

**PTP Group**

**Combined Financial Statements  
for the year ended 31 December 2009**

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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 statements of financial position as at 31 December 2009 and 2008, and the combined statements of comprehensive income, statements of changes in equity and statements of cash flows for the years 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 presentation of these combined financial statements in accordance with the basis of preparation described in Note 2(a). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and 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 prepared in accordance with the basis of preparation described in Note 2(a).

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 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.

*Opinion*

In our opinion, the accompanying combined financial statements of financial position as at 31 December 2009 and 2008, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the years then ended have been prepared, in all material respects, in accordance with the basis of preparation described in Note 2(a).

*Emphasis of Matter*

Without qualifying our opinion, we also draw attention to the fact that the corresponding figures as at 01 January 2007 and as at and for the year ended 31 December 2007 are unaudited.

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*21 September 2010*

*FTP Group*  
*Combined Statement of Financial Position as at 31 December 2009*

'000 RUR	Note	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	11	4,329,649	4,181,761	4,429,637	4,591,734
Prepayments for non-current assets	11	149,690	-	-	-
Intangible assets		19,397	32,356	44,639	53,295
Other investments	12	19,437	11,799	60,757	49,126
Trade and other receivables	15	-	37,131	20,729	4,328
Deferred tax assets	13	6,046	114,061	120,199	84,296
<b>Total non-current assets</b>		<b>4,524,219</b>	<b>4,377,108</b>	<b>4,675,961</b>	<b>4,782,779</b>
<b>Current assets</b>					
Inventories	14	37,251	29,029	19,717	16,278
Other investments	12	536,141	93,787	149,431	10,595
Current tax assets		41,259	26,923	52,551	64,249
Trade and other receivables	15	919,443	645,639	549,217	1,001,143
Prepayments		57,897	26,851	15,404	54,785
Cash and cash equivalents	16	1,906,327	2,599,975	568,836	837,110
<b>Total current assets</b>		<b>3,498,318</b>	<b>3,422,204</b>	<b>1,355,156</b>	<b>1,984,160</b>
<b>Total assets</b>		<b>8,022,537</b>	<b>7,799,312</b>	<b>6,031,117</b>	<b>6,766,939</b>

**PTP Group**  
*Combined Statement of Financial Position as at 31 December 2009*

'000 RUR	Note	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>	17				
Share capital		1,165,062	1,165,062	1,165,062	1,164,022
Retained earnings		5,854,373	4,660,148	1,764,488	1,981,433
<b>Total equity</b>		<u>7,019,435</u>	<u>5,825,210</u>	<u>2,929,550</u>	<u>3,145,455</u>
<b>Non-current liabilities</b>					
Loans and borrowings	18	-	-	-	2,597,625
Deferred tax liabilities	13	128,390	138,604	153,500	146,291
<b>Total non-current liabilities</b>		<u>128,390</u>	<u>138,604</u>	<u>153,500</u>	<u>2,743,916</u>
<b>Current liabilities</b>					
Loans and borrowings	18	556,233	1,607,574	2,600,419	458,434
Current tax liabilities		-	10,053	-	-
Trade and other payables	19	318,479	217,871	347,648	419,134
<b>Total current liabilities</b>		<u>874,712</u>	<u>1,835,498</u>	<u>2,948,067</u>	<u>877,568</u>
<b>Total liabilities</b>		<u>1,003,102</u>	<u>1,974,102</u>	<u>3,101,567</u>	<u>3,621,484</u>
<b>Total equity and liabilities</b>		<u>8,022,537</u>	<u>7,799,312</u>	<u>6,031,117</u>	<u>6,766,939</u>

'000 RUR	Note	2009	2008	2007 (unaudited)
Revenue	5	6,242,832	5,603,997	5,340,494
Cost of sales	6	(1,897,894)	(1,075,957)	(1,233,025)
<b>Gross profit</b>		<b>4,344,938</b>	<b>4,528,040</b>	<b>4,107,469</b>
Other income		5,681	7,593	5,582
Administrative expenses	7	(413,725)	(320,568)	(226,343)
Other expenses		(33,302)	(18,837)	(26,153)
<b>Results from operating activities</b>		<b>3,903,592</b>	<b>4,196,228</b>	<b>3,860,555</b>
Finance income	9	176,337	230,723	107,683
Finance costs	9	(107,848)	(224,904)	(386,808)
<b>Profit before income tax</b>		<b>3,972,081</b>	<b>4,202,047</b>	<b>3,581,430</b>
Income tax expense	10	(804,355)	(1,016,330)	(877,060)
<b>Profit and total comprehensive income for the year</b>		<b>3,167,726</b>	<b>3,185,717</b>	<b>2,704,370</b>

These combined financial statements were approved by management on 21 September 2010 and were signed on its behalf by:

Golubkov D.I.  
*General Director*



Nazarova S.V.  
*Chief Accountant*



**PTP Group**  
*Combined Statement of Changes in Equity for the year ended 31 December 2009*

'000 RUR	Share capital	Retained earnings	Total equity
Balance at 1 January 2007 (unaudited)	1,164,022	1,981,433	3,145,455
<b>Total comprehensive income for the year</b>			
Profit for the year (unaudited)	-	2,704,370	2,704,370
<b>Total comprehensive income for the year</b>	-	2,704,370	2,704,370
<b>Transactions with owners, recorded directly in equity</b>			
<b>Contributions by and distributions to owners</b>			
Dividends to equity holders (unaudited)	-	(2,921,315)	(2,921,315)
Shares issued (unaudited)	1,040	-	1,040
Total contributions by and distributions to owners	1,040	(2,921,315)	(2,920,275)
Balance at 31 December 2007 (unaudited)	1,165,062	1,764,488	2,929,550
Balance at 1 January 2008 (unaudited)	1,165,062	1,764,488	2,929,550
<b>Total comprehensive income for the year</b>			
Profit for the year	-	3,185,717	3,185,717
<b>Total comprehensive income for the year</b>	-	3,185,717	3,185,717
<b>Transactions with owners, recorded directly in equity</b>			
<b>Contributions by and distributions to owners</b>			
Dividends to equity holders	-	(290,057)	(290,057)
Total distributions to owners	-	(290,057)	(290,057)
Balance at 31 December 2008	1,165,062	4,660,148	5,825,210
Balance at 1 January 2009	1,165,062	4,660,148	5,825,210
<b>Total comprehensive income for the year</b>			
Profit for the year	-	3,167,726	3,167,726
<b>Total comprehensive income for the year</b>	-	3,167,726	3,167,726
<b>Transactions with owners, recorded directly in equity</b>			
<b>Contributions by and distributions to owners</b>			
Dividends to equity holders	-	(1,973,501)	(1,973,501)
Total distributions to owners	-	(1,973,501)	(1,973,501)
Balance at 31 December 2009	1,165,062	5,854,373	7,019,435

The combined statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 11 to 59.



