

PTP Group

**Consolidated Financial Statements
for the year ended 31 December 2011**

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ZAO KPMG
North-West Regional Center
"Renaissance Plaza" Business Center
69-71 A, Ul. Marata
Saint Petersburg, Russia 191119

Telephone +7 (812) 313 7300
Fax +7 (812) 313 7301
Internet www.kpmg.ru

Independent Auditors' Report

The Board of Directors

Primorsk trade port Limited Liability Company

We have audited the accompanying consolidated financial statements of Primorsk trade port Limited Liability Company (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

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23 March 2012

PTP Group
Consolidated Statement of Financial Position as at 31 December 2011

'000 RUB	Note	31 December 2011	31 December 2010
Assets			
Property, plant and equipment	13	5 965 442	5 995 786
Prepayments for non-current assets	13	283 390	302 718
Intangible assets	14	9 444 360	9 444 336
Other investments	15	627 098	54 216
Deferred tax assets	16	5 578	5 022
Non-current assets		16 325 868	15 802 078
Inventories	17	52 046	42 271
Other investments	15	268 094	82 270
Income tax receivable		-	31 339
Trade and other receivables	18	1 135 839	879 673
Prepayments		30 891	46 687
Cash and cash equivalents	19	470 668	924 028
Current assets		1 957 538	2 006 268
Total assets		18 283 406	17 808 346

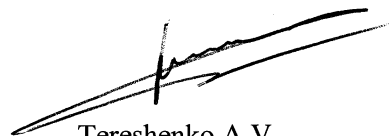
PTP Group
Consolidated Statement of Financial Position as at 31 December 2011

'000 RUB	Note	31 December 2011	31 December 2010
Equity			
Share capital	20	3 010	3 010
Retained earnings		9 022 852	5 954 073
Total equity		9 025 862	5 957 083
Liabilities			
Loans and borrowings	21	5 578 000	8 367 000
Deferred tax liabilities	16	159 286	133 630
Non-current liabilities		5 737 286	8 500 630
Loans and borrowings	21	2 789 000	2 789 000
Trade and other payables	22	731 258	561 633
Current liabilities		3 520 258	3 350 633
Total liabilities		9 257 544	11 851 263
Total equity and liabilities		18 283 406	17 808 346

PTP Group
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

'000 RUB	Note	2011	2010
Continuing operations			
Revenue	7	7 774 685	5 064 016
Cost of sales	8	(2 681 810)	(1 761 266)
Gross profit		5 092 875	3 302 750
Other income		65 557	1 496
Administrative expenses	9	(523 825)	(402 428)
Other expenses		(36 304)	(33 448)
Results from operating activities		4 598 303	2 868 370
Finance income	11	59 422	85 819
Finance costs	11	(803 364)	(218 063)
Profit before income tax		3 854 361	2 736 126
Income tax expense	12	(785 582)	(572 324)
Profit and total comprehensive income for the year		3 068 779	2 163 802

These consolidated financial statements were approved by management on 23 March 2012 and were signed on its behalf by:



Tereshenko A.V.
 General Director



Nazarova S.V.
 Chief Accountant

PTP Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2011

'000 RUB	Share capital	Retained earnings	Total equity
Balance at 1 January 2010	3 010	5 824 271	5 827 281
Total comprehensive income for the year			
Profit for the year	-	2 163 802	2 163 802
Total comprehensive income for the year	-	2 163 802	2 163 802
Contributions by and distributions to owners			
Dividends to equity holders	-	(874 000)	(874 000)
Distributed to owners	-	(1 160 000)	(1 160 000)
Total contributions by and distributions to owners	-	(2 034 000)	(2 034 000)
Balance at 31 December 2010	3 010	5 954 073	5 957 083
Balance at 1 January 2011	3 010	5 954 073	5 957 083
Total comprehensive income for the year			
Profit for the year	-	3 068 779	3 068 779
Total comprehensive income for the year	-	3 068 779	3 068 779
Balance at 31 December 2011	3 010	9 022 852	9 025 862

'000 RUB	Note	2011	2010
Cash flows from operating activities			
Profit for the year		3 068 779	2 163 802
<i>Adjustments for:</i>			
Depreciation	13	234 027	242 760
Amortisation		1 435	18 300
Impairment loss on receivables	18	7 256	-
Loss on disposal of property, plant and equipment		315	224
Net foreign exchange (gain)/loss	11	(2 853)	97 629
Interest income		(56 569)	(85 819)
Interest expense	11	803 364	120 434
Income tax expense	12	785 582	572 324
Cash from operating activities before changes in working capital and provisions		4 841 336	3 129 654
Change in inventories		(9 775)	(5 206)
Change in trade and other receivables		(202 942)	(13 621)
Change in prepayments for current assets		15 796	6 172
Change in trade and other payables		61 588	249 131
Cash flows from operations before income taxes and interest paid		4 706 003	3 366 130
Income tax paid		(719 785)	(643 225)
Interest paid		(807 122)	(105 425)
Net cash from operating activities		3 179 096	2 617 480

