

PTP Group

**Combined Financial Statements
for the year ended 31 December 2008**

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Independent Auditors' Report

Management of PTP Group

We have audited the accompanying combined financial statements of the group of companies collectively referred to as PTP Group (the "Group"), which comprise the combined balance sheet as at 31 December 2008, and the combined income statement, combined statement of changes in equity and combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion

The Group has not disclosed the name of its ultimate parent company and ultimate controlling party as at 31 December 2008 and 2007, which is required by International Financial Reporting Standard IAS 24 *Related Party Disclosures*.

Qualified Opinion

In our opinion, except for the omission of the disclosures described in the Basis for Qualified Opinion paragraph, the combined financial statements present fairly, in all material respects, the combined financial position of the Group as at 31 December 2008, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the fact that the combined financial statements have been prepared for the purpose of presenting the combined financial position, combined financial performance and combined cash flows of certain companies that are under common control. The basis of preparation is described in Note 3(a).

Without further qualifying our opinion, we also draw attention to the fact that the corresponding figures as at and for the year ended 31 December 2007 are unaudited.

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06 July 2010

PTP Group
 Combined Income Statement for the year ended 31 December 2008

		2008	2007
	Note	'000 RUR	(unaudited) '000 RUR
Revenue	5	4 718 563	4 664 085
Cost of sales	6	(926 619)	(1 142 451)
Gross profit		3 791 944	3 521 634
Other income		7 315	5 235
Administrative expenses	7	(192 890)	(126 878)
Other expenses		(15 097)	(23 132)
Results from operating activities		3 591 272	3 376 859
Financial income	9	185 236	96 984
Financial expenses	9	(268 283)	(328 916)
Profit before income tax		3 508 225	3 144 927
Income tax expense	10	(882 135)	(771 608)
Profit for the year		2 626 090	2 373 319

These combined financial statements were approved by management on 06 July 2010 and were signed on its behalf by:

Golubkov D.I.
 General Director

Polonsky G.V.
 Chief Financial Officer



The combined income statement is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 11 to 43.

PTP Group
Combined Balance Sheet as at 31 December 2008

		2008	2007 (unaudited)
	Note	'000 RUR	'000 RUR
ASSETS			
Non-current assets			
Property, plant and equipment	11	3 325 873	3 530 800
Intangible assets		31 787	44 616
Investments	12	5 145	53 488
Trade and other receivables	14	37 131	20 729
Deferred tax assets	13	109 629	118 451
Total non-current assets		3 509 565	3 768 084
Current assets			
Inventories		11 910	8 086
Investments	12	42 570	54 070
Income tax receivable		34 322	34 570
Trade and other receivables	14	631 003	502 013
Cash and cash equivalents	15	2 164 835	291 490
Total current assets		2 884 640	890 229
Total assets		6 394 205	4 658 313

The combined balance sheet is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 11 to 44.

PTP Group
Combined Balance Sheet as at 31 December 2008

		2008	2007 (unaudited)
	Note	'000 RUR	'000 RUR
EQUITY AND LIABILITIES			
Equity			
Share capital	16	1 163 012	1 163 012
Retained earnings		3 411 712	785 622
Total equity		<u>4 574 724</u>	<u>1 948 634</u>
Non-current liabilities			
Deferred tax liabilities	13	19 306	26 547
Total non-current liabilities		<u>19 306</u>	<u>26 547</u>
Current liabilities			
Loans and borrowings	17	1 607 574	2 597 790
Trade and other payables	18	192 601	85 342
Total current liabilities		<u>1 800 175</u>	<u>2 683 132</u>
Total liabilities		<u>1 819 481</u>	<u>2 709 679</u>
Total equity and liabilities		<u><u>6 394 205</u></u>	<u><u>4 658 313</u></u>

The combined balance sheet is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 11 to 44.

PTP Group
Combined Statement of Cash Flows for the year ended 31 December 2008

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
OPERATING ACTIVITIES		
Profit for the year	2 626 090	2 373 319
<i>Adjustments for:</i>		
Depreciation	219 027	212 976
Amortisation	12 829	12 300
Impairment loss on trade receivables	1 435	-
Impairment loss on originated loans	63 343	-
Loss on disposal of property, plant and equipment	1 516	17 227
Gain on disposal of investments	(146)	(7)
Net foreign exchange (gain)/loss	(91 830)	4 323
Interest income	(93 406)	(90 222)
Interest expense	203 436	280 545
Cost of bank guarantees	-	41 529
Income tax expense	882 135	771 608
Other non-cash income/(expenses)	1 360	(871)
Operating profit before changes in working capital and provisions	3 825 789	3 622 727
(Increase) /decrease in inventories	(3 824)	3 879
(Increase) /decrease in trade and other receivables	(135 772)	382 621
Increase /(decrease) in trade and other payables	108 469	(321 313)
Cash flows from operations before income taxes and interest paid	3 794 662	3 687 914
Income taxes paid	(880 802)	(840 635)
Interest paid	(204 472)	(281 023)
Cash flows from operating activities	2 709 388	2 566 256

