

LLC Primorsk Trade Port
Financial Statements
for the year ended 31 December 2008

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Independent Auditors' Report

To the management of LLC Primorsk Trade Port

We have audited the accompanying financial statements of LLC Primorsk Trade Port (the "Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Basis for Qualified Opinion

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

Qualified Opinion

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

Emphasis of Matter

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

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09 July 2010

LLC Primorsk Trade Port
Income Statement for the year ended 31 December 2008

| | | 2008 | 2007 (unaudited) |
|--|------|-------------|---------------------|
| | Note | '000 RUR | '000 RUR |
| Revenue | 5 | 4 656 704 | 4 604 767 |
| Cost of sales | 6 | (1 057 452) | (1 109 880) |
| Gross profit | | 3 599 252 | 3 494 887 |
| Other income | | 7 160 | 1 840 |
| Administrative expenses | 7 | (163 798) | (114 878) |
| Other expenses | 8 | (10 202) | (22 447) |
| Results from operating activities | | 3 432 412 | 3 359 402 |
| Financial income | 10 | 254 630 | 69 019 |
| Financial expenses | 10 | (63 343) | (48 371) |
| Profit before income tax | | 3 623 699 | 3 380 050 |
| Income tax expense | 11 | (891 435) | (829 649) |
| Profit for the year | | 2 732 264 | 2 550 401 |

These financial statements were approved by management on 09 July 2010 and were signed on its behalf by:

Golubkov D.I.
General Director

Polonsky G.V.
Chief Financial Officer



The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 43.

LLC Primorsk Trade Port
Balance Sheet as at 31 December 2008

| | | 2008 | 2007 (unaudited) |
|--------------------------------------|------|------------------|---------------------|
| | Note | '000 RUR | '000 RUR |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 227 578 | 232 386 |
| Intangible assets | | 10 093 | 14 443 |
| Investments | 14 | - | 48 343 |
| Deferred tax assets | 15 | 22 912 | 2 206 |
| Total non-current assets | | <u>260 583</u> | <u>297 378</u> |
| Current assets | | | |
| Inventories | | 9 681 | 6 089 |
| Investments | 14 | 925 217 | 54 070 |
| Income tax receivable | | 34 333 | 34 570 |
| Trade and other receivables | 16 | 701 728 | 510 459 |
| Cash and cash equivalents | 17 | 2 035 023 | 271 168 |
| Total current assets | | <u>3 705 982</u> | <u>876 356</u> |
| Total assets | | <u>3 966 565</u> | <u>1 173 734</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 18 | 3 010 | 3 010 |
| Retained earnings | | 3 703 734 | 1 088 589 |
| Total equity | | <u>3 706 744</u> | <u>1 091 599</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | 15 | 22 | 1 669 |
| Total non-current liabilities | | <u>22</u> | <u>1 669</u> |
| Current liabilities | | | |
| Trade and other payables | 19 | 259 799 | 80 466 |
| Total current liabilities | | <u>259 799</u> | <u>80 466</u> |
| Total liabilities | | <u>259 821</u> | <u>82 135</u> |
| Total equity and liabilities | | <u>3 966 565</u> | <u>1 173 734</u> |

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 43.

LLC Primorsk Trade Port
Statement of Cash Flows for the year ended 31 December 2008

| | 2008 | 2007 |
|--|------------------|--------------------|
| | '000 RUR | (unaudited) |
| | '000 RUR | '000 RUR |
| OPERATING ACTIVITIES | | |
| Profit for the year | 2 732 264 | 2 550 401 |
| <i>Adjustments for:</i> | | |
| Depreciation | 13 322 | 7 521 |
| Amortisation | 4 348 | 3 885 |
| Impairment losses on loans given | 63 343 | - |
| Loss on disposal of property, plant and equipment | 1 055 | 16 092 |
| Net foreign exchange gain/(loss) | (84 727) | 6 842 |
| Interest income | (90 797) | (69 019) |
| Effect of unwind of discount | (79 106) | - |
| Cost of bank guarantees | - | 41 529 |
| Income tax expense | 891 435 | 829 649 |
| Operating profit before changes in working capital and provisions | 3 451 137 | 3 386 898 |
| Increase in inventories | (3 592) | (3 018) |
| (Increase)/decrease in trade and other receivables | (100 437) | 372 618 |
| Increase/(decrease) in trade and other payables | 179 333 | (290 003) |
| Cash flows from operations before income taxes and interest paid | 3 526 441 | 3 466 495 |
| Income taxes paid | (880 316) | (840 635) |
| Cash flows from operating activities | 2 646 125 | 2 625 860 |

LLC Primorsk Trade Port
Statement of Cash Flows for the year ended 31 December 2008

| | 2008 | 2007 |
|---|------------------|--------------------|
| | '000 RUR | (unaudited) |
| | '000 RUR | '000 RUR |
| INVESTING ACTIVITIES | | |
| Proceeds from disposal of property, plant and equipment | 640 | 1 477 |
| Proceeds from repayment of loans and bank deposits | 2 000 | 61 599 |
| Issuance of loans | (1 038 500) | (115 760) |
| Interest received | 79 073 | 63 225 |
| Acquisition of property, plant and equipment | (10 209) | (149 837) |
| Acquisition of intangible assets | - | (3 694) |
| Cash flows used in investing activities | (966 996) | (142 990) |
| FINANCING ACTIVITIES | | |
| Dividends paid | - | (2 400 000) |
| Cash flows used in financing activities | - | (2 400 000) |
| Net increase in cash and cash equivalents | 1 679 129 | 82 870 |
| Cash and cash equivalents at beginning of year | 271 168 | 192 951 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 84 726 | (4 653) |
| Cash and cash equivalents at end of year (Note 17) | 2 035 023 | 271 168 |