'000 RUB	Note	2011	2010
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		5 985	3 761
Interest received		23 485	107 802
Acquisition of property, plant and equipment		(86 139)	(1 601 511)
Acquisition of property, plant and equipment (Capitalized interest paid)		(29 622)	-
Acquisition of subsidiaries, net of cash acquired		-	(10 610 104)
Acquisition of intangible assets		(1 458)	-
Placement of deposit		(151 966)	-
Proceeds from sale of available-for-sale investments		6 056	-
Repayment of held-to-maturity investments		-	251 652
Origination of loans		(615 649)	(22 906)
Repayment of loans		3 000	3 118
Net cash used in investing activities		(846 308)	(11 868 188)
Cash flows from financing activities			
Proceeds from borrowings		-	11 156 000
Distribution to Shareholders		-	(1 160 000)
Repayment of borrowings		(2 789 000)	(556 233)
Dividends paid		-	(874 000)
Net cash (used in)/from financing activities		(2 789 000)	8 565 767
Net decrease in cash and cash equivalents		(456 212)	(684 941)
Cash and cash equivalents at 1 January		924 028	1 706 598
Effect of exchange rate fluctuations on cash and cash equivalents		2 852	(97 629)
Cash and cash equivalents at 31 December	19	470 668	924 028

1 Background

(a) Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated 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

Primorsk trade port Limited Liability Company ("the Company") and its subsidiary (the "Group") comprise Russian limited liability company and closed joint stock company as defined in the Civil Code of the Russian Federation. The Company was established in 2004. The Company registered office is Primorsk (Leningrad Region).

<u>Subsidiary</u>	<u>Nature of business</u>
Sovfracht-Primorsk Closed Joint Stock Company	Tug and towing services

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

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated 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 (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 13 – Property, plant and equipment
- Note 14 – Intangible assets
- Note 15 – Other investments
- Note 24 – Operating leases

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

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) *Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iv) *Transactions eliminated on consolidation*

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

(b) Foreign currency

(i) Foreign currency transactions

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

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and 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 classifies non-derivative financial assets into the following categories: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are a category of 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

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities at initial recognition 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 or are not classified in any of the previous categories of financial assets. 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, 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 equity is reclassified 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 and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) 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.

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 and share options are recognised as a deduction from equity, net of any tax effects.

(d) *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. 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 a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component 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 5-75 years
- facilities 7-50 years
- machinery and equipment 3-15 years
- vehicles 3-10 years
- boats and crafts 20 years
- other 2-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Estimates in respect of certain items of plant and equipment were revised in 2011, see note 13 (e).

(e) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 6(a)(iii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) 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.

(iv) Amortisation

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of 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.

(f) 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.

(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) *Non-derivative 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, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or 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.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and 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. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and 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 loans and receivables or held-to-maturity investment securities. 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to 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 application of the effective interest method 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 goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually 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 CGU.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) 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) 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(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.

(j) 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.

(k) 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 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.

(l) Revenue

(i) Services

Revenue from transshipment services is recognised in 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.

(m) 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.

(n) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets) 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 as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) 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 a business combination, or 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 on 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;
- taxable temporary differences arising on the initial recognition of goodwill.

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.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

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.

4 New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and*

Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. 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. The Group does not intend to adopt this standard early.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance. The Group does not intend to adopt this standard early.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- 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 for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

5 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) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) 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. This fair value is determined for disclosure purposes or when acquired in a business combination.

(d) 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.

6 Acquisitions and disposals of subsidiary and non-controlling interests

(a) Acquisition of subsidiary

On 22 September 2010 the Group obtained control of Sovfracht-Primorsk Closed Joint Stock Company by acquiring 99.9905% of the shares and voting interests in the company.

Taking control of Sovfracht-Primorsk Closed Joint Stock Company enabled the Group to increase sales revenue through expanding the range of operating activities.

From the date of acquisition to 31 December 2010 Sovfracht-Primorsk Closed Joint Stock Company contributed revenue of RUB 365 506 thousand and profit of RUB 165 846 thousand. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue for 2010 would have been RUB 6 107 004 thousand, and consolidated profit for 2010 would have been RUB 2 626 729 thousand. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

(i) Consideration transferred

'000 RUB

Consideration transferred (cash)	10 758 000
	10 758 000
	10 758 000

(ii) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and the liabilities assumed were as follows:

'000 RUB	Note	<u>Recognised fair values on acquisition</u>
Non-current assets		
Property, plant and equipment	13	1 634 691
Long-term investments		10 457
Current assets		
Investments		11 666
Inventories		21 801

'000 RUB	Note	Recognised fair values on acquisition
VAT receivable		3 335
Trade and other receivables		47 022
Cash and cash equivalents		147 896
Non-current liabilities		
Deferred tax liabilities	16	(183 272)
Long-term lease liabilities		(344 948)
Current liabilities		
Trade and other payables		(32 961)
Net identifiable assets, liabilities and contingent liabilities		<u><u>1 315 687</u></u>

The fair value of assets and liabilities of Sovfracht-Primorsk has been determined based on an independent valuation.

(iii) Goodwill

Goodwill was recognised as a result of the acquisition as follows:

'000 RUB	
Total consideration transferred	10 758 000
Fair value of identifiable net assets	(1 315 687)
Goodwill	<u><u>9 442 313</u></u>

The goodwill is attributable mainly to the market position of acquiree (Sovfracht-Primorsk is the only operator of towing, pilotage and tying down services in the Primorsk port, the biggest oil-loading port terminal in Russia) and the synergies expected to be achieved from integrating the company into the Group's existing business. The goodwill recognised is not expected to be deductible for income tax purposes.

