

PTP Group

**Combined Interim Financial Statements
for the six months ended 30 June 2010**

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Independent Auditors' Report

Management of PTP Group

Introduction

We have reviewed the accompanying combined interim statement of financial position of the group of companies collectively referred to as PTP Group (the "Group") as at 30 June 2010, and the related combined interim statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the combined interim financial statements). Management is responsible for the preparation and presentation of these combined interim financial statements in accordance with the basis of preparation described in Note 2(a). Our responsibility is to express a conclusion on these combined interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of combined interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that combined interim financial statement of financial position as at 30 June 2010, combined interim statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended have not been prepared, in all material respects, in accordance with the basis of preparation described in Note 2(a).

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21 September 2010

PTP Group
Combined Interim Statement of Financial Position as at 30 June 2010

'000 RUR	Note	30 June 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	11	4,339,344	4,329,649
Prepayments for non-current assets	11	621,155	149,690
Intangible assets		13,183	19,397
Other investments	12	14,911	19,437
Deferred tax assets	13	5,224	6,046
Total non-current assets		4,993,817	4,524,219
Current assets			
Inventories	14	45,029	37,251
Other investments	12	121,643	536,141
Current tax assets		22,016	41,259
Trade and other receivables	15	1,385,682	919,443
Prepayments		80,691	57,897
Cash and cash equivalents	16	1,368,461	1,906,327
Total current assets		3,023,522	3,498,318
Total assets		8,017,339	8,022,537

The combined interim statement of financial position is to be read in conjunction with the notes to, and forming part of, the combined interim financial statements set out on pages 10 to 46.

PTP Group
Combined Interim Statement of Financial Position as at 30 June 2010

'000 RUR	Note	30 June 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity	17		
Share capital		1,165,062	1,165,062
Retained earnings		5,703,579	5,854,373
Total equity		<u>6,868,641</u>	<u>7,019,435</u>
Non-current liabilities			
Deferred tax liabilities	13	35,921	128,390
Total non-current liabilities		<u>35,921</u>	<u>128,390</u>
Current liabilities			
Loans and borrowings	18	107,000	556,233
Current tax liabilities		60,763	-
Trade and other payables	19	945,014	318,479
Total current liabilities		<u>1,112,777</u>	<u>874,712</u>
Total liabilities		<u>1,148,698</u>	<u>1,003,102</u>
Total equity and liabilities		<u>8,017,339</u>	<u>8,022,537</u>

For the six months ended 30 June '000 RUR	Note	2010	2009
Revenue	5	2,986,346	3,060,822
Cost of sales	6	(980,170)	(867,998)
Gross profit		2,006,176	2,192,824
Other income		1,553	3,379
Administrative expenses	7	(237,526)	(194,842)
Other expenses		(36,012)	(6,554)
Results from operating activities		1,734,191	1,994,807
Finance income	9	44,128	147,387
Finance costs	9	(91,926)	(65,117)
Profit before income tax		1,686,393	2,077,077
Income tax expense	10	(346,187)	(419,046)
Profit and total comprehensive income for the period		1,340,206	1,658,031

These combined interim 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 Interim Statement of Changes in Equity for the six months ended 30 June 2010

'000 RUR	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at 1 January 2009	1,165,062	4,660,148	5,825,210
Total comprehensive income for the period			
Profit for the period	-	1,658,031	1,658,031
Total comprehensive income for the period	-	1,658,031	1,658,031
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Dividends to equity holders	-	(598,000)	(598,000)
Total distributions to owners	-	(598,000)	(598,000)
Balance at 30 June 2009	1,165,062	5,720,179	6,885,241
Balance at 1 January 2010	1,165,062	5,854,373	7,019,435
Total comprehensive income for the period			
Profit for the period	-	1,340,206	1,340,206
Total comprehensive income for the period	-	1,340,206	1,340,206
Transactions with owners, recorded directly in equity			
Contributions by and distributions to owners			
Dividends to equity holders	-	(1,491,000)	(1,491,000)
Total distributions to owners	-	(1,491,000)	(1,491,000)
Balance at 30 June 2010	1,165,062	5,703,579	6,868,641