PTP Group
Combined Statement of Cash Flows for the year ended 31 December 2008

	2008	2007
	'000 RUR	(unaudited) '000 RUR
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	394	538
Proceeds from disposal of investments	4 736	165
Interest received	81 489	84 393
Acquisition of property, plant and equipment	(16 010)	(110 772)
Acquisition of intangible assets	-	(3 694)
Acquisition of equity investments	(4 590)	-
Origination of loans	(3 500)	(132 980)
Repayment of loans	-	75 599
Cash flows from/(used in) investing activities	62 519	(86 751)
FINANCING ACTIVITIES		
Proceeds from borrowings	-	165
Repayment of borrowings	(990 217)	(458 434)
Dividends paid	-	(2 400 000)
Cash flows used in financing activities	(990 217)	(2 858 269)
Net increase/(decrease) in cash and cash equivalents	1 781 690	(378 764)
Cash and cash equivalents at beginning of year	291 490	673 760
Effect of exchange rate fluctuations on cash and cash equivalents	91 655	(3 506)
Cash and cash equivalents at end of year (Note 15)	2 164 835	291 490

PTP Group
Combined Statement of Changes in Equity for the year ended 31 December 2008

'000 RUR	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 1 January 2007 (unaudited)	1 163 012	812 303	1 975 315
Profit and total recognised income and expense for the year (unaudited)	-	<u>2 373 319</u>	2 373 319
Dividends to shareholders (unaudited)	-	<u>(2 400 000)</u>	<u>(2 400 000)</u>
Balance at 31 December 2007 (unaudited)	<u>1 163 012</u>	<u>785 622</u>	<u>1 948 634</u>
Balance at 1 January 2008 (unaudited)	1 163 012	785 622	1 948 634
Profit and total recognised income and expense for the year	-	<u>2 626 090</u>	<u>2 626 090</u>
Balance at 31 December 2008	<u>1 163 012</u>	<u>3 411 712</u>	<u>4 574 724</u>

1 Background

(a) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The combined financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

These combined financial statements were prepared by the management of Primorskiy Torgoviy Port Limited Liability Company to present the combined financial position as at 31 December 2008 and 2007, and the combined financial performance and combined cash flows for the years then ended, of Primorskiy Torgoviy Port Limited Liability Company and Trans-Flot Closed Joint Stock Company (hereinafter – the “Group”) which were under the common control during the two-year period.

The companies included within the Group are ultimately controlled by companies, which have the power to direct the transactions of the Group at their own discretion and for their own benefit (the “Controlling Shareholders”). The Controlling Shareholders also have a number of other business interests in companies outside of the Group that are not involved in operating of the marine terminal located in Primorsk with regard to transshipment of oil and oil products, but provide services in the port of Primorsk. Related party transactions are detailed in Note 23.

The combined financial statements of the Group present the combined financial position, combined results of operations, combined changes in equity and combined cash flows of the companies listed above as if they comprised a single entity. See the basis of preparation in Note 3(a).

The Group's principal activity is transshipment of oil and oil products. These services are mainly rendered to companies domiciled in the Russian Federation.

2 Basis of preparation

(a) Statement of compliance

These combined financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). These are the Group's first combined financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

The Group has not prepared combined financial statements in accordance with Russian accounting principles. Accordingly, no reconciliation between the combined financial statements and combined financial statements prepared under Russian accounting principles has been prepared.

(b) Basis of measurement

The combined financial statements are prepared on the historical cost basis except that equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Group's functional currency and the currency in which these combined financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand of Rouble.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these combined financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 11 – Property, plant and equipment;
- Note 12 – Investments; and
- Note 22 – Contingencies.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the combined financial statements are described in Notes 3(a) to 3(p). These accounting policies have been applied consistently to all periods presented in these combined financial statements and in preparing an opening IFRS balance sheet at 1 January 2007 for the purposes of the transition to IFRSs.

The accounting policies have been applied consistently by all Group entities.

(a) Basis of preparation of the combined financial statements

The companies included within the Group are listed in Note 1(b) above. The combined financial statements of the Group present the combined financial position, combined results of operations, combined changes in equity and combined cash flows of the companies listed in Note 1(b) as if they comprised a single entity. This has been achieved by adding together the equity (including share capital), assets, liabilities, revenues and expenses of the companies.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the combined financial statements.

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are retranslated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising in retranslation are recognised in profit or loss.

(c) Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity, originated loans, trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances, call deposits and short-term deposits.

Accounting for finance income and expenses is discussed in Note 3(n).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

(d) Equity

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) **Property, plant and equipment**

(i) ***Recognition and measurement***

Items of property, plant and equipment, except for land and pipeline fill, are measured at cost less accumulated depreciation and impairment losses. Land and pipeline fill are measured at cost less impairment losses..

