



## Baltic Oil Terminals plc

Annual Report & Financial Statements  
for the year ended 31 December 2010



Baltic either owns, operates or leases terminals or tank capacity in Baltysk Kaliningrad Region and Kaliningrad City (Russia), Rotterdam (Holland) and Aabenraa (Denmark).

The Board has taken the strategic decision to diversify the group from a reliance on its operations in Russia through the purchases of terminals in Denmark and Rotterdam to enhance flexibility and transhipment options for its growing client base.

The picture on the front cover shows the Oil terminal facility at Aabenraa in Denmark which was acquired by the Group as a wholly owned subsidiary (Dan-Balt Tank Lager A/S) on 17 November 2011. The Terminal has heated and non-heated tanks with a total capacity of 160,000 cubic metres of storage and two berths capable of accommodating ships up to Panamax. The Terminal is highly computerised, operates with a staff of five people and is open 24/7 by use of smart card technology

## Chairman's Introduction

**“2010 was a difficult year for your Company and management has had to work exceptionally hard in extreme circumstances to protect shareholder value.**

We believe that this has been achieved. We urge shareholders to analyse these accounts alongside those for the interim stage, as well as evaluate the advances made since that period end, to reach a complete picture of the company and its achievements.”

**Richard Healey**

## Contents

Chairman's and Chief Executive's statement	02	Consolidated statement of financial position	14
Financial Review	04	Consolidated cash flow statement	15
Board of Directors	06	Consolidated statement of changes in equity	16
Directors' report	07	Notes to the consolidated financial statements	17
Statement of Directors' responsibilities	09	Statement of Directors' responsibilities	41
Directors' remuneration review	10	Independent auditor's report to the members of Baltic Oil Terminals plc	42
Independent auditor's report to the members of Baltic Oil Terminals plc	11	Balance sheet	43
Consolidated income statement	13	Notes to the financial statements	44
Consolidated statement of comprehensive income	13	Directors and advisers	49

## Chairman's and Chief Executive's statement

### Introduction

2010 was a difficult year for your Company and management has had to work exceptionally hard in extreme circumstances to protect shareholder value. We believe that this has been achieved. We urge shareholders to analyse these accounts alongside those for the interim stage, as well as evaluate the advances made since that period end, to reach a complete picture of the company and its achievements.

### Background to these results

On 17 March 2010, the Company announced a settlement with a previous Director who, as announced on 14 January 2009 and again on 1 June 2009, had been dismissed as a Director and had started proceedings against the Company.

Although the Company was successful in achieving the settlement and removed the ex-Director from the shareholders' register, unbeknownst to the Board, actions had already commenced by outside Russian parties which had as their objective the seizure from the Company of its share in Rosbunker by illegal means, the de-stabilising of the management of Baltic Top and the destruction of their accounting databases.

Apart from the destruction of the records, none of these objectives have been met, although these actions on behalf of the outside parties have caused the Group many problems involving a loss of a degree of control at Rosbunker and a problem in accessing the financial data base for a limited period of time in Baltic Top.

All attempts to actually remove the assets from the Group have been unsuccessful and the assets all remain within the Group. The Directors have worked with a firm of Moscow based lawyers, who are very

experienced in this type of work, and can assure shareholders that the Group's interests have been fully protected at all times during this difficult period.

The Directors firmly believe in the value of our Russian assets with special reference to Rosbunker and are currently working on consolidating the value of these assets. Further news on developments with the Rosbunker facility will be announced to the market shortly.

Baltic Top has been fully stabilised by the replacement of the financial staff and by the appointment, in late 2010, of the new General Director which has also resulted in an improved profit picture. A similar change is being put through at Rosbunker, which will take effect in the near future.

### Reconstruction of the accounts of the Kaliningrad operations

The Board has been clear in previous statements that extensive work has been carried out in Russia to reconstruct the accounting records and to rebuild the accounting database for all the Kaliningrad operations. This work, led by a team of Russian accountants, led to an independent third party audit being carried out on the results of all the Russian operations by a reputable firm of Russian auditors, Universaal, which are based in St Petersburg.

The result of the audit was that unqualified audit certificates were granted under Russian law to both the Rosbunker and Baltic Top entities, and their subsidiary entities and intermediate holding companies.

### Basis of accounting treatment

Given the events described above in Russia, the Directors have considered the accounting treatment of the

Rosbunker joint venture as the Group has not been able to exercise joint control for the whole of 2010. Although the Group has retained significant influence over strategic decision making and core assets the Directors believe the most appropriate accounting treatment is as an associate for the Rosbunker operation for the whole of 2010.

Operating profit is shown as “share of profit from Associate”. Similarly the Balance Sheet as at 31 December 2010 shows the net assets of the Russian operations as “share of Associate’s net assets”.

### **Current trading**

An update on current trading is reported in the Chairman and CEO statement for the 2011 Interims that will be published just after the release of this Annual Report and Financial Statements for the year ended 31st December 2010.

### **Summary**

In spite of the difficulties experienced in 2010 with the Russian business, the Group has actually been able to strengthen its position going forward and the acquisition of Petro Broker International BV (PBI) in December 2010 demonstrates this.

PBI has performed strongly and in line with expectations.

The Group is generating cash on a monthly basis and the cash position is strong.

Management is confident that the problems caused in Russia, will not be repeated and that the controls and new Russian management team in place will ensure that the situation is fully stabilised.

At the same time the company has proceeded with its plans to build revenue streams outside of the Former Soviet Union whilst continuing to fully recognise its share of the value of the Russian assets.

The latest step in this plan is the acquisition of Haahr Tank Lager A/S, a large terminal in Denmark, which completed in November 2011.

This acquisition will, coupled with PBI, result in significant growth through 2012.

**Richard Healey**  
Chairman  
14 December 2011

**Simon Escott**  
Chief Executive

## Financial Review

### Financial Overview

In spite of the difficulties experienced in the Russian terminals business, the Consolidated Accounts report a profit of £2.4m for the year. Importantly the Group has maintained good cash reserves during 2011 and continues to generate cash each month.

The Petro Broker International BV (PBI) acquisition in Holland has been an outstanding success in profit and cash terms for the Group in 2011 and it provides an excellent platform to diversify the business outside of Russia.

The PBI acquisition was completed at the end of December 2010 and so only had a minor effect on the 2010 accounts.

The acquisition of the Haahr terminal in Denmark which completed in November 2011 is also expected to produce good profits when the current contracts finish in 2012. The Denmark acquisition was funded through a short term loan due to be repaid in the first half of 2013.

The Board have identified other non-Russian acquisition targets to diversify the business to build a European Oil Transshipment group and these future acquisition targets will be followed up after the integration of the new Danish operation.

The practical difficulties experienced at the Russian terminals are discussed elsewhere but in financial terms those businesses have operated profitably as shown in the 2011 interim figures. The Group's share of profits is recorded in the 2010 Accounts in share of associate's net assets.

The Groups results have also been boosted from Oil trading giving commissions which have more than offset head office overheads.

### Results

The Group has posted a profit of £2.4m for the 2010 year despite the Russian operations which caused difficulties during 2010 involving the consequent loss of management time and effort needed to deal with the issues there.

