JSC "Novoship"
and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2007

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KPMG Limited
Naberezhnaya Tower Complex, Block C
18 Krasnopresnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of JSC "Novoship" and its Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of JSC "Novoship" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited.

KPMG Limited
15 March 2008

KPMG Limited, a company incorporated under the Guernsey Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

(In Thousands of United States Dollars)	Note	As at 31 December 2007	As at 31 December 2006
ASSETS			
Vessels and other property, plant and equipment	7	1,685,004	1,514,804
Assets under construction	7	310,440	255,734
Investments		1,181	1,820
Goodwill	8	6,055	5,275
Total non-current assets		**2,002,680**	**1,777,633**
Assets held for sale	7	12,367	36,197
Inventories	9	23,197	12,544
Trade and other receivables	10	54,294	46,958
Income tax receivable		4,269	2,948
Investments	11	3,016	48,390
Cash and cash equivalents	12	195,637	74,186
Total current assets		**292,780**	**221,223**
Total assets		**2,295,460**	**1,998,856**
SHAREHOLDERS' EQUITY	13		
Share capital		17,795	17,795
Treasury shares		(4,316)	(4,316)
Foreign currency translation reserve		7,370	448
Fair value reserve		710	423
Retained earnings		1,297,403	1,063,494
Total shareholders' equity		**1,318,962**	**1,077,844**
LIABILITIES			
Loans and borrowings	14	798,350	740,407
Deferred tax liabilities	15	16,801	23,519
Other non-current liabilities		6,389	1,925
Non-current liabilities		**821,540**	**765,851**
Trade and other payables	16	60,442	63,872
Loans and borrowings	14	94,516	91,289
Current liabilities		**154,958**	**155,161**
Total liabilities		**976,498**	**921,012**
Total shareholders' equity and liabilities		**2,295,460**	**1,998,856**

Approved by the Management Board on 13.03 2008
and signed on its behalf by the President, Terekhin S.A.

The notes on pages 7 to 33 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars, except earnings per share)	Note	2007	2006
Revenues		615,256	560,980
Voyage expenses	17	(142,097)	(125,856)
Direct vessel expenses	18	(117,301)	(102,619)
General and administrative expenses	19	(31,167)	(22,098)
Non-fleet operating profit		5,697	1,970
Operating profit before depreciation and disposal of assets		330,388	312,377
Depreciation expense	7	(84,345)	(83,767)
Gain on disposal of vessels		53,092	328
Operating profit		299,135	228,938
Taxes, other than on profit		(2,318)	(5,305)
Financial income	20	32,014	10,273
Financial expenses	21	(66,392)	(47,326)
Gain/(loss) on disposal of assets other than vessels		2,588	(1,378)
Other (expense)/income		(5,365)	4,685
Profit before tax		259,662	189,887
Income tax expense	22	(12,114)	(8,867)
Net profit for the year		**247,548**	**181,020**
Earnings per share:	26		
Basic earnings per share		$0.65	$0.48
Diluted earnings per share		$0.65	$0.48

The notes on pages 7 to 33 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars)	Share capital	Treasury shares	Foreign currency translation reserve	Retained earnings	Fair value reserve	Hedging reserve	Total
Balance at 31 December 2005	**17,795**	**(4,316)**	**(199)**	**889,622**	**-**	**(3,502)**	**899,400**
Release of hedging reserve on maturity	-	-	-	-	-	3,502	3,502
Net change in fair value of available-for-sale financial assets	-	-	-	-	423	-	423
Dividends	-	-	-	(7,148)	-	-	(7,148)
Foreign currency translation differences	-	-	647	-	-	-	647
Net profit for the year	-	-	-	181,020	-	-	181,020
Balance at 31 December 2006	**17,795**	**(4,316)**	**448**	**1,063,494**	**423**	**-**	**1,077,844**
Net change in fair value of available-for-sale financial assets	-	-	-	-	287	-	287
Dividends	-	-	-	(13,639)	-	-	(13,639)
Foreign currency translation differences	-	-	6,922	-	-	-	6,922
Net profit for the year	-	-	-	247,548	-	-	247,548
Balance at 31 December 2007	**17,795**	**(4,316)**	**7,370**	**1,297,403**	**710**	**-**	**1,318,962**

The notes on pages 7 to 33 form an integral part of these consolidated financial statements.