PTP Group
Combined Interim Statement of Cash Flows for the six months ended 30 June 2010

For the six months ended 30 June '000 RUR	Note	2010	2009
Cash flows from operating activities			
Profit for the period		1,340,206	1,658,031
<i>Adjustments for:</i>			
Depreciation	11	140,728	135,713
Amortisation		7,483	6,570
Impairment loss on receivables	9	4,237	-
Gain on disposal of property, plant and equipment		(691)	(201)
Net foreign exchange loss/(gain)	9	80,657	(41,605)
Interest income	9	(37,434)	(105,782)
Interest expense	9	7,032	65,117
Income tax expense	10	346,187	419,046
Cash from operating activities before changes in working capital and provisions		1,888,405	2,136,889
Increase in inventories		(7,778)	(6,080)
Increase in trade and other receivables		(485,999)	(153,944)
Increase in prepayments for current assets		(27,331)	(44,323)
Increase in trade and other payables		530,976	58,304
Cash flows from operations before income taxes and interest paid		1,898,273	1,990,846
Income tax paid		(357,828)	(417,074)
Interest paid		(7,473)	(65,936)
Net cash from operating activities		1,532,972	1,507,836

PTP Group
Combined Interim Statement of Cash Flows for the six months ended 30 June 2010

For the six months ended 30 June '000 RUR	Note	2010	2009
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4,773	3,602
Interest received		57,194	90,429
Acquisition of property, plant and equipment		(625,970)	(34,994)
Acquisition of intangible assets		(969)	-
Proceeds from sales of investments		251,652	-
Proceeds from sale of available-for-sale investments		53	-
Origination of loans		(32,357)	(140,162)
Repayment of loans		199,676	59,603
Net cash used in investing activities		(145,948)	(21,522)
Cash flows from financing activities			
Proceeds from borrowings		180,000	-
Repayment of borrowings		(629,233)	(519,558)
Dividends paid	17	(1,395,000)	(415,000)
Net cash used in financing activities		(1,844,233)	(934,558)
Net (decrease)/increase in cash and cash equivalents		(457,209)	551,756
Cash and cash equivalents at beginning of period	16	1,906,327	2,599,975
Effect of exchange rate fluctuations on cash and cash equivalents		(80,657)	41,605
Cash and cash equivalents at end of period	16	1,368,461	3,193,336

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 interim 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 interim financial statements were prepared by the management of Primorskiy Torgoviy Port Limited Liability Company to present the combined interim statement of financial position as at 30 June 2010 and 31 December 2009, combined interim financial performance and combined interim cash flows for the six months ended 30 June 2010 and 30 June 2009, 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 interim financial statements of the Group present the combined interim financial position, combined interim results of operations, combined interim changes in equity and combined interim 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 interim financial statements have been prepared by combining interim financial statements of the Group entities, which are prepared in accordance with IAS 34 *Interim Financial Reporting*. The basis for combination is described in the Note 3(a). These combined interim financial statements do not constitute consolidated interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. Two entities included into these combined interim financial statements were not under common control during the reporting period ended 30 June 2010.

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

(b) Basis of measurement

The combined interim 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 interim 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 interim 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 interim 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 12 month period.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these combined interim 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 interim financial statements of the Group present the combined interim financial position, combined interim results of operations, combined interim changes in equity and combined interim 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 interim 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 interim financial statements.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the combined interim 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 30 June 2010, and have not been applied in preparing these combined interim financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations:

- 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. The Group plans to adopt these pronouncements when they become effective.
- 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 consolidated 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 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 2011. 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**