LLC Primorsk Trade Port
Statement of Changes in Equity for the year ended 31 December 2008

| '000 RUR | Share capital | Retained earnings | Total |
|---|---------------|-------------------|------------------|
| Balance at 1 January 2007 (unaudited) | 3 010 | 938 188 | 941 198 |
| Profit and total recognised income and expense for the year (unaudited) | - | 2 550 401 | 2 550 401 |
| Dividends to shareholders (unaudited) | - | (2 400 000) | (2 400 000) |
| Balance at 31 December 2007 (unaudited) | 3 010 | 1 088 589 | 1 091 599 |
| Balance at 1 January 2008 (unaudited) | 3 010 | 1 088 589 | 1 091 599 |
| Profit and total recognised income and expense for the year | - | 2 732 264 | 2 732 264 |
| Effect of discounting interest-free loans from related parties | - | (150 354) | (150 354) |
| Deferred tax effect of discounting interest-free loans | - | 36 085 | 36 085 |
| Effect of change in tax rate | - | (2 850) | (2 850) |
| Balance at 31 December 2008 | 3 010 | 3 703 734 | 3 706 744 |

1 Background

(a) Business environment

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

(b) Organisation and operations

LLC Primorsk Trade Port (the "Company") is a Russian limited liability company as defined in the Civil Code of the Russian Federation. The Company was established on 7 September 2004.

The Company's registered office is Vyborgskoe Shosse, 25, Primorsk, Leningrad Region, Vyborg District, Russia, 188910.

The Company's principal activity is providing services related to the transshipment of oil and oil products in the port located in Primorsk, Leningrad region. The port is the final point of Baltic pipeline system. Oil is received from a pipeline owned by OAO AK Transneft and is loaded onto oil tankers of third parties for export. The main customers are large Russian oil companies.

The Company is wholly owned by Omirico Limited, a Cyprus-registered company. The majority of the Company's funding is from its operating cash flow, and there are no credit exposures. As a result the Company is not economically dependent upon its immediate parent company. Related party transactions are detailed in note 24.

2 Basis of preparation

(a) Statement of compliance

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

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 25.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) **Functional and presentation currency**

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

(d) **Use of judgments, estimates and assumptions**

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

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

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

- Note 14 – Investments; and
- Note 21 – Operating leases.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements are described in Notes 3(a) to 3(p). These accounting policies have been consistently applied.

(a) **Foreign currency**

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of Company 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 translation are recognised in the income statement.

(b) **Financial instruments**

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise loans issued, bank deposits, trade and other receivables, cash and cash equivalents, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits.

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

Held-to-maturity investments

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

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(c) Share capital

The share capital and retained earnings of the Company are presented as part of equity.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and pipeline fill are not depreciated. Pipeline fill consists of crude oil used for the technical operation of the pipeline network owned by the Company. 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 30 years

- vehicles 2-10 years
- facilities 7-30 years
- other fixed assets 1-5 years

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

(e) Intangible assets

(i) *Intangible assets*

Intangible assets that are acquired by the Company, 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 income statement as incurred.

(iii) *Amortisation*

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- licenses 5 years

(f) Leased assets

Leases in terms of which the Company 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 Company's balance sheet.

(g) 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.

(h) Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) *Non-financial assets*

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(i) Employee benefits

(i) Short-term benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus plan if the Company 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.

(j) Provisions

A provision is recognised if, as a result of a past event, the Company 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.

(k) Guarantee contracts

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

(l) Revenue

(i) Services

Revenues from transshipment services are recognized when the services are provided as evidenced by the delivery of crude oil or oil products to the end customer or intermediary between the Company and the end customer in accordance with the contract.

(ii) Commissions

When the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Company.

(m) Other expenses

(i) Lease payments

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

(ii) Social expenditure

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

(n) Finance income and expenses

Finance income comprises interest income on funds invested, unwind of discount on interest-free loans issued and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise foreign currency losses, cost of bank guarantees received and impairment losses recognised on financial assets.

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

(o) Income tax expense

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

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

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

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

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

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective, except for the IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – *Puttable Financial Instruments and Obligations Arising on Liquidation*. Of these pronouncements potentially the following will have an impact on the Company's operations:

- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Company's 2009 financial statements is expected to have a significant impact on the presentation of the financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011. The Company has not yet determined the potential effect of the amendment.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 *Transfers of Assets from Customers* applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation clarifies recognition and measurement of received items, how the resulting credit, as well as a transfer of cash from customers should be accounted for. IFRIC 18 is applied prospectively to transfers of assets from customers received on or after 1 July 2009.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Company's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Company 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 Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

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

(b) Non-derivative financial liabilities

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

5 Revenue

| | 2008 | 2007 |
|--------------------------------------|-----------------|--------------------|
| | '000 RUR | (unaudited) |
| | '000 RUR | '000 RUR |
| Revenues from transshipment services | 4 627 387 | 4 577 979 |
| Revenue from mooring services | 11 192 | 10 969 |
| Other revenues | 18 125 | 15 819 |
| | 4 656 704 | 4 604 767 |

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 operating marine ports and terminals for transshipment of oil and oil products.