During the year there has been a huge effort in Russia to reconstruct the basic Accounting records to provide figures for these Group Accounts. Although these figures were audited by a large Russian Audit firm and received an unqualified audit report there was insufficient detail to provide enough evidence to satisfy International Auditing Standards and therefore the 2010 Group Accounts have a qualified Audit opinion.

A major change to the presentation of the results is the Accounting treatment of the Rosbunker facility which, as described in note 23, is recorded as an Associate for the 2010 year. This had previously been treated as a Joint Venture.

As a consequence of the above change in Accounting treatment, turnover, cost of sales and administrative expenses are all lower than in previous years.

The Baltic Top facility has been treated as in previous years as a subsidiary during 2010 as the Group has a 100% interest in the share capital there and retained control over operations.

Importantly the Group has maintained good cash reserves during 2011 and continues to generate cash each month

The Directors have endeavoured to keep overheads as low as possible and it is pleasing to note the much lower administrative charge in the Income statement. In an effort to keep overheads low, the Group moved the London office to cheaper accommodation in 2010 and has switched to using less expensive Professional assistance where possible.

The Balance sheet includes the Assets of the newly acquired PBI operation in Holland and the net assets from Rosbunker are shown now on one line in "Investment in Associates". The overall effect is an increase in net assets to £30.0m, after the share raising during 2010 and the reported profit for that year. Cash at bank at the 2010 year end was just under £1.9m and the Directors are pleased that this has continued to grow in 2011.

This increase in cash is evidenced on the Group cash flow statement and the Directors expect the cash balance to be increased further when receivables due from Russia are realised. PBI continues to produce profits and cash monthly and there are similar expectations of Denmark when the inherited contracts cease at the end of 2012.

The practical difficulties experienced at the Russian terminals are discussed elsewhere but in financial terms those businesses have operated profitably as shown in the 2011 interim figures

## Board of Directors

### **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.

### **Louis Castro**

#### **Non-executive Director**

Louis is a corporate finance professional who brings a wealth of experience to the Board not only of significant financial transactions but also in sectors relevant to Baltic. He is currently Head of Capital Markets at Northland Capital Partners, a London based investment bank, and has over 25 years of experience in corporate finance, equity capital markets and mergers & acquisitions, both in the City and overseas. He has been Head of Corporate Finance at Matrix Corporate Capital LLC and at Insinger de Beaufort, and was previously at Williams de Broe, Price Waterhouse and SG Warburg. He has advised many small and mid-cap companies most recently in the oil & gas and mining sectors. Louis Castro is a Chartered Accountant, qualifying with Cooper & Lybrand, having initially worked as an engineer in industry.

# Directors' Report

The Directors present their report and audited financial statements for the year ended 31 December 2010.

## Results and dividends

The Group made a profit for the year of £2,397,000 (2009: £1,848,000). 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 the Europort, Rotterdam and Baltysk on Russia's Baltic sea coast. The Group also carries out trading in refined products.

## Business review and future developments

A review of the business and the future developments of the Group is presented in the Chairman's and Chief Executive's Statement on page 2 and in the Financial Overview on page 4.

A discussion of the financial risk management objectives and policies is shown in note 4.

Shares issued in the year are disclosed in note 19.

## Principal Risks and Uncertainties

These are disclosed in Note 4

## Key performance indicators

The Group monitors KPIs on a regular basis and where they differ significantly from expectations an investigation is undertaken. The following KPIs are monitored:

- The throughput of the terminals are monitored on a daily basis and compared against budgets
- Storage volumes for contracts are compared to expected volumes from contracts plus additional volume due from services such as heating and ship to ship transfers.

- The margin gained on all trades is monitored on an individual trade basis and trades are only carried out when the group hurdle rate is met.
- Corporate overheads are monitored against budget on a monthly basis.
- Cash flows are monitored on a weekly basis against weekly cash flow forecasts.

## Going concern

The Directors believe that the Group is well placed to manage its business risk successfully. The Directors have reviewed future forecasts and commitments on projects, which when compared to the current cash available, lead the Directors to have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the next twelve months. The Directors have made this assessment by reviewing future and existing contracts. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Creditor Payment Terms

The Group had trade creditors of £3,823,000 at 31 December 2010 (2009: £3,426,000), and generally settles within 30 days. It is the Group's policy to settle balances with creditors in accordance with agreed terms of supply and with market practice in the relevant country.

## Directors

The Directors who served during the year and to the date of signing these accounts were as follows:

**Richard Healey** (Non-executive Chairman)

**Simon Escott** (Chief Executive Officer)

**Stanley Buck** (Non-executive Director)  
(resigned 30 November 2011)

**Louis Castro** (Non-executive Director)  
(appointed 30 November 2011)

## Directors' Report continued

### **Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 489 of the Companies Act 2006. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

### **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 6. 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.

On behalf of the Board

**Simon Escott**

Director

14 December 2011

## 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 adequate 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 2006. 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. Finally, the Directors are responsible for making all information available to the Group's auditors.

There is no relevant audit information of which the Group's auditors are unaware, and the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for ensuring that the Directors' report and other information included in the annual report, is prepared in accordance with company law in the United Kingdom.

The maintenance and integrity of the Baltic Oil Terminals plc website is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters, and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## 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 do not vote on their own remuneration or incentives.

The committee advises the Board on Group remuneration policy and may obtain advice from independent remuneration consultants appointed by the Company. The Remuneration committee members are Louis Castro (Chairman) and Richard Healey.

### Remuneration policy

The Company's policy is to maintain levels of remuneration for the Directors that are comparable and competitive with peer 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.

Currently, there were no new share options issued in the current year and all previous share options granted have expired.

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

**Adrian Simpson**

**Company Secretary**

14 December 2011

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

We were engaged to audit the consolidated financial statements of Baltic Oil Terminals plc for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities statement set out on page 9, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Basis for disclaimer of opinion on financial statements

Whilst we have been able to conduct appropriate audit procedures on Baltic Oil Terminals plc as a standalone company, its UK subsidiary entities, and its Dutch subsidiary entity Petro Broker International B.V, the audit evidence available to us was limited because we were unable to carry out sufficient audit procedures or obtain sufficient appropriate audit evidence in relation to the financial results of the Group's Russian associated entity ZAO Rosbunker (Rosbunker) and the Group's Russian subsidiary entities (together the "Russian Subsidiaries") as listed in Note 26.

Rosbunker has been equity accounted for in the Group financial statements in 2010. Rosbunker contributed £3,164k of profits and constituted £13,590k of net assets. The Russian subsidiaries contributed £104k to profits and £4,371k to net assets. Further detail is given in notes 6 and 23 to the financial statements.

Significant limitations were placed on the scope of our work following the corruption of databases, loss of original accounting information, and ongoing access restrictions to the Russian entities premises.

As explained in more detail in note 5 to these financial statements, the Group has undertaken a significant exercise to reconstruct the accounting records. These results have been audited by a local registered auditor and unqualified audit opinions have been issued in respect of all entities.

We have been unable to access the underlying accounting records or auditor work papers relating to the Group's Russian subsidiaries and associate, and we have been able to conduct suitable alternative audit procedures.