(In Thousands of United States Dollars)	**2007**	**2006**
		Re-presented
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from freights and hire of vessels	611,323	543,272
Other cash received	26,246	15,304
Cash payments for voyage and direct vessel expenses	(272,410)	(211,195)
Other cash payments	(56,237)	(35,432)
Income taxes paid	(20,265)	(4,435)
Other taxes paid	(4,849)	(4,977)
Net cash inflow from operating activities	**283,808**	**302,537**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on fleet	(313,109)	(367,473)
Expenditure on dry-docking	(10,710)	(22,128)
Expenditure on other fixed assets	(16,407)	(8,705)
Proceeds from sales of vessels	114,939	878
Acquisition of Marpetrol, net of cash acquired	-	(32,165)
Proceeds from sale of investments	3,399	(2,122)
Proceed from sale of assets other than vessels	8,410	195
Loan issued	-	(101)
Repayment of finance lease liabilities	(638)	(274)
Decrease in term deposits	45,470	4,995
Net cash utilized by investing activities	**(168,646)**	**(426,900)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	280,813	457,900
Repayment of long-term borrowing	(217,807)	(300,646)
Dividends paid	(12,958)	(6,856)
Interest received	10,242	7,002
Other borrowing costs paid	(202)	(2,441)
Interest paid	(53,799)	(44,238)
Net cash from financing activities	**6,289**	**110,721**
Net increase/(decrease) in cash and cash equivalents	**121,451**	**(13,642)**
Cash and cash equivalents at beginning of year	**74,186**	**87,828**
Cash and cash equivalents at end of year	**195,637**	**74,186**

The notes on pages 7 to 33 form an integral part of these consolidated financial statements.

1. GENERAL

Organisation and Operations

JSC "Novoship" (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad. The Company was privatised as an open joint stock company on 10 November 1992, as part of the Russian Federation privatisation program. The Group's principal activity is ship owning and operating businesses.

The Company's registered office is Russian Federation, Novorossiysk, Ulitsa Svobody, 1.

As at the balance sheet date the majortity of the Company's voting shares are owned by JSC "Sovcomflot".

Russian Business environment

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

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit or loss and financial investments classified as available-for-sale are stated at fair value.

Functional and presentation currency

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

Use of judgments, estimates and assumptions

A number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities have been made to prepare these consolidated financial statements in conformity with IFRSs.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 7 - Impairment of property, plant and equipment;
- Note 8 - Impairment of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3.1 to 3.15. These accounting policies have been consistently applied, except as described in Note 5.

3.1. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint venture

A joint venture is a contractual agreement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint ventures are included in the consolidated financial statements using the proportionate consolidation method, whereby a venturer's share in each of the assets, liabilities, income and expenses of a jointly controlled entity are combined line-by-line with the venturer's line items in the venturer's financial statements, starting from the date, the joint control commences until the date the joint control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the income statement.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount is transferred to the income statement.

3.3. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Accounting for finance income and expenses is discussed in note 3.15.2.

Investments at fair value through profit or loss
An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that: the Group upon initial recognition designates as at fair value through profit or loss; the Group designates as available-for-sale; or meets the definition of loans and receivables. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that: the Group intends to sell immediately or in the near term; the Group upon initial recognition designates as at fair value through profit or loss; or the Group may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets
Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the income statement. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

Derivative financial instruments

The Group holds derivative financial instruments to manage its exposure to interest rate movement on its bank borrowings. It also enters into foreign currency forward contracts to manage exposure to currency movement on non US Dollar denominated payables.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred.

Subsequent to initial recognition, changes in the fair value of derivative instruments designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively and the cumulative gain or loss previously recognised in equity is recognized immediately in the income statement.

Changes in the fair value of derivative financial instruments that are not designated for hedge accounting are recognised immediately in the income statement.

3.4. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits readily convertible to cash. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

3.5. Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company’s option, and any dividends are discretionary.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity at their nominal value. Any excess of the consideration paid for the treasury shares over their nominal value is recognised as a deduction from retained earnings.

3.6. Vessels and other property, plant and equipment

Recognition and measurement

The Group’s vessels and other property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is measured at cost less impairment losses.

Vessels in course of construction include advances to shipyards, supervision fees, professional fees, finance costs and interest capitalised.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Dry-docking and special survey costs (“Dry-docking costs”) are recognised as a separate component of the vessel and are capitalised as incurred during the period of the dry-docking programme.

