea basin, able to provide real assistance to intelligence and law enforcement agencies in combating terrorism and in blocking the channels of illegal trade in arms, drugs and contraband goods.

It's appropriate to start the creation of the TNB in parallel with the construction of the “YACONTO Port” in Tuapse region occupying 3600 meters of the coastal strip between settlements of Vesna and Dederkoi, because the Integrated Program provides an opportunity to create a single infrastructure with the TNB, as mentioned in the YACONTO List of projects from 28.04.2004. In this case, the “YACONTO Port” will be able to supply the TNB with electricity, heat, gas, drinking quality water, fuel, as well as provide housing and jobs to the local people, external experts and military personnel, the headcount of the latter reduced due to the reform of the Russian Armed Forces. All of the above will significantly reduce the time and money required to create a modern large-scale naval base for the Russian Black Sea Fleet.

Due to the acute shortage of seaports capacity in Southern Russia, it was decided on reconstruction and development of Novorossiysk Commercial Sea Port (NCSP) in order to double the volume of handling by 2015 (to 105 million tons per year). But in this case creating a large Novorossiysk naval base (NNB) in Tsemess Bay is unrealistic and only a small part of the Russian Black Sea Fleet warships can be based there.

Some of the crucial disadvantages of the Tsemess bay as a place for the creation of a NNB are: shallow water of the bay, strong winds, storms, icing of the piers and ships, forcing the civil and military ships to simultaneously enter the open sea and wait out bad weather. For example, on 28.10.2002 due to a barrage of strong winds a Turkish ferry caused considerable damage to the amphibious assault ship BDK-65, bunkering vessel VTN-96 and a floating pier of the NNB; on 09.12.2002 at the port of Novorossiysk two warships (a hydrographic vessel “Arctic” and a large hydrographic boat BGK-775) did not manage to enter the open sea in time and sunk due to icing.

Thus, the creation of a major modern Tuapse naval base is relevant, even regardless of whether the Russian Black Sea Fleet warships are withdrawn from Ukraine and whether the NNB is to be created.

YACONTO LLC developed a scheme to attract investments for the creation of TNB and their return after the TNB is operational. These investments are not linked with the implementation of civil part of the Integrated Program.

The peculiarity of the funding of the Integrated Program is in attracting major investors, including foreign ones, broadly, which allows solving the tasks of the Russian Defense Ministry simultaneously, utilizing the basic groundwork for the construction

of the “YACONTO Port” and infrastructure in the Krasnodar Territory.

The volume of the equity participation of the Russian Defense Ministry will be determined and rapidly adjusted in accordance with its actual capabilities of target funding and participation in the implementation of the Integrated Program.

The implementation of the Integrated Program will provide a rational solution to a number of critical issues in the Russian defense and security by offering uniquely favorable conditions for the basing of the Russian Black Sea Fleet. The non-standard approach designed by YACONTO LLC allows optimal combination of solving socio-economic and military problems, responding quickly to the change of geo-political factors and greatly facilitate the solution of problems faced by the Russian Ministry of Defense.

The following entities will be attracted to the design works of the “YACONTO Port” and the TNB with their common infrastructure in the first place:

- Design enterprise “Soyuzproektverf” of the Federal State Unitary Enterprise “Central research institute for shipbuilding technologies” (FSUE CRIST, St. Petersburg);

- 23-rd State Maritime Design Institute of the Russian Ministry of Defense (23rd SMDI of RF DM, St. Petersburg).

Development and approval of the concept in general, and components of the Integrated program takes into account the future needs of the Russian Ministry of Defense in the framework of the proposed solutions.

Unlike the alternative options of a naval base on the Black Sea coast of Russia, the option proposed by YACONTO LLC, mentioned on the List of Projects of 28.04.2004, is consistent with the regulatory framework, provides a comprehensive development, implementation of priorities and effective use of funding opportunities.

7. Regarding the expediency of implementation of the YACONTO Integrated Program

The volume of long-term private investments attracted by YACONTO LLC for design and construction of the “YACONTO Port” with respective infrastructure is more than 10 billion U.S. dollars.

Economic estimates show that the projected traffic flows and transshipment volumes are reasonable and will provide a 10 year payback period on the Integrated Program starting with a launch of the “YACONTO Port”.

Coordinated implementation of complementary projects will ensure their highest cost-effectiveness and timely return on investment attracted for the implementation of the single Integrated program.

The analysis of the documents submitted for examination, analytical materials and conclusions of governmental authorities and competent organizations allow us to reasonably assert that the Integrated program:

- a) complies with the positions of the Russian Maritime Doctrine, including the main areas of economic security of maritime activities of the country and regional maritime policy in the Black and Azov Seas, as well as the requirements of the Concept of the shipping policy of Russia;

b) will contribute to the objectives set by the President of Russia to accelerate the country's economy and a doubling of GDP by 2010;

c) provide favorable conditions for the implementation of the Naval activity and development of defense infrastructure in the region; at the same time:

- tasks to ensure the security of Russia's defense and economic problems are solved in parallel, but with a single production, transport and social infrastructure, built via attracting major long-term private investments;

- equity participation of the state is determined by taking into account the real possibilities for budget financing, the volume of which can quickly be adjusted;

d) will secure:

- attraction of large investments to other programs of the Southern Russia;

- safety of shipping;

- independent production of own electricity and heat with the latest technologies;

- guaranteed jobs for local residents and the region as a whole.

