

Baltic Oil Terminals plc

Baltic Oil Terminals plc

Annual Report and Financial Statements
For the year ended 31 December 2008



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Baltic Oil Terminals plc

Chairman's statement



Richard Healey

Introduction

Baltic Oil Terminals faced its most challenging year to date in 2008, but has emerged well placed for long term success. The Company's competitive position in Kaliningrad has been significantly enhanced, with a larger degree of operational involvement in the key Rosbunker terminal and is earning revenues not only through its terminal operations but also through the direct trading of oil products. This has continued into 2009, with a number of significant and long term contracts having been secured or currently under negotiation.

Financial Results

In a difficult operating climate, Baltic made significant progress by reducing its net loss for the year to £5.9 million (£11.7 million in 2007), which has been derived from product trading and transshipment revenue of £46.8 million (£1 million in 2007). The Group's adjusted loss, after adding back exploration and evaluation costs charged in the income statement as explained below, is £2.3 million (£4.1 million in 2007). This improved performance represents only the first stage of the underlying new business in its first year of commissioning.

As at 31 December 2008, the Group's cash balances amounted to £1.1 million. Having repaid year end bank borrowings, the Group is in the enviable position in today's market of currently having no external bank debt.

Kurgan Operations.

The results for 2008 include a significant write-down of £3.6 million in respect of the Company's exploration interests in Kurgan. These interests are now carried on the Company's balance sheet at no cost, the Company has no outstanding commitments in respect of these licences and no further cash will be expended on them. Baltic intends to focus its current efforts entirely on building on its established position as a terminals operator.

Management

In January 2009, the Board terminated the appointment of Mr. Vladimir Gavrilov. As announced at that time, this was due to the conflict of interests that arose from Mr Gavrilov's other activities. This and associated operational changes was well managed, thanks to the efforts of the rest of the management team and the good relationship with our Russian partners (who were supportive of our actions).

Outlook

The economic and political climate at the end of 2008 and the start of 2009 made operating conditions in Kaliningrad very difficult. It is therefore all the more encouraging to note a significant improvement in trading performance since the beginning of the second quarter. A long term contract with a major supplier for the export of low sulphur straight run fuel oil from Kazakhstan commenced in April 2009 and is proceeding well. This was followed by a further large long term contract for M.100 fuel oil from Belarus. Such progress, together with the experience, local knowledge and commercial acumen of our management team, gives us grounds for optimism for the remainder of the year

Baltic Oil Terminals plc

Chief Executive Officer's statement



Simon Escott

Introduction

As previously stated by the Chairman, 2008 was a difficult year for Baltic and for the industry in general. We experienced poor operating conditions in the last quarter of 2008 (normally the best time of the year for transshipment) due to the dramatic fall in the price of fuel oil, coupled with the very high export taxes imposed by the Russian authorities. We also had to deal with the imposition of restrictions on our plans to expand the Rosbunker terminal into a "clean" product alternative to the existing "dirty" fuel oil products that we handle at present.

We overcame this by cutting costs to the maximum and by continuing with our plans to move all of our back office activities to Kaliningrad and thus take advantage of the lower operating costs there. We have completed both objectives and the monthly cost savings have been significant.

We have withdrawn from any further exploration activities in the Kurgan region and have zero cash burn in these activities going forward. We are however, well placed, to take advantage of any requirement for modern seismic and geological data we have gathered should there be a demands for this data from the other operators in the area.

Financial Performance

Group activity in 2008 marks a turning point in Baltic's evolution, with a gross profit of £1.4 million for the year ended 31 December 2008 (loss of £1.9 million in 2007) derived from product trading and transshipment revenues of £46.8 million (£1 million in 2007).

The cost cutting initiatives referred to above achieved a £1.8 million reduction in administrative expenses to £5.0 million (£6.8 million in 2007). Baltic management is constantly striving to reduce costs where possible, and further reductions are expected to flow through in 2009.

Baltic Hydrocarbons

We have moved quickly to take advantage of the change in market conditions that has resulted from the current crisis and are pursuing with success various long term supply contracts for both fuel oil and crude. So far we have signed two new contracts for up to 60,000 tons per month and are presently working on a further three. Although we do not take any significant positions in this "trading", and therefore use little capital, this activity is now significantly contributing to the Group's cash flows and trading profits.

Rosbunker

With the help of our 50%-50% partner, Krutrade, we have been successful in continuing the upgrading of Phase 1 of the terminal. In addition, following the appointment of a new management team (all Russian) comprising both Baltic and Krutrade staff, we have been able to put in place an experienced and effective Joint Venture management team to drive business growth in 2009. We continue to work closely with the local authorities on progressing Phase 2 of the terminal.

Baltic

The final refurbishments of this terminal were completed in 2008 and following an audit by the relevant authorities, the plant is fully operational and licensed. Due to the financial crisis in Russia and Kaliningrad in particular, whilst the amount of product handled has remained high, we have noted erosion in margins. Management has taken

Top

Baltic Oil Terminals plc

swift action to offset this by commencing the trading of small quantities of diesel and gasoline through the terminal for local use by gas stations and although small at present (approximately 400 tons per month) this has allowed the bottom line to be maintained. Baltic Top has no external debt and has only a small loan to a Baltic Group finance company that is being repaid on a regular monthly basis out of operating cashflows.

TDKN

Although we have kept this small terminal maintained and in perfect working order, due to the political situation prior to the election of President Obama and the later financial crisis, management has decided not to press for the opening of this terminal with the authorities until Phase 2 of Rosbunker is in the final stages of completion

Finance Review



Roman Niewiadomski

Results for the year

The Group financial statements reflect for the first time Baltic's share of the full year of Joint Venture activity following the acquisition of 50% interest in North Oil Trading, North Oil Bunker and a further 25% of Agroprom (100% owner of Rosbunker terminal) on 15th January 2008, bringing total interest in Agroprom to 50%.

In a difficult operating climate, the Group has made significant progress by reducing the net loss for the year to £5.9 million (£11.7 million in 2007). The Group's adjusted loss, after adding back exploration and evaluation cost charged in the Income statement as explained below, is £2.3 million (£4.1 million in 2007). This improved performance represents the first stage of the underlying new business in the first year of commissioning.

The fundamental shift from being a project company to an operating business with tangible assets and trading activities continued in 2008 and is reflected in writing off in full £3.6 million of exploration and evaluation costs incurred associated with the original project in Kurgan. Potential disposal of acquired geological material, seismic data and understanding of formations in the region still owned by the Group could therefore result in future benefits to the Group above the balance sheet carrying value of zero.

Increased financial cost to £212,000 (£109,000 in 2007) reflects use of BNP Paribas letters of credit as instruments for conducting product trade activity by North Oil Trading (NOT) and Baltic Hydrocarbons Ltd. NOT accounts for most of the Group's borrowings, represented by its trading working capital.

The difficult trading conditions which started in the second half of 2008 with significant falls in the oil price filtered through to falls in heavy fuel oil product prices, the main trading commodity of the Group, and a subsequent squeeze on margins and reduced volumes of product transhipped in the last quarter of 2008. The Russian economy year on year shrank 9.5% (1st quarter 2008 to 1st quarter 2009), its worst contraction in 15 years, most of which took place in the last quarter of the year.

I am pleased to confirm that the objective of tight cash management had been achieved even in this difficult climate as both Russian subsidiaries and Joint Venture companies in 2008 started to repay loans advanced to them by Baltic. As at 31 December 2008, Group cash balances amounted to £1.1 million (2007: £3.0m). Having repaid subsidiary year-end bank borrowings, the Group currently has no external bank debt.

Baltic Oil Terminals plc

Directors and advisers

Registered No. 05752493

Directors

Richard Healey (Non-executive Chairman)
(appointed 14 November 2008)

Simon Escott (Chief Executive Officer)

Roman Niewiadomski (Finance Director & Company Secretary)
(appointed 10 April 2008)

Stanley Buck (Non-executive Director)

Auditors

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Broker/Nomad/Financial Adviser

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London
EC2Y 9AR

Bankers

Coutts & Co
440 Strand
London
WC2R 0QS

Solicitors

Covington & Burling
265 Strand
London
WC2R 1BH

Registrars

Equiniti
PO Box 4630
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6ZL

Registered Office

83 Baker Street
London
W1U 6AG

Baltic Oil Terminals plc

Richard Healey

Non-executive Chairman

Richard has a broad range of commercial experience, having run a number of international subsidiaries of engineering companies Alcatel SA, Crouzet SA, Morgan Crucible plc and Bowthorpe Holdings plc for more than twenty years. All of these companies had significant engineering operations throughout the world. He holds a degree in Mechanical Engineering and has worked in the UK, the USA, Europe, Australia, India and Singapore. He is currently a director of Equatorial Energy plc, Kew Partners Ltd, Churcham Ltd and Executive Chairman of Nusantara Energy plc.