*PTP Group*  
*Combined Statement of Cash Flows for the year ended 31 December 2009*

'000 RUR	Note	2009	2008	2007 (unaudited)
<b>Cash flows from operating activities</b>				
Profit for the year		3,167,726	3,185,717	2,704,370
<i>Adjustments for:</i>				
Depreciation	11	274,974	268,325	262,045
Amortisation		13,139	13,038	12,772
Impairment loss on receivables	9	325	1,561	-
Reversal of impairment loss on receivables	9	(28)	(1,473)	-
Impairment loss on originated loans	9	-	17,756	-
Loss/(gain) on disposal of property, plant and equipment		2,253	(1,085)	15,313
Gain on disposal of investments	9	-	(146)	(7)
Net foreign exchange loss/(gain)	9	1,277	(114,808)	14,456
Interest income	9	(176,241)	(114,100)	(100,605)
Interest expense	9	106,246	205,587	282,103
Unwind of discount on interest-free loans	9	(66)	(196)	(305)
Cost of bank guarantees	9	-	-	90,249
Income tax expense	10	804,355	1,016,330	877,060
<b>Cash from operating activities before changes in working capital and provisions</b>				
		4,193,960	4,476,506	4,157,451
Increase in inventories		(8,222)	(9,312)	(3,439)
(Increase)/decrease in trade and other receivables		(233,070)	(100,906)	351,104
(Increase)/decrease in prepayments for current assets		(31,046)	(11,447)	39,381
(Decrease)/increase in trade and other payables		(16,302)	127,374	(327,124)
<b>Cash flows from operations before income taxes and interest paid</b>				
		3,905,320	4,482,215	4,217,373
Income tax paid		(730,943)	(989,407)	(894,056)
Interest paid		(107,336)	(206,623)	(282,580)
<b>Net cash from operating activities</b>		<b>3,067,041</b>	<b>3,286,185</b>	<b>3,040,737</b>

The combined statement of cash flows is to be read in conjunction with the notes to, and forming part of, the combined financial statements set out on pages 11 to 59.

**PTP Group**  
*Combined Statement of Cash Flows for the year ended 31 December 2009*

'000 RUR	Note	2009	2008	2007 (unaudited)
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment		2,236	4,364	3,440
Proceeds from sale of investments		-	4,736	165
Interest received		172,638	102,182	94,777
Acquisition of property, plant and equipment		(577,041)	(23,728)	(118,952)
Acquisition of intangible assets		(411)	(647)	(3,560)
Investments in equity securities		(200)	(4,590)	-
Acquisition of investments		(251,652)	-	(10,000)
Acquisition of available-for-sale investments		(6,106)	-	-
Origination of loans		(410,104)	(34,615)	(217,124)
Repayment of loans		218,070	121,461	76,499
<b>Net cash (used in)/from investing activities</b>		<b>(852,570)</b>	<b>169,163</b>	<b>(174,755)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital		-	-	1,040
Proceeds from borrowings		-	-	2,629
Repayment of borrowings		(1,051,341)	(992,845)	(458,269)
Dividends paid	17	(1,855,501)	(546,172)	(2,665,200)
<b>Net cash used in financing activities</b>		<b>(2,906,842)</b>	<b>(1,539,017)</b>	<b>(3,119,800)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(692,371)</b>	<b>1,916,331</b>	<b>(253,818)</b>
Cash and cash equivalents at beginning of year	16	2,599,975	568,836	837,110
Effect of exchange rate fluctuations on cash and cash equivalents		(1,277)	114,808	(14,456)
<b>Cash and cash equivalents at end of year</b>	16	<b>1,906,327</b>	<b>2,599,975</b>	<b>568,836</b>

## **1 Background**

### **(a) Russian 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 2009, 2008 and 2007 and 01 January 2007 and combined financial performance and combined cash flows for the years ended 31 December 2009, 2008 and 2007, of Primorskiy Torgoviy Port Limited Liability Company, Trans-Flot Closed Joint Stock Company, Sovfraht-Primorsk Closed Joint Stock Company and Morskoy Portovy Service Closed Joint Stock Company (hereinafter – the “Group”).

Primorskiy Torgoviy Port Limited Liability Company and Trans-Flot Closed Joint Stock Company included within the Group are ultimately controlled by shareholders, which have the power to direct the transactions of these companies at their own discretion and for their own benefit (the “Controlling Shareholders”). As a part of restructuring, during 2010 operations and assets of Trans-Flot Closed Joint Stock Company were transferred to Primorskiy Torgoviy Port Limited Liability Company by sale of assets. The assets of Morskoy Portovy Service Closed Joint Stock Company were acquired during 2010 by Sovfraht-Primorsk Closed Joint Stock Company that leased these assets before under finance lease agreements from Morskoy Portovy Service Closed Joint Stock Company. Employees of Morskoy Portovy Service Closed Joint Stock Company were employed by Primorskiy Torgoviy Port Limited Liability Company. Primorskiy Torgoviy Port Limited Liability Company plans to perform acquisition of Sovfraht-Primorsk Closed Joint Stock Company which includes assets previously owned by Morskoy Portovy Service Closed Joint Stock Company by acquisition of shares.

The Controlling Shareholders also have a number of other business interests in companies outside of the Group that are not involved in the operation 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 24.

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.

The Group's principal activity is transshipment of oil and oil products and ship agent services for boards calling in the port of Primorsk. All 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 by combining financial statements of the Group entities, which are prepared under IFRS International Financial Reporting Standards ("IFRSs"). The basis for combination is described in the note 3(a). These combined financial statements do not constitute consolidated financial statements prepared under IFRSs. Two entities included into these combined financial statements were not under common control during the reporting periods ended 31 December 2007, 2008 and 2009.

These financial statements are the entities' first 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 functional currency of all companies of the Group 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 estimates and judgments**

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. 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 combined financial statements is included in the following notes:

- Note 12 – Investments;
- Note 21 – Lease classification;
- Note 23 – Contingencies.

There are no assumptions or estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

### **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements, and have been applied consistently by Group entities.

#### **(a) Basis of combination**

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 comprise a single entity. This has been achieved by adding together the equity (including share capital), assets, liabilities, revenues and expenses of discussed companies.

As no acquisition of Sovfraht-Primorsk Closed Joint Stock Company has been done at the date of preparation of these combined financial statements and no fair values were determined to be assigned to values of assets and liabilities of Sovfraht-Primorsk Closed Joint Stock Company, no fair value adjustments were posted to the assets and liabilities of Sovfraht-Primorsk Closed Joint Stock Company for the purpose of these combined financial statements.

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

#### **(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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### **(b) Financial instruments**

##### **(i) Non-derivative financial instruments**

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables, held-to-maturity financial assets and available-for-sale financial assets.

***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, and are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

***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.

**(ii) *Non-derivative financial liabilities***

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

**(iii) *Share capital***

*Ordinary shares*

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

**(c) *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 their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs (see note 9). 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 determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income" or "other expenses" in profit or loss.

**(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 profit or loss as incurred.

**(iii) *Depreciation***

Depreciation is calculated over the depreciable amount, which is the cost of an asset or other amount substituted for cost, less its residual value.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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
- boats and crafts 25 years
- other 2-10 years

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

**(d) Intangible assets**

**(i) Intangible assets**

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**(ii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the profit or loss as incurred.

**(iii) Amortisation**

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- licenses 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(e) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.



Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

**(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(g) Impairment**

**(i) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**(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 each year at the same time.

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 profit or loss. 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.

**(h) *Employee benefits***

**(i) *Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(ii) 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 profit-sharing 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.

**(i) 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. The unwinding of the discount is recognised as finance cost.

**(j) Guarantees**

The Group considers that financial guarantee contracts entered into by the Group entities to guarantee the indebtedness of entities that are controlled by the shareholders of the Group entities are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

**(k) Revenue**

**(i) Services**

Revenue from transshipment services is recognised in the profit or loss 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.

Revenue from ship agent services is recognised in profit or loss when the services are rendered as evidenced by the sign off act of acceptance between the Group and the customer in accordance with the contract.

**(l) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in profit or loss 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 profit or loss as incurred.

**(m) Finance income and costs**

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

Finance costs comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets and costs of bank guarantees. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

**(n) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 or loss. 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 on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they 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.

**(o) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these combined financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- 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 amendment.