Therefore we have not obtained sufficient, appropriate audit evidence concerning the financial position of the Group's Russian subsidiaries and associate, and consequently the consolidated financial position of Baltic Oil Terminals plc.

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

## **Disclaimer of opinion on financial statements**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on Financial Statements paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

## **Opinion on other matter prescribed by the Companies Act 2006**

Notwithstanding our disclaimer of an opinion on the view given by the group financial statements, in our opinion the information given in the Group Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

## **Matters on which we are required to report by exception**

In respect solely of the limitation on our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit;

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made.

## **Other matter**

We have reported separately on the parent company financial statements of Baltic Oil Terminals plc for the year ended 31 December 2010.

## **Philip Westerman**

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London

14 December 2011

## Consolidated income statement

For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Revenue</b>	6	6,020	8,405
Cost of sales		(3,880)	(6,657)
<b>Gross profit</b>		2,140	1,748
Other operating gains	7	–	3,013
Administrative expenses	7	(1,924)	(2,701)
<b>Operating profit before taxation and finance items</b>	7	216	2,060
Share of profits of associates	23	3,164	–
Loss on disposal of investment		(947)	–
Finance income	10	18	–
Finance costs	10	(36)	(34)
<b>Profit before taxation</b>		2,415	2,026
Taxation	11	(18)	(178)
<b>Profit for the year</b>		2,397	1,848
<b>Attributable to:</b>			
Equity shareholders of the Company		2,397	1,848
Non controlling interest		–	–
		2,397	1,848
<b>Earnings per share attributable to equity shareholders of the Company:</b>			
Basic and diluted	12	3.78p	3.26p

## Consolidated statement of comprehensive income

For the year ended 31 December 2010

	2010 £'000	2009 £'000
<b>Profit after tax</b>	2,397	1,848
<b>Other comprehensive income</b>		
Exchange differences on translating foreign operations	216	(1,441)
<b>Other comprehensive income for the year, net of tax</b>	216	(1,441)
Total comprehensive income for the year attributable to equity shareholders	2,613	407
Total comprehensive income for the year attributable to non controlling interest	–	–
<b>Total comprehensive income for the year</b>	2,613	407

# Consolidated statement of financial position

As at 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Non current assets</b>			
Intangible assets	13	1	2
Property, plant and equipment	14	3,461	14,467
Investments in associates	23	15,564	1,189
Goodwill	13	4,483	2,674
		23,509	18,332
<b>Current assets</b>			
Inventories	15	100	232
Prepayments and other current assets	16	2,740	1,526
Trade and other receivables	17	7,421	4,075
Cash and cash equivalents	18	1,899	232
		12,160	6,065
<b>TOTAL ASSETS</b>		35,669	24,397
Share capital	19	936	571
Share premium	19	49,351	40,559
Other reserves - Equity - foreign exchange reserves		(554)	(770)
Retained losses		(19,768)	(22,165)
<b>Total equity</b>		29,965	18,195
<b>Non current liabilities</b>			
Deferred tax liability	11	72	1,462
		72	1,462
<b>Current liabilities</b>			
Trade and other payables	20	5,295	3,799
Borrowings	21	337	941
		5,632	4,740
Total liabilities		5,704	6,202
<b>TOTAL EQUITY AND LIABILITIES</b>		35,669	24,397

These financial statements were approved by the Board of Directors on 14 December 2011.

Signed on behalf of the Board of Directors

## Simon Escott

Chief Executive Officer

Baltic Oil Terminals plc

Company registration number: 05752493

# Consolidated cash flow statement

For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		2,415	2,026
<b>Adjustments to reconcile profit before taxation to net cash (outflows)/inflows from operating activities</b>			
Share of profits of associates		(3,164)	–
Non cash items	7	–	(3,266)
Finance costs		(36)	130
Foreign exchange gain		(241)	(22)
Depreciation of property, plant and equipment		178	645
Amortisation of intangible assets		1	1
Loss on disposal of property, plant and equipment		–	125
Decrease in inventories		132	676
Increase in trade and other receivables		(2,371)	(2,021)
Increase in trade and other payables		708	1,892
Cash (outflow)/inflow from operations		(2,378)	186
Income taxes paid		(43)	(2)
Interest paid		(36)	(130)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(2,457)</b>	<b>54</b>
<b>Cash flows from investing activities</b>			
Interest received		18	–
Purchase of property, plant and equipment		(51)	(294)
Purchase of subsidiary, gross of cash acquired		(7,012)	–
Cash acquired as part of purchase of subsidiary		1,714	–
Loans repaid		–	126
<b>Net cash outflows from investing activities</b>		<b>(5,331)</b>	<b>(168)</b>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued net of issue costs		9,157	13
Proceeds from borrowings		111	–
Repayment of borrowings		–	(630)
<b>Net cash inflows/(outflows) from financing activities</b>		<b>9,268</b>	<b>(617)</b>
Increase/(decrease) in cash and cash equivalents		1,480	(731)
Cash and cash equivalents at beginning of year		232	1,106
Effect of exchange rate on cash and cash equivalents		187	(143)
<b>Cash and cash equivalents at end of year</b>		<b>1,899</b>	<b>232</b>

## Consolidated statement of changes in equity

For the year ended 31 December 2010

	Attributable to equity shareholders of the parent							Total equity £'000
	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Foreign currency translation adjustment £'000	Retained losses £'000	Total £'000	Non controlling interest £'000	
<b>At 1 January 2009</b>	558	40,559	2,459	671	(26,472)	17,775	–	17,775
Exchange differences on translating foreign operations	–	–	–	(1,441)	–	(1,441)	–	(1,441)
Profit for the year	–	–	–	–	1,848	1,848	–	1,848
Total comprehensive income for the year	–	–	–	(1,441)	1,848	407	–	407
Shares issued during the year	13	–	–	–	–	13	–	13
Share based payment reserve	–	–	(2,459)	–	2,459	–	–	–
<b>At 31 December 2009 and 1 January 2010</b>	571	40,559	–	(770)	(22,165)	18,195	–	18,195
Exchange differences on translating foreign operations	–	–	–	216	–	216	–	216
Profit for the year	–	–	–	–	2,397	2,397	–	2,397
Total comprehensive income for the year	–	–	–	216	2,397	2,613	–	2,613
Shares issued during the year	365	8,792	–	–	–	9,157	–	9,157
<b>At 31 December 2010</b>	936	49,351	–	(554)	(19,768)	29,965	–	29,965

# Notes to the consolidated financial statements

## 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 1 - 6 Yarmouth Place, London, W1J 7BU. The principal activity of the Group is the development and operation of hydrocarbon transshipment terminals in the Russian Federation and the Netherlands and trading in refined products.

The Group's financial statements for the year ended 31 December 2010 were authorised for issue by the Board of Directors on 14 December 2011 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.

No material changes to accounting policies arose as a result of new standards adopted in the period.

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 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). 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.