Simon Escott

Chief Executive Officer

Simon has over 30 years of management experience in the oil and gas and petrochemical industries. He is a qualified Petroleum and Mechanical Engineer and has worked in a senior capacity for ESSO GmbH, BP Brazil, Phillips Petroleum Incorporated, Elf Aquitaine S.A., Pennzoil/Cities Services (Brazil), Norsk Hydro A/S, Saga Petroleum A/S, Zhetybay Quest Petroleum GmbH, Reliance Industries Limited and the Mannai Corporation WLL. He has run major construction projects for Brown & Root Incorporated in the North Sea and for ABB Lummus Crest Incorporated in India. In 1992, Simon was a Project Director for the Russian World Bank Oil Rehabilitation Loans 1 and 2, based in Moscow and Siberia. He co-founded Baltic in 2004.

Roman Niewiadomski

Finance Director and Company Secretary

Roman qualified as a Chartered Accountant with Coopers and Lybrand in the UK. He has over 14 years experience in natural resources, transportation and oil and gas companies. He has spent the last 10 years working in the Former Soviet Union and speaks fluent Russian.

William Stanley Buck

Non-executive Director

Stan Buck has had a long career spent mostly with Dow, firstly in the UK and subsequently as Vice President of Dow Europe and Chairman and CEO of Dow GB. He has also held positions with Texaco and CPS Denmark, where he negotiated its sale to Autotyre. Stan chairs the Remuneration Committee at Baltic.

Baltic Oil Terminals plc

Directors' report

The Directors present their report and audited financial statements for the year ended 31 December 2008.

Results and dividends

The Group made a loss for the year of £5,949,000 (2007: £11,743,000). The Directors do not recommend the payment of a dividend for the year.

Principal activities

The Group's principal activities during the year were the operation of hydrocarbon transshipment terminals in Baltysk on Russia's Baltic sea coast. The Group successfully completed the acquisition of an additional 25% interest in its main asset, the Rosbunker transshipment terminal on 15 January 2008, increasing its interest to 50% (See note 23).

In addition the Group completed the final evaluation of testing of its drilling activities in Kurgan to focus purely on the operation of hydrocarbon transshipment terminals.

Business review and future developments

A review of the business and the future developments of the Group is presented in the Chairman's Statement on page 1 and in the Chief Executive Officer's Statement and Finance Review on pages 2 and 3.

A discussion of the financial risk management objectives and policies is shown in note 3.

Directors

The Directors who served during the year were as follows:

Philip Dayer (Non-executive Chairman)	(resigned 14 November 2008)
Richard Healey (Non-executive Chairman)	(appointed 14 November 2008)
Simon Escott (Chief Executive Officer)	
Robert Wilde (Finance Director)	(resigned 10 April 2008)
Roman Niewiadomski (Finance Director and Company Secretary)	(appointed 10 April 2008)
Vladimir Gavrilov (Executive Director of Operations)	(appointed 15 January 2008, resigned 14 January 2009)
Fred Hodder (Non-executive Director)	(resigned 14 November 2008)
Stanley Buck (Non-executive Director)	

Auditors

Grant Thornton UK LLP were appointed auditors on 26 March 2009 to fill a casual vacancy in accordance with section 489(3)(c) of the Companies Act 2006. Special notice pursuant to section 489(4)(a) having been given, a resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting to be held on 30 June 2009.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 4. Having made enquiries of fellow Directors and of the Group's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

By the order of the Board



Roman Niewiadomski

Company Secretary
28 May 2009

Baltic Oil Terminals plc

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS8: Accounting policies, changes in accounting estimates and errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Directors' remuneration review

The Company discloses certain information relating to Directors' remuneration in this report, which is not audited.

Remuneration committee

The Company established a Remuneration Committee in April 2006.

The committee meets as required. Executive Directors invited to attend will not vote on their own remuneration or incentives.

The committee will advise the Board on Group remuneration policy and may obtain advice from independent remuneration consultants appointed by the Company. The Remuneration committee members are Stan Buck (Chairman) and Richard Healey.

Remuneration policy

The Company's policy is to maintain levels of remuneration for the Group that are comparable and competitive with peer group companies, so as to attract and retain individuals of the highest calibre, by rewarding them as appropriate to their contribution to the Group's performance.

Terms of appointment

The terms of each Director's appointment are set out in their service agreement which are effective for an indefinite period but may be terminated in accordance with specified notice periods.

Each service agreement sets out details of basic salary, fees, benefits in kind and share option grants.

Basic salaries

The basic salary of each Executive Director is established by reference to their responsibilities and individual performance.

Fees

The fees paid to Non-executive Directors are determined by the Board and reviewed periodically to reflect current rates and practice commensurate with the size of the Company and their roles.

Share options

The Company operates a policy of granting share options to all employees and Directors as a long-term incentive and retention plan. The share options are exercisable over varying periods and at varying strike prices dependent upon satisfying appropriate performance conditions. The right to exercise is subject to terms related to continuing employment.

The Company's share options granted in the period to 31 December were independently valued by Lane, Clark & Peacock LLP.

Baltic Oil Terminals plc

Share options held by executive members of the Board of Directors to purchase ordinary shares have the following expiry dates and exercise prices:

	Year of grant	Exercise period	Exercise price (£)	Number 2008	Number 2007
Simon Escott	2006	27 April 2006 to 26 April 2009	1.40	416,250	416,250
	2006	27 April 2007 to 26 April 2009	1.40	416,250	416,250
	2006	27 April 2008 to 26 April 2009	1.40	416,250	416,250
	2006	1 January 2009 to 31 December 2009	0.84	178,571	178,571
Robert Wilde	2006	1 January 2009 to 31 December 2009	0.84	-	116,071

No share options have been granted to the Non-executive members of the Board of Directors under this scheme.

On behalf of the Board of Directors of Baltic Oil Terminals plc.



Roman Niewiadomski

Company Secretary
28 May 2009

Baltic Oil Terminals plc

Independent auditor's report to the members of Baltic Oil Terminals plc

We have audited the consolidated financial statements of Baltic Oil Terminals Plc for the year ended 31 December 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and notes 1 to 27. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Baltic Oil Terminals Plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive Officer's Statement and Finance Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive Officer's Statement and Finance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Baltic Oil Terminals plc

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
London
28 May 2009

Baltic Oil Terminals plc

Consolidated income statement For the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Revenue	4	46,858	956
Cost of sales		(45,396)	(2,885)
Gross profit/(loss)		1,462	(1,929)
Exploration and evaluation costs		(3,637)	(3,303)
Administrative expenses		(5,009)	(6,830)
Operating loss before taxation and finance items	5	(7,184)	(12,062)
Finance income	8	66	408
Finance costs	8	(212)	(109)
Loss before taxation		(7,330)	(11,763)
Tax credit	9	1,381	33
Share of loss of associate	24	-	(13)
Loss for the year		(5,949)	(11,743)
Attributable to:			
Equity shareholders of the Company		(5,949)	(11,735)
Minority interest		-	(8)
		(5,949)	(11,743)
Loss per share attributable to equity shareholders of the Company:			
Basic and diluted	10	(10.73p)	(24.63p)

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Consolidated balance sheet As at 31 December 2008

	Notes	2008 £'000	Restated 2007 £'000
Non current assets			
Intangible assets	12	3	3,257
Property, plant and equipment	13	16,561	9,481
Investments in associates	24	1,189	1,189
Goodwill	12	2,680	2,767
		20,433	16,694
Current assets			
Inventories	14	1,019	26
Prepayments and other current assets	16	2,471	1,325
Trade and other receivables	15	1,681	640
Cash and cash equivalents	17	1,106	2,953
		6,277	4,944
TOTAL ASSETS		26,710	21,638
Equity			
Share capital	18	558	476
Share premium	18	40,559	33,195
Other reserves - Equity - share options		2,459	2,635
Other reserves - Equity - foreign exchange reserves		671	(569)
Retained losses		(26,472)	(20,523)
Total equity		17,775	15,214
Non current liabilities			
Deferred tax liability	9	1,407	1,538
		1,407	1,538
Current liabilities			
Trade and other payables	20	3,152	3,397
Borrowings	21	4,376	1,472
Derivative financial instruments	22	-	17
		7,528	4,886
Total liabilities		8,935	6,424
TOTAL EQUITY AND LIABILITIES		26,710	21,638

These financial statements were approved by the Board of Directors on 28 May 2009.