For the six months ended 30 June

'000 RUR

	<u>2010</u>	<u>2009</u>
Revenues from transshipment services	2,260,729	2,329,060
Revenues from ship agent services	673,190	690,631
Revenues from garbage collection services	18,058	20,511
Revenues from liquidation of oil spillage	12,900	-
Revenues from rent	9,239	11,651
Revenues from other services in the port	8,091	8,493
Other revenues	4,139	476
	<u>2,986,346</u>	<u>3,060,822</u>

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

For the six months ended 30 June

'000 RUR	2010	2009
Rent	427,335	427,570
Depreciation	131,140	128,406
Wages and salaries	109,494	88,879
VAT expense	74,019	22,680
Materials	55,104	42,182
Maintenance and repair of property, plant and equipment	42,474	30,625
Contributions to state pension fund and other social funds	29,935	22,122
Oil spillage prevention services	29,778	30,184
Cargo transshipment services	19,420	17,432
Surveyor expenses	13,792	12,215
Amortization	7,483	6,570
Production safety services	6,237	6,676
Insurance	5,627	4,974
Servicing vessels	3,058	5,886
Contributions to defined contribution plan	1,587	180
Other expenses	23,687	21,417
	980,170	867,998

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

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

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

7 Administrative expenses

For the six months ended 30 June

'000 RUR

	2010	2009
Wages and salaries	143,485	107,980
Contributions to state pension fund and other social funds	18,541	15,716
Taxes other than income tax	15,221	13,146
Rent of office premises and equipment	10,620	13,777
Depreciation	9,588	7,307
Audit, consulting and legal expenses	6,522	4,658
Insurance	6,245	5,565
Materials	6,171	5,809
Maintenance and repair of property, plant and equipment	2,726	2,247
Contribution to defined contribution pension plan	1,965	198
Other administrative expenses	16,442	18,439
	<u>237,526</u>	<u>194,842</u>

8 Personnel costs

For the six months ended 30 June

'000 RUR

	2010	2009
Wages and salaries	252,979	196,859
Contributions to state pension fund and other social funds	48,476	37,838
Contributions to defined contribution pension plan	3,552	378
	<u>305,007</u>	<u>235,075</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

For the six months ended 30 June
'000 RUR

	2010	2009
Recognised in profit or loss		
Interest income on bank deposits	33,187	104,499
Net foreign exchange gain	-	41,605
Interest income on other investments	4,247	1,283
Other	6,694	-
Finance income	44,128	147,387
Interest expense on financial liabilities measured at amortised cost	(7,032)	(65,117)
Net foreign exchange loss	(80,657)	-
Impairment loss on receivables	(4,237)	-
Finance costs	(91,926)	(65,117)
Net finance (costs)/income recognised in profit or loss	(47,798)	82,270

The Group has expensed all interest expense in profit or loss during the six months ended 30 June 2010 and 30 June 2009.

10 Income tax expense

The Group's applicable tax rate is the income tax rate of 20% for Russian companies (2009: 20%).

For the six months ended 30 June
'000 RUR

	2010	2009
Current tax expense		
Current year	437,834	314,728
	437,834	314,728
Deferred tax expense		
Origination and reversal of temporary differences	(91,647)	104,318
	(91,647)	104,318
Total income tax and expense	346,187	419,046

Reconciliation of effective tax rate:

	2009		2008	
	'000 RUR	%	'000 RUR	%
Profit before income tax	1,686,393	100	2,077,077	100
Income tax at applicable tax rate	337,279	20.0	415,415	20.0
Non-deductible expenses	9,375	0.6	4,170	0.2
Non-taxable income	(467)	(0.1)	(539)	(0.0)
	<u>346,187</u>	<u>20.5</u>	<u>419,046</u>	<u>20.2</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 2009	276,658	2,563,547	355,257	50,013	966,783	15,740	35,001	654,109	4,917,108
Additions	-	-	783	14,566	-	-	2,185	17,460	34,994
Disposals	-	(16)	-	(5,813)	-	-	(243)	(1,352)	(7,424)
Balance at 30 June 2009	276,658	2,563,531	356,040	58,766	966,783	15,740	36,943	670,217	4,944,678
Balance at 1 January 2010	276,870	2,563,531	357,357	60,056	1,313,477	15,740	40,060	704,690	5,331,781
Additions	-	1	4,733	10,036	-	-	1,107	138,628	154,505
Disposals	-	(24)	-	(3,815)	-	-	(2,720)	(3,131)	(9,690)
Balance at 30 June 2010	276,870	2,563,508	362,090	66,277	1,313,477	15,740	38,447	840,187	5,476,596