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" or "other expenses" in the income statement.

(ii) ***Subsequent costs***

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) ***Depreciation***

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and pipeline fill are not depreciated. Pipeline fill consists of crude oil used for the technical operation of the pipeline network owned by the Group. Pipeline fill is treated as a separate component of the pipeline class of asset and is not depreciated as its residual value exceeds its carrying amount.

The estimated useful lives for the current and comparative periods are as follows:

- buildings 5-30 years
- facilities 7-30 years
- machinery and equipment 3-10 years
- vehicles 3-10 years
- other 2-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement.

(ii) *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) *Employee benefits*

(i) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or other plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(l) Revenue

(i) Services

Revenue from transshipment services is recognised in the income statement when the services are provided as evidenced by the delivery of crude oil or oil products to the end customer or intermediary between the Group and the end customer in accordance with the contract.

(m) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(n) Finance income and expenses

Finance income comprises mainly interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise mainly interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets and costs of bank guarantees. Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset, other borrowing costs are recognised in the income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising in connection with the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these combined financial statements. The Group plans to adopt these pronouncements when they become effective, except for the IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – *Puttable Financial Instruments and Obligations Arising on Liquidation* which has been early adopted.

Of these pronouncements potentially the following will have an impact on the Group's operations:

- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 combined financial statements is expected to have a significant impact on the presentation of the combined financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Group has not yet determined the potential effect of the revised Standard.
- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 combined financial statements, are not expected to have a significant impact on the combined financial statements.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory

for the Group's 2010 combined financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. The Group has not yet determined the impact of the revised Standard on its financial position or performance.

- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's combined financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Revenue

	2008	2007
	'000 RUR	(unaudited)
	'000 RUR	'000 RUR
Revenues from transshipment services	4 627 387	4 577 979
Revenues from rent	78 560	73 635
Revenues from other services	12 616	12 392
Other revenues	-	79
	4 718 563	4 664 085

The tariffs for oil transshipment services in ports are regulated by the Russian Federation represented by the Federal Tariff Service, which establishes mandatory tariffs for all companies that operate marine ports and terminals for transshipment of oil and oil products.

6 Cost of sales

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Depreciation	210 584	208 014
Production safety services	177 969	205 606
Rent	168 841	97 459
Towage services	79 831	79 627
Wages and salaries	69 200	51 956
Oil spillage prevention services	58 109	50 690
Maintenance and repair of property, plant and equipment	42 342	40 580
Surveyor expenses	35 532	29 713
Cargo transshipment services from external providers	17 855	17 296
Unified social tax and contributions to social funds	13 818	12 119
Amortization	12 829	12 300
Materials	8 359	10 323
Insurance	7 021	292 988
Other expenses	24 329	33 780
	926 619	1 142 451

Production safety services are represented by ecological safety and control, fire safety services rendered by related and third parties.

Rent mainly comprises expenditure for rent of equipment, berths and pipelines from related parties under operating lease agreements.

Insurance expenses for 2008 decreased by RUR 285 967 thousand as compared to 2007 due to the following:

- the Group started to operate marine terminal upon its construction in April 2006. Due to the higher risks of equipment failure during the start-up period the insurance fees for the first year of operations were high; and
- in June 2007 the Group introduced the tender system to select an insurance company and switched to another insurer with more favourable rates.

7 Administrative expenses

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Wages and salaries	81 425	56 277
Rent of office premises and equipment	29 309	9 833
Other taxes	16 938	14 936
Unified social tax and contributions to social funds	9 663	7 484
Depreciation	8 443	4 962
Legal fees	6 221	4 188
Other administrative expenses	40 891	29 198
	192 890	126 878

8 Personnel costs

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Wages and salaries	150 625	108 233
Contributions to State pension fund	11 900	9 555
Unified social tax	11 581	10 048
	174 106	127 836

9 Financial income and expenses

	2008	2007
	'000 RUR	(unaudited)
	'000 RUR	'000 RUR
Financial income		
Interest income	93 406	90 222
Net foreign exchange gain	91 830	-
Other	-	6 762
Finance income	185 236	96 984
 Financial expenses		
Interest expense	203 436	280 545
Impairment loss on originated loans (see Note 12)	63 343	-
Net loss on foreign currency sales/purchases	1 504	2 519
Cost of bank guarantees	-	41 529
Net foreign exchange loss	-	4 323
Finance expense	268 283	328 916
Net finance expense recognised in income statement	83 047	231 932

In 2008 and 2007 all interest expense was expensed.

10 Income tax expense

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
<i>Current tax expense</i>		
Current year	880 554	829 970
	880 554	829 970
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(16 484)	(58 362)
Change in tax rate	18 065	-
	1 581	(58 362)
	882 135	771 608

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities at 31 December 2008.