(b) Acquisition-related costs

The Group incurred acquisition-related costs of RUB 3 300 thousand related to costs for appraisal of business of Sovfracht-Primorsk. The costs for appraisal of business have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

7 Revenue

'000 RUB	2011	2010
Revenues from transshipment services	6 259 246	4 583 390
Revenues ship's services	1 430 057	360 067
Revenues from rent	28 134	57 731
Revenues from liquidation of oil spillage	-	22 000
Revenue from other services	57 248	40 828
Total revenues	<u>7 774 685</u>	<u>5 064 016</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. The tariffs for light oil products transshipment services are regulated by internal order of General Director of the Company.

8 Cost of sales

'000 RUB	Note	2011	2010
Rent		1 706 709	764 847
Wages and salaries	10	284 951	153 055
Depreciation		205 847	223 281
Materials	17	144 491	39 966
Contributions to state pension fund and other social funds	10	63 232	26 162
Maintenance and repair of property, plant and equipment		49 674	82 627
Surveyor expenses		48 290	27 666
Cargo transshipment services from external providers		40 122	40 122
Production safety services		38 217	218 201
Insurance		10 606	6 917
Contributions to defined contribution plan	10	4 322	3 359
Oil spillage prevention services		3 119	59 450
Amortization		1 423	9 614
Servicing vessels		-	59 873
Other expenses		80 807	46 126
Total		<u>2 681 810</u>	<u>1 761 266</u>

9 Administrative expenses

'000 RUB	Note	2011	2010
Wages and salaries	10	286 201	230 124
Rent of office premises and equipment		42 738	19 195
Contributions to state pension fund and other social funds	10	33 983	24 191
Other taxes		31 863	25 281
Legal, audit and consulting expenses		31 644	15 184
Depreciation		28 180	19 479
Materials		13 558	10 214
Insurance		13 474	10 808
Contributions to defined contribution pension plans	10	3 784	3 947
Amortization		12	8 686
Other administrative expenses		38 388	35 319
Total		523 825	402 428

10 Personnel costs

'000 RUB	2011	2010
Wages and salaries	571 152	383 179
Contributions to State pension fund and other social funds	97 215	50 353
Contributions to defined contribution pension plans	8 106	7 306
Total	676 473	440 838

In accordance with the “Regulation on non-state pension benefits” adopted by the Group 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.

11 Finance income and finance costs

'000 RUB	2011	2010
Recognised in profit or loss		
Interest income on loans granted to related parties	48 279	759
Interest income on bank deposits	7 859	39 128
Net foreign exchange gain	2 853	-
Interest income on loans granted to third parties	431	1 322
Interest income on finance leases	-	44 610
Finance income	<u>59 422</u>	<u>85 819</u>
Net foreign exchange loss	-	(97 629)
Interest expense on financial liabilities measured at amortised cost	(803 364)	(120 434)
Finance costs	<u>(803 364)</u>	<u>(218 063)</u>
Net finance expense recognised in profit or loss	<u>(743 942)</u>	<u>(132 244)</u>

The Group has capitalised interest expense in amount of RUB 29 482 thousand in the process of construction of bunker complex during the year ended 31 December 2011.

The Group has expensed all interest expense in profit and loss during the year ended 31 December 31 December 2010.

12 Income tax expense

The Group's applicable tax rate is the income tax rate 20% (2010: 20%).

'000 RUB	2011	2010
Current tax expense		
Current year	766 011	627 737
Adjustment for prior year	(5 529)	13 453
	<u>760 482</u>	<u>641 190</u>
Deferred tax expense		
Origination and reversal of temporary differences	25 100	(68 866)
Total income tax and expense	<u>785 582</u>	<u>572 324</u>

Reconciliation of effective tax rate:

	2011		2010	
	'000 RUB	%	'000 RUB	%
Profit before income tax	3 854 361	100	2 736 126	100
Income tax at applicable tax rate	770 872	20	547 225	20
Non-deductible expenses	13 814	0,4	11 744	0,4
Under provided/(over provided) in prior year	(5 529)	(0,1)	13 453	0,5

	2011		2010	
	'000 RUB	%	'000 RUB	%
Change in tax rate for Primorsk trade port Limited Liability Company	6 425	0,2	-	-
Non-taxable income	-	-	(98)	-
Income tax expense	785 582	20,5	572 324	20,9

In December 2011 Primorsk trade port Limited Liability Company signed the investment agreement with the authorities of Leningrad region. As a result the Company since 2012 is eligible to apply income tax rate of 15,5%. Sovfracht-Primorsk Closed Joint Stock Company will continue apply income tax rate of 20% in 2012.

13 Property, plant and equipment

'000 RUB	Land and buildings	Machinery and equipment				Pipeline fill	Other	Construction in progress	Total
		Facilities	Vehicles	Boats and crafts					
<i>Cost</i>									
Balance at 1 January 2010	276 773	2 563 426	43 810	-	15 740	30 458	688 708	3 942 550	
Acquisitions through business combinations	-	-	11 729	1 617 264	-	789	-	1 634 691	
Additions	-	1 985	15 388	-	-	10 904	1 415 477	1 446 861	
Disposals	-	-	(4 313)	-	-	(1 770)	-	(6 083)	
Transfers	-	-	-	-	-	-	(5 903)	(5 903)	
Balance at 31 December 2010	276 773	2 565 411	66 614	1 617 264	15 740	40 381	2 098 282	7 012 116	
<i>Cost</i>									
Balance at 1 January 2011	276 773	2 565 411	66 614	1 617 264	15 740	40 381	2 098 282	7 012 116	
Additions	26 659	116 471	7 484	-	-	2 652	115	209 983	
Disposals	-	-	-	(3 000)	-	(235)	(3 512)	(7 332)	
Transfers	197 533	833 994	-	-	-	14 984	(1 457 324)	-	
Balance at 31 December 2011	500 965	3 515 876	74 098	1 614 264	15 740	57 782	637 561	7 214 767	