'000 RUR	Land and buildings	Facilities	Machinery and equipment	Vehicles	Boats and crafts	Pipeline fill	Other	Construction in progress	Total
Depreciation and impairment losses									
Balance at 1 January 2009	(27,754)	(370,130)	(161,547)	(17,029)	(144,410)	-	(14,477)	-	(735,347)
Depreciation for the period	(5,553)	(70,018)	(32,485)	(4,526)	(20,026)	-	(3,105)	-	(135,713)
Disposals	-	13	-	3,767	-	-	243	-	4,023
Balance at 30 June 2009	(33,307)	(440,135)	(194,032)	(17,788)	(164,436)	-	(17,339)	-	(867,037)
Balance at 1 January 2010	(38,774)	(510,327)	(226,032)	(20,931)	(186,046)	-	(20,022)	-	(1,002,132)
Depreciation for the year	(5,534)	(69,337)	(30,377)	(5,939)	(27,019)	-	(2,522)	-	(140,728)
Disposals	-	24	-	2,918	-	-	2,666	-	5,608
Balance at 30 June 2010	(44,308)	(579,640)	(256,409)	(23,952)	(213,065)	-	(19,878)	-	(1,137,252)
Net book value									
At 1 January 2009	248,904	2,193,417	193,710	32,984	822,373	15,740	20,524	654,109	4,181,761
At 30 June 2009	243,351	2,123,396	162,008	40,978	802,347	15,740	19,604	670,217	4,077,641
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
At 30 June 2010	232,562	1,983,868	105,681	42,325	1,100,412	15,740	18,569	840,187	4,339,344

Pipeline fill represents 2,264 tonnes of crude oil as at 30 June 2010 (as at 31 December 2009: 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 131,140 thousand (2009: RUR 128,406 thousand) has been charged to cost of goods sold and RUR 9,588 thousand (2009: RUR 7,307 thousand) to administrative expenses.

(a) Security

None of the Group's property, plant and equipment is subject to a registered debenture to secure bank loans as at 30 June 2010.

At 31 December 2009 land with a carrying amount of RUR 2,500 thousand, 4 tug boats with a carrying amount of RUR 782,680 thousand and other property, plant and equipment with a carrying amount of RUR 164,528 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 (31 December 2009: RUR 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 a rent 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 (31 December 2009: RUR 54,114 thousand) related to construction of the new oil transshipment bunker complex.

The additions of construction in progress for the six months ended 30 June 2010 represent construction works performed on new oil transshipment bunker complex.

(c) Prepayments for non-current assets

Prepayments for non-current assets in the amount of RUR 621,155 thousand, excluding VAT, at (31 December 2009: RUR 149,690 thousand) consist of the following items:

- prepayments made for construction of new oil transshipment bunker complex in the amount of RUR 408,613 thousand at 30 June 2010 (31 December 2009: RUR 7,995 thousand);
- prepayments made for construction of a tug boat in the amount of RUR 212,542 thousand at 30 June 2010 (31 December 2009: RUR 141,695 thousand).