- Amendment to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* which clarifies that the entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the Group or any shareholder of such an entity in cash or other assets is required to recognise the goods or services received in its financial statements. The amendment will come into effect on 1 January 2010. The Group has not yet determined the potential effect of the amendment.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Combined and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group's 2010 combined financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the 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 the effects of transactions with non-controlling interests to be recognised directly in equity. The Group has not yet determined the potential effect of the amendment.
- 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.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph 41 of International Financial Reporting Standards IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.
- 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 purposes, will come into effect not earlier than 1 January 2010. 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 for 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

'000 RUR	2009	2008	2007 (unaudited)
Revenues from transshipment services	4,732,628	4,627,387	4,577,979
Revenues from ship agent services	1,429,445	908,750	632,252
Revenues from garbage collection services	39,627	30,391	31,082
Revenues from rent	23,865	23,974	25,424
Revenues from other services in the port	16,645	12,616	12,393
Revenues from liquidation of oil spillage	-	-	60,467
Other revenues	622	879	897
	6,242,832	5,603,997	5,340,494

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.

Ship agent services mainly comprise docking, escort, vessel's leasing and lease pilots out services.

## 6 Cost of sales

'000 RUR	2009	2008	2007 (unaudited)
Rent	865,663	218,873	127,462
Depreciation	259,663	255,661	252,511
Maintenance and repair of property, plant and equipment	200,918	72,674	62,357
Wages and salaries	198,105	166,038	122,246
Materials	102,453	119,774	82,889
Oil spillage prevention services	60,060	58,109	50,690
Cargo transshipment services	35,963	17,855	17,296
Contributions to state pension fund and other social funds	34,625	32,283	27,082
VAT expense	32,504	31,764	32,459
Surveyor expenses	24,671	35,532	29,713
Amortization	13,139	13,038	12,772
Insurance	9,721	12,761	301,398
Servicing vessels	7,174	3,366	8,509
Production safety services	7,118	8,541	67,500
Contributions to defined contribution plan	2,406	-	-
Other expenses	43,711	29,688	38,141
	<u>1,897,894</u>	<u>1,075,957</u>	<u>1,233,025</u>

Rent mainly comprises expenditure for rent of equipment, berths and pipelines from related parties under operating lease agreements. Rent expense for 2009 increased by RUR 647,530 thousand as compared to 2008 mainly due to a significant increase in rents rates with effect from December 2008.

VAT expense represents input VAT related to non-VATable sales that according to Russian legislation must be expensed rather than recovered from the budget.

Insurance expenses for 2008 decreased by RUR 288,637 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.

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

## 7 Administrative expenses

'000 RUR	2009	2008	2007 (unaudited)
Wages and salaries	239,057	145,735	78,754
Taxes other than income tax	28,186	30,369	31,019
Rent of office premises and equipment	27,933	37,387	16,029
Contributions to state pension fund and other social funds	27,035	18,201	28,140
Depreciation	15,311	12,664	9,534
Materials	12,729	12,038	11,551
Insurance	10,344	9,494	8,345
Audit, consulting and legal expenses	12,419	12,291	8,117
Maintenance and repair of property, plant and equipment	7,124	5,436	5,789
Contribution to defined contribution pension plan	1,905	-	-
Other administrative expenses	31,682	36,953	29,065
	<u>413,725</u>	<u>320,568</u>	<u>226,343</u>

## 8 Personnel costs

'000 RUR	2009	2008	2007 (unaudited)
Wages and salaries	437,162	311,773	201,000
Contributions to state pension fund and other social funds	61,660	50,484	55,222
Contributions to defined contribution pension plan	4,311	-	-
	<u>503,133</u>	<u>362,257</u>	<u>256,222</u>

In accordance with the "Regulation on non-state pension benefits" adopted by the Primorskiy Torgoviy Port Limited Liability Company in February 2009, the Group funds contributions to the personal accounts for employees covered by the plan, maintained by non-state pension fund ("Gazfond"), which is a separate legal entity. The pension scheme is a defined contribution plan.



## 9 Finance income and finance costs

'000 RUR	2009	2008	2007 (unaudited)
<b>Recognised in profit or loss</b>			
Interest income on bank deposits	168,435	110,313	95,912
Net foreign exchange gain	-	114,808	-
Interest income on other investments	7,806	3,787	4,693
Unwind of discount on interest-free loans	66	196	305
Reversal of impairment loss on trade receivables	28	1,473	-
Gain on disposal of investments	-	146	7
Other	2	-	6,766
<b>Finance income</b>	<b>176,337</b>	<b>230,723</b>	<b>107,683</b>
Interest expense on financial liabilities measured at amortised cost	(106,246)	(205,587)	(282,103)
Cost of bank guarantees	-	-	(90,249)
Net foreign exchange losses	(1,277)	-	(14,456)
Impairment loss on receivables	(325)	(1,561)	-
Impairment loss on originated loan	-	(17,756)	-
<b>Finance costs</b>	<b>(107,848)</b>	<b>(224,904)</b>	<b>(386,808)</b>
<b>Net finance income/(costs) recognised in profit or loss</b>	<b>68,489</b>	<b>5,819</b>	<b>(279,132)</b>

The Group has expensed all interest expense in profit or loss in 2009, 2008 and 2007.

## 10 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%, 2007: 24% and 01 January 2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%.

'000 RUR	2009	2008	2007 (unaudited)
<b>Current tax expense</b>			
Current year	706,544	1,025,075	905,754
Adjustment for prior years	10	13	-
	<u>706,554</u>	<u>1,025,088</u>	<u>905,754</u>
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	97,801	(3,849)	(28,694)
Reduction in tax rate	-	(4,909)	-
	<u>97,801</u>	<u>(8,758)</u>	<u>(28,694)</u>
Total income tax and expense	<u>804,355</u>	<u>1,016,330</u>	<u>877,060</u>

**Reconciliation of effective tax rate:**

	2009		2008		2007 (unaudited)	
	'000 RUR	%	'000 RUR	%	'000 RUR	%
Profit before income tax	3,972,081	100	4,202,047	100	3,581,430	100
Income tax at applicable tax rate	794,416	20.0	1,008,491	24.0	859,543	24.0
Reduction in tax rate	-	-	(4,909)	(0.1)	-	-
Non-deductible expenses	12,372	0.3	13,338	0.3	18,014	0.5
Non-taxable income	(2,433)	(0.1)	(590)	(0.0)	(497)	(0.0)
	<u>804,355</u>	<u>20.2</u>	<u>1,016,330</u>	<u>24.2</u>	<u>877,060</u>	<u>24.5</u>

## 11 Property, plant and equipment

'000 RUR	Land and buildings	Facilities	Machinery and equipment	Vehicles	Boats and crafts	Pipeline fill	Other	Construction in progress	Total
<i>Cost</i>									
Balance at 1 January 2007 (unaudited)	211,907	2,501,977	338,247	28,064	964,627	15,740	16,044	730,101	4,806,707
Additions (unaudited)	13,867	23,091	14,685	26,361	2,156	-	18,378	20,163	118,701
Disposals (unaudited)	(15)	(114)	-	(7,527)	-	-	(1,576)	(13,836)	(23,068)
Transfers (unaudited)	50,413	31,573	-	-	-	-	254	(82,240)	-
Balance at 31 December 2007 (unaudited)	276,172	2,556,527	352,932	46,898	966,783	15,740	33,100	654,188	4,902,340
Balance at 1 January 2008 (unaudited)	276,172	2,556,527	352,932	46,898	966,783	15,740	33,100	654,188	4,902,340
Additions	486	2,184	2,452	8,182	-	-	3,324	7,100	23,728
Disposals	-	(525)	(127)	(5,304)	-	-	(1,426)	(1,578)	(8,960)
Transfers	-	5,361	-	237	-	-	3	(5,601)	-
Balance at 31 December 2008	276,658	2,563,547	355,257	50,013	966,783	15,740	35,001	654,109	4,917,108
Balance at 1 January 2009	276,658	2,563,547	355,257	50,013	966,783	15,740	35,001	654,109	4,917,108
Additions	212	-	2,100	20,408	346,694	-	5,412	52,527	427,353
Disposals	-	(16)	-	(10,365)	-	-	(353)	(1,946)	(12,680)
Balance at 31 December 2009	276,870	2,563,531	357,357	60,056	1,313,477	15,740	40,060	704,690	5,331,781