Subsequent costs

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

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

Dry-docking costs are depreciated on a straight-line basis over the period to the anticipated date of completion of the next dry-docking. At the completion of the next dry dock, any remaining carrying amount of the cost of the previous dry dock is derecognised.

The useful lifes of the assets are as follows:

Vessels	25 years
Dry-docking costs	3 to 5 years
Buildings	15 to 40 years
Machinery and equipment	5 to 15 years
Fixtures and fittings	5 to 10 years

The residual value and useful life of each asset is reviewed at each financial period-end and, if expectations differ from previous estimates, the changes are accounted for prospectively in the income statement in the period of the change and future periods.

3.7. Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Subsequent to initial recognition goodwill is measured at cost less accumulated impairment losses.

3.8. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

3.9. Inventories

Bunkers, lubricants and other inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3.10. Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

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

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

Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill recoverable amount is estimated at each reporting date.

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. The fair market value of the vessels is determined for all vessels by two independent internationally recognised valuers at the balance sheet date. The average between the values determined by the two valuers is applied as the vessels’ fair value for the purpose of impairment test.

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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans, including Russia’s State pension fund and UK State pension fund, are recognised as an expense in the income statement when they are due.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually using the projected unit credit method.

When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

The Group recognises all actuarial gains and losses arising from defined benefit plans in the income statement in the period in which they arise.

Short-term benefits

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

A provision is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.12. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.13. Revenue

Voyage revenue

Voyage revenues and expenses are recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the number of days completed out of the total estimated number of days in a particular voyage.

Estimated losses on voyages are provided in full at the time such losses become evident.

Other revenue

Revenue from other services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

3.14. Voyage expenses and direct vessel expenses

Voyage expenses comprise all expenses relating to particular voyages, including bunker (fuel) expenses, port fees, canal tolls, and brokerage commissions.

Direct vessel expenses comprise all expenses relating to the operation of vessels including crewing, repairs and maintenance, insurance, stores, lubes, and communications.

3.15. Other expenses

Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Social expenditure

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

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, and any impairment losses recognised on financial assets.

All borrowing costs are recognised in income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognised as part of the cost of such assets.

Income tax expense

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2007, and have not been applied in preparing these consolidated financial statements. These pronouncements are not expected to have a material impact on the Group's operations.

5. CHANGE IN PRESENTATION OF THE CASH FLOW STATEMENT

In prior years the Company presented the consolidated cash flow statement applying the indirect method. In 2007 the Company adopted the direct method of presentation of the consolidated cash flow statement, which is used by the Company's parent. The comparative information has been re-presented in accordance with IAS 1 *"Presentation of Financial Statements"*.

6. SIGNIFICANT SUBSIDIARIES

Name	Country of incorporation	Activity	Percentage of ownership (direct and indirect)
Subsidiaries			
Intrigue Shipping Inc. and its subsidiaries	Liberia, Malta, UK	Vessel owning and operation	100%
Novoship Holdings Ltd. and its subsidaries	Cyprus/Liberia	Vessel owning and operation	100%
Morport Sochi	Russia	Port	100%
Novoshipinvest	Russia	Securities trading and supporting activity	100%
Brigantina LLC	Russia	Hotel services	100%
Vodno-sportivny Centr LLC	Russia	Water sport activities	100%
FOTS LLC	Russia	Swimming pool	100%
ERNC LLC	Russia	Production and distribution of navigations equipment	100%
Novookhrana LLC	Russia	Security services	100%
Telecomservice LLC	Russia	Internet and communication services	100%
Novomorsnab LLC	Russia	Freight and forwarding	100%
SSC LLC	Russia	Service of ship's safety equipment	100%
Novoship Training LLC	Russia	Professional training of ship's crews	100%
Novoshipstroy LLC	Russia	Construction services	100%
NovoshipCrewing LLC	Russia	Crewing services	100%
Stomatologya LLC	Russia	Dentist service	100%
Novotechservice LLC	Russia	Cleaning	100%
Novorosmedia LLC	Russia	Mass media	100%