Signed on behalf of the Board of Directors



Simon Escott
Chief Executive Officer

Baltic Oil Terminals plc

Consolidated cash flow statement For the year ended 31 December 2008

	2008	2007
	£'000	£'000
Cash flows from operating activities		
Group operating loss before taxation	(7,330)	(11,763)
Adjustments to reconcile group operating loss to net cash outflows from operating activities		
Finance costs/(income) net	146	(408)
Foreign exchange (gain)/loss	(139)	17
Share based payment (credit)/charge	(176)	426
Depreciation and impairment of property, plant and equipment	1,204	2,160
Amortisation and impairment of intangible assets	3,574	2,050
Loss on disposal of property, plant and equipment	257	-
Fair value gains on derivative financial instruments	(17)	-
Increase in inventories	(794)	(9)
Decrease in trade and other receivables	1,887	736
Decrease in trade and other payables	(524)	(119)
Cash outflow from operations	(1,912)	(6,910)
Income taxes paid	(32)	(15)
Interest paid	(212)	-
Net cash outflows from operating activities	(2,156)	(6,925)
Cash flows from investing activities		
Interest received	66	408
Purchase of property, plant and equipment	(792)	(2,182)
Proceeds from sale of property, plant and equipment	82	-
Purchase of intangible assets	(71)	(3,318)
Purchase of joint venture interest, net of cash acquired	(2,578)	(3,275)
Additional investment in subsidiary undertakings	-	(33)
Loans repaid/(issued)	151	(300)
Net cash outflows from investing activities	(3,142)	(8,700)
Cash flows from financing activities		
Proceeds from shares issued	3,361	-
Proceeds from borrowings	-	605
Repayment of borrowings	(475)	-
Net cash inflows from financing activities	2,886	605
Decrease in cash and cash equivalents	(2,412)	(15,021)
Cash and cash equivalents at beginning of year	2,953	17,883
Effect of exchange rate on cash and cash equivalents	565	91
Cash and cash equivalents at end of year	1,106	2,953

Baltic Oil Terminals plc

Consolidated statement of changes in equity For the year ended 31 December 2008

	Attributable to equity shareholders of the parent							
	Share capital	Share premium	Share based payment reserve	Foreign currency translation adjustment	Retained losses	Total	Minority interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	476	33,195	2,209	(475)	(8,780)	26,625	-	26,625
Exchange differences on translating foreign operations	-	-	-	(94)	-	(94)	-	(94)
Loss for the year	-	-	-	-	(11,735)	(11,735)	(8)	(11,743)
Total income and expenses for the year	-	-	-	(94)	(11,735)	(11,829)	(8)	(11,837)
Share based payment reserve	-	-	426	-	-	426	-	426
At 31 December 2007 and 1 January 2008	476	33,195	2,635	(569)	(20,515)	15,222	(8)	15,214
Exchange differences on translating foreign operations	-	-	-	1,240	-	1,240	-	1,240
Loss for the year	-	-	-	-	(5,957)	(5,957)	8	(5,949)
Total income and expenses for the year	-	-	-	1,240	(5,957)	(4,717)	8	(4,709)
Shares issued during the year	82	7,364	-	-	-	7,446	-	7,446
Share based payment reserve	-	-	(176)	-	-	(176)	-	(176)
At 31 December 2008	558	40,559	2,459	671	(26,472)	17,775	-	17,775

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

1. General information

Baltic Oil Terminals plc is a public limited company listed on the Alternative Investment Market of the London Stock Exchange and is registered in England. The registered office is 83 Baker Street, London, W1U 6AG. The principal activity of the Group is the development and operation of hydrocarbon transshipment terminals in the Russian Federation and trading in refined products.

The Group's financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on 28 May 2009 and the balance sheets were signed on the Board's behalf by Simon Escott.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in pounds sterling ("£") and all monetary amounts are rounded to the nearest thousand (£'000) except when otherwise indicated.

The financial statements have been prepared on the going concern basis, which assumes that the company and its subsidiaries will continue in operational existence for the foreseeable future. The Board has performed a review of the next 12 months cash flows and is confident that with recently announced new trading contracts and the existing Group cash balance which on 31 December 2008 stood at £1.1 million (£3.0 million in 2007) is sufficient to meet liabilities as they fall due. The directors are not aware of any material uncertainties that might cast significant doubt on the Group's ability to continue as a going concern.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement and impairment of indefinite life intangible assets (including goodwill) and the estimation of share-based payment costs. The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets are impaired on an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate. The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest along with judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees.

(a) Standards, amendment and interpretations effective in 2008 but not relevant for the groups operations

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. (effective from 1 January 2008).
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective from 1 January 2008).
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 January 2008).

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Notes to the consolidated financial statements For the year ended 31 December 2008

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IFRS 8, 'Operating segments' (effective from 1 January 2009).
- IFRS 2 (amendment) 'Share-based payment' (effective from 1 January 2009).
- IAS 23 (amendment) 'Borrowing costs' (effective from 1 January 2009).
- IFRS 3 (revised) 'Business combinations' (effective from 1 July 2009).
- IAS 28 (amendment) 'Investments in associates' (effective from 1 January 2009).
- IAS 36 (amendment) 'Impairment of assets' (effective from 1 January 2009).
- IAS 38 (amendment) 'Intangible assets' (effective from 1 January 2009).

The directors do not expect the above to have a material impact on the Group financial statements.

2.2 Basis of consolidation

The consolidated financial statements reflect the Group's financial position as at 31 December 2008 and the Group's financial performance for the period from 1 January 2008 to 31 December 2008.

(a) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. On acquisition of a subsidiary, the purchase consideration is allocated to the assets, liabilities and contingent liabilities on the basis of their fair value at the date of acquisition. The excess of the cost of the acquisition over the fair value of the Group's share of identifiable net assets of the subsidiary acquired is recognised as positive goodwill. Following initial acquisition positive goodwill is measured at cost less any impairment losses.

The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All inter company balances and transactions, including unrealised profits arising from inter company transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Minority interests

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity. If losses applicable to the minority interest in the subsidiary exceed the minority interest in the subsidiary's equity the excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make additional investment to cover the losses.

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(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income, expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(d) Associates

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, but which is not a subsidiary or a jointly controlled entity. The results, assets and liabilities of an associate are incorporated in these financial statements using the equity method of accounting.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

2.5 Oil and gas assets

The Group's entire capitalised oil and gas assets relate to properties that are in the exploration and evaluation stage. The Group accounts for oil and gas properties under IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Property, plant and equipment acquired as part of a business combination is recorded at fair value at the acquisition date. All subsequent additions are recorded at historical cost of acquisition or construction. The Group does not currently have proven oil and gas reserves.

(a) Pre-licence award costs

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in the income statement.

(b) Licence acquisition costs

Oil and gas licence acquisition costs are capitalised within intangible exploration assets and amortised on a straight-line basis over the period of the licence.

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(c) Exploration and evaluation

Geological and geophysical exploration costs are charged against income as incurred. The direct costs associated with an exploration well, exploratory drilling and directly related overheads, are capitalised as an intangible asset pending determination of proven reserves. These costs are excluded from depletion until commerciality is determined or impairment occurs. Intangible assets also include fair value of exploration assets obtained through acquisitions. The costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IAS 36 'Impairment of assets'.

2.6 Non oil and gas assets

(a) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows:

Buildings	– 50 years
Plant and equipment	– 5 to 25 years
Office equipment	– 3 years
Computer equipment	– 3 years

Depreciation of an item of property, plant and equipment begins when it is available for use and when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category.

The cost of a property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

Construction in progress is not depreciated.

Borrowing costs directly attributable to the construction of assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

2.7 Impairment

The carrying amounts of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. Impairment losses are recognised in the income statement.

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Notes to the consolidated financial statements For the year ended 31 December 2008

(a) Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable Groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or Groups of assets.

(b) Reversals of impairment

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.

2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Financial assets

Financial assets are initially recognised at fair value plus transaction costs. The Group classifies its financial assets into the following categories:

(a) Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Assets are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.10 Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs.

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If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- Raw materials, consumables and goods for resale – purchase cost on a first-in, first-out basis.
- Finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs.

2.12 Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2.13 Financial liabilities

Except for derivatives, financial liabilities are recognised initially at fair value net of transaction costs and carried subsequently at amortised cost under the effective interest method.

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

2.14 Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

2.15 Derivative financial instruments and hedging activities

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Since 1 January 2005, such derivative financial instruments have been initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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2.16 Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future;
- and deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

2.17 Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

National Insurance Contributions on share based payments are recognised in the accounts on the exercise date of share options and other share-based payments.

2.18 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable. Revenue excludes any applicable sales taxes.

Transshipment service revenue is recognised at the point of loading hydrocarbon product onto the customers export vessel.

In addition, the following accounting policy has been adopted by the group to reflect the commencement of the hydrocarbon trading activity during the year.

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Trading revenue is recognised when the risks and rewards of hydrocarbon product ownership pass to the customer. The associated costs of acquiring the hydrocarbon product are recognised in cost of sales.

When the risks and rewards of hydrocarbon product ownership do not pass to the Group the Group is acting as an agent between the supplier and customer and recognises the margin between the cost of the hydrocarbon product and the selling price as revenue.

2.19 Financial income and expenses

Financial income and expenses comprise interest expense on borrowings and interest income on funds invested.

Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method.

2.20 Prior period adjustment

The Group has completed its assessment of the fair values of the net assets and liabilities acquired as part of the Rosbunker acquisition which was carried out in two stages on 26 July 2007 and 15 January 2008. As such the Group is required to restate the comparative figures as at 31 December 2007 where the fair values of assets and liabilities were provisionally determined. The impact on the financial statements as at 31 December 2007 of the prior period adjustment is to increase Property, Plant and Equipment by £2,544,000, decrease Goodwill by £1,831,000 and increase Deferred Taxation Liabilities by £713,000 (note 23).

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group operates a risk management programme where risks are identified and discussed at Board level and appropriate mitigation measures are implemented.