6 Cost of sales

| | 2008 | 2007 (unaudited) |
|--|-----------|---------------------|
| | '000 RUR | '000 RUR |
| Rent | 514 530 | 289 867 |
| Production safety services | 177 969 | 205 606 |
| Towage services | 79 831 | 79 627 |
| Wages and salaries | 69 200 | 51 956 |
| Oil spillage prevention services | 58 109 | 50 690 |
| Repair and maintenance | 41 562 | 26 608 |
| Surveyor expenses | 35 532 | 29 713 |
| Loading services | 17 855 | 17 296 |
| Unified social tax and contributions to social funds | 13 818 | 12 119 |
| Depreciation and amortisation | 9 462 | 6 671 |
| Materials | 8 359 | 14 095 |
| Insurance | 7 021 | 292 998 |
| Other | 24 204 | 32 634 |
| | 1 057 452 | 1 109 880 |

Production safety services are represented by ecological safety and control, fire safety services rendered by related and third parties. Rent mainly comprises expenditure for rent of land plots, equipment, berths and pipelines from related parties under operating lease agreements.

Insurance expenses for 2008 decreased by RUR 285 977 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 start-up period the insurance fees for the first year of operations were high; and
- in June 2007 the Company introduced the tender system to select an insurance company and switched to another insurer with more favourable rates.

7 Administrative expenses

| | 2008 | 2007 (unaudited) |
|--|----------|---------------------|
| | '000 RUR | '000 RUR |
| Wages and salaries | 58 625 | 39 660 |
| Rent | 39 356 | 31 514 |
| Depreciation | 8 208 | 4 734 |
| Unified social tax and contributions to social funds | 7 399 | 5 680 |
| Guard expenses | 6 960 | 1 991 |
| Taxes other than income tax | 6 562 | 3 151 |
| Legal expenses | 6 221 | 4 188 |
| Materials | 5 623 | 5 672 |
| Insurance expense | 5 553 | 4 643 |
| Audit and consulting | 4 080 | 540 |
| Repair and maintenance expense | 3 842 | 1 396 |
| Communication | 2 671 | 2 390 |
| Other administrative expenses | 8 698 | 9 319 |
| | 163 798 | 114 878 |

8 Other expenses

| | 2008 | 2007 (unaudited) |
|---|----------|---------------------|
| | '000 RUR | '000 RUR |
| Charity | 6 690 | 1 604 |
| Loss on disposal of property, plant and equipment | 1 055 | 16 092 |
| Other | 2 457 | 4 751 |
| | 10 202 | 22 447 |

9 Personnel costs

| | 2008 | 2007 |
|--|-----------------|--------------------|
| | '000 RUR | (unaudited) |
| | '000 RUR | '000 RUR |
| Wages and salaries | 127 825 | 91 616 |
| Contributions to State pension fund and social charges | 21 217 | 17 799 |
| | 149 042 | 109 415 |

10 Financial income and expenses

| | 2008 | 2007 |
|---|-----------------|--------------------|
| | '000 RUR | (unaudited) |
| | '000 RUR | '000 RUR |
| Financial income | | |
| Net foreign exchange gain | 84 727 | - |
| Interest income | 90 797 | 69 019 |
| Unwind of discount on interest-free loan granted | 79 106 | - |
| Finance income | 254 630 | 69 019 |
| Financial expenses | | |
| Net foreign exchange loss | - | 6 842 |
| Expenses on guarantees received | - | 41 529 |
| Impairment loss on loans given (see Note 14) | 63 343 | - |
| Finance expense | 63 343 | 48 371 |
| Net finance income recognised in income statement | 191 287 | 20 648 |

11 Income tax expense

| | 2008 | 2007 (unaudited) |
|---|----------------|---------------------|
| | '000 RUR | '000 RUR |
| <i>Current tax expense</i> | | |
| Current year | 880 553 | 829 970 |
| | <u>880 553</u> | <u>829 970</u> |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of temporary differences | 9 155 | (321) |
| Change in tax rate | 1 727 | - |
| | <u>10 882</u> | <u>(321)</u> |
| | <u>891 435</u> | <u>829 649</u> |

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

Reconciliation of effective tax rate:

| | 2008 | | 2007 (unaudited) | |
|-----------------------------------|----------------|-------------|---------------------|-------------|
| | '000 RUR | % | '000 RUR | % |
| Profit before income tax | 3 623 699 | 100.0 | 3 380 050 | 100.0 |
| Income tax at applicable tax rate | 869 688 | 24.0 | 811 212 | 24.0 |
| Change in tax rate | 1 727 | 0.0 | - | - |
| Non-deductible expenses | 20 611 | 0.6 | 18 437 | 0.5 |
| Non-taxable income | (591) | 0.0 | - | - |
| | <u>891 435</u> | <u>24.6</u> | <u>829 649</u> | <u>24.5</u> |

12 Income tax recognised directly in equity

| | 2008 | 2007 (unaudited) |
|---|---------------|---------------------|
| | '000 RUR | '000 RUR |
| Discount on interest-free loan given to CJSC Trans-Flot | 319 547 | - |
| Income tax on income and expense recognised directly in equity: | | |
| Deferred tax effect from discounting interest-free loan | 36 085 | - |
| Effect of change in tax rate | (2 850) | - |
| | <u>33 235</u> | <u>-</u> |