Reconciliation of effective tax rate:

	2008		2007 (unaudited)	
	'000 RUR	%	'000 RUR	%
Profit before income tax	3 508 225	100.0	3 144 927	100.0
Income tax at applicable tax rate	841 974	24.0	754 782	24.0
Change in tax rate	18 065	0.5	-	-
Non-deductible expenses	22 687	0.7	16 826	0.5
Non-taxable income	(591)	0.0	-	-
	882 135	25.2	771 608	24.5

11 Property, plant and equipment

'000 RUR	Land and buildings	Machinery and equipment				Vehicles	Pipeline fill	Other	Construction in progress	Total
		Facilities								
<i>Cost</i>										
Balance at 1 January 2007 (unaudited)	211 809	2 501 839	310 166	12 626	15 740	7 362	719 570	3 779 112		
Additions	13 867	23 010	13 469	23 301	-	17 508	19 617	110 772		
Disposals	(15)	-	-	(6 519)	-	(285)	(13 525)	(20 344)		
Transfer	50 413	31 573	-	-	-	2	(81 988)	-		
Balance at 31 December 2007 (unaudited)	276 074	2 556 422	323 635	29 408	15 740	24 587	643 674	3 869 540		
Balance at 1 January 2008 (unaudited)	276 074	2 556 422	323 635	29 408	15 740	24 587	643 674	3 869 540		
Additions	487	2 184	-	3 735	-	2 505	7 099	16 010		
Disposals	-	(525)	-	-	-	(407)	(1 580)	(2 512)		
Transfer	-	5 361	-	-	-	3	(5 364)	-		
Balance at 31 December 2008	276 561	2 563 442	323 635	33 143	15 740	26 688	643 829	3 883 038		

'000 RUR	Land and buildings	Facilities	Machinery and equipment	Vehicles	Pipeline fill	Other	Construction in progress	Total
<i>Depreciation and impairment losses</i>								
Balance at 1 January 2007 (unaudited)	(9 784)	(91 357)	(23 512)	(2 170)	-	(1 520)	-	(128 343)
Depreciation charge	(7 975)	(139 340)	(58 900)	(4 633)	-	(2 128)	-	(212 976)
Disposals	15	-	-	2 563	-	1	-	2 579
Balance at 31 December 2007 (unaudited)	(17 744)	(230 697)	(82 412)	(4 240)	-	(3 647)	-	(338 740)
Balance at 1 January 2008 (unaudited)	(17 744)	(230 697)	(82 412)	(4 240)	-	(3 647)	-	(338 740)
Depreciation charge	(9 919)	(139 593)	(59 682)	(4 762)	-	(5 071)	-	(219 027)
Disposals	-	211	-	-	-	391	-	602
Balance at 31 December 2008	(27 663)	(370 079)	(142 094)	(9 002)	-	(8 327)	-	(557 165)
<i>Net book value</i>								
At 1 January 2007 (unaudited)	202 025	2 410 482	286 654	10 456	15 740	5 842	719 570	3 650 769
At 31 December 2007 (unaudited)	258 330	2 325 725	241 223	25 168	15 740	20 940	643 674	3 530 800
At 31 December 2008	248 898	2 193 363	181 541	24 141	15 740	18 361	643 829	3 325 873

Pipeline fill represents 2 264 tonnes of crude oil as at 31 December 2008 (as at 31 December 2007: 2 264 tonnes). Pipeline fill is used to fill pipelines located on the territory of marine terminal and is necessary for oil transshipment through the terminal.

Depreciation expense of RUR 210 584 thousand (2007: RUR 208 014 thousand) has been charged to cost of sales and RUR 8 443 thousand (2007: RUR 4 962 thousand) to administrative expenses.

(a) Construction in progress

Construction in progress comprises equipment with total cost of RUR 633 746 thousand (2007: RUR 633 746 thousand) that is planned for use upon completion of construction by a related party of the Group of the new railroad terminal for bulk oil, that is planned to be finished in 2012. The exact starting date of operation of the terminal is dependent on concluding of the rent agreement of land between the related party of the Group and local authorities as well as concluding of an agreement between the related party of the Group and Russian Railways on connecting of terminal to railway facilities.

(b) Security

Land with a carrying amount of RUR 2 500 thousand (2007: RUR 2 500 thousand) and other property, plant and equipment with a carrying amount of RUR 238 147 thousand (2007: RUR 311 501 thousand) are subject to a registered debenture to secure bank loans (see Note 17).

12 Investments

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
<i>Non-current</i>		
Available-for-sale investments	1 925	1 925
Originated loans in RUR	3 220	51 563
	5 145	53 488
<i>Current</i>		
Originated loans in RUR	105 913	54 070
	105 913	54 070
Impairment loss on originated loans	(63 343)	-
	42 570	54 070

Available-for-sale investments consist of equity investments. These equity investments are stated at cost and comprise unquoted equity securities of Morskoy Torgoviy Port "Primorsk" Open Joint Stock Company. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. Using its judgement, management believes that the fair value of these investments as at 31 December 2008 and 31 December 2007 is likely not to differ significantly from their carrying amounts.