(a) Market risk

(i) Currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US Dollar and Russian Rouble.

The Group's cash flows generated from the terminals and trading divisions are in US Dollars. Only a proportion of the cash earned from transshipment is converted into Roubles to pay local overheads. There is a currency risk associated with the movement in exchange rate between the Rouble and the Dollar as the Group converts a proportion of US Dollars into Roubles at regular intervals to meet the Rouble expenditure as it falls due. Where there is a significant exposure to currency risk the Group enters into forward contracts to tie into the current exchange rate to mitigate the risk.

The Group has provided a number of US Dollar loans to its Russian subsidiaries. In the individual entities these loans are re-translated into the functional currency of the entity at the closing exchange rate. Any gains or losses arising from the re-translation is recognised in the local entities income statements. For the entities incorporated in the UK these gains and losses are unrealised so do not crystallise taxable gains and losses. In Russia however both unrealised and realised gains and losses are treated as taxable income and expenditure in the tax returns. The directors do not consider this to be significant risk at present due to the availability of tax losses in the Russia entities to offset against taxable gains.

The presentation currency of the Baltic Oil Terminals plc Group is GBP. The functional currencies of the underlying entities are mainly US Dollar and Russian Roubles. The assets and liabilities of the underlying entities are re-translated at the closing rate into the presentation currency therefore any currency movements affect the carrying value of the assets and liabilities in the Consolidated Balance Sheet of Baltic Oil Terminals plc.

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At 31 December 2008, if the currency had weakened/strengthened by 10% against the US Dollar with all other variables held constant, post tax loss for the year would have been £14,000 (2007: £39,000) higher/lower, mainly due to the re-translation of US Dollar denominated cash balances. At 31 December 2008, if the currency had weakened/strengthened by 10% against the Russian Rouble with all other variables held constant, post tax loss for the year would have been £79,000 (2007: £33,000) higher/lower, mainly as a result of US Dollar denominated loan balances in the subsidiaries with the Russian Rouble as the functional currency.

(ii) Interest rate risk

The Group is not currently exposed to risks associated with interest rate movements on borrowings as these are at fixed interest rate.

The Group is currently exposed to interest rate movements on its cash deposits as cash is mainly held in readily available bank accounts. Where there is sufficient cash held in these bank accounts it is placed on the short term money markets where the interest earned is fixed.

(iii) Price risk

The Group's revenue is not generally correlated to oil or commodity prices. In the terminals division revenue is derived from fixed prices earned from handling the customer's product. In the trading division the Group earns a margin between the purchase price of product and the selling price. This margin is determined through purchasing product at a given number of basis points below Platz (the oil product price index) and selling it at a given number of points above. Although the Platz index is correlated to the underlying commodity price the margin between the purchase and selling price will generally be fixed. As the purchase and sale of the product is done under letters of credit, the prices and margins are fixed in advance therefore the Group is not exposed to any price movements between the time of purchase and sale.

(c) Credit risk

The Group's trade receivables arise in both the terminals and trading division. The Group considers the risk of not realising trade receivable balances as low. In the terminals division the transshipment and product handling fees are paid prior to the release of the product onto the vessel. As the fees are a relatively small proportion of the value of the customer's product the terminal is handling, the Group rarely encounters default on the payment of debts. If on the rare occasion the customer defaults then the Group holds the customer's product as security against the outstanding debt. In the Trading division product is purchased and sold using letters of credit therefore the transactions carried out are guaranteed by the banks issuing the letters of credit. The Group uses letters of credit from reputable European banks only.

The Group incurs capital expenditure in the development and maintenance of its terminals division in Russia. Material and labour requirements are generally paid for in advance in Russia so there is a risk of non-performance of contractors. To mitigate this risk the Group has a policy of dealing with only reputable contractors and building merchants. The Group is not currently exposed to this risk as the stage 2 development programme of the Rosbunker transshipment terminal is currently on hold.

(d) Liquidity risk

Liquidity risk is the risk that obligations associated with financial liabilities will not be met. The Group has performed a cash flow forecast through to 30 June 2010 which has provided the directors with assurance that the Group has sufficient cash to meet its financial liabilities as they fall due.

3.1 Key performance indicators

Group monitors KPI's on a regular basis and where they differ significantly from expectation an investigation is undertaken. Executive Directors monitor the Group cash position on a weekly basis. For trading purposes margin gained on all trades is monitored prior to any engagement. For transshipment, volume report is prepared on a monthly basis, with weekly snapshots being the basis for review.

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4. Segment information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The three business segments for the Group are the Terminals division which provides terminal handling and storage services on behalf of clients wishing to export oil products and is based in the Kaliningrad Oblast, the Trading division which matches buyers and sellers of hydrocarbon product and takes a margin on the product sold and the Exploration and Production division which holds exploration licences in Kurgan, Western Siberia.

The Group's geographical segments are based on the location of the Group's assets.

(a) Business segments – year ended 31 December 2008

	Exploration and production £'000	Terminals £'000	Trading £'000	Total £'000
Revenue	-	3,128	43,560	46,688
Unallocated revenue				170
Total revenue				46,858
Results				
Segment result	(3,583)	(1,355)	(505)	(5,443)
Unallocated expenses				(1,741)
Group operating loss				(7,184)
Finance costs - net (note 8)				(146)
Group loss before taxation				(7,330)
Tax credit				1,381
Share of loss of associate				-
Loss for the year				(5,949)
Assets and liabilities				
Segment assets	-	16,747	3,310	20,057
Unallocated assets				6,653
Total assets				26,710
Segment liabilities	-	(4,696)	(3,929)	(8,625)
Unallocated liabilities				(310)
Total liabilities				(8,935)
Total assets includes				
Property, plant and equipment	-	16,470	-	16,470
Unallocated property, plant and equipment				91
Intangible assets	-	2,683	-	2,683

The following significant non-cash items are included in the segment results:

- Exploration and production – impairment loss and amortisation of £3,574,000.
- Terminals – depreciation of £1,129,000.
- Unallocated expenses – share based payment credit of £176,000.

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(b) Business segments – year ended 31 December 2007

	Exploration and production £'000	Terminals £'000	Total £'000
Revenue	-	956	956
Results			
Segment result	(5,277)	(3,956)	(9,233)
Unallocated expenses			(2,829)
Group operating loss			(12,062)
Finance income			299
Group loss before taxation			(11,763)
Tax credit			33
Share of profit of associate			(13)
Loss for the year			(11,743)
Assets and liabilities			
Segment assets	3,835	13,711	17,546
Unallocated assets			3,036
Total assets			20,582
Segment liabilities	(726)	(3,763)	(4,489)
Unallocated liabilities			(879)
Total liabilities			(5,368)
Other segment information			
Capital expenditure:			
Property, plant and equipment	46	6,738	6,784
Unallocated property, plant and equipment			153
Intangible assets	3,397	4,115	7,512

The following significant non-cash items are included in the segment results:

- Exploration and production – amortisation of £126,000 and an impairment loss of £1,924,000.
- Terminals – depreciation of £155,000 and an impairment loss of £1,932,000
- Unallocated expenses – share based payment charge of £426,000.

(c) Geographical segments – year ended 31 December 2008

	UK £'000	Russian Federation £'000	Total £'000
Revenue	8,153	38,705	46,858
Results			
Loss for the year	(2,037)	(5,147)	(7,184)
Other segment information			
Segment assets	2,801	23,909	26,710
Total assets			
Capital expenditure:			
Property, plant and equipment	91	16,470	16,561
Intangible fixed assets	-	2,683	2,683

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(d) Geographical segments – year ended 31 December 2007

	UK £'000	Russian Federation £'000	Total £'000
Revenue	232	724	956
Results			
Loss for the year	(4,059)	(8,003)	(12,062)
Other segment information			
Segment assets	12,539	8,385	20,924
Total assets			
Capital expenditure:			
Property, plant and equipment	153	6,784	6,937
Intangible fixed assets	-	7,855	7,855

5. Operating loss

The operating loss is stated after charging/(crediting):

	2008 £'000	2007 £'000
Depreciation and amortisation	1,205	354
Foreign currency (gain)/loss	(139)	17
Impairment of property, plant and equipment	-	1,932
Impairment of exploration and license assets	3,447	1,924
Impairment of goodwill	126	-

6. Staff costs and Directors' emoluments

(a) Staff costs

	2008 £'000	2007 £'000
Wages and salaries	1,795	2,074
Share based payments (credit)/charge	(176)	426
Social security costs	154	207
Other pension costs	5	28
	1,778	2,735

The average monthly number of employees during the year was as follows:

	2008 Number	2007 Number
Operational	109	72
Administrative	69	57
Total employees	178	129

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(b) Directors' emoluments

	2008	2007
	£'000	£'000
Directors' emoluments	617	604
Pension costs - defined contribution plan	12	15
	629	619

There were no gains made by Directors on the exercise of share options during the year (2007: nil).

Directors' emoluments includes an amount of £260,000 (2007: £269,000) paid to the highest paid Director.