13 Property, plant and equipment

| '000 RUR <i>Cost</i> | Land and buildings | Vehicles | Facilities | Other | Pipeline fill | Construction in progress | Total |
|--|-----------------------|----------|------------|--------|---------------|-----------------------------|----------|
| Balance at 1 January 2007 (unaudited) | - | 12 626 | 5 515 | 5 504 | 8 367 | 79 107 | 111 119 |
| Additions (unaudited) | 70 683 | 9 238 | 23 220 | 17 865 | 7 373 | 21 458 | 149 837 |
| Disposals (unaudited) | - | (6 519) | - | (274) | - | (13 337) | (20 130) |
| Transfer (unaudited) | 48 250 | - | 30 845 | 2 | - | (79 097) | - |
| Balance at 31 December 2007 (unaudited) | 118 933 | 15 345 | 59 580 | 23 097 | 15 740 | 8 131 | 240 826 |
| Balance at 1 January 2008 (unaudited) | 118 933 | 15 345 | 59 580 | 23 097 | 15 740 | 8 131 | 240 826 |
| Additions | 140 | 3 735 | 2 165 | 2 426 | - | 1 743 | 10 209 |
| Disposals | - | - | (525) | (120) | - | (1 364) | (2 009) |
| Transfer | - | - | 5 360 | 3 | - | (5 363) | - |
| Balance at 31 December 2008 | 119 073 | 19 080 | 66 580 | 25 406 | 15 740 | 3 147 | 249 026 |

| '000 RUR | Land and buildings | Vehicles | Facilities | Other | Pipeline fill | Construction in progress | Total |
|---|--------------------|----------|------------|-------|---------------|--------------------------|---------|
| <i>Depreciation</i> | | | | | | | |
| Balance at 1 January 2007 (unaudited) | - | 2 169 | 433 | 879 | - | - | 3 481 |
| Depreciation charge (unaudited) | 1 128 | 3 634 | 958 | 1 801 | - | - | 7 521 |
| Disposals (unaudited) | - | (2 562) | - | - | - | - | (2 562) |
| Balance at 31 December 2007 (unaudited) | 1 128 | 3 241 | 1 391 | 2 680 | - | - | 8 440 |
| | | | | | | | |
| Balance at 1 January 2008 (unaudited) | 1 128 | 3 241 | 1 391 | 2 680 | - | - | 8 440 |
| Depreciation charge | 3 797 | 3 378 | 1 304 | 4 843 | - | - | 13 322 |
| Disposals | - | - | (210) | (104) | - | - | (314) |
| Balance at 31 December 2008 | 4 925 | 6 619 | 2 485 | 7 419 | - | - | 21 448 |

Net book value

| | | | | | | | |
|---------------------------------|---------|--------|--------|--------|--------|--------|---------|
| At 1 January 2007 (unaudited) | - | 10 457 | 5 082 | 4 625 | 8 367 | 79 107 | 107 638 |
| At 31 December 2007 (unaudited) | 117 805 | 12 104 | 58 189 | 20 417 | 15 740 | 8 131 | 232 386 |
| At 31 December 2008 | 114 148 | 12 461 | 64 095 | 17 987 | 15 740 | 3 147 | 227 578 |

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

Depreciation expense of RUR 5.114 thousand (2007: RUR 2 787 thousand) has been charged to cost sales and RUR 8 208 thousand (2007: RUR 4 734 thousand) to administrative expenses.

14 Investments

| | 2008 | 2007 (unaudited) |
|------------------------------|----------|---------------------|
| | '000 RUR | '000 RUR |
| <i>Non-current</i> | | |
| Loans and receivables: | | |
| Loans originated | - | 48 343 |
| | - | 48 343 |
| <i>Current</i> | | |
| Loans and receivables: | | |
| Loans originated | 988 560 | 54 070 |
| Allowance for impaired loans | (63 343) | - |
| | 925 217 | 54 070 |

In 2008 the Company granted an interest-free loan to a related party, CJSC Trans-Flot, repayable in 2011. Upon initial recognition the loan was discounted using a market interest rate of 17%. The resulting difference between fair value of RUR 882 646 thousand and nominal value of RUR 1 033 000 thousand was recognized in equity as a capital distribution.

As at 31 December 2008 the Company recognized an impairment allowance related to loans issued to Daltrans Limited Liability Company in the amount of RUR 15 000 thousand and to a related party of the Company, in the amount of RUR 48 343 thousand. In 2008 LLC Daltrans Limited Liability Company was in the process of liquidation and recoverability of the loan is doubtful.

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

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| '000 RUR | Assets | | Liabilities | | Net | |
|-------------------------------|--------|-------------|-------------|-------------|--------|-------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | | (unaudited) | | (unaudited) | | (unaudited) |
| Property, plant and equipment | - | - | (22) | (1 669) | (22) | (1 669) |
| Investments | 14 250 | - | - | - | 14 250 | - |
| Trade and other payables | 8 662 | 2 206 | - | - | 8 662 | 2 206 |
| Tax assets/(liabilities) | 22 912 | 2 206 | (22) | (1 669) | 22 890 | 537 |
| Set off of tax | - | - | - | - | - | - |
| Net tax assets/(liabilities) | 22 912 | 2 206 | (22) | (1 669) | 22 890 | 537 |

(b) Movement in temporary differences during the year

| '000 RUR | 1 January 2008 (unaudited) | Recognised in income | Recognised in equity | 31 December 2008 |
|-------------------------------|-------------------------------|-------------------------|-------------------------|---------------------|
| Property, plant and equipment | (1 669) | 1 647 | - | (22) |
| Investments | - | (18 985) | 33 235 | 14 250 |
| Trade and other payables | 2 206 | 6 456 | - | 8 662 |
| | 537 | (10 882) | 33 235 | 22 890 |

| '000 RUR | 1 January 2007 (unaudited) | Recognised in income (unaudited) | Recognised in equity (unaudited) | 31 December 2007 (unaudited) |
|-------------------------------|-------------------------------|--|--|------------------------------------|
| Property, plant and equipment | 216 | (1 885) | - | (1 669) |
| Trade and other payables | - | 2 206 | - | 2 206 |
| | 216 | 321 | - | 537 |