7. VESSELS AND OTHER PROPERTY, PLANT AND EQUIPMENT

(In Thousands of United States Dollars)	**Vessels**	**Dry-docking**	**Land and building**	**Plant and equipment**	**Total**
Cost					
Cost at 1 January 2006	1,345,719	66,582	35,324	32,743	1,480,368
Additions	3,411	22,128	-	258	25,797
Acquisitions by joint venture	122,808	1,692	-	49	124,549
Fully depreciated dry docking costs	-	(29,635)	-	-	(29,635)
Transfers from assets under construction	424,390	11,000	1,840	2,815	440,045
Disposal of assets	(1,036)	-	(338)	(1,304)	(2,678)
Transfer to assets held for sale	(77,449)	(5,858)	-	-	(83,307)
Effect of movements in exchange rates	3,418	267	-	(2)	3,683
Cost at 31 December 2006	1,821,261	66,176	36,826	34,559	1,958,822
Additions	3,323	10,710	2	1,661	15,696
Fully depreciated dry docking costs	-	(6,721)	-	-	(6,721)
Transfers from assets under construction	249,288	6,500	2,820	3,952	262,560
Disposal of assets	(61,904)	(6,031)	(154)	(1,073)	(69,162)
Transfer to assets held for sale	(31,678)	(3,419)	-	-	(35,097)
Effect of movements in exchange rates	14,933	621	136	243	15,933
Other movements	-	1,966	-	300	2,266
Cost at 31 December 2007	1,995,223	69,802	39,630	39,642	2,144,297
Depreciation					
Accumulated depreciation at 1 January 2006	356,090	35,302	22,696	24,841	438,929
Charge for the year	55,258	23,337	2,633	2,539	83,767
Fully depreciated dry docking costs	-	(29,635)	-	-	(29,635)
Disposals of assets	(818)	-	(92)	(1,023)	(1,933)
Transfer to assets held for sale	(43,939)	(3,171)	-	-	(47,110)
Accumulated depreciation at 31 December 2006	366,591	25,833	25,237	26,357	444,018
Charge for the year	61,623	19,170	1,017	2,535	84,345
Fully depreciated dry docking costs	-	(6,721)	-	-	(6,721)
Disposals of assets	(38,863)	(3,422)	(125)	(880)	(43,290)
Transfer to assets held for sale	(21,161)	(1,569)	-	-	(22,730)
Effect of movements in exchange rates	960	401	-	25	1,336
Other movements	-	1,966	-	319	2,335
Accumulated depreciation at 31 December 2007	369,150	35,658	26,129	28,356	459,293
Net book value at 31 December 2006	**1,454,670**	**40,343**	**11,589**	**8,202**	**1,514,804**
Net book value at 31 December 2007	**1,626,073**	**34,144**	**13,501**	**11,286**	**1,685,004**

Vessels *(In Thousands of United States Dollars)*	**31 December 2007** **Total**	**Pledged as security under bank loans**	**Assets under finance leases**
No. of vessels	63	54	2
Net book value (incl. dry dock costs)	1,791,854	1,524,145	11,276
Market value	2,951,000	2,771,250	12,500

The market value of the fleet at 31 December 2007 owned by the Group as estimated by the directors and supported by independent professional valuations was $2,951 million (31 December 2006: $2,510 million).

As at the balance sheet date twelve of the Group's vessels were held by the joint venture of which ten were pledged as security for loans and two were secured under finance lease agreements. The Group's proportionate share in the carrying value of these vessels is $131,637 thousand.

Change in the estimated useful life of vessels
In 2006 the Company estimated the useful life of vessels to be between 20 and 25 years. As of 1 January 2007 the useful life of all vessels has been reassessed as 25 years. The change was accounted for prospectively and resulted in a reduction of the depreciation charge for the year by $3,252 thousand.

Change in the scrap value of metal
The residual values of vessels are calculated based on the residual value of scrap steel. At the balance sheet date, the residual values of the vessels were determined by applying the scrap values of $505 per lightweight ton (31 December 2006: $420 per lightweight ton). The change was accounted for prospectively and resulted in a decrease in depreciation charge for the year by $3,097 thousand.

Assets held for sale

(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Number of vessels	3	7
Net book value	12,367	36,197
Market value	20,500	59,375

Assets under construction

(In Thousands of United States Dollars)	Vessels	Buildings, plant and equipment	Total
Balance at 31 December 2005	317,729	586	318,315
Additions	354,374	13,402	367,776
Finance and other costs capitalised	9,688	-	9,688
Transfers to vessels, property, plant and equipment	(435,390)	(4,655)	(440,045)
Balance at 31 December 2006	**246,401**	**9,333**	**255,734**
Additions	302,174	14,735	316,909
Disposals	-	(8,193)	(8,193)
Finance costs capitalized	996	-	996
Other costs capitalized	6,616	-	6,616
Transfers to vessels, property, plant and equipment	(255,788)	(6,772)	(262,560)
Exchange difference	-	938	938
Balance at 31 December 2007	**300,399**	**10,041**	**310,440**

Insurance policies

JSC Novorossiysk Shipping Company, Novoship Holdings Ltd. and Intrigue Shipping Inc. are members of the West of England P&I Club for third party liability purposes. Intrigue Shipping Inc. and Novoship Holdings Ltd. are also members of the Assuranceforeningen Gard.