7. Auditors' remuneration

Fees payable to the auditors during the year ended 31 December 2008 consist of fees payable to Ernst and Young for the review of the 2008 interim report of £53,000 and fees payable to Grant Thornton UK LLP for the audit of the financial statements for the year ended 31 December 2008 of £140,000.

Fees payable to the auditor during the year ended 31 December 2007 are those payable to Ernst and Young only.

	2008	2007
	£'000	£'000
Audit of the group financial statements	193	209
Other fees to the auditors:		
Auditing the accounts of subsidiaries	-	13
	193	222

Total fees for 2007 include £72,000 of additional fees for 2006 (2008 does not have any additional fees for 2007). Auditors' remuneration is included in the income statement within administrative expenses.

8. Finance income and costs

	2008	2007
	£'000	£'000
Finance income:		
Bank interest receivable	66	408
	66	408
Finance costs:		
Fair value adjustment on foreign exchange forward contract	-	17
Bank loans and overdrafts	212	92
	212	109

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9. Taxation

(a) Tax on loss on ordinary activities

Current income tax credited in the income statement:

	2008	2007
	£'000	£'000
UK corporation tax	-	-
Russian corporation tax	(32)	(15)
Deferred tax	1,413	48
Tax credit reported in the income statement	1,381	33

(b) Reconciliation of the total tax credit

	2008	2007
	£'000	£'000
Loss before tax	(7,330)	(11,763)
Accounting losses multiplied by the UK standard rate of corporation tax of 28.5% (2007:30%)	(2,089)	(3,529)
- UK tax losses not recognised	248	1,290
- Russian tax losses not recognised	(71)	856
- tax depreciation in excess of accounting depreciation	793	1,212
- tax effect of non-deductible items	694	171
- movement in foreign tax rates	(1,162)	(48)
- lower rate of foreign tax	206	-
- Income not taxable	-	15
Total tax credit for the year	(1,381)	(33)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2008	Restated 2007
	£'000	£'000
Balance brought forward	1,538	530
Foreign exchange adjustment	227	1
Acquisition fair value adjustment (note 23)	1,055	1,055
Income statement credit	(1,413)	(48)
Deferred tax liability	1,407	1,538

The Group has tax losses which arose in the UK of £12,487,000 (2007: £11,618,000) and in Russia of £6,247,000 (2007: £4,999,000) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to uncertainty as to whether such amounts will be realised.

10. Earnings per share (EPS)

Basic EPS is calculated by dividing the net loss for the year attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares of 1 pence each outstanding during the year. For the purposes of the EPS calculation the Company has no dilutive potential ordinary shares as a loss was recorded for the year.

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Notes to the consolidated financial statements For the year ended 31 December 2008

The following reflects the income and adjusted share data used in the EPS computation.

	2008	2007
	£'000	£'000
Net loss attributable to equity shareholders of the company	5,949	11,735

	2008	2007
	Number	Number
Number of shares		
Weighted average number of ordinary shares of 1 pence each for EPS calculation	55,463,196	47,647,821
Loss per share - basic and diluted	10.73p	24.63p

11. Interest in joint venture

The joint venture is subject to joint control as the strategic and operating decisions relating to the activity require the unanimous consent of both parties sharing control under the joint venture agreement.

On 15 January 2008 the Group purchased an additional 25% interest in the Rosbunker transshipment terminal bringing its total interest up to 50% (see note 23). The assets and liabilities shown for 2008 represent the Group's 50% share. The income and result for 2008 represents the Group's 25% share from 1 January 2008 to 15 January 2008 and 50% share from 16 January 2008 to 31 December 2008.

The assets and liabilities shown for 2007 represent the Group's 25% share. The income and result for 2007 represents the Group's 25% share from the date of acquisition, 26 July 2007 to 31 December 2007.

The joint venture is accounted for using the proportionate method of consolidation and these amounts are included in the balance sheet and income statement:

	2008	2007
	£'000	£'000
Assets:		
Long-term assets	12,534	3,616
Current assets	4,184	631
	16,718	4,247
Liabilities:		
Current liabilities	6,193	1,411
	6,193	1,411
Net assets	10,525	2,836

Income	37,161	216
Expenses	(37,582)	(141)
(Loss)/profit after income tax	(421)	75

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

There are no capital commitments in the joint venture.

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Notes to the consolidated financial statements For the year ended 31 December 2008

12. Intangible assets

	Exploration assets £'000	Licenses £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2007	1,447	597	2,292	4,336
Foreign exchange adjustment	19	12	-	31
Additions	3,317	1	33	3,351
Additions through acquisition (restated - note 23)	-	-	729	729
At 31 December 2007 and 1 January 2008	4,783	610	3,054	8,447
Foreign exchange adjustment	788	92	5	885
Additions	71	-	-	71
Additions through acquisition	-	-	34	34
At 31 December 2008	5,642	702	3,093	9,437
Amortisation and impairment				
At 1 January 2007	-	86	287	373
Amortisation charge	-	126	-	126
Impairment loss	1,924	-	-	1,924
At 31 December 2007 and 1 January 2008	1,924	212	287	2,423
Foreign exchange adjustment	690	67	-	757
Amortisation charge	-	1	-	1
Impairment loss	3,028	419	126	3,573
At 31 December 2008	5,642	699	413	6,754
Net book value				
At 31 December 2008	-	3	2,680	2,683
At 31 December 2007	2,859	398	2,767	6,024

The Group completed its drilling programme in the Kurgan region of Western Siberia during the year ended 31 December 2008. The Group has gathered significant amounts of data and seismic in the region and considers this to be of value to other parties wishing to enter this region. The Group continues to review its options in this area to realise value and in line with its accounting policies and IFRS 6, the Group has made a £3,573,000 impairment provision against the remaining carrying value of its exploration assets, licenses and goodwill in the year ended 31 December 2008. This reflects the change in focus of the business to purely hydrocarbon trading, transshipment and infrastructure.

As at 31 December 2007 the Group made an impairment provision of £1,924,000 against exploration assets and licenses.

Acquisitions through business combinations

The acquisition of intangible assets through business combinations in the years ended 31 December 2008 and 2007 relates to the acquisition of the Rosbunker terminal (see note 23).

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment and country of operation. An amount of £nil is allocated to the exploration and production segment (2007: £144,000) and £2,680,000 is allocated to the terminals segment (2007: £2,623,000). The country of operation of these segments is Russia.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a two year period. Cash flows beyond the two year period are extrapolated at a constant rate to a total of fifty years.

The discount rate used for existing businesses with revenue streams is 8% (2007: 8%) and 15% (2007: 15%) for businesses not yet in operation. The discount rates used includes a risk premium above the risk-free rate which is based on the bid yield on Russian bonds. Management determined the budgeted gross margin based on past performance and its expectations of market development.

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Notes to the consolidated financial statements For the year ended 31 December 2008

13. Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Computer and office equipment £'000	Construction in progress £'000	Other fixed assets £'000	Total £'000
Cost						
At 1 January 2007	253	1,196	127	2,176	10	3,762
Foreign exchange adjustment	15	(81)	(7)	(44)	-	(117)
Additions	212	374	208	1,388	-	2,182
Additions through acquisition (restated - note 23)	209	5,699	2	-	-	5,910
At 31 December 2007 and 1 January 2008	689	7,188	330	3,520	10	11,737
Foreign exchange adjustment	96	1,311	36	929	-	2,372
Additions	191	57	18	526	-	792
Additions through acquisition (note 23)	400	5,770	2	-	-	6,172
Disposals	-	(227)	(101)	(59)	(10)	(397)
At 31 December 2008	1,376	14,099	285	4,916	-	20,676
Depreciation						
At 1 January 2007	22	47	26	-	1	96
Depreciation charge	5	142	81	-	-	228
Impairment loss	-	-	-	1,932	-	1,932
At 31 December 2007	27	189	107	1,932	1	2,256
Foreign exchange adjustment	(15)	74	17	637	-	713
Depreciation charge	8	1,097	99	-	-	1,204
Disposals	-	(7)	(50)	-	(1)	(58)
At 31 December 2008	20	1,353	173	2,569	-	4,115
Net book value						
At 31 December 2008	1,356	12,746	112	2,347	-	16,561
At 31 December 2007	662	6,999	223	1,588	9	9,481

The impairment loss arose in 2007 in the terminals segment relating to unutilised assets held at the original terminal project site at Rybachi. It is unlikely these assets will be utilised at the new Rosbunker terminal and therefore management have taken the decision to make an impairment provision against the carrying value of these assets.

14. Inventory

	2008 £'000	2007 £'000
Finished goods	1,019	26

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £42,604,000 (2007: £152,000). There are no inventories pledged as security for liabilities (2007: nil).

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Notes to the consolidated financial statements For the year ended 31 December 2008

15. Trade and other receivables (current)

	2008	2007
	£'000	£'000
Trade receivables	1,376	311
Receivables from related parties	25	-
Loans to related parties	235	234
Loans	45	95
	1,681	640

There is no difference between the carrying value and fair value of financial assets.