### Receivables

An assessment is made of the recoverability of accounts receivable based on a range of factors including the age of the receivable and the creditworthiness of the customer and the ongoing commercial relationship with the customer. The receivables are assessed regularly. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment. If the Group is cautious as to the financial condition of the customer the Group may provide for accounts that are subsequently recovered. Similarly if the Group is optimistic as to the financial condition of the customer the Group may not provide for an account that is subsequently determined to be irrecoverable. Whilst the Group has a large number of significantly aged receivables these are deemed to be recoverable.

### 2.2 Basis of consolidation

The consolidated financial statements reflect the Group's financial position as at 31 December 2010 and the Group's financial performance for the period from 1 January 2010 to 31 December 2010.

#### (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. Acquisition costs are expensed as incurred.

## Notes to the consolidated financial statements continued

### (a) Subsidiaries continued

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) Non controlling interests

Non controlling 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 non controlling interest in the subsidiary exceed the non controlling interest in the subsidiary's equity the excess, and any further losses applicable to the non controlling interest, are allocated against the majority interest except to the extent that the non controlling interest has a binding obligation and is able to make additional investment to cover the losses.

### (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

Operating segments are those components of the business where results are regularly reviewed by the Board to assess their performance and to make resource allocation decisions. The operating segments are identified by either trading or terminals activity and the similarity of their economic characteristics and not by their geographical area of operation

## 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 other comprehensive income 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 other comprehensive income. 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.

**(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.

## Notes to the consolidated financial statements continued

### 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.

#### (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. 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.

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.

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 trade payables, 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.

## Notes to the consolidated financial statements continued

### 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 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.

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.

The Group provides heated storage facilities for customer product which is billed on a monthly basis plus additional services such as Ship to Ship transfers.

### 2.18 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.

### 2.19 Going concern

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 from the date of signing of the accounts and is confident that with current operations, recently announced new trading partnerships and the existing Group cash balance which on 13 December 2011 stood at £3.0 million (£0.2 million on 31 December 2009) 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.

### 3. Capital management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year

### 4. 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, liquidity risk and other risks and uncertainties. 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.

At 31 December 2010, 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 £72,000 (2009: £2,000) higher/lower, mainly due to the re-translation of US Dollar denominated cash balances. At 31 December 2010, 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 £463,000 (2009: £12,000) 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.

## Notes to the consolidated financial statements continued

### **(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 2012 which has provided the directors with assurance that the Group has sufficient cash to meet its financial liabilities as they fall due.

### **(e) Potential taxation issues.**

As the Group operates in a number of jurisdictions, monitoring of cross border tax issues and repatriation of funds will be required. The Group has developed adequate presence in its key jurisdictions of the UK, Cyprus, the Netherlands and Russia to manage the risks that changing tax legislation may present.

### **(f) Title and control over Assets**

Baltic has undertaken all the customary due diligence and legal due diligence in the verification of title to and control of its assets and share of assets.

**(g) Political risk** Is the risk that assets will be lost through expropriation, unrest or war. Baltic minimises political risk by operating in countries with relatively stable political systems, established fiscal codes and a respect for the rule of law.

**(h) A change or breach of regulatory and local legal requirements.**

Regulatory compliance is managed with the assistance of external advisors. Changes in Russian legal requirements are monitored by the management team and with the use of external advisors where required.

## 5. Significant accounting judgements, estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting estimates will by definition, seldom equal the actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. The Board has considered the critical accounting estimates and assumptions used in the historical financial information and concluded that the areas of judgement that have the most significant effect on the amounts recognised in the financial statements concern:

### Going concern

As detailed in the Directors' report, the directors have complete confidence that their efforts will generate sufficient ongoing cash to meet the company's outgoings for the foreseeable future. On this basis the directors believe it is appropriate to prepare these financial statements on a going concern basis. Please refer to note 2.19.

### Petro Broker International B.V. (PBI)

The Directors have carried out a fair value exercise on the acquisition balance sheet of PBI as at the date of acquisition. The Directors are satisfied that the assets and liabilities acquired are all stated at fair value and that the consideration paid for the net assets therefore gives rise to goodwill, as stated in note 22.

### Preparation of Russian company accounts

Several assumptions and judgments have been made in arriving at the figures for the Russian operations that have been included in the group accounts for 2010. The accounts were reconstructed by a Russian accounting firm using source records that existed, third party documentation (such as railway freight invoices) that could be obtained and management estimates and judgments. The local accounts for the 2010 year have received unqualified audit reports from a Russian Registered Audit firm.

### Associate status

In preparing the 2010 year end accounts, the Directors have carefully considered the series of events that occurred throughout 2010 at the Rosbunker terminal. The Directors are confident that the Group retained significant influence over its interest in the Rosbunker business and the strategic direction there but given the circumstances described above it is considered more appropriate that the interest is accounted for as an associate for 2010 rather than as a joint venture.

It is apparent with hindsight that the events that occurred at Rosbunker in 2010 were outside of the control of the Group Directors and when assessing the impact of these events they had the overall effect that the Group did not retain joint control of that part of the business but did nonetheless exert significant influence.

When the 2009 Group Accounts were signed and the 2010 Interim results released, the Directors were confident of the joint control over Rosbunker, however when reviewing the 2010 year the trend of events that took place away from the terminal had the cumulative effect of a change in the degree of control that the Group was able to exercise. The ownership of the business and the Group's share of assets has not been in doubt and the Group maintained a level of control over strategic issues and assets, but nonetheless, the Directors consider it appropriate that the Rosbunker results are treated as an associate for the whole of the 2010 year. In the previous year, the Rosbunker interest had been accounted for as a joint venture.

The Directors believe that as there has been no change in percentage ownership of Rosbunker and no proceeds received, as such there has been no profit/loss impact as there has simply been a temporary loss of access to accounting records during the period under review.

## Notes to the consolidated financial statements continued

### **Russian subsidiary control**

The Directors believe that control of the Russian subsidiaries has been retained in spite of the issues that the group has faced in Russia. The Group maintained 100% control over the assets and strategic decision making of these entities.

### **Receivables**

An assessment is made of the recoverability of accounts receivable based on a range of factors including the age of the receivable and the creditworthiness of the customer and the ongoing commercial relationship with the customer. The receivables are assessed regularly. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment. If the Group is cautious as to the financial condition of the customer the Group may provide for accounts that are subsequently recovered. Similarly if the Group is optimistic as to the financial condition of the customer the Group may not provide for an account that is subsequently determined to be irrecoverable. Whilst the Group has a large number of significantly aged receivables these are deemed to be recoverable.

### **Equity swap with Shelton Petroleum AB (Shelton)**

On 8 November 2010 the Company entered into an equity swap with Shelton. The Company issued 14,957,368 ordinary shares in return for 54,000,000 B shares in Shelton. The shares in Shelton were subsequently sold on 25 November 2010 and an amount of £947,000 was debited to the income statement representing the difference between the market value of Baltic shares issued and the sale proceeds of the Shelton shares.

## **6. Segment information**

The Group considers that its activities be split into two key areas, terminal and trading activities. An operating segment is a component of the Group engaged in terminal or trading activities that is regularly reviewed by the Chief Operating Decision Maker for the purposes of making economic decisions. In addition, Head Office costs are disclosed separately and added to the sector result in arriving at an operating profit.