At 31 December 2008 the Group recognized allowance for originated loans to Daltrans Limited Liability Company in the amount of RUR 15 000 thousand and to a related party of the Group in the amount of RUR 48 343 thousand. In 2008 Daltrans Limited Liability Company was in the process of liquidation and recoverability of the loan is doubtful.

The Group's exposure to credit, currency and interest rate risks related to investments is disclosed in Note 19.

13 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUR	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
		(unaudited)		(unaudited)		(unaudited)
Property, plant and equipment	17 267	20 694	(36 573)	(46 531)	(19 306)	(25 837)
Trade and other receivables	-	-	-	(710)	-	(710)
Trade and other payables	8 662	2 206	-	-	8 662	2 206
Tax loss carry-forwards	100 967	116 245	-	-	100 967	116 245
Tax assets/(liabilities)	126 896	139 145	(36 573)	(47 241)	90 323	91 904
Set off of tax	(17 267)	(20 694)	17 267	20 694	-	-
Net tax assets/(liabilities)	109 629	118 451	(19 306)	(26 547)	90 323	91 904

The tax loss carry-forwards expire as follows: 2015 – RUR 17 785 thousand, 2016 – RUR 51 177 thousand, 2017 – RUR 27 909 thousand, 2018 – RUR 4 096 thousand. Deferred tax assets have been recognised in respect of these items because it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(b) Movement in temporary differences during the year

'000 RUR	1 January	Recognised	31 December	Recognised	31 December
	2007	in income	2007	in income	2008
	(unaudited)	(unaudited)	(unaudited)		
Property, plant and equipment	(39 252)	13 415	(25 837)	6 531	(19 306)
Trade and other receivables	(9 988)	9 278	(710)	710	-
Trade and other payables	28	2 178	2 206	6 456	8 662
Tax loss carry-forwards	82 754	33 491	116 245	(15 278)	100 967
	33 542	58 362	91 904	(1 581)	90 323

14 Trade and other receivables

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
<i>Non-current</i>		
Trade receivables	37 131	20 729
	<u>37 131</u>	<u>20 729</u>
<i>Current</i>		
Trade receivables	449 438	401 532
VAT receivable	124 755	68 205
Prepayments	23 212	10 983
Interest receivable	20 182	8 265
Other receivables	13 416	13 028
	<u>631 003</u>	<u>502 013</u>

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in Note 19.

15 Cash and cash equivalents

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
<i>Cash</i>		
Call deposits in RUR	-	200 000
Bank balances in RUR	81 396	88 886
Bank balances in other currencies	1 757	2 532
Petty cash in RUR	26	72
	<u>83 179</u>	<u>291 490</u>
<i>Cash equivalents</i>		
Short-term bank deposits in RUR (9,25% - 11,50%)	710 000	-
Short-term bank deposits in USD (6,50%)	1 371 656	-
	<u>2 081 656</u>	<u>-</u>
	<u>2 164 835</u>	<u>291 490</u>

Call deposits comprise bank deposits redeemable on demand.

Short-term bank deposits comprise bank deposits with a maturity period of not more than three months after the date of acquisition. None are redeemable on demand.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

16 Equity

(a) Share capital

In 2008 and 2007 the share capital of the Group comprises the share capital of the following companies (see note 3(a) for basis of preparation):

	Authorised shares (ordinary)	Par value RUR	Total shares (ordinary)	Share capital '000 RUR	Ownership
Trans-Flot Closed Joint Stock Company	1 260 000 000	1	1 160 000 000	1 160 002	99.4% - Kolmon Management Limited (Cyprus) 0.6% - Stroy Alyanse Limited Liability Company (Russia)
Primorskiy Torgoviy Port Limited Liability Company	x	x	x	3 010	100% - Omirico Limited (Cyprus)

The holders of ordinary shares in joint stock companies are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

The shareholders in limited liability companies are entitled to vote according to their share in the company's share capital.

The law «On Limited Liability Companies» was changed with effect from 1 July 2009 and a sole participant is no longer permitted to withdraw from a limited liability company.

(b) Dividends

Dividend distribution to the companies' shareholders is recognized in the Group's combined financial statements in the period in which the dividends are declared.

In accordance with Russian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the companies statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 Trans-Flot Closed Joint Stock Company had accumulated losses, including the loss for the current year, of RUR 269 802 thousand (2007: RUR 242 825 thousand), and Primorskiy Torgoviy Port Limited Liability Company had accumulated profits, including the profit for the current year, of RUR 3 823 214 thousand (2007: RUR 1 097 123 thousand).

17 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 19.