'000 RUB	Machinery and equipment							Total
	Land and buildings	Facilities	Vehicles	Boats and crafts	Pipeline fill	Other	Construction in progress	
Depreciation and impairment losses								
Balance at 1 January 2010	(38 675)	(510 256)	(12 971)	-	-	(12 256)	-	(775 668)
Depreciation for the year	(9 647)	(138 886)	(9 349)	(21 382)	-	(4 600)	-	(242 760)
Disposals	-	-	1 753	-	-	345	-	2 098
Balance at 31 December 2010	(48 322)	(649 142)	(20 567)	(21 382)	-	(16 511)	-	(1 016 330)
Balance at 1 January 2011	(48 322)	(649 142)	(20 567)	(21 382)	-	(16 511)	-	(1 016 330)
Depreciation for the year	(4 473)	(96 509)	(12 387)	(84 739)	-	(5 576)	-	(234 027)
Disposals	-	-	-	796	-	204	-	1 032
Balance at 31 December 2011	(52 795)	(745 651)	(32 954)	(105 325)	-	(21 883)	-	(1 249 325)
Carrying amounts								
At 1 January 2010	238 098	2 053 170	30 839	-	15 740	18 202	688 708	3 166 882
At 31 December 2010	228 451	1 916 269	46 047	1 595 882	15 740	23 870	2 098 282	5 995 786
At 31 December 2011	448 170	2 770 225	41 144	1 508 939	15 740	35 899	637 561	5 965 442

Depreciation expense of RUB 205 847 thousand (2010: RUB 223 281 thousand) has been charged to cost of sales and RUB 28 180 thousand (2010: RUB 19 479 thousand) to administrative expenses.

(a) Pipeline fill

Pipeline fill represents 2 264 tonnes of crude oil as at 31 December 2011 (as at 31 December 2010: 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.

(b) Security

None of the Group's property, plant and equipment is subject to a registered debenture to secure bank loans as at 31 December 2011.

(c) Property, plant and equipment under construction

Construction in progress mainly comprises equipment with total cost of RUB 633 746 thousand (2010: RUB 633 746 thousand) that is planned for use upon completion of new terminal for transshipment of oil and oil products and providing necessary railway infrastructure facilities (that is planned to be finished in 2012) by a related party of the Group. The exact starting date of operation of the terminal depends 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 of the terminal to railway facilities.

(d) Prepayments for non-current assets

Prepayments for non-current assets in the amount of RUB 283 390 thousand as at 31 December 2011 (2010: RUB 302 718 thousand) consist of the prepayments made for construction of a tug boat. Currently the Group has litigation in respect of this prepayment which is disclosed in note 26.

(e) Change in estimates

During the year ended 31 December 2011, the Group conducted an operational efficiency review of berths and production facilities, which resulted in changes in the expected usage of certain items of property, plant and equipment (technological oil pipelines, oil-loading berths, grounds and roads, electricity networks, auxiliary buildings). As a result, the expected useful lives of these assets increased. The effect of these changes on depreciation expense, recognised in cost of sales, in current and future periods is as follows:

'000 RUB	2011	2012	2013	2014	2015	Later
Decrease in depreciation expense	(61 208)	(42 868)	(44 687)	(42 748)	(43 073)	(38 667)

14 Intangible assets

(a) Intangible assets as at 31 December 2011 represent goodwill recognised as a result of the acquisition of Sovfracht-Primorsk Closed Joint Stock Company in 2010 which amounted to RUB 9 442 313 thousand; licences and trademark which amounted to RUB 2 047 thousand (2010: RUB 2 023 thousand).

(b) **Impairment testing for cash generating units containing goodwill**

For the purpose of impairment testing, goodwill has not been allocated to individual types of operations of business acquired and was considered across all business operations such as docking (towing), supplementary services and escort and delivery of pilots. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount was based on fair value. The recoverable amount was determined to be higher than its carrying amount and therefore no impairment loss was recognised.

Fair value methodology was based on discounting the future cash flows.

(c) **Key assumptions used in discounted cash flow projections**

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value growth rates and EBITDA margins.

(i) **Discount rate**

The discount rate applied in amount of 12,81% is a post-tax (pre-tax amounted to 14,16%). The discount rate was estimated based on an industry weighted average cost of capital, which was based on possible range of debt leveraging of 63% at a market interest rate of 8,56%.

(ii) **Terminal value growth rate**

Cash flows have been projected up to five years in the discounted cash flow model. A long-term constant growth rate into perpetuity has been determined at 3,5%, which does not exceed the long-term average growth rate for the industry.

(iii) **Budgeted EBITDA growth**

Budgeted EBITDA is expressed as the compound annual growth rates in the initial five years of the business used for impairment testing and has been based on past experience adjusted for the following:

- EBITDA margin was projected to reach 59% in 2012, 63% in 2013 and stabilize at 66% from 2014 through the terminal year.
- In the first year of the business plan EBITDA has been based on average level experienced in the two prior years. The anticipated annual EBITDA level for the years 2012 to perpetuity has been reduced by additional costs for extra tugboats rent.
- Revenue was assumed to grow from 2012 to 2016 by 58% which is in line with the forecasts based on warranted letters of intent from major customers and planned sales prices growth which was assumed to be in line with price purchase index for the industry.
- Production costs were expected to increase from 2012 to 2016 by 29%.