The terminals operating segment provides terminal handling and storage services on behalf of clients wishing to export oil products and is based in the Kaliningrad Oblast, the trading operating segment matches buyers and sellers of hydrocarbon product and takes a margin on the product sold.

The following table analyses the sector revenue and result and reconciles the sector result to the profit after tax.

(a) Operating segments – year ended 31 December 2010

	Terminals £'000	Trading £'000	Total £'000
<b>Revenue</b>	3,461	2,559	6,020
<b>Results</b>			
Segment result	179	1,864	2,043
Unallocated expenses			(1,827)
<b>Group operating profit</b>			216
Share of profits of associates			3,164
Loss on disposal of investment			(947)
Finance costs - net (note 10)			(18)
<b>Group profit before taxation</b>			2,415
Tax charge			(18)
<b>Profit for the year</b>			2,397
<b>Assets and liabilities</b>			
Segment assets	28,197	6,545	34,742
Unallocated assets			927
<b>Total assets</b>			35,669
Segment liabilities	(1,584)	(2,874)	(4,458)
Unallocated liabilities			(1,246)
<b>Total liabilities</b>			(5,704)
<b>Total assets includes</b>			
Property, plant and equipment	3,460	–	3,460
Unallocated property, plant and equipment			1
Goodwill	4,483	–	4,483

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

- Terminals – depreciation of £148,000.

## Notes to the consolidated financial statements continued

### (b) Operating segments – year ended 31 December 2009

	Terminals £'000	Trading £'000	Total £'000
<b>Revenue</b>	4,082	4,323	8,405
<b>Results</b>			
Segment result	1,022	2,688	3,710
Unallocated expenses			(1,650)
<b>Group operating profit</b>			2,060
Finance costs - net (note 10)			(34)
<b>Group profit before taxation</b>			2,026
Tax charge			(178)
<b>Profit for the year</b>			1,848
<b>Assets and liabilities</b>			
Segment assets	14,123	4,365	18,488
Unallocated assets			5,909
<b>Total assets</b>			24,397
Segment liabilities	(2,817)	(2,787)	(5,604)
Unallocated liabilities			(598)
<b>Total liabilities</b>			(6,202)
<b>Total assets includes</b>			
Property, plant and equipment	14,436	–	14,436
Unallocated property, plant and equipment			31
Goodwill	2,674	–	2,674

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

- Terminals – depreciation of £580,000 and other operating gains of £926,000 (see note 7).
- Trading – other operating gains of £2,087,000

### (c) Geographical disclosure – year ended 31 December 2010

	UK £'000	Netherlands £'000	Russian Federation £'000	Total £'000
<b>Revenue</b>	2,559	75	3,386	6,020
<b>Results</b>				
Operating profit for the year	138	77	1	216
<b>Other segment information</b>				
Segment assets	7,865	4,974	22,830	35,669
<b>Total assets</b>				
Capital expenditure:				
Property, plant and equipment	1	48	3,412	3,461
Intangible fixed assets	–	–	4,484	4,484

(d) Geographical disclosure – year ended 31 December 2009

	UK £'000	Russian Federation £'000	Total £'000
<b>Revenue</b>	3,662	4,743	8,405
<b>Results</b>			
Profit for the year	498	1,562	2,060
<b>Other segment information</b>			
Segment assets	5,093	19,304	24,397
<b>Total assets</b>			
Capital expenditure:			
Property, plant and equipment	31	14,436	14,467
Intangible fixed assets	–	2,676	2,676

## 7. Operating profit

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

	2010 £'000	2009 £'000
Depreciation and amortisation	179	646
Foreign currency gain	(241)	(22)
Amount due from minority shareholder	–	(239)
Other operating gains	–	(3,013)

During the latter half of 2009, the Company was able to reach a resolution on long outstanding disputes with a trading partner and a previous director of the Company. These resolutions resulted in the conclusion of various outstanding liabilities and assets across the Group. These outstanding balances were the result of trading operations between the parties between 2008 and 2009. As a result of the agreement, the Company has now concluded the outstanding disputes and closed the outstanding balances in the financial statements. This has resulted in the Company recognising gains of £1.4m and £1.6m with the previous director and trading partner, respectively.

## 8. Staff costs and Directors' emoluments

### (a) Staff costs

	2010 £'000	2009 £'000
Wages and salaries	358	1,082
Social security costs	33	110
Other pension costs	–	–
	391	1,192

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

	2010 Number	2009 Number
Operational	75	88
Administrative	29	38
<b>Total employees</b>	104	126

## Notes to the consolidated financial statements continued

### (b) Directors' emoluments

	2010 £'000	2009 £'000
Directors' emoluments	118	273
Pension costs - defined contribution plan	–	–
	118	273

The directors constitute the only key personnel of the Group.

There were no gains made by Directors on the exercise of share options during the year (2009: nil).

	Total Emoluments 2010 £'000	Total Emoluments 2009 £'000
Simon Escott	94	140
Richard Healey	24	48
Roman Niewiadomski (resigned 26 June 2009)	–	75
Stanley Buck	–	10
	118	273

The total emoluments paid to directors consists of basic salary only.

Emoluments paid to Simon Escott and Richard Healey for services provided to the Group in the years ended 31 December 2010 and 31 December 2009 were paid through service companies.

### 9. Auditors' remuneration

	2010 £'000	2009 £'000
Audit of the group financial statements	85	115

### 10. Finance income and costs

	2010 £'000	2009 £'000
<b>Finance income:</b>		
Bank interest receivable	18	–
	18	–
<b>Finance costs:</b>		
Bank loans and overdrafts	36	130
Release of accrued interest	–	(96)
	36	34

## 11. Taxation

### (a) Tax on profit on ordinary activities

Current income tax charged in the income statement:

	2010 £'000	2009 £'000
UK corporation tax	–	–
Russian corporation tax	(43)	(1)
Deferred tax	25	(177)
<b>Tax charge reported in the income statement</b>	<b>(18)</b>	<b>(178)</b>

### (b) Reconciliation of the total tax credit/(charge)

	2010 £'000	2009 £'000
Profit before tax	2,415	2,026
Accounting profits multiplied by the UK standard rate of corporation tax of 28% (2009:28%)	676	567
– UK tax losses not recognised	(37)	(173)
– Russian tax losses not recognised	(886)	(443)
– tax depreciation in excess of accounting depreciation	–	78
– tax effect of non-deductible items	265	681
– movement in foreign tax rates	–	(1,413)
– lower rate of foreign tax	–	(96)
– Income not taxable	–	977
<b>Total tax charge for the year</b>	<b>18</b>	<b>178</b>

### (c) Deferred tax

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

	2010 £'000	2009 £'000
Balance brought forward	1,462	1,407
Foreign exchange adjustment	(1)	(122)
Transfer to investments in associates	(1,364)	–
Income statement (credit)/charge	(25)	177
<b>Deferred tax liability</b>	<b>72</b>	<b>1,462</b>

The Group has tax losses which arose in the UK of £10,925,000 (2009: £11,775,000) and in Russia of £2,325,000 (2009: £6,462,000) 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.