'000 RUR	Land and buildings	Facilities	Machinery and equipment	Vehicles	Boats and crafts	Pipeline fill	Other	Construction in progress	Total
<i>Depreciation and impairment losses</i>									
Balance at 1 January 2007 (unaudited)	(9,835)	(91,485)	(33,420)	(8,115)	(66,192)	-	(5,926)	-	(214,973)
Depreciation for the year (unaudited)	(7,994)	(139,354)	(63,762)	(8,078)	(38,893)	-	(3,964)	-	(262,045)
Disposals (unaudited)	15	114	-	3,162	-	-	1,024	-	4,315
Balance at 31 December 2007 (unaudited)	(17,814)	(230,725)	(97,182)	(13,031)	(105,085)	-	(8,866)	-	(472,703)
Balance at 1 January 2008 (unaudited)	(17,814)	(230,725)	(97,182)	(13,031)	(105,085)	-	(8,866)	-	(472,703)
Depreciation for the year	(9,940)	(139,615)	(64,493)	(8,171)	(39,325)	-	(6,781)	-	(268,325)
Disposals	-	210	128	4,173	-	-	1,170	-	5,681
Balance at 31 December 2008	(27,754)	(370,130)	(161,547)	(17,029)	(144,410)	-	(14,477)	-	(735,347)
Balance at 1 January 2009	(27,754)	(370,130)	(161,547)	(17,029)	(144,410)	-	(14,477)	-	(735,347)
Depreciation for the year	(11,020)	(140,210)	(64,485)	(11,725)	(41,636)	-	(5,898)	-	(274,974)
Disposals	-	13	-	7,823	-	-	353	-	8,189
Balance at 31 December 2009	(38,774)	(510,327)	(226,032)	(20,931)	(186,046)	-	(20,022)	-	(1,002,132)

'000 RUR	Land and buildings	Facilities	Machinery and equipment	Vehicles	Boats and crafts	Pipeline fill	Other	Construction in progress	Total
<i>Net book value</i>									
At 1 January 2007 (unaudited)	202,072	2,410,492	304,827	19,949	898,435	15,740	10,118	730,101	4,591,734
At 31 December 2007 (unaudited)	258,358	2,325,802	255,750	33,867	861,698	15,740	24,234	654,188	4,429,637
At 31 December 2008	248,904	2,193,417	193,710	32,984	822,373	15,740	20,524	654,109	4,181,761
At 31 December 2009	238,096	2,053,204	131,325	39,125	1,127,431	15,740	20,038	704,690	4,329,649

Pipeline fill represents 2,264 tonnes of crude oil as at 31 December 2009 (as at 31 December 2008: 2,264 tonnes, 31 December 2007: 2,264 tonnes, 01 January 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 259,663 thousand (2008: RUR 255,661 thousand and 2007: RUR 252,511) has been charged to cost of goods sold and RUR 15,311 thousand (2008: RUR 12,664 thousand and 2007: RUR 9,534 thousand) to administrative expenses.

**(a) Security**

At 31 December 2009 land with a carrying amount of RUR 2,500 thousand (2008: RUR 2,500 thousand, 2007: RUR 2,500 thousand and 01 January 2007: RUR 2,500 thousand), 4 tug boats with a carrying amount of RUR 782,680 thousand (2008: RUR 821,265 thousand, 2007: RUR 859,850 thousand, 01 January 2007: RUR 898,435 thousand) and other property, plant and equipment with a carrying amount of RUR 164,528 thousand (2008: RUR 238,147 thousand, 2007: RUR 311,501 thousand and 01 January 2007: RUR 384,277 thousand) are subject to a registered debenture to secure bank loans (see Note 18).

**(b) Property, plant and equipment under construction**

Construction in progress mainly comprises of:

- equipment with total cost of RUR 633,746 thousand (2008: RUR 633,746 thousand, 2007: RUR 633,746 thousand and 01 January 2007: 633,746 thousand) that is planned for use upon completion 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 an agreement for 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 the terminal to railway facilities; and
- project documentation works with a total cost of RUR 54,114 thousand (2008: nil, 2007: nil and 01 January 2007: nil) related to construction of the new oil transshipment bunker complex.

**(c) Prepayments for non-current assets**

Prepayments for non-current assets in the amount of RUR 149,690 thousand, excluding VAT, at 31 December 2009 (2008: nil, 2007: nil and 01 January 2007: nil) consist of the following items:

- prepayments made for construction of a tug boat in the amount of RUR 141,695 thousand at 31 December 2009 (2008: nil, 2007: nil and 01 January 2007: nil);
- prepayments made for construction of new oil transshipment bunker complex in the amount of RUR 7,995 thousand at 31 December 2009 (2008: nil, 2007: nil and 01 January 2007: nil).

## 12 Other investments

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
<i>Non-current</i>				
Available-for-sale investments:				
Measured at cost	2,135	1,935	1,935	2,093
Loans and receivables:				
Originated loans in RUR	17,302	9,864	58,822	47,033
	<u>19,437</u>	<u>11,799</u>	<u>60,757</u>	<u>49,126</u>
<i>Current</i>				
Loans and receivables:				
Originated loans in RUR	281,139	111,543	149,431	595
Deposits in EUR	251,652	-	-	-
Promissory notes in RUR	-	-	-	10,000
Impairment loss on originated loans	(2,756)	(17,756)	-	-
Available-for-sale investments:				
Promissory notes in RUR	6,106	-	-	-
	<u>536,141</u>	<u>93,787</u>	<u>149,431</u>	<u>10,595</u>

Non-current available-for-sale investments comprise equity investments in ship agent services and construction reliability surveillance industry. There is no market for these investments and there have not been any recent transactions that provide evidence of fair value. However, management believes it unlikely that the fair value of these investments as at 31 December 2009, 31 December 2008, 31 December 2007 and 01 January 2007 would differ significantly from their carrying amounts.

Current available-for-sale investments amounted to RUR 6,106 thousand as at 31 December 2009 (2008: nil, 2007: nil and 01 January 2007: nil) comprise interest free promissory notes stated at cost with maturity less than 1 year.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 20.

### 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	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	17,711	17,424	(151,164)	(157,058)	(133,453)	(139,634)
Trade and other payables	9,870	12,925	-	-	9,870	12,925
Other	1,239	1,199	-	-	1,239	1,199
Tax loss carry-forwards	-	100,967	-	-	-	100,967
Tax assets/(liabilities)	28,820	132,515	(151,164)	(157,058)	(122,344)	(24,543)
Set off of tax	(22,774)	(18,454)	22,774	18,454	-	-
Net tax assets/(liabilities)	6,046	114,061	(128,390)	(138,604)	(122,344)	(24,543)

'000 RUR	Assets		Liabilities		Net	
	2008	2007 (unaudited)	2008	2007 (unaudited)	2008	2007 (unaudited)
Property, plant and equipment	17,424	20,841	(157,058)	(175,064)	(139,634)	(154,223)
Trade and other payables	12,925	3,753	-	-	12,925	3,753
Other	1,199	1,633	-	(709)	1,199	924
Tax loss carry-forwards	100,967	116,245	-	-	100,967	116,245
Tax assets/(liabilities)	132,515	142,472	(157,058)	(175,773)	(24,543)	(33,301)
Set off of tax	(18,454)	(22,273)	18,454	22,273	-	-
Net tax assets/(liabilities)	114,061	120,199	(138,604)	(153,500)	(24,543)	(33,301)