At 31 December 2008, trade receivables of £860,000 (2007: £194,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2008	2007
	£'000	£'000
Upto 3 months past due	218	49
3 to 6 months past due	603	136
Over 6 months past due	39	9
	860	194

16. Prepayments and other current assets

	2008	2007
	£'000	£'000
Advances paid for goods and services	1,692	535
VAT reclaimable	779	790
	2,471	1,325

17. Cash and cash equivalents

	2008	2007
	£'000	£'000
Cash at bank and in hand	1,106	2,652
Short term deposits	-	301
	1,106	2,953

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

For the purpose of the consolidated cash flow statement, cash and cashflow equivalents comprise of cash at bank and in hand and short-term deposits.

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Notes to the consolidated financial statements For the year ended 31 December 2008

18. Share capital and reserves

(a) Authorised and allotted share capital

	2008		2007	
	Number	£	Number	£
Authorised				
Ordinary shares of 1 pence each	68,000,000	680,000	68,000,000	680,000
Allotted and called up share capital				
Ordinary shares of 1 pence each	55,774,920	557,744	47,647,821	476,478

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
Ordinary shares of 1 pence each issued and fully paid				
At 1 January 2007 and 31 December 2007	47,647,821	476	33,195	33,671
Acquisition of joint venture	4,337,625	43	4,042	4,085
Shares issued at 15 January 2008	3,789,474	39	3,322	3,361
At 31 December 2008	55,774,920	558	40,559	41,117

On 15 January 2008 the Company issued a total of 8,127,099 shares. Of this amount, shares of 4,337,625 were issued as partial consideration for the acquisition of an additional 25% interest in the Rosbunker transshipment terminal, having a fair value at the date of acquisition of £4,085,000 (note 23). Shares of 1,549,810 were issued, raising gross proceeds of £1,472,000, to fund the cash consideration of the additional 25% interest in Rosbunker. Shares of 2,239,664 were issued, raising gross proceeds of £2,128,000 to finance the testing and evaluation programme at the Mokrousovsky-1 well and for general working capital requirements. Share issue costs of £240,000 have been recognised in the share premium account.

(b) Ordinary shares - rights at general meetings

At general meetings of the Company each member present or by proxy has one vote on a show of hands, and on a poll every member who is present in person or by proxy has one vote per every ordinary share.

Shares reserved for issue under options contracts including the amounts and conditions are disclosed in note 19.

19. Share based payments

(a) Founders' options

These were granted to the individuals as part of the IPO. They do not need to stay employed by the Company to be able to exercise these options. There are no performance conditions for the options. A third became exercisable immediately on grant, a further third became exercisable after one year. The remaining third become exercisable after two years. The options cannot be exercised more than three years after grant.

The exercise price of the options is 140p, equal to the IPO share price.

Participants do not receive dividends before the options are exercised.

	Number of options outstanding	Number of options exercisable	Weighted average exercise price
At 1 January 2007	2,775,000	925,000	140p
At 31 December 2007 and 1 January 2008	2,775,000	1,850,000	140p
At 31 December 2008	2,775,000	2,775,000	140p

Options outstanding at 31 December 2008 had a remaining contractual life of 4 months. No Founders options have been exercised throughout the life of the options.

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Notes to the consolidated financial statements For the year ended 31 December 2008

The inputs to the binomial valuation model used for calculating the fair values were:

Expected volatility	75%
Dividend yield	Nil
Risk-free interest rate	4.0 – 4.6% pa depending on expected life
Employee turnover	None
Early exercise	50% exercised when share price doubles, with the remainder held to maturity

In the absence of any historic data, the expected volatility has been estimated from historic volatilities of similar companies.

The fair values of each award and the expected life is as follows:

	Fair value per	
	award	Expected life
Founders' options		
Exercisable immediately	65.9p	2.2 years
Exercisable after one year	68.5p	2.6 years
Exercisable after two years	71.4p	2.9 years

(b) Performance share plan (PSP)

There was a grant under the PSP in 2006, made on the IPO date, 27 April 2006.

The grant did not involve a market-based performance condition. It was also assumed that no dividends would be paid over the life of the award. The fair value of the award was therefore 140p, the share price at the grant date.

858,929 options were granted that are due to vest on 31 December 2008. These were originally subject to a non-market performance condition based on the gross transshipment of oil and product from the original terminal project. However, this project has been superseded by events and the Company now owns a 50% interest in the Rosbunker terminal rather than developing the original project. To reflect a measure of this success, the options have been granted with an exercise price of either 1p or 84p per share, depending on the individual. This represents a modification of the original award in which all options were priced at 1p. In accordance with IFRS 2, the Company has recognised the full charge in the income statement on the basis of the original grant, despite the cost to the Company now being lower than had the modifications not been made.

The Company recognised a total credit of £49,000 (2007: £299,000 expense) in respect of the PSP.

(c) Other options

A grant of options on 450,000 shares was made to three key members of senior management on 1 December 2007 with an exercise price of 1p per share and a vesting period of three months. In the year ended 31 December charge of £127,000 has been recognised in the income statement in respect of these options. These awards did not vest so the Company has recognised a credit of £127,000 in respect of these options.

20. Trade and other payables (current)

	2008	2007
	£'000	£'000
Trade payables	1,429	1,139
Salaries and related payables	6	25
Other payables and accrued expenses	1,717	2,233
	3,152	3,397

Other payables and accrued expenses includes an amount of £1,011,000 (2007: £1,700,000) relating to the deferred consideration payable for the acquisition of Rosbunker (see note 23). There is no difference between the carrying value and fair value of financial liabilities.

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Notes to the consolidated financial statements For the year ended 31 December 2008

21. Borrowings

	2008	2007
	£'000	£'000
Bank borrowings	493	519
Loans from related parties	1,908	840
Letters of credit	824	-
Other loans	1,151	113
	4,376	1,472

Bank borrowings are at fixed interest rates so there is no exposure to interest rate changes. Bank borrowings are unsecured.

There is no difference between the carrying value and fair value of financial liabilities.
The ageing analysis of borrowings is as follows:

	2008	2007
	£'000	£'000
Amounts due in 0 - 3 months	2,637	1,204
Amounts due in 3 - 6 months	1,739	-
Amounts due in 6 - 9 months	-	-
Amounts due in 9 - 12 months	-	268
	4,376	1,472

22. Derivative financial instruments

	2008	2007
	£'000	£'000
Forward foreign exchange contracts - cash flow hedges	-	17
	-	17

The notional principal amounts of the outstanding forward exchange contracts at 31 December 2008 was £nil (2007: £2,778,000).

23. Acquisitions of interests in joint ventures

(a) Acquisition of Rosbunker (2008)

On 15 January 2008, the Group acquired a further 25% interest in its main asset, the Rosbunker transshipment terminal through the acquisition of the remaining 50% share capital of Arblade Holdings Limited, a company incorporated in Cyprus. Arblade Holdings Limited owns 50% of the share capital of the Russian companies in the OOO Agroprom group in which the Rosbunker assets are held. OOO Agroprom is subject to joint control between Arblade Holdings Limited and Krutrade. In addition the Group acquired a 50% interest in North Oil Bunker and North Oil Trading, companies incorporated in the British Virgin Islands and Panama respectively and also subject to joint control between the Group and Krutrade. The principal activity of North Oil Bunker and North Oil Trading is to carry out transshipment and oil product trading activities on behalf of the Group.

The consideration amounted to £5,607,000 (\$11,000,000) comprising of cash of £1,522,000 (US\$3,000,000) and 4,337,625 ordinary shares of 1p each in the Company which had a value of £4,085,000 (US\$8,000,000) on the day of completion. Directly attributable costs of acquisition amounted to £114,000 (US\$225,000).

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Notes to the consolidated financial statements For the year ended 31 December 2008

Details of the net assets acquired and goodwill are as follows:

	Book values £'000	Fair values £'000
Cash and cash equivalents	42	42
Goodwill	34	34
Property, plant and equipment	2,405	6,172
VAT reclaimable	249	249
Trade and other receivables	3,636	3,636
Inventory	196	196
Trade and other payables	(478)	(478)
Borrowings	(3,075)	(3,075)
Deferred tax liability	-	(1,055)
Net assets	3,009	5,721
Goodwill arising on acquisition		-
		5,721
Discharged by:		
Cash consideration		1,522
Shares consideration		4,085
Costs associated with the acquisition, settled in cash		114
		5,721

Fair value adjustments of £3,767,000 have been made to property, plant and equipment and £1,055,000 of associated deferred taxation.

The acquired businesses contributed revenues of £37,161,000 and a net loss of £421,000 to the Group for the period from 15 January 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been £38,753,000 and the net loss would have been £439,000.

(b) Acquisition of Rosbunker (2007)

On 26 July 2007, the Group acquired a 25% net interest in the Rosbunker terminal through the acquisition of 50% of the share capital of Arblade Holdings Limited, a Cypriot Company jointly controlled by the Group and Goulding Partners Inc. The cash consideration was £4,429,000 (US\$9,000,000). Arblade Holdings Limited owns 50% of the share capital of the Russian companies in the OOO Agroprom group in which the Rosbunker assets are held. OOO Agroprom is subject to joint control between Arblade Holdings Limited and Krutrade. The consideration includes an amount of £1,700,000 (US\$3,454,000) which, at 31 December 2007, represented deferred consideration falling due after the balance sheet date. Of this, £984,000 (US\$2,000,000) was paid on 18 February 2008, with the balance payable when certain conditions subsequent are met.