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Current liabilities		
Secured bank loans	1 607 574	2 597 790
	<u>1 607 574</u>	<u>2 597 790</u>

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUR	Currency	Nominal Interest rate	Year of maturity	2008		2007 (unaudited)	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loans	RUR	9,5%	2010	1 607 574	1 607 574	2 597 790	2 597 790
				<u>1 607 574</u>	<u>1 607 574</u>	<u>2 597 790</u>	<u>2 597 790</u>

Bank loans are secured by the following:

- Mortgage of 51% shares of Trans-Flot Closed Joint Stock Company.
- Mortgage of land with a carrying amount of RUR 2 500 thousand (2007: RUR 2 500 thousand) – see Note 11(b)
- Mortgage of other property, plant and equipment with a carrying amount of RUR 238 147 thousand (2007: RUR 311 501 thousand) – see Note 11(b).
- Mortgage of 4 tug boats owned by Morskoy Portovy Service Closed Joint Stock Company.
- Guarantees issued by Morskoy Portovy Service Closed Joint Stock Company and SovFrakht-Primorsk Closed Joint Stock Company.

As at 31 December 2008 and 2007 the Group classified its secured loans received from Sberbank equal to RUR 1 607 574 thousand (2007: RUR 2 597 790 thousand) as current liabilities. This was due to a breach by the Group of loan covenants, which made loans repayable on demand. Per the initial contractual terms loans were repayable as follows:

Six months ended 30 June 2009 – RUR 519 558 thousand;

Six months ended 31 December 2009 – RUR 531 783 thousand;

Year ending 31 December 2010 – RUR 556 233 thousand.

18 Trade and other payables

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Trade payables	126 093	53 720
Other taxes payable	38 404	11 943
Employee benefits payable	15 268	9 265
Interest payable	1 669	2 705
Other payables	11 167	7 709
	192 601	85 342

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 19.

19 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these combined financial statements.

The Boards of Directors, the General Directors and the Financial Directors of the companies that comprise the Group have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

Most customers of the Group are major Russian oil companies, which are also customers of AK Transneft Open Joint Stock Company, which owns the pipeline used to deliver oil products to the Group's marine terminal. The Group does not have a formal policy to manage credit risk. All customers, who receive access to the oil pipeline of AK Transneft Open Joint Stock Company, are automatically approved and accepted by the Group.

The Group renders services in one geographical location (Primorsk, Leningradskaya oblast) and only to companies domiciled in Russia. Approximately 30% of the Group's revenue is attributable to sales transactions with a single customer. Hence the Group's exposure to credit risk is influenced principally by the individual characteristics of each customer. The demographics of the Group's customer base do not have any influence on credit risk.

The majority of the Group's customers have been transacting with the Group for over three years, and no trade receivables were written off during this period. In monitoring credit risk, customers are grouped according to their credit characteristics. The Group does not require collateral in respect of trade and other receivables and trades only on a credit basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. This allowance is made for a specific loss component that relates to individually significant exposures.

(ii) Investments

The Group limits its exposure to credit risk by only investing in bank deposits with banks that have a strong credit rating and issuing loans to related parties. In normal circumstances, the Group would not expect a related party counterparty to fail to meet its obligations.

(iii) Guarantees

The Group did not provide any financial guarantees in 2008 and 2007.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 RUR	Carrying amount	
	2008	2007 (unaudited)
Available-for-sale financial assets	1 925	1 925
Loans and receivables	565 957	549 187
Cash and cash equivalents	2 164 835	291 490
	2 732 717	842 602

The Group's most significant customer, a Russian state-owned oil company, accounts for RUR 150 063 thousand of the trade receivables carrying amount at 31 December 2008 (2007: RUR 104 831 thousand).

Impairment losses

The aging of trade receivables at the reporting date was:

'000 RUR	Gross 2008	Impairment 2008	Gross 2007 (unaudited)	Impairment 2007 (unaudited)
Not past due	439 073	-	401 794	-
Past due 0-30 days	1 635	-	1 545	-
Past due 31-120 days	4 100	-	4 100	-
Past due more than 120 days	41 761	-	14 822	-
	486 569	-	422 261	-

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 '000 RUR	2007 (unaudited) '000 RUR
Balance at 1 January	-	-
Increase during the year	1 435	-
Amounts written off against financial assets	(1 435)	-
Balance at 31 December	-	-

The impairment loss in 2008 of RUR 1 435 thousand relates to a customer that was declared bankrupt and ceased to exist during the year.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 day as most of them relate to customers that have a good track record with the Group.

No impairment allowance was recognised either at 31 December 2008 or at 31 December 2007 in respect of trade receivables past due by more than 30 days, since the management has strong confidence in their recoverability. Part of these balances in the amount of RUR 34 397 thousand (2007: 7 458 thousand) is due from a related party and the residual amount of RUR 11 464 thousand (2007: RUR 11 464 thousand) was paid by the customer in January 2009.