	Assets		Liabilities		Net	
	2007 (unaudited)	1 January 2007 (unaudited)	2007 (unaudited)	1 January 2007 (unaudited)	2007 (unaudited)	1 January 2007 (unaudited)
'000 RUR						
Property, plant and equipment	20,841	-	(175,064)	(137,198)	(154,223)	(137,198)
Trade and other payables	3,753	1,315	-	-	3,753	1,315
Other	1,633	1,137	(709)	(10,003)	924	(8,866)
Tax loss carry-forwards	116,245	82,754	-	-	116,245	82,754
Tax assets/(liabilities)	142,472	85,206	(175,773)	(147,201)	(33,301)	(61,995)
Set off of tax	(22,273)	(910)	22,273	910	-	-
Net tax assets/(liabilities)	120,199	84,296	(153,500)	(146,291)	(33,301)	(61,995)

**(b) Movement in temporary differences during the year**

'000 RUR	1 January 2009	Recognised in income	31 December 2009
Property, plant and equipment	(139,634)	6,181	(133,453)
Trade and other payables	12,925	(3,055)	9,870
Other	1,199	40	1,239
Tax loss carry-forwards	100,967	(100,967)	-
	(24,543)	(97,801)	(122,344)

'000 RUR	1 January 2008 (unaudited)	Recognised in income	31 December 2008
Property, plant and equipment	(154,223)	14,589	(139,634)
Trade and other payables	3,753	9,172	12,925
Other	924	275	1,199
Tax loss carry-forwards	116,245	(15,278)	100,967
	(33,301)	8,758	(24,543)

'000 RUR	1 January 2007 (unaudited)	Recognised in income (unaudited)	31 December 2007 (unaudited)
Property, plant and equipment	(137,198)	(17,025)	(154,223)
Trade and other payables	1,315	2,438	3,753
Other	(8,866)	9,790	924
Tax loss carry-forwards	82,754	33,491	116,245
	<u>(61,995)</u>	<u>28,694</u>	<u>(33,301)</u>

## 14 Inventories

Inventories held by the Group as at 31 December 2009, 31 December 2008, 31 December 2007 and 01 January 2007 represent spare parts, fuel, raw and other materials (used mainly for maintenance of sea vessels) carried at weighted average cost.

In 2009 inventories expensed amounted to RUR 115,182 thousand (2008: RUR 131,812 thousand and 2007: RUR 94,440 thousand).

The amount of inventories provision created by the Group as at 31 December 2009 amounted to RUR 2,056 thousand (2008: RUR 377 thousand, 2007: RUR 45 thousand, 01 January 2007: RUR 33 thousand).

## 15 Trade and other receivables

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
<i>Non-current</i>				
Trade receivables	-	37,131	20,729	4,328
	<u>-</u>	<u>37,131</u>	<u>20,729</u>	<u>4,328</u>
<i>Current</i>				
Trade receivables	473,161	471,429	449,178	508,264
VAT receivable	393,900	132,139	70,190	148,302
Interest receivable	23,785	20,182	8,264	2,436
Other receivables	17,519	9,522	5,812	43,748
Deferred expenses	11,078	12,367	15,773	298,393
	<u>919,443</u>	<u>645,639</u>	<u>549,217</u>	<u>1,001,143</u>

Deferred expenses as at 01 January 2007 are mainly represented prepayments made for property insurance contracts in the amount RUR 199,459 thousand and prepayments for bank guarantees in the amount of RUR 81,128 thousand relating to 2007. Bank guarantees and property insurance services were expensed in 2007 (see notes 6 and 9 correspondingly).

The disclosed above balances include also balances on settlements with related parties of the Group (see note 24 for more details).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 20.

## 16 Cash and cash equivalents

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
Short-term bank deposits in RUR	737,297	857,000	140,000	450,000
Short-term bank deposits in USD	621,178	1,636,021	-	53,320
Short-term bank deposits in EUR	504,699	-	-	-
Bank balances	43,119	106,938	228,817	333,782
Petty cash	34	16	19	8
Call deposits	-	-	200,000	-
Cash and cash equivalents in the combined statement of financial position	<u>1,906,327</u>	<u>2,599,975</u>	<u>568,836</u>	<u>837,110</u>
Cash and cash equivalents in the combined statement of cash flows	<u>1,906,327</u>	<u>2,599,975</u>	<u>568,836</u>	<u>837,110</u>

The Group's exposure to currency and interest rate risks and a sensitivity analysis for financial assets and liabilities are disclosed in note 20.

## 17 Capital and reserves

### (a) Share capital

At 31 December 2009 the share capital of the Group comprises the share capital of the following companies (see note 2(a) for the basis of preparation):

	Authorised shares (ordinary)	Par value RUR	Total shares (ordinary)	Share capital '000 RUR	Ownership
					99.4% - Kolmon Management Limited (Cyprus)
Trans-Flot Closed Joint Stock Company	1,260,000,000	1	1,160,000,000	1,160,002	0.6% - Stroy Alyanse, Limited Liability Company (Russia)
Primorskiy Torgoviy Port Limited Liability Company	-	-	-	3,010	100% - Omirico Limited (Cyprus)
Sovfraht- Primorsk Closed Joint Stock Company	16,000	100	10,500	1,050	100% - JINSAW Company Limited (Cyprus)
					40% - Sovfrakht-Invest, Limited Liability Company (Russia)
					24% - Weralta Consulting Limited (Cyprus)
					20% - Specializirovanny morskoy neftegalivnoy port Primorsk Limited Liability Company (Russia)
Morskoy Portovy Service Closed Joint Stock	1,000	1,000	1,000	1,000	16% - Rosneftegazexport, Limited Liability Company (Russia)

At 31 December 2008 the share capital of the Group comprises the share capital of the following companies:

	Authorised shares (ordinary)	Par value RUR	Total shares (ordinary)	Share capital '000 RUR	Ownership
					99.4% - Kolmon Management Limited (Cyprus)
Trans-Flot Closed Joint Stock Company	1,260,000,000	1	1,160,000,000	1,160,002	0.6% - Stroy Alyanse, Limited Liability Company (Russia)
Primorskiy Torgoviy Port Limited Liability Company	-	-	-	3,010	100% - Omirico Limited (Cyprus)
Sovfraht- Primorsk Closed Joint Stock Company	16,000	100	10,500	1,050	100% - JINSAW Company Limited (Cyprus)
					40% - Sovfrakht-Invest, Limited Liability Company (Russia)
					24%- DESPRO Limited Company (Cyprus)
					20% - Specializirovanny morskoy neftealivnoy port Primorsk, Limited Liability Company (Russia)
Morskoy Portovy Service Closed Joint Stock	1,000	1,000	1,000	1,000	16% - Rosneftegazexport, Limited Liability Company (Russia)

At 31 December 2007 the share capital of the Group comprises the share capital of the following companies:

	Authorised shares (ordinary)	Par value RUR	Total shares (ordinary)	Share capital '000 RUR	Ownership
					99.4% - Kolmon Management Limited (Cyprus)
Trans-Flot Closed Joint Stock Company	1,260,000,000	1	1,160,000,000	1,160,002	0.6% - Stroy Alyanse, Limited Liability Company (Russia)
Primorskiy Torgoviy Port Limited Liability Company	-	-	-	3,010	100% - Omirico Limited (Cyprus)
Sovfraht- Primorsk Closed Joint Stock Company	16,000	100	10,500	1,050	100% - JINSAW Company Limited (Cyprus)
					40% - Sovfrakht-Invest, Limited Liability Company (Russia)
					20% - Specializirovanny morskoy nefenalivnoy port Primorsk, Limited Liability Company (Russia)
					16% Rosneftegazexport, Limited Liability Company (Russia)
Morskoy Portovy Service Closed Joint Stock	1,000	1,000	1,000	1,000	24% - Chernomorsk company for maintenance of shipping companies, Limited Liability (Russia)