OOO Agroprom group is a private company based in Kaliningrad, Russian Federation, which operates a hydrocarbon transshipment terminal.

The acquired business contributed revenues of £216,000 and net profit of £75,000 to the Group for the period from 26 July 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group revenue would have been £542,000 and profit before allocations would have been £157,000.

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Notes to the consolidated financial statements For the year ended 31 December 2008

Details of the net assets acquired and goodwill are as follows:

	Book values	Provisional fair values	Final fair values
	£'000	£'000	£'000
Cash and cash equivalents	7	7	7
Property, plant and equipment	2,142	3,366	5,909
VAT reclaimable	216	216	216
Trade and other receivables	331	331	331
Trade and other payables	(294)	(294)	(294)
Borrowings	(868)	(868)	(868)
Deferred tax liability	-	(343)	(1,055)
Net assets	1,534	2,415	4,246
Goodwill arising on acquisition		2,560	729
		4,975	4,975
Discharged by:			
Cash consideration			2,729
Deferred consideration			1,700
Costs associated with the acquisition, settled in cash			546
			4,975

The goodwill is attributable to the workforce of the acquired business and the synergies expected to arise after the acquisition.

24. Investment in associates

The following table illustrates summarised financial information of the Group's investment in OOO Pollex Service:

Share of associate's balance sheet (50%):

	2008	2007
	£'000	£'000
Non-current assets	57	57
Current assets	76	76
Share of gross assets	133	133
Current liabilities	63	63
Non-current liabilities	-	-
Share of gross liabilities	63	63
Share of net assets	70	70

Investments in associates at 31 December 2008 includes goodwill of £1,089,500 (2007: £1,089,500).

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Notes to the consolidated financial statements For the year ended 31 December 2008

25. Related party disclosures

The following transactions were carried out with related parties:

a) Sales of goods and services

	2008	2007
	£'000	£'000
Sales of products and services to joint venture:		
- Management fees charged to joint venture	307	-
- Product sales	319	-
	626	-

Management fees are charged to the joint venture on the basis of the costs incurred by the Group on behalf of the joint venture. Product is sold on the basis of the price lists in force and terms that would be available to third parties.

b) Purchases of goods and services

	2008	2007
	£'000	£'000
Purchases of goods		
- Product purchased from the joint venture	53	-
	53	-

Product is purchased from joint ventures on normal commercial terms and conditions.

c) Balances outstanding from related party transactions

	2008	2007
	£'000	£'000
Balances outstanding	25	-

d) Key management compensation

Key management of the group includes the two Directors of the Company who receive remuneration from the Group.

	2008	2007
	£'000	£'000
Wages and salaries	827	2,070
Other pension costs	12	14
Share based payment	(176)	426
	663	2,510

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Notes to the consolidated financial statements For the year ended 31 December 2008

e) Loans to related parties

	2008	2007
	£'000	£'000
Loans to joint ventures	234	234

As at 31 December 2007 the Group had a loan receivable of £235,000 outstanding from North Oil Bunker Limited, a company registered in British Virgin Islands. This company was acquired as part of the acquisition of a further 25% interest in the Rosbunker terminal on 15 January 2008 (see note 23). As at 31 December 2007 this company was not part of the Group but was controlled by Vladimir Gavrilov, who was subsequently appointed to the Board of Directors on 15 January 2008 and resigned on 14 January 2009.

26. Principal subsidiaries and associates

	Principal activity	Country of incorporation	Percentage equity interest held by the Group at 31 December 2008 %	Percentage equity interest held by the Group at 31 December 2007 %
Baltic Petroleum Limited	Intermediate holding company	UK	100	100
Baltic Terminals Limited	Intermediate holding company	UK	100	100
Baltic Petroleum (E&P) Limited	Intermediate holding company	UK	100	100
Caspian Finance Limited	Finance company	UK	100	100
Baltic Hydrocarbons Limited	Oil Services	UK	100	100
Zauralneftegaz Limited	Oil E&P	UK	50	50
Tetoil Limited	Oil Services	UK	100	100
Tetoil Baltic Limited	Oil Services	UK	100	100
OOO Zauralneftegaz	Oil E&P	Russian Federation	50	50
OJSC Tetoil	Oil Services	Russian Federation	100	100
OJSC Tetoil Baltic	Oil Services	Russian Federation	100	100
OOO Polex Service	Oil Services	Russian Federation	50	50
Pazega Limited	Intermediate holding company	Cyprus	100	100
OOO Baltic Top	Oil Services	Russian Federation	100	100
OOO Otelbiznesstroy	Oil Services	Russian Federation	100	100
Yuri Trading Limited	Intermediate holding company	Cyprus	100	100
OOO Torgovy Dom Kaliningradneft	Oil Services	Russian Federation	65	65
Baltica Hydrocarbons Limited	Intermediate holding company	Cyprus	100	100
Arblade Holdings Limited	Intermediate holding company	Cyprus	100	50
OOO Agroprom	Intermediate holding company	Russian Federation	50	25
ZAO Rosbunker	Oil Services	Russian Federation	50	25
Edgeview Ventures Limited	Finance company	British Virgin Islands	50	25
North Oil Trading Limited	Oil Services	Panama	50	-
North Oil Bunker Limited	Oil Services	British Virgin Islands	50	-

The Company has operational control over Zauralneftegaz Limited and OOO Zauralneftegaz by virtue of there being 50 A ordinary shares and 50 B ordinary shares of £1 each. The A and B ordinary shares of £1 rank pari passu other than the A ordinary shares have an additional vote at general meeting thereby giving the Company as shareholder of the A shares control of the company.

27. Capital commitments

At 31 December 2008, there were amounts contracted for but not provided in the financial statements of £51,000 (2007: £nil). The amounts contracted for relate to property, plant and equipment.

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Company accounts

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Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Baltic Oil Terminals plc

Independent auditor's report to the members of Baltic Oil Terminals plc

We have audited the parent company financial statements of Baltic Oil Terminals Plc for the year ended 31 December 2008 which comprise the principal accounting policies, the balance sheet and notes 1 to 12. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Baltic Oil terminals Plc for the year ended 31 December 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive Officer's Statement and Finance Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Baltic Oil Terminals plc

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
London
28 May 2009

Baltic Oil Terminals plc

Balance sheet As at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	3	91	153
Investments	4	37,464	22,598
		37,555	22,751
Current assets			
Debtors: amounts falling due within one year	5	9,863	5,806
Cash at bank and in hand		729	2,033
		10,592	7,839
Creditors: amounts falling due within one year	6	(310)	(881)
Net current assets		10,282	6,958
Total assets less current liabilities		47,837	29,709
Attributable net assets		47,837	29,709
Capital and reserves			
Called up share capital	7, 8	558	476
Share premium account	7, 8	40,559	33,195
Other reserves - Equity - share options		2,459	2,635
Profit and loss account	8	4,261	(6,597)
Equity shareholders' funds	8	47,837	29,709

The financial statements were approved by the Board of Directors on 28 May 2009 and signed on its behalf by:



Simon Escott
Chief Executive

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

1. Accounting policies

1.1. Basis of preparation

The parent Company financial statements of Baltic Oil Terminals plc are presented as required by the Companies Act 1985 and were approved for issue on 28 May 2009.

The financial statements are prepared under the historical cost convention and in accordance with UK GAAP.

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

The Company has taken advantage of the exemption in FRS 29 paragraph 2D(b), as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

1.2. Investments

Investments are carried at cost less any provision for impairments.

1.3. Impairment

The carrying amounts of fixed assets and investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amounts. Such review is undertaken on income generating units.

If the carrying amount of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing recoverable amount for fixed assets, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal have been discounted to their present value using a market-determined discount rate.

1.4. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows:

Office equipment	– 3 years
Computer equipment	– 3 years

1.5. Loans from subsidiaries

Loans from subsidiaries are recognised at inception at the fair value of the proceeds received net of issue costs. Subsequently they are measured at amortised cost using the effective interest method. Finance costs are recognised in the profit and loss account using the effective interest rate method.

1.6. Foreign currency transactions

Foreign currency transactions are booked in the functional currency (GBP) at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at rates of exchange ruling at the balance sheet date. Exchange differences are recorded in the profit and loss account.

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

1.7. Revenue

Interest income is recognised as earned on an accruals basis using the effective interest method.

Dividend income is recognised as earned when the Company's right to receive payment is established. Income for other services is recognised when the service has been rendered.

1.8. Use of estimates

The preparation of these financial statements is in conformity with generally accepted accounting practice and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

1.9. Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.10. Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

National Insurance Contributions on share based payments are recognised in the accounts on the exercise date of share options and other share-based payments.

2. Profit/(loss) attributable to members of the parent Company

The profit dealt with in the financial statements of the parent Company is £10,858,000 (2007 loss: £1,747,000).