## Notes to the consolidated financial statements continued

### 12. 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. There is no dilutive effect of the share options in issue during the year ended 31 December 2010.

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

	2010 £'000	2009 £'000
Net profit attributable to equity shareholders of the company	2,397	1,848

  

	2010 Number	2009 Number
<b>Number of shares</b>		
Weighted average number of ordinary shares of 1 pence each for EPS calculation	63,440,273	56,613,409
<b>Earnings per share - basic and diluted</b>	3.78p	3.26p

### 13. Intangible assets

	Exploration assets £'000	Licenses £'000	Goodwill £'000	Total £'000
<b>Cost</b>				
At 1 January 2009	5,642	702	3,093	9,437
Foreign exchange adjustment	(470)	(74)	(6)	(550)
At 31 December 2009 and 1 January 2010	5,172	628	3,087	8,887
Foreign exchange adjustment	107	15	–	122
Transfers to investments in associates	–	–	(785)	(785)
Additions through acquisition (note 22)	–	–	2,594	2,594
<b>At 31 December 2010</b>	<b>5,279</b>	<b>643</b>	<b>4,896</b>	<b>10,818</b>
<b>Amortisation and impairment</b>				
At 1 January 2009	5,642	699	413	6,754
Foreign exchange adjustment	(470)	(74)	–	(544)
Amortisation charge	–	1	–	1
At 31 December 2009 and 1 January 2010	5,172	626	413	6,211
Foreign exchange adjustment	107	15	–	122
Amortisation charge	–	1	–	1
<b>At 31 December 2010</b>	<b>5,279</b>	<b>642</b>	<b>413</b>	<b>6,334</b>
<b>Net book value</b>				
<b>At 31 December 2010</b>	<b>–</b>	<b>1</b>	<b>4,483</b>	<b>4,484</b>
At 31 December 2009	–	2	2,674	2,676

### Impairment tests for goodwill

Goodwill is allocated to the Group's three cash-generating units (CGUs), Petro Broker International B.V., Baltic Top and TDKN. An amount of £2,594,000 is allocated to the Petro Broker International B.V. CGU, £814,000 to Baltic Top and £1,075,000 to TDKN (2009: £Nil, £814,000 and £1,075,000 respectively). The country of operation of Petro Broker International B.V. is the Netherlands and Baltic Top and TDKN are 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 to a total of fifty years.

The discount rate used for existing businesses with revenue streams is 8% (2009: 8%) and 15% (2009: 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.

No impairment test has been performed for PBI given the proximity of the acquisition to the year end and there being no significant changes to the business during that time.

### 14. Property, plant and equipment

	Land and buildings £'000	Plant and machinery £'000	Computer and office equipment £'000	Construction in progress £'000	Total £'000
<b>Cost</b>					
At 1 January 2009	1,376	14,099	285	4,916	20,676
Foreign exchange adjustment	(116)	(1,355)	(2)	(532)	(2,005)
Additions	–	284	10	–	294
Disposals	–	(22)	(31)	(96)	(149)
Reclassifications	(418)	421	–	(3)	–
At 31 December 2009 and 1 January 2010	842	13,427	262	4,285	18,816
Foreign exchange adjustment	1	16	1	111	129
Transfer to investments in associates	(553)	(11,854)	(7)	(592)	(13,006)
Additions	–	51	–	–	51
Additions through acquisition	–	46	–	–	46
<b>At 31 December 2010</b>	<b>290</b>	<b>1,686</b>	<b>256</b>	<b>3,804</b>	<b>6,036</b>
<b>Depreciation</b>					
At 1 January 2009	20	1,353	173	2,569	4,115
Foreign exchange adjustment	(1)	(105)	(2)	(278)	(386)
Depreciation charge	7	573	65	–	645
Disposals	–	(5)	(15)	(5)	(25)
At 31 December 2009 and 1 January 2010	26	1,816	221	2,286	4,349
Foreign exchange adjustment	–	2	–	53	55
Transfer to investments in associates	–	(1,411)	(4)	(592)	(2,007)
Depreciation charge	5	143	30	–	178
<b>At 31 December 2010</b>	<b>31</b>	<b>550</b>	<b>247</b>	<b>1,747</b>	<b>2,575</b>
<b>Net book value</b>					
<b>At 31 December 2010</b>	<b>259</b>	<b>1,136</b>	<b>9</b>	<b>2,057</b>	<b>3,461</b>
At 31 December 2009	816	11,611	41	1,999	14,467

## Notes to the consolidated financial statements continued

### 15. Inventory

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £3,277,000 (2009: £5,605,000). There are no inventories pledged as security for liabilities (2009: nil).

### 16. Prepayments and other current assets

	2010 £'000	2009 £'000
Advances paid for goods and services	2,625	1,100
VAT reclaimable	115	426
	2,740	1,526

### 17. Trade and other receivables (current)

	2010 £'000	2009 £'000
Trade receivables	7,419	3,951
Loans to related parties	2	82
Loans	–	42
	7,421	4,075

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

At 31 December 2010, trade receivables of £5,328,000 (2009: £3,630,000) 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:

	2010 £'000	2009 £'000
3 to 6 months past due	–	2
Over 6 months past due	5,328	3,628
	5,328	3,630

The Directors consider all of the overdue debts to be recoverable.

### 18. Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and in hand	1,899	232

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.

## 19. Share capital and reserves

### (a) Allotted and called up share capital

	2010		2009	
	Number	£	Number	£
<b>Allotted and called up share capital</b>				
Ordinary shares of 1 pence each	93,641,416	936,414	57,062,548	570,625
	Number of shares	Share capital £'000	Share premium £'000	Total £'000
<b>Ordinary shares of 1 pence each issued and fully paid</b>				
At 1 January 2009	55,774,920	558	40,559	41,117
Shares issued	1,287,628	13	–	13
At 31 December 2009 and 1 January 2010	57,062,548	571	40,559	41,130
Shares issued	36,578,868	365	8,792	9,157
<b>At 31 December 2009</b>	<b>93,641,416</b>	<b>936</b>	<b>49,351</b>	<b>50,287</b>

On 28 January 2010 and 3 February 2010 the Company issued 1,500,000 and 1,000,000 ordinary shares respectively to satisfy the demand from institutional investors. The net proceeds were used for general working capital purposes.

On 18 March 2010 the Company issued 352,000 ordinary shares to a consultant to the Company in discharge of outstanding consultancy fees.

On 8 October 2010 the Company issued 2,000,000 ordinary shares to an institutional investor. The net proceeds were used for engaging engineering and procurement services to commence the development of the proposed bio diesel refinery at Baltic Top. The balance of the proceeds was used for general working capital purposes.

On 8 November 2010 the Company entered into an equity swap with Shelton Petroleum AB. The Company issued 14,957,368 ordinary shares in return for 54,000,000 B shares in Shelton. The shares in Shelton were subsequently sold on 25 November 2010 and an amount of £947,000 was debited to the income statement representing the difference between the market value of Baltic shares issued and the sale proceeds of the Shelton shares.

On 2 December 2010 the Company issued a total of 16,769,500 ordinary shares to institutional investors. The net proceeds were used in partial consideration for the acquisition of Petro Broker International B.V.