At 01 January 2007 the share capital of the Group comprises the share capital of the following companies:

	Authorised shares (ordinary)	Par value RUR	Total shares (ordinary)	Share capital '000 RUR	Ownership
					99.4% - Kolmon Management Limited (Cyprus)
Trans-Flot Closed Joint Stock Company	1,260,000,000	1	1,160,000,000	1,160,002	0.6% - Stroy Alyanse, Limited Liability Company (Russia)
Primorskiy Torgoviy Port Limited Liability Company	-	-	-	3,010	100% - Omirico Limited (Cyprus)
Sovfraht-Primorsk Closed Joint Stock Company	16,000	100	100	10	100% - JINSAW Company Limited (Cyprus)
					40% - Sovfrakht-Invest, Limited Liability Company (Russia)
					20% - Specializirovanny morskoy neftenalivnoy port Primorsk, Limited Liability Company (Russia)
					16% Rosneftegazexport, Limited Liability Company (Russia)
Morskoy Portovy Service Closed Joint Stock	1,000	1,000	1,000	1,000	24% - Chernomorsk company for maintenance of shipping companies, Limited Liability (Russia)

During 2007 share capital of Sovfraht-Primorsk Closed Joint Stock Company has increased from RUR 10 thousand to RUR 1,050 thousand as a result of additional issue of 10,400 shares. The shares were redeemed and paid for by the sole participant.

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 distributions to the Group's shareholders are 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 2009 Trans-Flot Closed Joint Stock Company had accumulated profits, including the profit for the current year, of RUR 455,198 thousand (2008: accumulated loss of RUR 269,802 thousand, 2007: accumulated loss of RUR 242,825 thousand and 01 January 2007: accumulated loss of RUR 111,415 thousand). Primorskiy Torgoviy Port Limited Liability Company had accumulated profits, including the profit for the current year, of RUR 4,452,404 thousand as at 31 December 2009 (2008: RUR 3,823,214 thousand, 2007: RUR 1,097,123 thousand and 01 January 2007: RUR 937,747 thousand). As at 31 December 2009 Sovfraht-Primorsk Closed Joint Stock Company had accumulated profits, including the profit for the current year, of RUR 191,959 thousand (2008: RUR 159,900 thousand, 2007: RUR 55,122 thousand and 01 January 2007: RUR 122,071 thousand). As at 31 December 2009 Morskoy Portovy Service Closed Joint Stock had accumulated profits, including the profit for the current year, of RUR 477,778 thousand (2008: RUR 739,542 thousand, 2007: RUR 684,748 thousand, 01 January 2007: RUR 877,943 thousand).

The Group declared dividends during the years ended 31 December 2009, 31 December 2008, 31 December 2007 as shown in the table below:

	RUR per share	Dividends '000 RUR
<b>For the year ended 31 December 2009</b>		
<b>Primorskiy Torgoviy Port Limited Liability Company</b>		
Dividends for October 2007 – June 2009	-	827,501
<b>Sovfraht-Primorsk Closed Joint Stock Company</b>		
Dividends for October - December 2008	13,810	145,000
Dividends for January – September 2009	58,190	611,000
<b>Morskoy Portovy Service Closed Joint Stock</b>		
Dividends for October 2008 – June 2009	120,000	120,000
Dividends for 2002 – 2004, July – December 2007, January – September 2008	270,000	270,000
		1,973,501



	RUR per share	Dividends '000 RUR
<b>For the year, ended 31 December 2008</b>		
<b>Sovfraht-Primorsk Closed Joint Stock Company</b>		
Dividends for the October - December 2007	4,007	47,007
Dividends for January – September 2008	23,148	243,050
		290,057
	RUR per share	Dividends '000 RUR
<b>For the year, ended 31 December 2007 (unaudited)</b>		
<b>Primorskiy Torgoviy Port Limited Liability Company</b>		
Dividends for 2006	-	937,746
Dividends for January – September 2007	-	1,462,254
<b>Sovfraht-Primorsk Closed Joint Stock Company</b>		
Dividends for 2005	1,932	20,286
Dividends for 2006	9,532	100,081
Dividends for January – September 2007	12,928	135,748
<b>Morskoy Portovy Service Closed Joint Stock</b>		
Dividends for 2006	212,400	212,400
Dividends for January – June 2007	52,800	52,800
		2,921,315

## 18 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 20.

'000 RUR	2009	2008	2007 (unaudited)	1 January 2007 (unaudited)
<i>Non-current</i>				
Secured bank loans	-	-	-	2,597,625
	-	-	-	2,597,625
<i>Current</i>				
Secured bank loans	556,233	1,607,574	2,600,419	458,434
	556,233	1,607,574	2,600,419	458,434

(a) **Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

'000 RUR	Currency	Nominal interest rate	Year of maturity	31 December 2009		31 December 2008	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	RUR	9,5%	2010	556,233	556,233	1,607,574	1,607,574
				<u>556,233</u>	<u>556,233</u>	<u>1,607,574</u>	<u>1,607,574</u>

  

'000 RUR	Currency	Nominal interest rate	Year of maturity	31 December 2007 (unaudited)		01 January 2007 (unaudited)	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	RUR	9,5%	2010	2,600,419	2,600,419	3,056,059	3,056,059
				<u>2,600,419</u>	<u>2,600,419</u>	<u>3,056,059</u>	<u>3,056,059</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 (2008: RUR 2,500 thousand, 2007: RUR 2,500 thousand, 01 January 2007: RUR 2,500 thousand) – see note 11(a);
- Mortgage of other property, plant and equipment with a carrying amount of RUR 164,528 thousand (2008: RUR 238,147 thousand, 2007: RUR 311,501 thousand and 01 January 2007: RUR 384,277 thousand) – see note 11(a);
- Mortgage of 4 tug boats with a carrying amount of RUR 782,680 thousand (2008: RUR 821,265 thousand, 2007: RUR 859,850 thousand, 01 January 2007: RUR 898,435 thousand) – see note 11(a).

(b) **Breach of loan covenant**

As at 31 December 2009, 31 December 2008 and 31 December 2007 the Group classified its loans from Sberbank equalled to RUR 556,233 thousand (2008: RUR 1,607,574 thousand, 2007: 2,600,419) as current liabilities. In 2007 there was a breach by the Group of a non-financial loan covenant, which made the loans repayable on demand. Per the initial contractual terms loans are repayable as follows:

Year ending 31 December 2010 – RUR 556,233 thousand.

These loans were fully repaid in February 2010.

## 19 Trade and other payables

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
Dividend payables	118,000	-	256,115	-
Trade payables	58,915	107,085	37,996	373,597
Other taxes payable	79,083	62,959	24,308	24,876
Employee benefits payable	53,571	31,525	18,790	9,336
Interest payable	579	1,669	2,705	3,182
Other payables and accrued expenses	8,331	14,633	7,734	8,143
	318,479	217,871	347,648	419,134

The disclosed above balances include also balances on settlements with related parties of the Group (see note 24 for more details).

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 20.

## 20 Financial instruments and 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 22% of the Group's revenue is attributable to sales transactions with a single customer. 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 losses from receivables' write off were insignificant. 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 considers that financial guarantee contracts entered into by the Group entities to guarantee the indebtedness of entities that are controlled by the shareholders of the Group entities are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as contingent liability until such time as it becomes probable that Group will be required to make payment under the guarantee.