8. GOODWILL

Goodwill in the amount of $6,055 thousand (31 December 2006: $5,275 thousand) arose on the acquisition of W.W. Marpetrol S.A., a joint venture.

In addition to the determination of the fair value of the vessels, testing of cash flows attributable to W.W. Marpetrol S.A. was conducted in order to assess if any impairment of goodwill is present at the balance sheet date.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results for 2007 and operating plan for 2008;
- An increase of cash flows of 1.5% was estimated for the residual useful life of the existing vessels of 15 years;
- A discount rate of 8.35% was applied in discounting future cash flows. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a debt leveraging of 200% of the capital at a market interest rate of 6.5%.
- A terminal value was derived at the end of a 15-year period. The increase in scrap value of steel was estimated at 5% per annum.

The key assumptions represent management's assessment of future trends in the business and are based on both external sources and internal sources. No impairment was revealed as a result of the above analysis. However, the recoverable amount of goodwill is particularly sensitive to a change in discount rate and expected future cash flows.

9. INVENTORIES

(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Bunkers	14,281	8,196
Lubricants	5,825	-
Raw materials, spares and finished goods	3,091	4,348
	23,197	**12,544**

10. TRADE AND OTHER RECEIVABLES

(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Accounts receivable and accrued income	33,330	30,603
Prepayments	5,855	5,129
Other taxes receivable	4,082	209
Other receivables	11,027	11,017
	54,294	**46,958**

11. INVESTMENTS

(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Short-term bank deposits held to maturity	-	45,470
Short-term equity investments available for sale, at fair value	2,645	2,545
Other investments	371	375
	3,016	**48,390**

In July 2006 the Group acquired 280,455 ordinary shares of OAO "Rosneft", a Russian public company for a consideration of $2,122 thousand. As of 31 December 2007 the market value of these shares had increased to $2,645 thousand.

12. CASH AND CASH EQUIVALENTS

(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Cash at banks and in hand	195,356	73,872
Cash on board and petty cash	281	314
	195,637	**74,186**

At 31 December 2007, cash amounting to $11,095 thousand is deposited in retention accounts and is retained to cover future principal and interest payments (31 December 2006: $6,779 thousand). An additional $19,965 million is restricted against a future payment to a shipyard relating to a vessel which was under construction at the balance sheet date.

13. SHAREHOLDERS' EQUITY

Share capital

Authorised, issued and fully paid share capital:

	31 December 2007		31 December 2006	
	Number	**Roubles**	**Number**	**Roubles**
Ordinary voting shares with nominal value of 1 Rouble each	375,840,500	375,840,500	375,840,500	375,840,500
Preference non-voting class "A" shares with nominal value of 1 Rouble each	125,280,000	125,280,000	125,280,000	125,280,000
	501,120,500	**501,120,500**	**501,120,500**	**501,120,500**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company.

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to the greater of 3% of the nominal value of preference shares and the dividend attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote until the following Annual Shareholders' Meeting. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the liquidation proceeds determined in accordance with the Company's charter and Russian legislation. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

Treasury shares

As at 31 December 2007 and 2006 the Group held 87,246,219 ordinary and 34,377,981 preference shares, which comprise 23% and 27% of all issued outstanding shares of each class respectively.

The excess of the cost of acquisition of treasury shares over their nominal values in the amount of $155,244 thousand was recognised as a deduction from retained earnings.

Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As at 31 December 2007 the Company had retained earnings, including the profit for the current year, of $155,010 thousand (2006: $94,564 thousand).

A dividend of $0.04/Roubles 0.9, per share (2006: $0.02/Roubles 0.5 per share) on both the ordinary and preference share was declared and paid during the year.