### (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.

## 20. Trade and other payables (current)

	2010 £'000	2009 £'000
Trade payables	3,823	3,426
Salaries and related payables	687	11
Other payables and accrued expenses	785	362
	<b>5,295</b>	<b>3,799</b>

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

These financial liabilities are all due within 6 months.

## Notes to the consolidated financial statements continued

### 21. Borrowings

	2010 £'000	2009 £'000
Bank borrowings	114	239
Loans from related parties	–	654
Other loans	223	48
	337	941

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:

	2010 £'000	2009 £'000
Amounts due in 0 – 3 months	337	122
Amounts due in 3 – 6 months	–	419
Amounts due in 6 – 12 months	–	400
	337	941

### 22. Acquisition of subsidiary undertakings

On 22 December 2010 the Company acquired 100% of the share capital of Petro Broker International B.V. (PBI) for a total cash consideration of \$10.8m (£7.0m). PBI is a fuel oil storage business based in Rotterdam, Netherlands. By acquiring PBI, the Company will gain access to an important new market, with opportunities to trade and trans-ship significant volumes of oil product out of a major global shipping hub. The addition of PBI to the Group's existing operations will also provide an additional immediate source of free cashflow for the Group.

A table of net assets acquired and the associated goodwill is as follows:

	Book values £'000	Fair values £'000
Cash and cash equivalents	1,714	1,714
Property, plant and equipment	48	48
Trade and other receivables	3,858	3,858
Trade and other payables	(1,202)	(1,202)
Net assets	4,418	4,418
Goodwill arising on acquisition		2,594
		7,012
Discharged by:		
Cash consideration		7,012
		7,012

The directors have performed a detailed review of the assets and liabilities acquired and have concluded that there are no differences between the book value and fair value of assets and liabilities.

The acquired business contributed revenues of £76,000 and a net profit of £57,000 to the Group for the period from 22 December 2010 to 31 December 2010. If the acquisition had occurred on 1 January 2010, Group revenue would have been £6,953,000 higher and the net profit would have been £1,760,000 higher.

### 23. Investment in associates

In preparing the 2010 year end accounts, the Directors have carefully considered the series of events that occurred throughout 2010 at the Rosbunker terminal. The Directors are confident that the Group retained significant influence over its interest in the Rosbunker business and the strategic direction there but given the circumstances described in the notes and below it is considered more appropriate that the interest is accounted for as an associate for 2010 rather than as a joint venture.

It is apparent with hindsight that the events that occurred at Rosbunker in 2010 were outside of the control of the Group Directors and when assessing the impact of these events they had the overall effect that the Group did not retain joint control of that part of the business but did nonetheless exert significant influence.

When the 2009 Group Accounts were signed and the 2010 Interim results released, the Directors were confident of the joint control over Rosbunker, however when reviewing the 2010 year the trend of events that took place away from the terminal had the cumulative effect of a change in the degree of control that the Group was able to exercise. The ownership of the business and the Group's share of assets has not been in doubt and the Group maintained a level of control over strategic issues and assets, but nonetheless, the Directors consider it appropriate that the Rosbunker results are treated as an associate for the whole of the 2010 year. In the previous year, the Rosbunker interest had been accounted for as a joint venture.

The following table illustrates summarised financial information of the Group's investment in Rosbunker:

#### Share of Rosbunker balance sheet (50%):

	2010 £'000	2009 £'000
Non-current assets	10,854	–
Current assets	6,107	–
<b>Share of gross assets</b>	<b>16,961</b>	<b>–</b>
Current liabilities	3,371	–
Non-current liabilities	–	–
Share of gross liabilities	3,371	–
Share of net assets	13,590	–

#### Share of Rosbunker Income statement (50%):

	2010 £'000	2009 £'000
Revenue	5,539	–
Net profit after tax	3,164	–

The Rosbunker investment in associates includes an amount of goodwill of £785,000.

Following reconstruction of the Accounting records at the Rosbunker operation, the Groups Directors have reviewed the results presented and have included a provision against the profits recognised from the associates operations. In the opinion of the directors this provides for an element of uncertainty over recovery of the Groups share of these profits, given the issues experienced in Russia during the year, as described previously

## Notes to the consolidated financial statements continued

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

### Share of Porex Service balance sheet (50%):

	2010 £'000	2009 £'000
Non-current assets	87	87
Current assets	76	76
<b>Share of gross assets</b>	<b>163</b>	<b>163</b>
Current liabilities	63	63
Non-current liabilities	–	–
<b>Share of gross liabilities</b>	<b>63</b>	<b>63</b>
<b>Share of net assets</b>	<b>100</b>	<b>100</b>

### Share of Porex income statement (50%):

	2010 £'000	2009 £'000
Revenue	–	–
Net profit/(loss) before tax	–	–

## 24. Interest in joint venture

During the year ended 31 December 2009 the Rosbunker joint venture was 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.

The assets, liabilities and result shown for 2009 represent the Group's 50% share of the joint venture.

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

	2010 £'000	2009 £'000
<b>Assets:</b>		
Long-term assets	–	10,998
Current assets	–	1,721
	–	12,719
<b>Liabilities:</b>		
Current liabilities	–	2,494
	–	2,494
<b>Net assets</b>	<b>–</b>	<b>10,225</b>
Income	–	3,418
Other operating gains	–	1,593
Expenses	–	(3,978)
<b>Profit/(loss) after income tax</b>	<b>–</b>	<b>1,033</b>

As at 31 December 2010 and 2009 there were no contingent liabilities relating to the Group's interest in the joint venture and associate, and no contingent liabilities of the venture itself.

As at 31 December 2010 and 2009 there were no capital commitments in the joint venture.

## 25. Related party disclosures

There were no related party transactions during the year.

## 26. Principal subsidiaries, associates and joint ventures

	Principal activity	Country of incorporation	Percentage equity interest held by the Group at 31 December 2010 %	Percentage equity interest held by the Group at 31 December 2009 %
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	50	50
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	100
OOO Agroprom	Intermediate holding company	Russian Federation	50	50
ZAO Rosbunker	Oil Services	Russian Federation	50	50
Edgeview Ventures Limited	Finance company	British Virgin Islands	50	50
North Oil Trading Limited	Oil Services	Panama	50	50
North Oil Bunker Limited	Oil Services	British Virgin Islands	50	50
Petro Broker International B.V	Oil Services	Netherlands	100	–

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.

## Notes to the consolidated financial statements continued

### **27. Capital commitments**

At 31 December 2010, there were amounts contracted for but not provided in the financial statements of £nil (2009: £nil).

### **28. Post balance sheet events**

The Group acquired Haahr Tank-lager A/S (“Haahr Tank”) for US \$9.9 million on 17 November 2011. Haahr Tank operates a 160,000 cubic metres refined oils terminal located at Aabenraa, Denmark. The acquisition was financed through the issue by Dan-Balt Terminals Limited, a 100% subsidiary of Baltic Oil Terminals plc, of secured fixed rate loan notes to the value of US \$11.0 million.