(d) Sensitivity to changes in assumptions

Although no impairment loss was recognised in respect of goodwill, the determination of recoverable amount is sensitive to the discount rate applied.

If applicable discount rate is increased by 0,5% in 2012 and subsequent years, the fair value would equal the carrying amount of the business.

In determining fair value of RUB 11 242 365 thousand (compared to a carrying amount of RUB 10 681 691 thousand), management assumes that sales volume will substantially increase during the years of projections and by the end of 2016 will be 31% greater than volumes projected for 2012. If actual sales volume were to be below estimated volumes by 4% in 2012 and subsequent years, the fair value would equal the carrying amount of the business acquired.

15 Other investments

'000 RUB	2011	2010
<i>Non-current</i>		
Available-for-sale investments:		
Measured at cost	198	204
Loans and receivables:		
Originated loans in RUB	626 900	54 012
	627 098	54 216
<i>Current</i>		
Held-to-maturity investments:		
Deposits in USD	151 966	-
Available-for-sale investments:		
Promissory notes in RUB	-	6 056
Loans and receivables:		
Originated loans in RUB	116 128	76 214
	268 094	82 270

Loans originated are comprised of loans issued to related parties which are disclosed in note 27.

Held to maturity investments include term deposit in amount of USD 4 720 thousand (RUB 151 966 thousand) in Raiffaisenbank Closed Joint Stock Company with maturity in April 2012 and interest rate of 3,25%.

The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 23.

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	21 203	49 759	(180 388)	(183 272)	(159 185)	(133 513)
Trade and other payables	4 835	4 097		-	4 835	4 097
Trade and other receivables	876	925	(133)	-	743	925
Other items	-	-	(101)	(117)	(101)	(117)
Tax assets/(liabilities)	26 914	54 781	(180 622)	(183 389)	(153 708)	(128 608)
Set off of tax	(21 336)	(49 759)	21 336	49 759	-	-
Net tax assets/(liabilities)	5 578	5 022	(159 286)	(133 630)	(153 708)	(128 608)

(b) Movement in temporary differences during the year

'000 RUB	1 January 2011	Recognised in profit or loss	31 December 2011
Property, plant and equipment	(133 513)	(25 672)	(159 185)
Trade and other receivables	925	(182)	743
Trade and other payables	4 097	738	4 835
Other items	(117)	16	(101)
	(128 608)	(25 100)	(153 708)

'000 RUB	1 January 2010	Recognised in profit or loss	Acquired	31 December 2010
Property, plant and equipment	51 874	(2 115)	(183 272)	(133 513)
Trade and other receivables	-	925	-	925
Finance lease receivables	(69 294)	69 294	-	-
Trade and other payables	3 218	879	-	4 097
Other items	-	(117)	-	(117)
	(14 202)	68 866	(183 272)	(128 608)

17 Inventories

Inventories held by the Group as at 31 December 2011, 31 December 2010 represent spare parts, fuel, raw and other materials (used mainly for maintenance of sea vessels) carried at weighted average cost.

In 2011 inventories amounted to RUB 52 046 thousand (2010: RUB 42 271 thousand)

There were no write-downs or reversals of write-downs during the year.

18 Trade and other receivables

'000 RUB	Note	2011	2010
Trade receivables due from related parties	27	254 616	21 221
Other trade receivables		203 196	452 808
VAT receivable		572 660	316 792
Interest receivable		34 498	-
Other receivables		78 125	88 852
Provision for doubtful accounts		(7 256)	-
Trade and other receivables included in loans and receivables category		1 135 839	879 673
Current		1 135 839	879 673
		1 135 839	879 673

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

19 Cash and cash equivalents

'000 RUB	2011	2010
Petty cash	47	40
Bank balances	33 415	60 188
Short-term bank deposits in USD	32 196	-
Short-term bank deposits in RUB	405 010	863 800
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	470 668	924 028

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

20 Capital and reserves

(a) Share capital and share premium

The table below summarizes the information about the share capital of the Group at 31 December 2011.

	Authorised shares (ordinary)	Par value RUB	Total shares (ordinary)	Distribution to shareholders '000 RUB	Share capital '000 RUB	Ownership
Primorsk trade port Limited Liability Company	-	-	-	-	3 010	100% - Novorossiysk Commercial Sea Port Open Joint Stock Company

The law "On Limited Liability Companies" was changed with effect from 1 July 2010 and a sole participant is no longer permitted to withdraw from a limited liability company.

The shareholders in Limited Liability Companies are entitled to vote according to their share in the Company's share capital.

(b) Dividends

Dividend distributions to the Group's shareholders are recognized in the Consolidated financial statements in the period in which the dividends are declared.

In accordance with Russian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the companies' statutory financial statements prepared in accordance with Russian Accounting Principles.

As at 31 December 2011 the Company has accumulated profits, including the profit for the current year, of RUB 8 128 433 thousand (31 December 2010: RUB 5 937 139 thousand).

As at 31 December 2011 Sovfracht-Primorsk Closed Jointed Stock Company has accumulated profits, including the profit for the current year, of RUB 1 574 802 thousand (31 December 2010: RUB 778 711 thousand).