12 Other investments

'000 RUR	30 June 2010	31 December 2009
<i>Non-current</i>		
Available-for-sale investments:		
Measured at cost	2,135	2,135
Loans and receivables:		
Originated loans in RUR	12,776	17,302
	<u>14,911</u>	<u>19,437</u>
<i>Current</i>		
Loans and receivables:		
Deposits in EUR	-	251,652
Originated loans in RUR	118,346	281,139
Impairment loss on originated loans	(2,756)	(2,756)
Available-for-sale investments:		
Promissory notes in RUR	6,053	6,106
	<u>121,643</u>	<u>536,141</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 30 June 2010 would differ significantly from their carrying amounts.

Current available-for-sale investments amounted to RUR 6,053 thousand as at 30 June 2010 (31 December 2009: RUR 6,106 thousand) 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	
	30 June 2010	31 Dec 2009	30 June 2010	31 Dec 2009	30 June 2010	31 Dec 2009
Property, plant and equipment	3,040	17,711	(42,071)	(151,164)	(39,031)	(133,453)
Trade and other payables	5,224	9,870	-	-	5,224	9,870
Other	3,110	1,239	-	-	3,110	1,239
Tax assets/(liabilities)	11,374	28,820	(42,071)	(151,164)	(30,697)	(122,344)
Set off of tax	(6,150)	(22,774)	6,150	22,774	-	-
Net tax assets/(liabilities)	5,224	6,046	(35,921)	(128,390)	(30,697)	(122,344)

(b) Movement in temporary differences during the period

'000 RUR	1 January 2010	Recognised in profit or loss	30 June 2010
Property, plant and equipment	(133,453)	94,422	(39,031)
Trade and other payables	9,870	(4,646)	5,224
Other	1,239	1,871	3,110
	(122,344)	91,647	(30,697)

'000 RUR	1 January 2009	Recognised in profit or loss	30 June 2009
Property, plant and equipment	(139,634)	6,045	(133,589)
Trade and other payables	12,925	(9,755)	3,170
Other	1,199	359	1,558
Tax loss carry-forwards	100,967	(100,967)	-
	(24,543)	(104,318)	(128,861)

14 Inventories

Inventories held by the Group as at 30 June 2010 and 31 December 2009 represent spare parts, fuel, raw and other materials (used mainly for maintenance of sea vessels) carried at weighted average cost.

During the six months 2010 inventories expensed amounted to RUR 61,275 thousand (six months 2009: RUR 47,991 thousand).

The amount of inventories provision created by the Group as at 30 June 2010 amounted to RUR 2,056 thousand (31 December 2009: RUR 2,056 thousand).

15 Trade and other receivables

'000 RUR	30 June 2010	31 December 2009
<i>Current</i>		
Trade receivables	461,048	473,161
VAT receivable	898,187	393,900
Interest receivable	4,025	23,785
Other receivables	10,075	17,519
Deferred expenses	12,347	11,078
	1,385,682	919,443

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	30 June 2010	31 December 2009
Bank balances	693,400	43,119
Short-term bank deposits in RUR	675,000	737,297
Petty cash	61	34
Short-term bank deposits in USD	-	621,178
Short-term bank deposits in EUR	-	504,699
Cash and cash equivalents in the combined interim statement of financial position	1,368,461	1,906,327
Cash and cash equivalents in the combined interim statement of cash flows	1,368,461	1,906,327

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 30 June 2010 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 neftenalivnoy 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 2009 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% - Weralta Consulting Limited (Cyprus)
					20% - Specializirovanny morskoy nefenalivnoy 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)

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 interim 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 30 June 2010 Trans-Flot Closed Joint Stock Company had accumulated profits, including the profit for the first six month of the current year, of RUR 158,873 thousand (31 December 2009: RUR 455,198 thousand). As at 30 June 2010

Primorskiy Torgoviy Port Limited Liability Company had accumulated profits, including the profit for the first six month of the current year, of RUR 4,964,215 thousand (31 December 2009: RUR 4,452,404 thousand). As at 30 June 2010 Sovfraht-Primorsk Closed Joint Stock Company had accumulated profits, including the profit for the first six month of the current year, of RUR 366,470 thousand (31 December 2009: RUR 191,959 thousand). As at 30 June 2010 Morskoy Portovy Service Closed Joint Stock had accumulated profits, including the profit for the first six month of the current year, of RUR 38,858 thousand (31 December 2009: RUR 477,778 thousand).