A valuation report, commissioned by Baltic, gives a new build cost of US \$42 million. The purchase price reflects that under the terms of the acquisition, the vendor Haahr Group will retain the use of 35,000 cubic metres of capacity at the Terminal for the next 5 years.

Dan-Balt Terminals Limited has issued a Eurobond of US \$11 million on the Channel Islands Exchange. The secured fixed rate loan was admitted to the Official List of the Channel Islands Stock Exchange on 18th November 2011 and was fully subscribed.

The Completion Accounts for the acquisition are currently being finalised. The Directors will then carry out a Fair Value exercise to allocate the purchase price to the net assets acquired.

## 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 adequate 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 2006. 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.

## 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 2010 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement as set out on page 41, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matter

We have reported separately on the group financial statements of Baltic Oil Terminals plc for the year ended 31 December 2010. The opinion in that report is a disclaimer of opinion.

### Philip Westerman

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London

14 December 2011

## Balance sheet

As at 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Tangible assets	3	1	31
Investments	4	29,363	35,204
		29,364	35,235
<b>Current assets</b>			
Debtors	5	4,401	4,797
Cash at bank and in hand		832	126
		5,233	4,923
<b>Creditors: amounts falling due within one year</b>	6	(1,251)	(692)
<b>Net current assets</b>		3,982	4,231
<b>Total assets less current liabilities</b>		33,346	39,466
<b>Attributable net assets</b>		33,346	39,466
<b>Capital and reserves</b>			
Called up share capital	7, 8	936	571
Share premium account	7, 8	49,351	40,559
Profit and loss account	8	(16,941)	(1,664)
Equity shareholders' funds	8	33,346	39,466

The financial statements were approved by the Board of Directors on 14 December 2011 and signed on its behalf by:

### Simon Escott

Chief Executive Officer

Baltic Oil Terminals plc

Company registration number: 05752493

## Notes to the financial statements

### 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 2006 and were approved for issue on 14 December 2011.

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 408 of the Companies Act 2006.

#### 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.

#### 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. Loss attributable to members of the parent Company

The loss dealt with in the financial statements of the parent Company is £14,330,000 (2009 loss: £8,384,000). An impairment provision of £15.0m has been made against investments and long term loans which in the opinion of the directors are unlikely to be recovered.

## 3. Tangible fixed assets

	Cost £'000	Depreciation £'000	Total £'000
<b>Cost</b>			
At 1 January 2010	243	(212)	31
Additions	–	(30)	(30)
<b>At 31 December 2010</b>	<b>243</b>	<b>(242)</b>	<b>1</b>

Notes to the financial statements continued

## 4. Investments

	Investment in subsidiaries £'000	Investment in joint ventures £'000	Loans to subsidiaries £'000	Total £'000
<b>Cost</b>				
At 1 January 2010	–	5,720	29,484	35,204
Foreign exchange differences	–	–	928	928
Additions	7,013	–	1,262	8,275
Impairment provision	–	–	(15,044)	(15,044)
<b>At 31 December 2010</b>	<b>7,013</b>	<b>5,720</b>	<b>16,630</b>	<b>29,363</b>

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 2010 %	Percentage equity interest held by the Group at 31 December 2009 %
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	50	50
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	100
OOO Agroprom	Intermediate holding company	Russian Federation	50	50
ZAO Rosbunker	Oil Services	Russian Federation	50	50
Edgeview Ventures Limited	Finance company	British Virgin Islands	50	50
North Oil Trading Limited	Oil Services	Panama	50	50
North Oil Bunker Limited	Oil Services	British Virgin Islands	50	50
Petro Broker International B.V.	Oil Services	Netherlands	100	–

The principal country of operation is the country of incorporation.

An impairment provision of £15.0m has been made against investments and long term loans which in the opinion of the directors are unlikely to be recovered.

## 5. Debtors

	2010 £'000	2009 £'000
Prepayments and accrued income	9	2
Amounts owed by group undertakings	4,303	4,770
Other debtors	89	25
	4,401	4,797

## 6. Creditors

	2010 £'000	2009 £'000
Trade creditors	538	299
Other creditors	226	116
Accruals and deferred income	487	277
	1,251	692

## 7. Share capital and reserves

### (a) Authorised and allotted share capital

	2010		2009	
	Number	£	Number	£
<b>Allotted and called up share capital</b>				
Ordinary shares of 1 pence each	93,641,416	936,414	57,062,548	570,625

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
<b>Ordinary shares of 1 pence each issued and fully paid</b>				
At 1 January 2009	55,774,920	558	40,559	41,117
Shares issued	1,287,628	13	–	13
At 31 December 2009 and 1 January 2010	57,062,548	571	40,559	41,130
Shares issued	36,578,868	365	8,792	9,157
<b>At 31 December 2009</b>	93,641,416	936	49,351	50,287

On 28 January 2010 and 3 February 2010 the Company issued 1,500,000 and 1,000,000 ordinary shares respectively to satisfy the demand from institutional investors. The net proceeds were used for general working capital purposes.

On 18 March 2010 the Company issued 352,000 ordinary shares to a consultant to the Company in discharge of outstanding consultancy fees.

On 8 October 2010 the Company issued 2,000,000 ordinary shares to an institutional investor. The net proceeds were used for engaging engineering and procurement services to commence the development of the proposed bio diesel refinery at Baltic Top. The balance of the proceeds was used for general working capital purposes.

Notes to the financial statements continued**(a) Authorised and allotted share capital continued**

On 8 November 2010 the Company entered into an equity swap with Shelton Petroleum AB. The Company issued 14,957,368 ordinary shares in return for 54,000,000 B shares in Shelton. The shares in Shelton were subsequently sold on 25 November 2010 and an amount of £947,000 was debited to the income statement representing the difference between the market value of Baltic shares issued and the sale proceeds of the Shelton shares.

On 2 December 2010 the Company issued a total of 16,769,500 ordinary shares to institutional investors. The net proceeds were used in partial consideration for the acquisition of Petro Broker International B.V.

**(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.

**8. Capital and reserves**

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2010	571	40,559	(1,664)	39,466
Issuance of share capital	365	8,792	–	9,157
Profit for the year	–	–	(15,277)	(15,277)
<b>At 31 December 2010</b>	<b>936</b>	<b>49,351</b>	<b>(16,941)</b>	<b>33,346</b>

**9. Other income and expenses**

The audit fee for the Company is included with the total audit fee for the Group of £85,000 (2009: £115,000) and is not separately identifiable. 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. Related party transactions**

There were no related party transactions made by the Company during the year ended 31 December 2010 (2009 none).

## Directors and advisers

**Registered No. 05752493**

### **Directors**

**Richard Healey**  
(Non-executive Chairman)

**Simon Escott**  
(Chief Executive Officer)

**Louis Castro**  
(Non-executive Director appointed 30 November 2011)

### **Company Secretary**

**Adrian Simpson**  
(appointed 21 July 2011)

### **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**  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

### **Registered Office**

1 - 6 Yarmouth Place  
London  
W1J 7BU

An ANNUAL REPORTS **DIRECT** report by

**FULTON.**

[www.fulton-design.co.uk](http://www.fulton-design.co.uk)