16 Trade and other receivables

| | 2008 | 2007 (unaudited) |
|---------------------|----------|---------------------|
| | '000 RUR | '000 RUR |
| <i>Current</i> | | |
| Trade receivables | 433 514 | 395 982 |
| VAT receivable | 124 306 | 67 755 |
| Interest receivable | 99 061 | 8 231 |
| Prepayments | 14 247 | 8 891 |
| Deferred expenses | 7 092 | 9 121 |
| Other receivables | 23 508 | 20 479 |
| | 701 728 | 510 459 |
| | 701 728 | 510 459 |

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

17 Cash and cash equivalents

| | 2008 | 2007 (unaudited) |
|--|-----------|---------------------|
| | '000 RUR | '000 RUR |
| <i>Cash</i> | | |
| Call deposits in RUR | - | 200 000 |
| Bank balances in RUR | 32 746 | 68 565 |
| Bank balances in other currencies | 1 757 | 2 532 |
| Petty cash in RUR | 25 | 71 |
| | 34 528 | 271 168 |
| <i>Cash equivalents</i> | | |
| Short-term bank deposits in RUR (9.25% - 11.50%) | 710 000 | - |
| Short-term bank deposits in USD (6.50%) | 1 290 495 | - |
| | 2 000 495 | - |
| | 2 035 023 | 271 168 |

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

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 20.

18 Equity

(a) Share capital

As at 31 December 2008 and 2007, the Company had authorized and issued share capital of RUR 3 010 thousand. The sole participant is Omirico Limited, Cyprus.

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.

The difference between fair value of loans granted to a related party (refer to Note 14) and the nominal amount was recognized as at 31 December 2008 in equity as a distribution in the amount of RUR 150 354 thousand net of deferred tax of RUR 33 235 thousand.

(b) Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of RUR 3 823 666 thousand (2007: RUR 1 097 575 thousand).

19 Trade and other payables

| | 2008 | 2007 (unaudited) |
|-------------------------------------|----------|---------------------|
| | '000 RUR | '000 RUR |
| Trade payables | 238 196 | 58 995 |
| Employee payables | 15 087 | 9 265 |
| Other taxes payable | 6 385 | 4 502 |
| Other payables and accrued expenses | 131 | 7 704 |
| | 259 799 | 80 466 |

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

20 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

(i) Trade and other receivables

Most customers of the Company are major Russian oil companies, which are simultaneously customers of OJSC AK Transneft, which owns the pipeline used to deliver oil products to the marine terminal. The Company does not have a unified policy for management of credit risk in place. All customers who received access to oil pipelines of OJSC AK Transneft are automatically approved and accepted by the Company.

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

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

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

(ii) Investments

The Company 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 Company would not expect a related party counterparty to fail to meet its obligations.

(iii) Guarantees

The Company's policy is to provide financial guarantees only to related parties, and, in the normal course of events, the Company would not expect to incur a loss on such guarantees. At 31 December 2008 the Company had issued guarantees to Sberbank in respect of the loan obtained by a related party, CJSC Trans-Flot. Under the guarantee contract the Company acts as a guarantor and is obliged to compensate the total amount of principal amount and interest outstanding in case of the debtor's failure to pay.

The guarantee outstanding as at 31 December 2008 amounted to RUR 1 607 574 thousand (2007: RUR 2 597 790 thousand).

During 2008 and 2007 CJSC Trans-Flot breached debt covenants in a bank loan agreement, which made a bank loan payable on demand. In April 2010 the loan was repaid in full by CJSC Trans-Flot.

Exposure to credit risk

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

| '000 RUR | Carrying amount | |
|---------------------------|-----------------|------------------|
| | 2008 | 2007 (unaudited) |
| Loans and receivables | 1 481 300 | 527 105 |
| Cash and cash equivalents | 2 035 023 | 271 168 |
| | 3 516 323 | 798 273 |

The Company operates in one geographic region (Primorsk, Leningradskaya oblast) and renders services only to customers domiciled in the Russian Federation. Hence the credit risk for all trade receivables is associated with the sole region, the Russian Federation.

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

Impairment losses

The aging of trade receivables at the reporting date was:

| '000 RUR | Gross | Impairment | Gross | Impairment |
|--------------------|---------|------------|---------------------|---------------------|
| | 2008 | 2008 | 2007 (unaudited) | 2007 (unaudited) |
| Not past due | 433 246 | - | 395 804 | - |
| Past due 0-30 days | 268 | - | 178 | - |
| | 433 514 | - | 395 982 | - |

Based on historic default rates, the Company believes that no impairment allowance is necessary for trade receivables as at 31 December 2008 (2007: nil). All of the Company's customers have a good track record with the Company.

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

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

During 2008 the Company recognized allowance in respect of loans granted to a related party, and LLC Daltrans (see Note 14).

The allowance accounts in respect of trade receivables and loans are used to record impairment losses unless the Company 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 2008 the Company does not have any collective impairments on its trade receivables or its loans (2007: nil).

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

The Company has sufficient available cash funds which are invested in short-term bank deposits with maturity not exceeding 90 days, that can be easily drawn down to meet operational needs. No credit facilities are maintained by the Company.