The Group declared dividends during the six months ended 30 June 2010, 30 June 2009 as shown in the table below:

	RUR per share	Dividends '000 RUR
For the six months, ended 30 June 2010		
Primorskiy Torgoviy Port Limited Liability Company		
Dividends for July – December 2009	-	214,000
Trans-Flot Closed Joint Stock Company		
Dividends for 2009	0.39	455,000
Dividends for January – March 2010	0.18	205,000
Sovfraht-Primorsk Closed Joint Stock Company		
Dividends for 2009	15,240	160,000
Morskoy Portovy Service Closed Joint Stock		
Dividends for 2004	398,000	398,000
Dividends for July – December 2009	59,000	59,000
		1,491,000
	RUR per share	Dividends '000 RUR
For the six months, ended 30 June 2009		
Sovfraht-Primorsk Closed Joint Stock Company		
Dividends for October - December 2008	13,810	145,000
Dividends for January – March 2009	17,430	183,000
Morskoy Portovy Service Closed Joint Stock		
Dividends for 2002 – 2004, July – December 2007, January – September 2008	270,000	270,000
		598,000

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	30 June 2010	31 December 2009
<i>Current</i>		
Unsecured bank loans	107,000	-
Secured bank loans	-	556,233
	<u>107,000</u>	<u>556,233</u>

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUR	Currency	Nominal interest rate	Year of maturity	30 June 2010		31 December 2009	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loan	RUR	MOSPRIME +2.75%	2010	107,000	107,000	-	-
Secured bank loan	RUR	9.5%	2010	-	-	556,233	556,233
				<u>107,000</u>	<u>107,000</u>	<u>556,233</u>	<u>556,233</u>

At 31 December 2009 bank loans were 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 – see Note 11(a);
- Mortgage of other property, plant and equipment with a carrying amount of RUR 164,528 thousand – see Note 11(a);
- Mortgage of 4 tug boats with a carrying amount of RUR 782,680 thousand – see Note 11(a).

19 Trade and other payables

'000 RUR	30 June 2010	31 December 2009
Other taxes payable	621,408	79,083
Dividend payables	214,000	118,000
Trade payables	56,387	58,915
Employee benefits payable	46,478	53,571
Interest payable	138	579
Other payables and accrued expenses	6,603	8,331
	<u>945,014</u>	<u>318,479</u>

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 interim 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 21% 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 30 June 2010 the Group entered into the guarantee contracts in accordance with which it became jointly liable with its related parties for fulfilment of their obligations for the total amount of RUR 290,000 thousand (31 December 2009: RUR 350,000 thousand) and for the period of 3 years (refer to Note 25).

As at 30 June 2010 the Group entered into the surety contracts in accordance with which it became jointly liable with its related parties for fulfilment of its obligations for the total amount of RUR 4,021,078 thousand and for the period from 1 month to 4 years (31 December 2009: RUR 1,507,356 thousand) (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	
	30 June 2010	31 December 2009
Available-for-sale financial assets	8,188	8,241
Trade and other receivables	475,148	514,465
Other investments	-	251,652
Originated loans	131,122	298,441
Cash and cash equivalents	1,368,461	1,906,327
Financial guarantees	290,000	350,000
	2,272,919	3,329,126

The Group's most significant customer, a Russian state-owned oil company, accounts for RUR 120,137 thousand of the trade receivables carrying amount at 30 June 2010 (31 December 2009: RUR 130,379 thousand).