Implementation of the Integrated program will create a synergistic effect and will create conditions necessary for:

- significant development of industry and agriculture of the Krasnodar Territory and the Russian economy as a whole through the development and drastic increase in the efficiency of rail, road, pipeline and water transportation;

- a significant increase in gross domestic product of Russia due to revenues coming from production and sale of finished products rather than crude oil, gas, timber and other raw materials;

- major long-term private investments in mass recreation and wellness, sports and tourism industry of the Black Sea coast of Krasnodar Territory, which will provide a dramatic increase in the inflow of tourists, and therefore revenue;

- Russia's entry into the World Trade Organization (WTO);

- improvement of the socio-economic and political situation in the North Caucasus, strengthening the defense capability and security of Russia in the Azov-Black Sea basin.

Russia's demand in the transshipment of cargo through the Black Sea commercial ports by 2015 significantly exceeds the total amount of handling that the "YACONTO Port" and the NCSP, even with the modernization and expansion of the latter, will be capable of. Therefore, the construction of the large modern "YACONTO Port" with respective infrastructure will help to solve the problem of acute shortage of seaport facilities in Southern Russia.

The activities of the "YACONTO Port" and the TNB with their common production, transport and social infrastructure will provide stable large tax revenues to the local, territorial and federal budget.

8. Regarding the adoption of non-standard approach for approval and implementation of the YACONTO Integrated Program

YACONTO LLC as the organizer enterprise is involved in the development and implementation of major promising long-term projects that are integrated into a single Integrated program, attracts necessary funding and partners for its implementation,

acting as the general investor and customer.

In order to expedite the passage of the organizational and preparatory phase, providing rationale for the effectiveness of design and implementation of the Integrated Program, YACONTO LLC uses non-traditional technology, where the Integrated Program is first offered to the government for their discussion; they can make proposals taking into account the needs and interests of their departments. After obtaining the approval and support of the refined and supplemented Integrated Program from the President and the Russian Government, the stakeholders will be able to begin funding the implementation of the Integrated Program without fear of bureaucratic obstacles and criminal organizations. This technology enables public authorities to quickly solve their tasks without attracting budget funds with the help of investors, who take the entire risk and responsibility for the effectiveness of investments.

The standard Russian scheme for the preparation of design documentation and approval, which was designed to substantiate governmental funding of projects, should not be used for the implementation of the non-state investment Integrated Program. In order for YACONTO LLC to be able to invest large raised funds for the development of a feasibility study of projects included in a single Integrated program, the state should support it at the federal level, ensuring the protection of intellectual property rights of YACONTO LLC to the Integrated program and ensuring right to its implementation.

9. Express conclusion of FSE RI FRCEC on the set topics

Based on the foregoing and the submitted documents, the following express-conclusion on the topics brought to the expert assessment of the non-state YACONTO Integrated investment Program has been made.

9.1. The YACONTO Integrated Program proposed for implementation, including major long-term projects which are interrelated and mutually reinforcing each other, is of high economic and social importance to Russia, is aimed at active development of its domestic market, creation of favorable conditions for Russia's entry into WTO and access to world markets, the development and implementation of advanced high-tech industrial technology, improving the socio-economic and political situation in the North Caucasus and ensuring national defense and security of Russia.

In general, the YACONTO Integrated Program in its economic and social significance falls into the category of federal level programs and is sufficiently justified economically.

9.2. The implementation of the YACONTO Integrated Program has a high economic and social importance for the Krasnodar Territory and Russia as a whole due to inclusion of large long-term private investment in industrial, transport and social infrastructure, including renovation and construction of railways, highways, pipelines for oil, gas and drinking water, as well as the construction of combined heat and power plants and modern residential complexes.

9.3. Implementation of the YACONTO Integrated Program is highly important for securing the defense capabilities of Russia, as it includes the opportunity to create a modern Tuapse naval base and its infrastructure via attracting major non-state investments.

The Tuapse naval base will be included in a single structure of the naval bases of the Russian Black Sea Fleet and in the geopolitical sense will be an important outpost of Russia in the Azov-Black Sea basin.

9.4. Nongovernmental YACONTO Integrated investment Program corresponds to the Russian legal framework and stimulates creation of new laws and regulations to develop and implement large non-state projects and programs.

9.5. YACONTO Integrated Program is of national significance and requires administrative support on federal level.

Implementation of the unparalleled non-state YACONTO Integrated investment Program requires an unconventional approach and its approval by the President of the Russian Federation and the Supreme Commander of the Armed Forces V.V. Putin.

**Head of the Expert Group
FSE RI RRSCE**



A.I. Lumpov

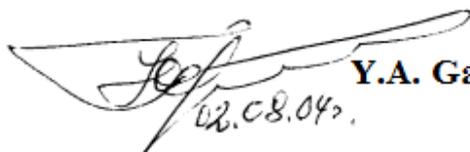
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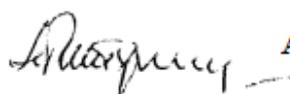
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