The Group has not declared dividends during the year ended 31 December 2011. The Group declared dividends during the year ended 31 December 2010 as shown in the table below:

'000 RUB	RUB per share	Dividends '000 RUB
For the year ended 31 December 2010		
Primorsk trade 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
		874 000

* Trans-Flot Closed Joint Stock Company was treated as part of combined Group in 2010.

21 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 23.

'000 RUB	2011	2010
<i>Non-current liabilities</i>		
Unsecured bank loans	5 578 000	8 367 000
	5 578 000	8 367 000
<i>Current liabilities</i>		
Unsecured bank loans	2 789 000	2 789 000
	2 789 000	2 789 000

In November 2010, Primorsk trade port Limited Liability Company entered into two loan agreements with Savings Bank of Russia under a new credit line to be used for the acquisition of Sovfracht-Primorsk Closed Joint Stock Company in the amount of RUB 10 756 000 thousand and for financing and refinancing costs, associated with the construction of a bunkering complex in the amount of RUB 400 000 thousand, each with an interest rate of 8,5% per annum. The principal amounts of the loans are payable in equal instalments at the end of each quarter beginning 31 March 2011 with maturity dates in November 2014. The loan interest for each is calculated and payable on a monthly basis. Bank loans are unsecured.

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 RUB	Currency	Nominal interest rate	Year of maturity	31 December 2011		31 December 2010	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loan	RUB	8,5%	2014	8 067 000	8 067 000	10 756 000	10 756 000
Unsecured bank loan	RUB	8,5%	2014	300 000	300 000	400 000	400 000
				<u>8 367 000</u>	<u>8 367 000</u>	<u>11 156 000</u>	<u>11 156 000</u>

22 Trade and other payables

'000 RUB	Note	2011	2010
Trade payables due to related parties	27	68 565	30 615
Other trade payables		21 499	18 693
Employee benefits payable		96 132	68 618
Interest payable	27	11 691	15 588
Other taxes payable		36 413	32 496
Advances received	27	375 267	394 450
Other payables and accrued expenses	27	121 691	1 173
		<u>731 258</u>	<u>561 633</u>

As at 31 December 2011, 31 December 2010 advances received are mainly represented by prepayment from Transneft-Service Closed Joint Stock Company (related party) under preliminary sales contract.

As at 31 December 2011 Other payables and accrued expenses are mainly represented by payables for construction of new oil transshipment bunker complex to Trans-Flot Closed Joint Stock Company (related party).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

23 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 consolidated financial statements.

Risk management framework

The Boards of Directors, the General and Financials 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) 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 as follows:

'000 RUB	Carrying amount	
	2011	2010
Available-for-sale financial assets	198	204
Held-to-maturity investments	151 966	-
Loans and receivables	1 235 338	604 255
Cash and cash equivalents	470 668	924 028
	1 858 170	1 528 487

(ii) Trade and other receivables

Most customers of the Group are major Russian oil companies, which are also customers of 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 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 26% of the Group's revenue is attributable to sales transactions with a single customer (related party). 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 four years, and there were no significant losses from trade receivables' write off. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including aging profile, maturity and the existence of previous financial difficulties.

The Group does not require collateral in respect of trade and other receivables and trades only on a credit basis.

Impairment losses

The aging of trade receivables at the reporting date was:

'000 RUB	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	450 863	-	460 839	-
Past due 0- 30 days	3 933	-	5 438	-
Past due 31-120 days	1 359	-	5 604	-
Past due more than 120 days	1 657	(3)	2 148	-
	457 812	(3)	474 029	-

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

No significant impairment allowance was recognised at 31 December 2011 in respect of trade receivables past due since the management has strong confidence in their recoverability. The entire balance past due amounting to RUB 6 949 thousand (2010: RUB 13 190 thousand), and management does not expect this counterparties to fail to meet its obligations.

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

'000 RUB	2011	2010
Balance at beginning of the year	-	-
Increase during the year	(7 256)	-
Balance at end of the year	(7 256)	-

(iii) 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 to fail to meet its obligations.

(iv) Cash and cash equivalents

(v) The Group held cash and cash equivalents of RUB 470 668 thousand at 31 December 2011 (2010: RUB 924 028 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with banks, which are rated BBB-/Baa3 or higher, based on Moody's, Standard & Poor's or any other internationally recognized rating agency ratings.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

At 31 December 2011 the Group has sufficient available cash funds which are invested in short-term bank deposits with maturity not exceeding 121 days, that can be easily drawn down to meet operational needs.

At 31 December 2011 the Group has no available lines of credit.

The following are the contractual maturities of financial liabilities, including 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.

2011

'000 RUB	Carrying amount	Contractual cash flows	0-2 mths	2-12 mths	1-2 yrs	2-5 yrs
Non-derivative financial liabilities						
Unsecured bank loans	8 367 000	(9 515 954)	(120 806)	(3 372 732)	(6 022 416)	-
Trade and other payables	355 991	(355 991)	(355 991)	-	-	-
Guarantees issued	62 782 395	(62 782 395)	-	-	-	(62 782 395)
			<u>(476 797)</u>	<u>(3 372 732)</u>	<u>(6 022 416)</u>	<u>(62 782 395)</u>

2010

'000 RUB	Carrying amount	Contractual cash flows	0-2 mths	2-12 mths	1-2 yrs	2-5 yrs
Non-derivative financial liabilities						
Unsecured bank loans	11 156 000	(13 164 069)	(161 074)	(3 607 848)	(6 506 450)	(2 888 697)
Trade and other payables	167 183	(167 183)	(167 183)	-	-	-
			<u>(328 257)</u>	<u>(3 607 848)</u>	<u>(6 506 450)</u>	<u>(2 888 697)</u>

Guarantees

As at 31 December 2011 the Group entered into the surety contract with Savings Bank of Russia in respect of loan facility provided to Novorossiysk Commercial Sea Port Open Joint Stock Company. The amount of loan is USD 1 950 000 thousand (RUB 62 782 395 thousand), loan is repayable in 2018.