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

2008

| '000 RUR | Carrying amount | Contractual cash flows | 0-6 mths | 6-12 mths | 1-5 yrs | Over 5 yrs |
|------------------------------|--------------------|---------------------------|----------|-----------|---------|---------------|
| Financial liabilities | | | | | | |
| Trade and other payables | 259 799 | 259 799 | 259 799 | - | - | - |
| | | | 259 799 | - | - | - |

2007 (unaudited)

| '000 RUR | Carrying amount | Contractual cash flows | 0-6 mths | 6-12 mths | 1-5 yrs | Over 5 yrs |
|------------------------------|--------------------|---------------------------|----------|-----------|---------|---------------|
| Financial liabilities | | | | | | |
| Trade and other payables | 80 466 | 80 466 | 80 466 | - | - | - |
| | | | 80 466 | - | - | - |

(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 Company'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 Company is not exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency, the Russian Rouble (RUR). All sales and purchase contracts are denominated in RUR.

The Company has no monetary assets and liabilities denominated in foreign currencies other than short-term bank deposits denominated in USD.

Exposure to currency risk

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

| '000 RUR | USD 2008 | USD 2007 (unaudited) |
|------------------------------|-------------|----------------------------|
| Cash and cash equivalents | 1 292 121 | 2 532 |
| Trade and other receivables | 13 354 | 384 |
| Originated loans | - | - |
| Trade and other payables | - | - |
| Gross balance sheet exposure | 1 305 475 | 2 916 |

The following exchange rates applied during the year:

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

Sensitivity analysis

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

| | Equity | Profit or loss |
|-------------------------|----------|----------------|
| | '000 RUR | '000 RUR |
| 2008 | | |
| USD | - | 261 095 |
| 2007 (unaudited) | | |
| USD | - | 583 |

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

(ii) Interest rate risk

The Company's exposure to interest rate risk is limited to changes in interest rates of bank deposits. Generally, bank deposits are placed for the period of 2 months at a fixed rate.

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

Profile

At the reporting date the Company had only fixed rate interest-bearing financial instruments, as follows:

| '000 RUR | Carrying amount | |
|-------------------------------|-----------------|------------------|
| | 2008 | 2007 (unaudited) |
| Fixed rate instruments | | |
| Financial assets | 2 925 712 | 302 413 |
| | 2 925 712 | 302 413 |

Fair value sensitivity analysis for fixed rate instruments

The Company 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 believes that the fair values of the Company's financial assets and liabilities 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 current market interest rates for similar financial instruments at the reporting date, were as follows:

| | 2008 | 2007 (unaudited) |
|----------------------|--------|------------------|
| Bank deposits in RUR | 11.75% | 6.8%- 8.5% |
| Bank deposits in USD | 6.5% | 4.9% |
| Originated loans | 7%-17% | 7%-14% |

(f) Capital management

The Company'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 Management monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to participants.

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

The Company is not subject to externally imposed capital requirements.

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2008 | 2007 (unaudited) |
|----------------------------|------------|------------------|
| | '000 RUR | '000 RUR |
| Less than one year | 886 574 | 200 442 |
| Between one and five years | 3 546 294 | 801 766 |
| More than five years | 14 332 033 | 2 760 321 |
| | 18 764 901 | 3 762 529 |

In December 2008, the Company signed amendments to existing non-cancellable operating lease agreements that substantially increased lease rentals with effect from 1 December 2008 and this changed the schedule of non-cancellable operating lease rentals as at 31 December 2008 as compared to 31 December 2007. No new non-cancellable operating lease agreements were signed by the Company during the year ended 31 December 2008.

In addition to the schedule above, at 31 December 2008 and 2007 the Company had five operating lease agreements that, in accordance with Civil Code, are cancellable within a period of up to three months upon notification by either the party to the contract. Non-cancellable lease rentals under these agreements are equal to RUR 383 661 thousand after 31 December 2008 (2007: RUR 67 137 thousand).

During the current year RUR 553 886 thousand (2007: RUR 321 381 thousand) was recognised in the income statement in respect of operating leases, including RUR 218 313 thousand (2007: RUR 133 142 thousand) under non-cancellable operating lease agreements.

The Company 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 Company has classified these contracts as operating leases due to the following facts:

- 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 of these contracts are not for a major part of the economic lives of the assets; and
- 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 the 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 Company continued to recognise all leases as operating leases.

22 Commitments

There are no significant capital commitments as at 31 December 2008 (2007: nil).

23 Contingencies

(a) Litigation

There are no significant litigations and claims involving the Company as at 31 December 2008.

(b) Taxation contingencies

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

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

24 Related party transactions

(a) Control relationships

The Company's immediate parent company is Omirico Limited, Cyprus.

No publicly available financial statements are produced by the Company's immediate parent company.

(b) Transactions with management and close family members

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see Note 9):

| | 2008 | 2007 (unaudited) |
|-------------------------------------|---------------|------------------|
| | '000 RUR | '000 RUR |
| Salaries | 19 175 | 14 040 |
| Bonuses | 1 659 | 179 |
| Contributions to State pension fund | 1 122 | 647 |
| | <u>21 956</u> | <u>14 866</u> |

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

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

(i) **Revenue**

| '000 RUR | Transaction value 2008 | Transaction value 2007 (unaudited) | Outstanding balance 2008 | Outstanding balance 2007 (unaudited) |
|-----------------------|------------------------------|---|--------------------------------|---|
| Services provided: | | | | |
| Other related parties | 11 348 | 9 848 | 989 | 845 |
| Interest receivable: | | | | |
| Other related parties | 79 106 | - | 79 106 | - |
| | <u>90 454</u> | <u>9 848</u> | <u>80 095</u> | <u>845</u> |