The movement in the allowance for impairment in respect of loans during the year was as follows:

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Balance at 1 January	-	-
Increase during the year	63 343	-
Balance at 31 December	63 343	-

An impairment loss at 31 December 2008 of RUR 63 343 thousand relates to originated loans to Daltrans Limited Liability Company and the Group's related party (see Note 12).

The allowance accounts in respect of trade receivables and originated loans are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly. At 31 December 2008 the Group does not have any collective impairments on its trade receivables or its originated loans (2007: nil).

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Financial Director of the Group is responsible for controlling the liquidity risk. That is performed by means of annual and monthly budgeting. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses (including servicing of financial obligations) for a period of at least 30 days. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

At 31 December 2008 the Group has sufficient available cash funds which are invested in short-term bank deposits with maturity not exceeding 90 days, that can be easily drawn down to meet operational needs.

At 31 December 2008 the Group has no available lines of credit.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and excluding the impact of netting agreements:

2008						
'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs
Financial liabilities						
Secured bank loans	1 607 574	1 607 574	1 607 574	-	-	-
Trade and other payables	192 601	192 601	192 601	-	-	-
			<u>1 800 175</u>	<u>-</u>	<u>-</u>	<u>-</u>

2007 (unaudited)

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs
Financial liabilities						
Secured bank loans	2 597 790	2 597 790	2 597 790	-	-	-
Trade and other payables	85 342	85 342	85 342	-	-	-
			<u>2 683 132</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is not exposed to any significant currency risk on sales, purchases and borrowings as the great majority of such transactions (more than 99.8% in 2008 and 2007) are denominated in the functional currency of Group entities (the Russian Rouble (RUR)).

In respect of other monetary assets and liabilities denominated in foreign currencies, they are mainly represented by short-term bank deposits denominated in U.S. Dollars (USD).

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUR	USD 2008	USD 2007 (unaudited)
Cash and cash equivalents	1 373 282	2 532
Trade and other receivables	13 354	1 280
Originated loans	-	-
Trade and other payables	-	(12)
Loans and borrowings	-	-
Gross balance sheet exposure	<u>1 386 636</u>	<u>3 800</u>
Forward exchange contracts	-	-
Net exposure	<u>1 386 636</u>	<u>3 800</u>

The following exchange rates applied during the year:

in RUR	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
USD 1	24,8553	25,5759	29,3804	24,5462

Sensitivity analysis

A 20% strengthening of the RUR against the following currencies at 31 December would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Equity '000 RUR	Loss '000 RUR
2008		
USD	-	277 327
2007 (unaudited)		
USD	-	760

A 20% weakening of the RUR against the above currencies at 31 December would have had the equal but opposite effect, on the basis that all other variables remain constant.

(ii) *Interest rate risk*

The Group's exposure to interest rate risk is limited to changes in interest rates of bank deposits, loans and borrowings. In 2008 and 2007 all of them were at fixed interest rates.

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates and uses only fixed rate financial instruments. At the time of raising new bank deposits, loans or borrowings management uses its judgment to decide whether it believes that the proposed fixed interest rate would be favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 RUR	Carrying amount	
	2008	2007 (unaudited)
Fixed rate instruments		
Financial assets	2 127 446	305 633
Financial liabilities	(1 607 574)	(2 597 790)
	519 872	(2 292 157)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

Management of the Group believes that the fair values of financial assets and liabilities shown in the balance sheet approximate their carrying amounts. The basis for determining fair values is disclosed in note 4.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, were as follows:

	2008	2007 (unaudited)
Call deposits in RUR	-	7.1%
Short-term bank deposits in RUR	11.75%	6.8 – 8.5%
Short-term bank deposits in USD	6.5%	4.9%
Originated loans	6 – 17%	6 – 14%
Loans and borrowings	9.5%	9.5%

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors and management monitor the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to shareholders.

There were no changes in the Group's approach to capital management during the year.

Neither Primorsky trade port, LLC nor Trans-Flot CJSC are subject to externally imposed capital requirements.

20 Operating leases

(a) Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2008	2007 (unaudited)
	'000 RUR	'000 RUR
Less than one year	826 351	140 044
Between one and five years	3 293 925	552 088
More than five years	14 126 584	2 491 657
	18 246 860	3 183 789

In December 2008 the Group signed amendments to existing non-cancellable operating lease agreements that significantly increased lease rentals starting from 1 December 2008 and changed lease rentals payable schedule at 31 December 2008 as compared to 31 December 2007 above. No new non-cancellable operating lease agreements were signed by the Group in 2008 as compared to 2007.

Additionally to the schedule above, both at 31 December 2008 and 2007 the Group had three operating lease agreement that in accordance with Civil Code are cancellable within period of up to three months upon notification made by any party of the contract. Non-cancellable lease rentals under these agreements are equal to RUR 9 857 thousand after 31 December 2008 (2007: RUR 1 794 thousand).