In accordance with the surety contract Primorsk trade port Limited Liability Company became jointly liable with its related party for fulfilment of its obligations for the total amount of USD 1 950 000 thousand and for the period of 7 years.

(d) Market risk

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

(i) Currency risk

The Group is not exposed to any significant currency risk on sales, purchases and borrowings as the great majority of such transactions (more than 90% in 2011) are denominated in the functional currency of Group entities, the Russian Rouble (RUB). 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 (EUR).

Exposure to currency risk

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

'000 RUB	USD-	EUR-	EUR-
	denominated	denominated	denominated
	2011	2011	2010
Cash and cash equivalents	32 196	-	-
Held-to-maturity investments	151 966	-	-
Trade receivables	503	521	-
Trade payables	-	(1 208)	(1 693)
Gross exposure	184 665	(687)	(1 693)
Net exposure	184 665	(687)	(1 693)

The following significant exchange rates applied during the year:

in RUB	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD 1	29,3874	30,3692	32,1961	30,4769
EUR 1	40,8848	40,2980	41,6714	40,3314

Sensitivity analysis

A 20% strengthening of the RUB, as indicated below, against the following currencies at 31 December 2011 would have decreased (31 December 2010: increased) 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 2010.

'000 RUB	Equity	Profit or loss
31 December 2011		
EUR (20% change)	-	137
USD (20% change)		(36 933)
31 December 2010		
USD (20% change)	-	-
EUR (20% change)	-	339

A 20% weakening of the RUB against the above currencies at 31 December 2011 and 2010 would have had the equal but opposite effect, on the basis that all other variables remain constant.

This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

(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 RUB	Carrying amount	
	2011	2010
Fixed rate instruments		
Financial assets	1 332 200	994 026
Financial liabilities	(8 367 000)	(11 156 000)
	(7 034 800)	(10 161 974)

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 have an effect in profit or loss or in equity.

(e) Accounting classifications and fair values

(i) 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 5.

Interest rates used for determining fair value

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:

	2011	2010
Short-term bank deposits in RUB	1,95% - 7,8%	1,1% - 3,48%
Short-term bank deposits in USD	3,25%	-
Loans and borrowings	8,5%	8,5%

(f) Capital management

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

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

The Group is not subject to externally imposed capital requirements.

The Group's debt to capital ratio at the end of the reporting period was as follows:

'000 RUB	2011	2010
Total liabilities	9 257 544	11 851 263
Less: cash and cash equivalents	(470 668)	(924 028)
Net debt	8 786 876	10 927 235
Total equity	9 025 862	5 957 083
Debt to capital ratio at 31 December	0,97	1,83

24 Operating leases

(a) Lease as lessee

Non-cancellable operating lease rentals are payable as follows:

'000 RUB	2011	2010
Less than one year	1 613 262	830 700
Between one and five years	5 944 982	2 951 604
More than five years	24 262 456	10 733 478
	31 820 700	14 515 782

In addition to the leases included in the schedule above, as at 31 December 2011 the Group had several term-less operating lease agreements mainly with related parties that, in accordance with

the Civil Code, are cancellable upon one or three months' notification by either party to the contract. Non-cancellable lease rentals under these agreements were: RUB 4 100 thousand as at 31 December 2011 (2010: RUB 20 174 thousand).

During the year ended 31 December 2011 an amount of RUB 1 749 447 thousand was recognised as an expense in profit or loss in respect of operating leases (2010: RUB 784 042 thousand), including RUB 1 652 481 thousand (2010: RUB 753 711 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 3 to 35 years. In 2011 the Group concluded an additional contract with a related party for the lease of berths for light oil products transshipment services under the same conditions. 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 are subject to changes and were increased substantially after the inception of the leases for a number of assets (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 recognises leases of berths and equipment for oil and light oil products transshipment as operating leases.

(b) Lease 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 related parties.

Lease rentals under these agreements are receivable as follows:

'000 RUB	2011	2010
Less than one year	24 166	16 666
Between one and five years	66 664	66 664
More than five years	415 542	269 102
	506 372	352 432

During the year ended 31 December 2011 an amount of RUB 34 511 thousand, was recognised as income in profit or loss in respect of operating leases (2010: RUB 103 378 thousand).

25 Capital commitments

In 2010 the Group entered into a contract for the construction of an oil transshipment bunker complex in the port of Primorsk which resulted in capital commitments as at 31 December 2010 in the amount RUB 1 511 264 thousand. There are no significant capital commitments as at 31 December 2011.