14. LOANS AND BORROWINGS

14.1. Debt

(In Thousands of United States Dollars)	Contractual interest rate	31 December 2007	31 December 2006
Current portion of long term debt			
Secured bank loans:			
USD-denominated	Variable at LIBOR+ 0.68-1%	82,609	70,706
USD- denominated	Variable at LIBOR+ 1.25%-1.5%	-	3,262
Euro-denominated	Variable at EURIBOR+ 1.25%-1.5%	-	4,035
USD-denominated	Fixed at 5.25%	11,228	11,228
Euro-denominated	Fixed at 11.29%	-	1,378
Finance lease liabilities			
Euro-denominated	Fixed at 6.79%	679	680
		94,516	**91,289**
Non-current portion of long term debt			
Secured bank loans:			
USD-denominated	Variable at LIBOR+ 0.68-1%	689,426	563,142
USD-denominated	Variable at LIBOR+ 1.25%-1.5%	-	25,719
Euro-denominated	Variable at EURIBOR+ 1.25%-1.5%	-	29,826
USD-denominated	Fixed at 5.25%	100,238	111,469
Euro-denominated	Fixed at 11.29%	-	928
Finance lease liabilities			
Euro-denominated	Fixed at 6.79%	8,686	9,323
		798,350	**740,407**
Total		**892,866**	**831,696**

The effective interest rates of long-term debt approximate their contractual interest rates. The variable interest bearing loans of the Group re-price on a quarterly basis.

As at the balance sheet date $313,910 thousand (31 December 2006: $157,600 thousand) of revolving credits were available to the Group to draw.

As security for the loans and finance lease liabilities lenders have first preferred mortgages on the Group's vessels with an aggregate market value as at 31 December 2007 of $2,783 million, see note 7.

The Group's debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the year ended 31 December 2007.

14.2. Finance lease liabilities

The joint venture of the Group has an obligation under two eight year bareboat charter agreements entered into by one of its subsidiaries in February 2005 when it sold and leased back two of its vessels for an aggregate consideration of $26 million at an effective interest rate of 6.79% per annum. At the end of the principle lease period the subsidiary has the option to extend the leases for two five-year periods declarable in years eight and thirteen respectively. Both the subsidiary of the joint venture and the lessor have call and put options respectively, requiring the lessor to sell the vessels to subsidiary or the subsidiary to buy the vessels from the lessor, at the end of the principle lease period and at the end of each of the five year extension periods at predetermined vessels prices ranging from $7.75 million to $2.75 million.

(In Thousands of United States Dollars)	**2007 Minimum lease payments**	**2007 Interest**	**2007 Principal**
Less than one year	1,302	623	679
Between one and five years	5,073	1,991	3,082
More than five years	5,637	33	5,604
	12,012	**2,647**	**9,365**

(In Thousands of United States Dollars)	**2006 Minimum lease payments**	**2006 Interest**	**2006 Principal**
Less than one year	1,347	667	680
Between one and five years	5,045	2,202	2,843
More than five years	6,967	487	6,480
	13,359	**3,356**	**10,003**

For more information about the contractual maturities of loans and borrowings and the Group’s exposure to interest rate and foreign currency risk see note 25.

15. DEFERRED TAX ASSETS AND LIABILITIES

15.1. Recognised deferred tax assets and liabilities

	Assets		**Liabilities**		**Net**	
(In Thousands of United States Dollars)	**31 Dec 2007**	**31 Dec 2006**	**31 Dec 2007**	**31 Dec 2006**	**31 Dec 2007**	**31 Dec 2006**
Vessels	-	-	(13,563)	(21,019)	(13,563)	(21,019)
Other assets/(liabilities)	778	2,751	(4,016)	(5,251)	(3,238)	(2,500)
Net tax assets/(liabilities)	**778**	**2,751**	**(17,579)**	**(26,270)**	**(16,801)**	**(23,519)**

The movement of temporary differences were as follows:

(In Thousands of United States Dollars)	**1-Jan-2006**	**Effect of acquisition of joint venture**	**Recognised in income**	**Effect of change in exchange rates**	**31-Dec-2006**
Vessels	(8,561)	(9,480)	(3,228)	250	(21,019)
Other assets/(liabilities)	(177)	(2,248)	181	(256)	(2,500)
	(8,738)	**(11,728)**	**(3,047)**	**(6)**	**(23,519)**

(In Thousands of United States Dollars)	1-Jan-2007	Recognised in income	Effect of change in exchange rates	31-Dec-2007
Vessels	(21,019)	9,538	(2,082)	(13,563)
Other assets/(liabilities)	(2,500)	(238)	(500)	(3,238)
	(23,519)	**9,300**	**(2,582)**	**(16,801)**