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

(ii) **Expenses**

| '000 RUR | Transaction value 2008 | Transaction value 2007 (unaudited) | Outstanding balance 2008 | Outstanding balance 2007 (unaudited) |
|-----------------------|------------------------------|---|--------------------------------|---|
| Services received: | | | | |
| Other related parties | (980 201) | (820 961) | (221 490) | (44 013) |
| | <u>(980 201)</u> | <u>(820 961)</u> | <u>(221 490)</u> | <u>(44 013)</u> |

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

(iii) **Loans**

| '000 RUR | Amount loaned 2008 | Amount loaned 2007 (unaudited) | Outstanding balance 2008 | Outstanding balance 2007 (unaudited) |
|---------------------------------|--------------------------|---|--------------------------------|---|
| Loans given: | | | | |
| Other related parties | 1 033 000 | - | 934 490 | - |
| Impairment loss on loans given: | - | - | (48 343) | - |
| | <u>1 033 000</u> | <u>-</u> | <u>886 147</u> | <u>-</u> |

The loan given to CJSC Trans-Flot is interest-free and is repayable in 2011. Upon initial recognition the loan was discounted using a market rate of interest of 17%. The resulting difference upon discounting was recognised as a distribution in equity.

(d) Pricing policies

Related party transactions are based on prices established by the parties. Lease payments under major lease agreements with related parties were increased by 6 times starting from 1 December 2008 (see Note 21).

25 Explanation of transition to IFRSs

As stated in note 2(a), these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2008, the comparative information presented in these financial statements for the year ended 31 December 2007 and in the preparation of an opening IFRS balance sheet at 1 January 2007 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (Russian GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The Company assessed that there are no material differences between the cash flow statement presented under IFRSs and the cash flow statement presented under previous GAAP.

Reconciliation of balance sheet as of 1 January 2007 and 31 December 2007:

| '000 RUR | 1 January 2007 (unaudited) | | | 31 December 2007 (unaudited) | | | |
|--------------------------------------|----------------------------|------------------|-------------------------------|------------------------------|------------------|-------------------------------|------------------|
| | Note | Previous GAAP | Effect of transition to IFRSs | IFRSs | Previous GAAP | Effect of transition to IFRSs | IFRSs |
| ASSETS | | | | | | | |
| Non-current assets | | | | | | | |
| Property, plant and equipment | | 107 638 | - | 107 638 | 232 431 | (44) | 232 387 |
| Intangible assets | | 14 633 | - | 14 633 | 14 442 | - | 14 442 |
| Investments | | 39 070 | - | 39 070 | 48 343 | - | 48 343 |
| Deferred tax assets | | 228 | (12) | 216 | 287 | 1 919 | 2 206 |
| Total non-current assets | | <u>161 569</u> | <u>(12)</u> | <u>161 557</u> | <u>295 503</u> | <u>1 875</u> | <u>297 378</u> |
| Current assets | | | | | | | |
| Inventories | | 3 071 | - | 3 071 | 6 089 | - | 6 089 |
| Investments | | 10 000 | - | 10 000 | 54 070 | - | 54 070 |
| Income tax receivable | | 23 905 | - | 23 905 | 34 570 | - | 34 570 |
| Trade and other receivables | | 920 182 | - | 920 182 | 510 459 | - | 510 459 |
| Cash and cash equivalents | | 192 951 | - | 192 951 | 271 168 | - | 271 168 |
| Total current assets | | <u>1 150 109</u> | <u>-</u> | <u>1 150 109</u> | <u>876 356</u> | <u>-</u> | <u>876 356</u> |
| Total assets | | <u>1 311 678</u> | <u>(12)</u> | <u>1 311 666</u> | <u>1 171 859</u> | <u>1 875</u> | <u>1 173 734</u> |
| EQUITY AND LIABILITIES | | | | | | | |
| Equity | | | | | | | |
| Share capital | | 3 010 | - | 3 010 | 3 010 | - | 3 010 |
| Retained earnings | | 938 200 | (12) | 938 188 | 1 097 575 | (8 986) | 1 088 589 |
| Total equity | | <u>941 210</u> | <u>(12)</u> | <u>941 198</u> | <u>1 100 585</u> | <u>(8 986)</u> | <u>1 091 599</u> |
| Non-current liabilities | | | | | | | |
| Deferred tax liabilities | | - | - | - | - | 1 669 | 1 669 |
| Total non-current liabilities | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1 669</u> | <u>1 669</u> |
| Current liabilities | | | | | | | |
| Trade and other payables | <i>a</i> | 370 468 | - | 370 468 | 71 274 | 9 192 | 80 466 |
| Total current liabilities | | <u>370 468</u> | <u>-</u> | <u>370 468</u> | <u>71 274</u> | <u>9 192</u> | <u>80 466</u> |
| Total liabilities | | <u>370 468</u> | <u>-</u> | <u>370 468</u> | <u>71 274</u> | <u>10 861</u> | <u>82 135</u> |
| Total equity and liabilities | | <u>1 311 678</u> | <u>(12)</u> | <u>1 311 666</u> | <u>1 171 859</u> | <u>1 875</u> | <u>1 173 734</u> |

Reconciliation of profit for 2007 (unaudited):

| | | Previous GAAP | Effect of transition to IFRSs | IFRSs |
|--|----------|----------------------|--|--------------|
| | Note | '000 RUR | '000 RUR | '000 RUR |
| Revenue | | 4 604 767 | - | 4 604 767 |
| Cost of sales | <i>a</i> | (1 100 688) | (9 192) | (1 109 880) |
| Gross profit | | 3 504 079 | (9 192) | 3 494 887 |
| Other income | | 1 840 | - | 1 840 |
| Administrative expenses | | (114 878) | - | (114 878) |
| Other expenses | | (22 403) | (44) | (22 447) |
| Results from operating activities | | 3 368 638 | (9 236) | 3 359 402 |
| Financial income | | 69 019 | - | 69 019 |
| Financial expenses | | (48 371) | - | (48 371) |
| Profit before income tax | | 3 389 286 | (9 236) | 3 380 050 |
| Income tax expense | | (829 911) | 262 | (829 649) |
| Profit for the year | | 2 559 375 | (8 974) | 2 550 401 |

Notes to the reconciliation:

- a) In accordance with IFRSs, as at 31 December 2007, the Company recognised an accrual for bonuses to employees related to the 2007 year.