26 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 part of its plant facilities and business interruption. 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

The Group has cancelled agreement with LSZ Pella Open Joint Stock Company for construction of tug boat as the boat constructed did not satisfy Group's requirements. In 2011 LSZ Pella Open Joint Stock Company (shipyard) filed a complaint with the Arbitration Court of Saint-Petersburg and Leningrad Region against Primorsk trade port Limited Liability Company with regard to invalidation of unilateral termination by Primorsk trade port Limited Liability Company of the contract for construction of tugboat due to the breach of contractual terms by LSZ Pella Open Joint Stock Company. The amount under dispute excluding penalties comprised RUB 334 400 thousand, including the prepayment to LSZ Pella Open Joint Stock Company of RUB of 334 400 thousand (31 December 2010: RUB 334 400 thousand). In June 2011 the Arbitration Court of Saint-Petersburg and Leningrad Region dismissed the case; in November 2011 the Thirteenth Arbitration Court of Appeal confirmed the dismissal. In February 2012 the Arbitration Federal Court of North-West Region reversed the decision of the above courts. Primorsk trade port Limited Liability Company filed an application for the review of the case.

It is probable that the Group will recover the amount of prepayment and will not incur any liabilities under these litigations. No amounts were written off or provided for in connection with the Group's obligations under these litigations.

There were no other significant litigations or claims involving the Group at 31 December 2011, 31 December 2010.

(c) Taxation contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 and substance-based 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

27 Related party transactions

(a) Control relationships

The Company's immediate parent company is Novorossiysk Commercial Sea Port Open Joint Stock Company which produces publicly available financial statements. Novorossiysk Commercial Sea Port Open Joint Stock Company is controlled by Novoport Holding limited which is ultimately jointly controlled by Transneft Open Joint Stock Company and Z. Magomedov. The owner of 100% of the Transneft Open Joint Stock Company ordinary shares is the Russian Federation represented by the Federal Agency for the Management of Federal Property. The Transneft Open Joint Stock Company preferential shares are owned by various legal entities and private individuals and are traded on the secondary stock market.

Transactions between Primorsk trade port Limited Liability Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The related party receivables and payables resulting from operating activities are settled in the normal course of business. Details of transactions with related parties are disclosed below.

(b) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 10):

'000 RUB	2011	2010
Salaries and bonuses	61 681	65 871
Contributions to state pension fund and other social funds	1 417	1 287
Contribution to defined contribution pension plan	1 677	1 818
	<u>64 775</u>	<u>68 976</u>

(c) Transactions with state-controlled entities

Given that the Federal Agency of the Russian Federation owns a 20% interest in Novorossiysk Commercial Sea Port Open Joint Stock Company, significant balances and transactions with state-controlled entities are considered to be transactions with related parties in 2011. Operations with such entities are not disclosed as transactions with related parties in 2010, as acquisition of the Group by Novorossiysk Commercial Sea Port Open Joint Stock Company was done in January, 2011.

(i) Revenue

'000 RUB	Transaction value	Outstanding balance
	2011	2011
Revenue from related parties	2 663 360	242 935
	<u>2 663 360</u>	<u>242 935</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.

(ii) Expenses

'000 RUB	Transaction value	Outstanding balance
	2011	2011
Other expenses to related parties	5 801	271
	<u>5 801</u>	<u>271</u>

(iii) Transactions with state-controlled banks

The Group's with state-controlled banks transactions are disclosed below.

'000 RUB	Transaction value	Outstanding balance
	2011	2011
Deposits	-	214 206
Borrowings	-	(8 367 000)
Interest income	16 682	253
Interest expense	(803 364)	(11 272)
Interest capitalised	(29 482)	(419)
Total	(816 164)	8 164 232

Borrowings and interest expense relate to loan agreements with the Savings Bank of Russia. Refer to note 21.

(d) Transactions with Parent Company

The Group's transactions with Parent Company are disclosed below.

(i) Other income

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Interest income	29 975	-	29 975	-
	29 975	-	29 975	-

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.

In addition to this the Group issued a guarantee to Savings Bank of Russia in respect of loan facility provided to Parent Company, see note 23.

(ii) Expenses

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Other expenses	41	-	48	-
	41	-	48	-

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 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Loans given	600 000	-	600 000	-
	600 000	-	600 000	-

The loan is given to Novorossiysk Commercial Sea Port Open Joint Stock Company in amount of RUB 200 000 thousand in March 2011 and RUB 400 000 thousand in April 2011 with interest rate of 7% maturing in March 2013.

(e) Transactions with other related parties

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

(i) Revenue

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Revenue:				
Other related parties	108 717	112 317	11 681	21 221
Other income:				
Other related parties	18 303	45 286	-	1 381
	127 020	157 603	11 681	22 602

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.

(ii) Expenses

'000 RUB	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Services received:				
Other related parties	1 767 004	1 093 302	443 513	404 544
Purchase of PPE:				
Other related parties	171 596	-	120 802	-
	1 938 600	1 093 302	564 315	404 544

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 RUB	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Loans given:				
Other related parties	15 649	40 128	143 028	121 026
	<u>15 649</u>	<u>40 128</u>	<u>143 028</u>	<u>121 026</u>

As at 31 December 2011 the loans to the Group's related parties are:

- interest-free loans in the amount of RUB 116 622 thousand repayable in 2012, 2013 and 2014. In 2012 the loans in the amount of RUB 70 714 thousand became interest-bearing loans. Interest rate equals to 7% per annum.
- interest-bearing loans in the amount of RUB 26 406 thousand repayable in 2012 and 2013. Interest rate equals to 6%, 7% and 8% per annum.