Impairment losses

The aging of trade receivables at the reporting date was:

'000 RUR	30 June 2010	31 December 2009
Not past due	400,865	420,723
Past due 0-30 days	531	1,640
Past due 31-120 days	3,082	4,100
Past due more than 120 days	56,570	46,698
	<u>461,048</u>	<u>473,161</u>

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

For the six months ended 30 June		
'000 RUR	2010	2009
Balance at beginning of the period	-	1,705
Balance at end of the period	<u>-</u>	<u>1,705</u>

No impairment allowance was recognised at 30 June 2010 in respect of trade receivables past due by more than 30 days, since the management has strong confidence in their recoverability. The balance past due by more than 30 days amounting to RUR 59,347 thousand (31 December 2009: RUR 50,798 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:

For the six months ended 30 June		
'000 RUR	2010	2009
Balance at beginning of the period	2,756	17,756
Balance at end of the period	<u>2,756</u>	<u>17,756</u>

An impairment loss at 30 June 2010 of RUR 2,756 thousand relates to originated loans to non-commercial organization Morskie Locmany (see Note 12).

An impairment loss at 30 June 2009 of RUR 17,756 thousand relates to originated loans to Daltrans Limited Liability Company in the amount of RUR 15,000 thousand and to non-commercial organization Morskie Locmany in the amount of RUR 2,756 thousand (see Note 12).

The allowance accounts in respect of loans and receivables and held-to-maturity investments 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 30 June 2010 the Group did not have any collective impairment on its originated loans (31 December 2009: 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. In addition, the Group maintains RUR 180 million unsecured credit facility. Interest would be payable at the rate of a month MOSPRIME + 2.75%. In accordance with the contract terms the Group cannot increase the amount of credit raised by the Group a month after credit agreement signature that is, after 23 May 2010.

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.

30 June 2010

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
Non-derivative financial liabilities						
Unsecured bank loans	107,000	107,693	107,693	-	-	-
Trade and other payables	62,990	62,990	62,990	-	-	-
Financial guarantees	-	290,000	290,000	-	-	-
			460,683	-	-	-

31 December 2009

'000 RUR	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-5 yrs
Non-derivative financial liabilities						
Secured bank loans	556,233	565,820	565,820	-	-	-
Trade and other payables	67,246	67,246	67,246	-	-	-
Financial guarantees	-	350,000	350,000	-	-	-
			983,066	-	-	-

(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% during first six month of 2010 and 2009) 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-	GBP-	USD-	Euro-
	denominated	denominated	denominated	denominated	denominated
	30 June 2010	30 June 2010	30 June 2010	31 December 2009	31 December 2009
Cash and cash equivalents	582,193	-	-	621,178	504,699
Trade receivables	506	255	14	13,374	6,819
Other investments	-	-	-	-	251,652
Trade payables	(4)	(1,495)	-	(1,701)	(405)
Gross exposure	582,695	(1,240)	14	632,851	762,765

The following significant exchange rates applied during the year:

For the six months ended 30 June

in RUR

	Average rate	
	2010	2009
USD 1	30.0676	33.0679
EUR 1	39.9787	44.1034
GBP 1	45.7653	49.5000

in RUR

	Reporting date spot rate	
	30 June 2010	31 December 2009
USD 1	31.1954	30.2442
EUR 1	38.1863	43.3883

Sensitivity analysis

A 20% strengthening of the RUR against the following currencies at 30 June 2010 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 31 December 2009.

'000 RUR	Equity	Profit or loss
30 June 2010		
USD	-	(116,539)
EUR	-	248
GBP	-	(3)
2009		
USD	-	(126,570)
EUR	-	(152,553)

A 20% weakening of the RUR against the above currencies at 30 June 2010 and 31 December 2009 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	
	30 June 2010	31 December 2009
Fixed rate instruments		
Financial assets	803,366	2,410,511
Financial liabilities	-	(556,233)
	803,366	1,854,278
Variable rate instruments		
Financial liabilities	(107,000)	-
	(107,000)	-