As at 31 December 2009 the Group entered into the guarantee contracts in accordance with which it became jointly liable with its related parties for fulfillment of their obligations for the total amount of RUR 350,000 thousand (2008: Nil, 2007: Nil, 01 January 2007: Nil) for the period of 4 years (refer to Note 25).

As at 31 December 2009 the Group entered into the surety contracts in accordance with which it became jointly liable with its related parties for fulfillment of its obligations for the total amount of RUR 1,507,356 thousand and for the period from 1 to 4 years (2008: RUR 375,158 thousand, 2007: Nil, 01 January 2007: Nil) (refer to Note 25).

(iv) **Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure except in the case of finance leases which are secured by the leased asset. The maximum exposure to credit risk at the reporting date was:

'000 RUR	Carrying amount			
	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
Available-for-sale financial assets	8,241	1,935	1,935	2,093
Trade and other receivables	514,465	538,264	483,983	558,776
Other investments	550,093	121,407	208,253	57,628
Cash and cash equivalents	1,906,327	2,599,975	568,836	837,110
Financial guarantees	350,000	-	-	-
	<u>3,329,126</u>	<u>3,621,581</u>	<u>1,263,007</u>	<u>1,455,607</u>

The Group's most significant customer, a Russian state-owned oil company, accounts for RUR 130,379 thousand of the trade receivables carrying amount at 31 December 2009 (2008: RUR 150,063 thousand, 2007: RUR 104,831 thousand, 01 January 2007: RUR 90,590 thousand).

**Impairment losses**

The aging of trade receivables at the reporting date was:

'000 RUR	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
	Not past due	420,723	-	461,064
Past due 0-30 days	1,640	-	1,635	-
Past due 31-120 days	4,100	-	4,100	-
Past due more than 120 days	46,698	-	43,466	(1,705)
	<u>473,161</u>	<u>-</u>	<u>510,265</u>	<u>(1,705)</u>

'000 RUR	Gross 2007 (unaudited)	Impairment 2007 (unaudited)	Gross 01 January 2007 (unaudited)	Impairment 2006 (unaudited)
Not past due	449,440	-	448,934	-
Past due 0-30 days	1,545	-	13,371	-
Past due 31-120 days	4,100	-	12,854	(1,473)
Past due more than 120 days	18,000	(3,178)	40,611	(1,705)
	<u>473,085</u>	<u>(3,178)</u>	<u>515,770</u>	<u>(3,178)</u>

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

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
Balance at beginning of the year	1,705	3,178	3,178	-
Increase during the year	-	1,435	-	3,178
Amounts written off against trade receivables	(1,677)	(1,435)	-	-
Decrease due to reversal	(28)	(1,473)	-	-
Balance at end of the year	<u>-</u>	<u>1,705</u>	<u>3,178</u>	<u>3,178</u>

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 such receivables relate to customers that have a good track record with the Group.

No impairment allowance was recognised at 31 December 2009 in respect of trade receivables past due by more than 30 days, since the management has strong confidence in their recoverability. The entire balance past due by more than 30 days amounting to RUR 50,798 thousand (2008: RUR 34,397 thousand, 2007: RUR 7,458 thousand, 01 January 2007: RUR 38,906 thousand) is due from a related party, and management does not expect this counterparty to fail to meet its obligations.

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

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
Balance at beginning of the year	17,756	-	-	-
Increase during the year	-	17,756	-	-
Amounts written off against investments	(15,000)	-	-	-
Reversal of impairment loss on originated loan	-	-	-	-
Balance at end of the year	2,756	17,756	-	-

An impairment loss at 31 December 2008 of RUR 17,756 thousand relates to originated loans to Daltrans Limited Liability Company in the amount RUR 15,000 thousand and to non-commercial organization Morskie Lozmany in the amount RUR 2,756 thousand (see Note 12).

The amount written off against investments in 2009 of RUR 15,000 thousand relates to originated loans to Daltrans Limited Liability Company which was declared bankrupt and ceased to exist during the year.

The allowance accounts in respect of loans and receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly. At 31 December 2009 the Group did not have any collective impairment on its originated loans (31 December 2008: Nil; 31 December 2007: Nil, 01 January 2007: Nil).

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 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 all reporting dates the Group has sufficient available cash funds which are invested in short-term bank deposits with maturity not exceeding 181 days, that can be easily drawn down to meet operational needs.

At 31 December 2009, 31 December 2008, 31 December 2007 and 01 January 2007 the Group had 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. It is not expected that the cash flows

included in the maturity analysis could occur significantly earlier, or at significantly different amounts.



**2009**

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
<b>Non-derivative financial liabilities</b>						
Secured bank loans	556,223	565,820	565,820	-	-	-
Trade and other payables	67,246	67,246	67,246	-	-	-
Financial guarantees	-	350,000	350,000	-	-	-
			<u>983,066</u>	<u>-</u>	<u>-</u>	<u>-</u>

**2008**

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
<b>Non-derivative financial liabilities</b>						
Secured bank loans	1,607,574	1,722,739	1,722,739	-	-	-
Trade and other payables	121,718	121,718	121,718	-	-	-
			<u>1,844,457</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	2-5 yrs
<b>Non-derivative financial liabilities</b>						
Secured bank loans	2,600,419	2,919,105	2,919,105	-	-	-
Trade and other payables	45,730	45,730	45,730	-	-	-
			<u>2,964,835</u>	<u>-</u>	<u>-</u>	<u>-</u>

**01 January 2007 (unaudited)**

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
<b>Non-derivative financial liabilities</b>						
Secured bank loans	3,056,059	3,538,638	-	624,314	1,177,399	1,736,925
Trade and other payables	381,740	381,740	381,740	-	-	-
			<u>381,740</u>	<u>624,314</u>	<u>1,177,399</u>	<u>1,736,925</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 90% in 2009, 2008 and 2007) are denominated in the functional currency of Group entities, the Russian Rouble (RUR).

Other monetary assets and liabilities denominated in foreign currencies are mainly represented by short-term bank deposits denominated in U.S. Dollars (USD) and EURO.

**Exposure to currency risk**

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

'000 RUR	USD-	Euro-	USD-
	denominated	denominated	denominated
	2009	2009	2008
Cash and cash equivalents	621,178	504,699	1,636,021
Trade receivables	13,374	6,819	34,548
Other investments	-	251,652	-
Trade payables	(1,701)	(405)	-
Gross exposure	632,851	762,765	1,670,569

  

'000 RUR	USD-	USD-
	denominated	denominated
	2007	01 January 2007
	(unaudited)	(unaudited)
Cash and cash equivalents	-	53,320
Trade receivables	47,409	62,681
Trade payables	(12)	-
Gross exposure	47,397	116,001

The following significant exchange rates applied during the year:

in RUR	Average rate			
	2009	2008	2007	01 January 2007
USD 1	31.7231	24.8553	25.5759	27.1852
EUR 1	44.1299	36.4291	35.0143	34.1146

in RUR

	Reporting date spot rate			
	2009	2008	2007	01 January 2007
USD 1	30.2442	29.3804	24.5462	26.3311
EUR 1	43.3883	41.4411	35.9332	34.6965

**Sensitivity analysis**

A 20% strengthening of the RUR against the following currencies at 31 December would have decreased 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 2008, 2007 and 01 January 2007.

'000 RUR	Equity	Profit or loss
<b>2009</b>		
USD	-	(126,570)
EUR	-	(152,553)
<b>2008</b>		
USD	-	(334,114)
<b>2007 (unaudited)</b>		
USD	-	(9,479)
<b>01 January 2007 (unaudited)</b>		
USD	-	(23,200)

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, and loans and borrowings.