Unrecognised deferred tax liability

A temporary difference of $1,165,663 thousand relating to investments in subsidiaries has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

16. TRADE AND OTHER PAYABLES

(In Thousands of United States Dollars)	31 December 2007	31 December 2006
Trade creditors	15,897	16,630
Advances received	18,576	25,873
Interest payable	4,572	4,570
Derivatives not designated for hedging	7,902	2,213
Financial instruments provision	-	942
Other taxes payable	2,284	942
Dividends payable	1,308	627
Profit tax payable	308	420
Other liabilities	9,595	11,655
	60,442	**63,872**

17. VOYAGE EXPENSES

(In Thousands of United States Dollars)	2007	2006
Port expenses	(45,992)	(43,042)
Bunker	(82,196)	(70,141)
Commission	(13,909)	(12,673)
	(142,097)	**(125,856)**

18. DIRECT VESSEL EXPENSES

(In Thousands of United States Dollars)	2007	2006
Crew cost	(67,050)	(53,331)
Technical	(33,013)	(33,307)
Insurance	(11,528)	(11,705)
State social contributions	(1,358)	(1,523)
Communication	(1,444)	(1,210)
Other	(2,908)	(1,543)
	(117,301)	**(102,619)**

19. GENERAL AND ADMINISTRATIVE EXPENSES

(In Thousands of United States Dollars)	2007	2006
Wages and salaries	(16,622)	(13,143)
State social contributions	(1,709)	(530)
Rent	(1,095)	(833)
Other	(11,741)	(7,592)
	(31,167)	**(22,098)**

20. FINANCIAL INCOME

(In Thousands of United States Dollars)	2007	2006
Interest income	10,275	7,106
Foreign exchange gain	21,739	3,167
	32,014	**10,273**

21. FINANCIAL EXPENSES

(In Thousands of United States Dollars)	2007	2006
Interest expense and swap cost	(53,801)	(44,737)
Bank fees and charges	(104)	(2,589)
Foreign exchange loss	(7,739)	-
Change in fair value of derivatives	(4,748)	-
	(66,392)	**(47,326)**

22. INCOME TAX EXPENSE

Reconciliation between the reported income tax expense and the theoretical amount that would arise using the tax rate for the Russian Federation of 24% for current tax and for deferred tax is as follows:

(In Thousands of United States Dollars)	**2007**	**2006**
Profit before tax	259,662	189,887
Income tax using the domestic corporation tax rate of 24%	(62,318)	(45,573)
Non-deductible costs, net	(3,544)	(2,405)
Effect of change in tax rates	1,664	-
Increase in deferred tax liability due to return of vessels	-	(2,505)
Effect of different tax rates in other tax jurisdictions:		
- Liberia, Malta and Marshall Islands	49,679	40,978
- Spain	1,941	(240)
Corrections in respect of prior periods	464	878
Income tax expense	**(12,114)**	**(8,867)**

Income tax expense is comprised of:

(In Thousands of United States Dollars)	**2007**	**2006**
Current tax expense	(21,414)	(5,820)
	(21,414)	(5,820)
Deferred tax income/(expense)		
Origination and reversal of temporary differences	7,636	(3,047)
Effect of change in tax rates	1,664	-
	9,300	(3,047)
Income tax expense	**(12,114)**	**(8,867)**

Under the laws of the countries of incorporation and/or vessels' registration, a limited number of vessel owning and operating subsidiaries is subject to tax on international shipping income. The majority of subsidiaries are subject to registration and tonnage taxes, which have been included in the general and administrative expense in the accompanying consolidated statement of income.

The directors are of the opinion that under current circumstances the Group is not liable to taxation on its vessel owning and operating activities in any tax-paying jurisdiction except for those registered in the Russian Marine Register of Shipping and in the Special Registry of Ships and Maritime Companies of the Canary Islands (Spain) (the "SRSMC"). In 2007 the joint venture of the Group applied to Spanish Tax authorities to be taxed in accordance with the special Tonnage Tax regime, which establishes the payment of taxes based on the net tonnage of the vessels. In February 2008 the joint venture obtained such authorization for 9 out of 12 vessels.

Taxation is also payable on profits generated by the Parent and the Group's subsidiaries operating in Russia and the management company in the UK.