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	30 June 2010	31 December 2009
Short-term bank deposits in RUR	3.80 – 4.25%	5.00% - 10.50%
Short-term bank deposits in USD	-	5.37%
Short-term bank deposits in EURO	-	4.65% -6.72%
Originated loans	6.00% - 10.00%	6.00% - 17.00%
Loans and borrowings	MOSPRIME+2.75%	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	As at 30 June 2010	As at 31 December 2009
Less than one year	833,720	805,236
Between one and five years	2,968,877	3,028,236
More than five years	10,891,735	11,240,824
	<u>14,694,332</u>	<u>15,074,296</u>

In addition to the leases included in the schedule above, as at 30 June 2010 the Group had several operating lease agreements that are cancellable upon one or three months' 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 10,531 thousand after 30 June 2010 (31 December 2009: RUR 3,732 thousand).

During the six months ended 30 June 2010 RUR 437,955 was recognised as an expense in profit or loss in respect of operating leases (six months ended 30 June 2009: RUR 441,347 thousand), including RUR 421,626 thousand (six months ended 30 June 2009: RUR 424,052 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	As at 30 June 2010	As at 31 December 2009
Less than one year	16,666	16,666
Between one and five years	66,664	66,664
More than five years	272,666	280,999
	355,996	364,329

In addition to the leases included in the schedule above, as at 30 June 2010 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 30 June 2010 (31 December 2009: RUR 2,100 thousand).

During the six months ended 30 June 2010 an amount of RUR 9,239 thousand was recognised as income in profit or loss in respect of operating leases (six months ended 30 June 2009: RUR 11,651 thousand), including RUR 8,333 thousand (six months ended 30 June 2009: RUR 8,333 thousand) under the lease agreement referred to in the preceding paragraph.

22 Capital commitments

At 30 June 2010 the Group entered into contracts for the construction of a new oil transshipment bunker complex in the port of Primorsk in the amount RUR 489,747 thousand, excluding VAT, and the construction of a new tug boat for RUR 141,695 thousand, excluding VAT (31 December 2009: RUR 38,976 thousand and RUR 212,542 thousand accordingly). Prepayments were made in respect of these contracts as at 30 June 2010 totalling RUR 621,155 thousand, excluding VAT (31 December 2009: 149,690 thousand). 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 litigations or claims involving the Group as at 30 June 2010.

(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 interim 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):

For the six months ended 30 June

'000 RUR	2010	2009
Salaries and bonuses	32,240	23,861
Contributions to state pension fund and other social funds	1,605	1,413
Contribution to defined contribution pension plan	909	-
	34,754	25,274

(b) Transactions with other related parties

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

(i) Revenue

'000 RUR	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2010	2009	30 June 2010	31 December 2009
Services provided:				
Other related parties	56,316	41,233	72,141	58,786
Income from guarantees issued:				
Other related parties	6,694	-	351	-
Interest income:				
Other related parties	1,700	517	1,453	1,697
	64,710	41,750	73,945	60,483

Outstanding balances with related parties are to be settled in cash within six months after the reporting date as at 30 June 2010. None of the balances are secured.

(ii) Expenses

'000 RUR	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2010	2009	30 June 2010	31 December 2009
Services received:				
Other related parties	462,190	457,033	3,874	6,536
	<u>462,190</u>	<u>457,033</u>	<u>3,874</u>	<u>6,536</u>

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

'000 RUR	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2010	2009	30 June 2010	31 December 2009
Loans given:				
Other related parties	22,448	52,662	118,366	154,036
	<u>22,448</u>	<u>52,662</u>	<u>118,366</u>	<u>154,036</u>

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 30 June 2010 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.

25 Events subsequent to the reporting date

In August 2010 the Group has fully repaid unsecured bank loan that amounted to RUR 107,000 thousand as at 30 June 2010.

Subsequent to the balance sheet date the Group issued guarantees to the related parties total amounting to RUR 55,000 thousand (refer to Note 20(b)(iii)), while the related parties settled liabilities, which were secured by the Group guarantees, in total amount of RUR 4,366,078 thousand (refer to Note 20(b)(iii)).

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.