Changes in interest rates impact primarily deposits, 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 placing of new deposits and raising new 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			
	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
<b>Fixed rate instruments</b>				
Financial assets	2,410,511	2,596,672	548,253	560,948
Financial liabilities	(556,233)	(1,607,574)	(2,600,419)	(3,056,059)
	<u>1,854,278</u>	<u>989,098</u>	<u>(2,052,166)</u>	<u>(2,495,111)</u>

### 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:

'000 RUR	2009	2008	2007 (unaudited)	01 January 2007 (unaudited)
Short-term bank deposits in RUR	5.00% - 10.50%	6.40% - 12.60%	4.00% - 9.00%	5.70%
Short-term bank deposits in USD	5.37%	6.50%	4.90%	4,25%
Short-term bank deposits in EURO	4.65%-6.72%	-	-	-
Call deposits in RUR	-	-	7.10%	-
Originated loans	6.00% - 17.00%	6.00% - 17.00%	6.00% - 17.00%	6.00% - 17.00%
Promissory notes in RUR	-	-	-	4,50%
Loans and borrowings	9.50%	9.50%	9.50%	9.50%

(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.

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

Companies of the Group are not subject to externally imposed capital requirements.

**21 Operating leases**

(a) **Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

'000 RUR	2009	2008	2007 (unaudited)
Less than one year	805,236	807,347	153,033
Between one and five years	3,028,236	3,135,156	904,992
More than five years	11,240,824	11,972,890	2,134,337
	<u>15,074,296</u>	<u>15,915,393</u>	<u>3,192,362</u>

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 the lease rentals payable schedule as at 31 December 2008.

In addition to the leases included in the schedule above, as at 31 December 2009 the Group had two operating lease agreements that are cancellable upon one month's notification by either party to the contract and three operating lease agreements that are cancellable upon three month's notification by either party to the contract. Non-cancellable lease rentals under these agreements are equal to RUR 3,732 thousand after 31 December 2009 (2008: RUR 13,577 thousand, 2007: RUR 1,520 thousand).

During the current year RUR 893,596 thousand was recognised as an expense in profit or loss in respect of operating leases (2008: RUR 256,260 thousand, 2007: RUR 143,491 thousand), including RUR 844,492 thousand (2008: RUR 215,376 thousand, 2007: RUR 132,137 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:

- The lease contracts do not transfer 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 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 leases of berths and equipment for oil transshipment as operating leases.

**(b) Leases as lessor**

The Group leases out part of its land plots under non-cancellable operating lease agreements signed in 2006 and 2007 for a period of 25 years to a related party.

Lease rentals under these agreements are receivable as follows:

'000 RUR	2009	2008	2007 (unaudited)
Less than one year	16,666	13,899	13,899
Between one and five years	66,664	55,597	55,597
More than five years	280,999	246,714	260,613
	364,329	316,210	330,109

In addition to the leases included in the schedule above, as at 31 December 2009 the Group had an operating lease agreement that, in accordance with the Civil Code, is cancellable upon one month's notice by either party to the contract. Non-cancellable lease rentals under this agreement are equal to RUR 2,100 thousand after 31 December 2009 (2008: RUR 2,100 thousand and 2007: RUR 2,100 thousand).

During the year ended 31 December 2009 an amount of RUR 23,865 thousand was recognised as income in profit or loss in respect of operating leases (2008: RUR 23,974 thousand and 2007: RUR 25,424 thousand), including RUR 16,666 thousand (2008: RUR 13,899 thousand and 2007: RUR 13,899 thousand) under the lease agreement referred to in the preceding paragraph.

## **22 Capital commitments**

During the year ended 31 December 2009 the Group entered into contracts for the construction of a new oil transshipment bunker complex in the port of Primorsk in the amount RUR 38,976 thousand, excluding VAT, and the construction of a new tug boat for RUR 212,542 thousand, excluding VAT (2008: nil, 2007: nil and 01 January 2007: nil). Prepayments were made in respect of these contracts as at 31 December 2009 of RUR 149,690 thousand, excluding VAT (2008: nil, 2007: nil and 01 January 2007: nil). For details refer to note 11(c).

## **23 Contingencies**

### **(a) Insurance**

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### **(b) Litigation**

There were no significant litigation or claims involving the Group at 31 December 2009, 31 December 2008, 31 December 2007 and 01 January 2007.

### **(c) Taxation contingencies**

#### **Taxation contingencies in the Russian Federation**

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.

## **24 Related party transactions**

### **(a) Control relationships**

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

(i) **Management remuneration**

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

'000 RUR	2009	2008	2007 (unaudited)
Salaries and bonuses	52,325	40,289	25,500
Contributions to state pension fund and other social funds	2,231	1,832	1,075
Contribution to defined contribution pension plan	772	-	-
	<u>55,328</u>	<u>42,121</u>	<u>26,575</u>



(b) **Transactions with other related parties**

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

<i>Revenue</i>	Transaction value		Transaction value		Outstanding balance		Outstanding balance	
	2009	2008	2007	(unaudited)	2009	2008	2007	1 January 2007
'000 RUR				(unaudited)			(unaudited)	(unaudited)
Services provided:								
Other related parties	81,968	98,728	155,623		58,786	43,609	14,078	44,324
Interest income:								
Other related parties	1,224	650	424		1,697	795	349	65
	83,192	99,378	156,047		60,483	44,404	14,427	44,389

Outstanding balances with related parties are to be settled in cash within one year after the reporting date as at 31 December 2009. As at 31 December 2008 outstanding balance include included long-term receivables amounted RUR 37,131 thousand (2007: RUR 20,729 thousand and 01 January 2007: RUR 4,328 thousand) due from related parties that are to be settled in 2010. None of the balances are secured.

(ii) *Expenses*

	Transaction value	Transaction value	Transaction value	Outstanding balance	Outstanding balance	Outstanding balance	Outstanding balance
	2009	2008	2007 (unaudited)	2009	2008	2007 (unaudited)	1 January 2007 (unaudited)
Services received:							
Other related parties	907,944	254,598	157,207	6,536	87,144	24,302	27,193
	907,944	254,598	157,207	6,536	87,144	24,302	27,193

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

(iii) *Loans*

	Amount loaned	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance	Outstanding balance	Outstanding balance
	2009	2008	2007 (unaudited)	2009	2008	2007 (unaudited)	1 January 2007 (unaudited)
Loans given:							
Other related parties	93,472	3,500	28,220	154,036	61,563	34,720	6,500
	93,472	3,500	28,220	154,036	61,563	34,720	6,500

The loans from the Group's related parties are repayable within one year after the balance sheet date (except for the loans amounted to RUR 4,956 thousand as at 31 December 2009 repayable in 2012). The loans given to related parties are at 6 - 14% rate or interest-free.

(c) **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 21).

**25 Events subsequent to the reporting date**

In April and June 2010 shareholders of the Group entities approved dividends for 2009 and the 1<sup>st</sup> quarter of 2010 totalling RUR 1,034,000 thousand.

During 2010 the Group has fully repaid its secured loan to Sberbank which amounted to RUR 556,233 thousand as at 31 December 2009.

Subsequent to the balance sheet date the Group issued guarantees to the related parties total amounting to RUR 4,207,859 thousand (refer to Note 20(b)(iii)). During 2010 the related parties settled liabilities, which were secured by the Group guarantees, in total amount of RUR 6,065,215 thousand (refer to Note 20(b)(iii)).

Subsequent to the balance sheet date the Group entered into credit agreement amounting to RUR 180,000 thousand, which was settled in August 2010.

In August 2010, the shareholders of Primorskiy Torgoviy Port Limited Liability Company have preliminary approved the purchase of 100% less 1 share of Sovfraht-Primorsk Closed Joint Stock Company.