3. Tangible fixed assets

	Cost	Depreciation	Total
	£'000	£'000	£'000
Cost			
At 1 January 2008	231	(78)	153
Additions	15	(75)	(60)
Disposals	(5)	3	(2)
At 31 December 2008	241	(150)	91

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

4. Investments

	Investment in subsidiaries £'000	Investment in joint ventures £'000	Loans to subsidiaries £'000	Total £'000
Cost				
At 1 January 2008	-	-	22,598	22,598
Additions	-	5,720	9,146	14,866
At 31 December 2008	-	5,720	31,744	37,464

On 15 January 2008 the Company purchased the remaining 50% share capital in Arblade Holdings Limited for a consideration of £5,607,000, comprising of cash of £1,522,000 and 4,337,625 ordinary shares of 1p each in the Company which had a value of £4,085,000 on the day of completion. Directly attributable costs of acquisition amounted to £114,000. The other 50% of share capital of Arblade Holdings Limited is owned by Baltica Hydrocarbons Limited a Company ultimately owed by Baltic Oil Terminals plc.

The subsidiary undertakings of the Company and the percentage holding of ordinary share capital (which aligns with the voting rights) are set out below:

	Principal activity	Country of incorporation	Percentage equity interest held by the Group at 31 December 2008 %	Percentage equity interest held by the Group at 31 December 2007 %
Baltic Petroleum Limited	Intermediate holding company	UK	100	100
Baltic Terminals Limited	Intermediate holding company	UK	100	100
Baltic Petroleum (E&P) Limited	Intermediate holding company	UK	100	100
Caspian Finance Limited	Finance company	UK	100	100
Baltic Hydrocarbons Limited	Oil Services	UK	100	100
Zauralneftegaz Limited	Oil E&P	UK	50	50
Tetoil Limited	Oil Services	UK	100	100
Tetoil Baltic Limited	Oil Services	UK	100	100
OOO Zauralneftegaz	Oil E&P	Russian Federation	50	50
OJSC Tetoil	Oil Services	Russian Federation	100	100
OJSC Tetoil Baltic	Oil Services	Russian Federation	100	100
OOO Pollex Service	Oil Services	Russian Federation	50	50
Pazega Limited	Intermediate holding company	Cyprus	100	100
OOO Baltic Top	Oil Services	Russian Federation	100	100
OOO Otelbiznesstroy	Oil Services	Russian Federation	100	100
Yuri Trading Limited	Intermediate holding company	Cyprus	100	100
OOO Torgovy Dom Kaliningradneft	Oil Services	Russian Federation	65	65
Baltica Hydrocarbons Limited	Intermediate holding company	Cyprus	100	100
Arblade Holdings Limited	Intermediate holding company	Cyprus	100	50
OOO Agroprom	Intermediate holding company	Russian Federation	50	25
ZAO Rosbunker	Oil Services	Russian Federation	50	25
Edgeview Ventures Limited	Finance company	British Virgin Islands	50	25
North Oil Trading Limited	Oil Services	Panama	50	-
North Oil Bunker Limited	Oil Services	British Virgin Islands	50	-

The principal country of operation is the country of incorporation.

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

5. Debtors

	2008	2007
	£'000	£'000
Trade debtors	25	-
Prepayments and accrued income	37	103
Amounts owed by group undertakings	9,754	5,619
Other debtors	47	84
	9,863	5,806

6. Creditors

	2008	2007
	£'000	£'000
Trade creditors	99	487
Taxation and social security	-	21
Other creditors	-	1
Accruals and deferred income	211	355
Derivative financial instruments- forward foreign exchange contracts - cash flow hedges	-	17
	310	881

The notional principal amounts of the outstanding forward exchange contracts at 31 December 2008 was £nil (2007: £2,778,000).

7. Share capital and reserves

(a) Authorised and allotted share capital

	2008		2007	
	Number	£	Number	£
Authorised				
Ordinary shares of 1 pence each	68,000,000	680,000	68,000,000	680,000
Allotted and called up share capital				
Ordinary shares of 1 pence each	55,774,920	557,744	47,647,821	476,478

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
Ordinary shares of 1 pence each issued and fully paid				
At 1 January 2007 and 31 December 2007	47,647,821	476	33,195	33,671
Acquisition of joint venture	4,337,625	43	4,042	4,085
Shares issued at 15 January 2008	3,789,474	39	3,322	3,361
At 31 December 2008	55,774,920	558	40,559	41,117

On 15 January 2008 the Company issued a total of 8,127,099 shares. Of this amount shares of 4,337,625 were issued as partial consideration for the acquisition of an additional 25% interest in the Rosbunker transshipment terminal, having a fair value at the date of acquisition of £4,085,000 (note 4). Shares of 1,549,810 were issued, raising gross proceeds of £1,472,000, to fund the cash consideration of the additional 25% interest in the Rosbunker. Shares of 2,239,664 were issued, raising gross proceeds of £2,128,000 to finance the testing and evaluation programme at the Mokrousovsky-1 well and for general working capital requirements. Share issue costs of £240,000 have been recognised in the share premium account.

(b) Ordinary shares

Rights at general meetings

At general meetings of the Company each member present or by proxy has one vote on a show of hands, and on a poll every member who is present in person or by proxy has one vote per every ordinary share.

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

8. Capital and reserves

	Share capital £'000	Share premium account £'000	Revaluation reserve share options £'000	Profit and loss account £'000	Total £'000
At 1 January 2008	476	33,195	2,635	(6,597)	29,709
Issuance of share capital	82	7,364	-	-	7,446
Profit for the year	-	-	-	10,858	10,858
Share options	-	-	(176)	-	(176)
At 31 December 2008	558	40,559	2,459	4,261	47,837

9. Other income and expenses

The audit fee for the Company is included with the total audit fee for the Group of £140,000 and is not separately identifiable. In 2007 the audit fee for the Company was £85,000. There were no non-audit fees for the Company.

10. Taxation

No deferred tax assets have been recognised in respect of tax losses available for offset against future profits due to the uncertainty over the timing of recovery of these assets.

11. Share based payments

(a) Founders' options

These were granted to the individuals as part of the IPO. They do not need to stay employed by the Company to be able to exercise these options. There are no performance conditions for the options. A third became exercisable immediately on grant, a further third became exercisable after one year. The remaining third become exercisable after two years. The options cannot be exercised more than three years after grant.

The exercise price of the options is 140p, equal to the IPO share price.

Participants do not receive dividends before the options are exercised.

	Number of options outstanding	Number of options exercisable	Weighted average exercise price
At 1 January 2007	2,775,000	925,000	140p
At 31 December 2007 and 1 January 2008	2,775,000	1,850,000	140p
At 31 December 2008	2,775,000	2,775,000	140p

Options outstanding at 31 December 2008 had a remaining contractual life of 4 months. No Founders options have been exercised throughout the life of the options.

The inputs to the binomial valuation model used for calculating the fair values were:

Expected volatility	75%
Dividend yield	Nil
Risk-free interest rate	4.0 – 4.6% pa depending on expected life
Employee turnover	None
Early exercise	50% exercised when share price doubles, with the remainder held to maturity

In the absence of any historic data, the expected volatility has been estimated from historic volatilities of similar companies.

Baltic Oil Terminals plc

Notes to the consolidated financial statements For the year ended 31 December 2008

The fair values of each award and the expected life is as follows:

Founders' options	Fair value per award	Expected life
Exercisable immediately	65.9p	2.2 years
Exercisable after one year	68.5p	2.6 years
Exercisable after two years	71.4p	2.9 years

(b) Performance share plan (PSP)

There was a grant under the PSP in 2006, made on the IPO date, 27 April 2006.

The grant did not involve a market-based performance condition. It was also assumed that no dividends would be paid over the life of the award. The fair value of the award was therefore 140p, the share price at the grant date.

858,929 options were granted that are due to vest on 31 December 2008. These were originally subject to a non-market performance condition based on the gross transshipment of oil and product from the original terminal project. However, this project has been superseded by events and the Company now owns a 50% interest in the Rosbunker terminal rather than developing the original project. To reflect a measure of this success, the options have been granted with an exercise price of either 1p or 84p per share, depending on the individual. This represents a modification of the original award in which all options were priced at 1p. In accordance with IFRS 2, the Company has recognised the full charge in the income statement on the basis of the original grant, despite the cost to the Company now being lower than had the modifications not been made.

The Company recognised a total credit of £49,000 (2007: £299,000 expense) in respect of the PSP.

(c) Other options

A grant of options on 450,000 shares was made to three key members of senior management on 1 December 2007 with an exercise price of 1p per share and a vesting period of three months. In the year ended 31 December charge of £127,000 has been recognised in the income statement in respect of these options. These awards did not vest so the Company has recognised a credit of £127,000 in respect of these options.

12. Related party transactions

a) Sales of goods and services

The Company recharged an amount of £144,000 to North Oil Trading Limited for legal fees incurred on its behalf. The Company has an interest of 50% in North Oil Trading Limited. The transaction was carried out on an arms length basis.

b) Key management compensation

Key management includes the two Directors of the Company.

	2008 £'000	2007 £'000
Wages and salaries	827	2,070
Other pension costs	12	14
Share based payment	(176)	426
	663	2,510