During the current year RUR 198 150 thousand (2007: RUR 107 292 thousand) under operating lease agreements was recognised in the income statement as expense, including RUR 167 341 thousand (2007: RUR 97 343 thousand) recognised under non-cancellable operating lease agreements.

The Group leases berths and a number of equipment for oil transshipment from related parties under non-cancellable operating lease contracts. The leases typically run for a period of 10 to 25 years. The Group has classified these contracts as operating leases due to the following facts:

- Lease contracts do not transferr ownership, do not include bargain purchase options and the leased assets are not of a specialised nature.
- The economic lives of the oil terminal and related equipment are significantly longer than the lease terms and, accordingly, the lease terms of these contracts are not for a major part of the economic lives of the assets.
- Lease payments under major lease agreements with related parties were increased substantially after the inception of the leases (mainly from 1 December 2008). As there is no active market for rent of similar assets, it is impracticable to determine the market rent for the lease contracts, neither has it been practicable to determine the fair value of the leased assets. In the circumstances, management believes that the net present value of

minimum lease payments is not a strong indicator as to whether the contracts are finance leases.

As a consequence, the Group continued to recognise all leases as operating leases.

(b) Leases as lessor

The Group leases out part of its land plot under a non-cancellable operating lease agreement signed in 2006 for a period of 25 years. Lease rentals under this agreement are receivable as follows:

	2008 '000 RUR	2007 (unaudited) '000 RUR
Less than one year	16 401	16 401
Between one and five years	65 605	65 605
More than five years	291 122	307 523
	373 128	389 529

Additionally to the schedule above, both at 31 December 2008 and 2007 the Group has an operating lease agreement that in accordance with the Civil Code is cancellable within 1 month upon notification by either party to the contract. Non-cancellable lease rentals under this agreement are equal to RUR 2 100 thousand after 31 December 2008 (2007: RUR 2 100 thousand).

During the current year RUR 78 560 thousand (2007: RUR 73 635 thousand) under the operating lease agreements was recognised in the income statement as revenue, including RUR 13 899 thousand (2007: RUR 13 899 thousand) recognised under the non-cancellable operating lease agreement.

21 Commitments

The Group had no significant commitments as at 31 December 2008 (2007: nil).

22 Contingencies

(a) Litigation

There are no significant litigations and claims involving the Group both at 31 December 2008 and 31 December 2007.

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may

remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these combined financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

23 Related party transactions

(a) Control relationships

No publicly available financial statements are produced by the Group's immediate controlling companies.

(b) Transactions with management and close family members

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

	2008	2007
	'000 RUR	(unaudited)
	'000 RUR	'000 RUR
Salaries and bonuses	30 418	19 858
Contributions to State pension fund	1 449	784
	<u>31 867</u>	<u>20 642</u>

No termination and other long-term benefits were stipulated for management of the Group in the current and prior periods.

(c) Transactions with other related parties

The Group's other related party transactions are disclosed below.

(i) Revenue

'000 RUR	Transaction value 2008	Transaction value 2007 (unaudited)	Outstanding balance 2008	Outstanding balance 2007 (unaudited)
Services provided:				
Other related parties	88 176	70 459	42 562	12 150
Interest income:				
Other related parties	193	34	227	34
	88 369	70 493	42 789	12 184

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date, except for a receivable from a related party in the amount of RUR 37 131 thousand as at 31 December 2008, which will be settled in 2010. None of the balances are secured.

(ii) Expenses

'000 RUR	Transaction value 2008	Transaction value 2007 (unaudited)	Outstanding balance 2008	Outstanding balance 2007 (unaudited)
Services received:				
Other related parties	543 729	471 896	109 691	35 849
	543 729	471 896	109 691	35 849

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(iii) Loans

'000 RUR	Amount loaned 2008	Amount loaned 2007 (unaudited)	Outstanding balance 2008	Outstanding balance 2007 (unaudited)
Loans given:				
Other related parties	3 500	3 220	55 063	3 220
Impairment loss on loans given (see note 12)	-	-	(48 343)	-
	3 500	3 220	6 720	3 220

(d) Pricing policies

Related party transactions are based on prices established by the parties. Lease payments under major lease agreements with related parties were increased by 6 times starting from 1 December 2008 (see Note 20).

24 Events subsequent to the balance sheet date

In 2009 the Group entered into contracts to purchase a tug boat for EUR 7 515 thousand and for the construction a tugboat for RUR 418 million.

Subsequent to 31 December 2008 the Group declared dividends for the period from 1 September 2007 to 31 March 2010 for the total amount of RUR 1 487 503 thousand.

In May 2010 the Board of Directors of the Group recommended to the shareholders to declare dividends for performance in the second half 2009 in the amount of RUR 214 000 thousand. This recommendation has not been adopted by the shareholders.

In 2009 the Group started the construction of a bunkering complex for oil storage and oil transfer to tankers.