Reconciliation of balance sheet as of 31 December 2008:

| '000 RUR | | 31 December 2008 | | |
|--------------------------------------|----------|------------------|----------------------------------|------------------|
| | Note | Previous GAAP | Effect of transition to IFRSs | IFRSs |
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | | 227 578 | - | 227 578 |
| Intangible assets | | 10 094 | - | 10 094 |
| Investments | <i>b</i> | 1 081 343 | (1 081 343) | - |
| Deferred tax assets | <i>b</i> | 9 356 | 13 556 | 22 912 |
| Total non-current assets | | 1 328 371 | (1 067 787) | 260 584 |
| Current assets | | | | |
| Inventories | | 9 681 | - | 9 681 |
| Investments | | 42 570 | 882 646 | 925 216 |
| Income tax receivable | | 34 333 | - | 34 333 |
| Trade and other receivables | | 622 621 | 79 107 | 701 728 |
| Cash and cash equivalents | | 2 035 023 | - | 2 035 023 |
| Total current assets | | 2 744 228 | 961 753 | 3 705 981 |
| Total assets | | 4 072 599 | (106 034) | 3 966 565 |
| EQUITY AND LIABILITIES | | | | |
| Equity | | | | |
| Share capital | | 3 010 | - | 3 010 |
| Retained earnings | <i>b</i> | 3 823 666 | (119 932) | 3 703 734 |
| Total equity | | 3 826 676 | (119 932) | 3 706 744 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | | 115 | (93) | 22 |
| Total non-current liabilities | | 115 | (93) | 22 |
| Current liabilities | | | | |
| Trade and other payables | <i>c</i> | 245 808 | 13 991 | 259 799 |
| Total current liabilities | | 245 808 | 13 991 | 259 799 |
| Total liabilities | | 245 923 | 13 898 | 259 821 |
| Total equity and liabilities | | 4 072 599 | (106 034) | 3 966 565 |

Reconciliation of profit for 2008:

| | | Previous GAAP | Effect of transition to IFRSs | IFRSs |
|--|----------|---------------|-------------------------------------|-------------|
| | Note | '000 RUR | '000 RUR | '000 RUR |
| Revenue | | 4 656 704 | - | 4 656 704 |
| Cost of sales | <i>c</i> | (1 052 655) | (4 797) | (1 057 452) |
| Gross profit | | 3 604 049 | (4 797) | 3 599 252 |
| Other income | | 7 160 | - | 7 160 |
| Administrative expenses | <i>d</i> | (143 816) | (19 982) | (163 798) |
| Other expenses | <i>d</i> | (30 228) | 20 026 | (10 202) |
| Results from operating activities | | 3 437 165 | (4 753) | 3 432 412 |
| Financial income | <i>b</i> | 175 524 | 79 106 | 254 630 |
| Financial expenses | <i>b</i> | (15 000) | (48 343) | (63 343) |
| Profit before income tax | | 3 597 689 | 26 010 | 3 623 699 |
| Income tax expense | | (871 598) | (19 837) | (891 435) |
| Profit for the year | | 2 726 091 | 6 173 | 2 732 264 |

Notes to the reconciliation of profit:

- b) In accordance with IFRSs, an interest-free loan given to a related party was discounted using a market interest rate of 17%. The resulting difference upon discounting was recognised in equity as a distribution. The unwinding of the discount on the loan for the year 2008 in the amount of RUR 79 106 thousand was recognized in profit and loss. Deferred tax on the difference between nominal and fair value in the amount of RUR 33 235 thousand was recognized in equity.

The Company recognised an impairment allowance relating to a loan given to LLC Petrotrans Primorsk, a related party, in the amount of RUR 48 343 thousand.

The loan was reclassified from non-current to current based on the terms of the agreement.

- c) As at 31 December 2008 the Company made an accrual for bonuses to employees related to the 2008 year.
- d) Under previous GAAP the Company classified certain costs, including bank charges, gifts to employees and legal services as other operating expenses. In accordance with IFRSs, such costs have been treated as administrative expenses.

26 Events subsequent to the balance sheet date

Subsequent to 31 December 2008, the Company declared dividends for the period from October 2007 to June 2009 for a total amount of RUR 827 503 thousand.

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

During August - September 2009, the Company entered into a contract to purchase a tugboat for EUR 7 515 thousand (RUR 311 430 thousand) and for the construction of a tugboat for RUR 418 million.

In July 2009, the Company established two subsidiaries LLC Port Petrovsk and LLC Yugtransneft with a share capital of RUR 100 thousand each. The Company's ownership is 99% in each subsidiary.

In April 2010, the Company acquired certain property, plant and equipment (moorings, land plots and equipment related to the moorings) from a related party, CJSC Trans-Flot. These fixed assets were previously rented by the Company under operating lease agreements. The total purchase price per the contract is RUR 2 994 665 thousand. The purchase price was settled partly by offsetting the loan given to CJSC Trans-Flot and partly in cash.