23. PERSONNEL COSTS

Personnel costs recorded within "Direct vessel expenses" and "General and administrative expenses" are as follows:

(In Thousands of United States Dollars)	**2007**	**2006**
Crew costs, wages and salaries	83,672	66,474
State social contributions	3,067	2,053
	86,739	**68,527**

24. JOINT VENTURES

Name	Country of incorporation	2007 Ownership / voting	2006 Ownership / voting
Vestoro Holdings Limited	Cyprus	50%	50%

On 16 March 2006 Intrigue Shipping Inc. established a joint venture, Vestoro Holdings Limited, together with Sovcomflot in which each venturer obtained a 50% interest with equal rights and obligations. In August 2006 the joint venture acquired W.W. Marpetrol S.A., a shipping company operating eleven vessels under the Spanish flag and one vessel under the flag of the Marshall Islands.

The following is summarised consolidated financial information of the joint venture:

(In Thousands of United States Dollars)	**2007**	**2006**
Current assets	7,169	2,051
Non-current assets	139,232	132,077
Total assets	146,401	134,128
Current liabilities	9,252	20,959
Non-current liabilities	90,319	77,781
Total liabilities	99,571	98,740
Revenue	28,641	11,264
Profit/(loss) for the period	6,740	(73)

25. FINANCIAL RISK MANAGEMENT

25.1. Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk.
This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The management board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its

training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

25.2. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in securities.

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all new customers, other than related parties, requiring credit over a certain levels. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes brokers and bank references and external ratings, when available. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The majority of Group's charter hire is receivable on prepayment basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet:

	Carrying amount	
(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Non-current investments	1,181	1,820
Trade and other receivables	54,294	46,958
Income tax receivable	4,269	2,948
Current investments	3,016	48,390
Cash and cash equivalents	195,637	74,186
	258,397	174,302

At the balance sheet date there were no significant receivable balances past due. Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables.

25.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Cash Flow forecasting assists the Group in monitoring cash flow requirements. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As at 31 December 2007 the Group had a balance of cash and cash equivalents of $195,637 thousand (31 December 2006: $74,186 thousand). As at the balance sheet date $313,910 thousand (31 December 2006: $157,600 thousand) of revolving credits were available to the Group to draw.

The table below illustrates the contractual maturities of financial liabilities, including interest payments:

			2007					
(In Thousands of United States Dollars)	**Carrying value**	**Contractual cash flow**	**0-1 year**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**> 5 yrs**
Non-derivative financial liabilities								
Secured bank loans	883,501	1,123,881	144,254	173,746	127,363	108,385	103,826	466,307
Finance lease liabilities	9,365	12,012	1,302	1,257	1,257	1,256	1,257	5,683
Trade and other payables	60,442	60,442	60,442	-	-	-	-	-
Other non-current liabilities	6,389	6,389	545	500	500	500	-	4,344
	959,697	1,202,724	206,543	175,503	129,120	110,141	105,083	476,334

			2006					
(In Thousands of United States Dollars)	**Carrying value**	**Contractual cash flow**	**0-1 year**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**> 5 yrs**
Non-derivative financial liabilities								
Secured bank loans:	821,693	1,056,760	137,091	123,355	159,517	109,226	86,273	441,298
Finance lease liabilities	10,003	13,359	1,347	1,272	1,257	1,257	1,256	6,970
Trade and other payables	63,872	63,872	63,872	-	-	-	-	-
Other non-current liabilities	1,925	1,925	-	-	-	-	-	1,925
	897,493	1,135,916	202,310	124,627	160,774	110,483	87,529	450,193

25.4. Market risk

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

The Group buys and sells derivatives in order to manage market risks.

25.4.1. Foreign currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily the UK Pound, Russian Rouble and the Euro for the Group entities, and USD for the joint venture which has the functional currency of Euro.

The Group has the following foreign-currency denominated financial assets and liabilities:

(In Thousands of United States Dollars)	**2007**	**2007**	**2007**	**2007**	**2006**	**2006**	**2006**	**2006**
	RUR	**Euro**	**GBP**	**USD**	**RUR**	**Euro**	**GBP**	**USD**
Current assets								
Cash and cash equivalents	69,267	14,319	1,094	-	2,487	1,341	525	-
Trade and other receivables	11,583	-	-	1,009	9,107	-	-	-
Current investments	-	-	-	-	38,326	2,635	-	-
Current liabilities								
Current portion of bank loan	-	-	-	5,364	-	-	-	3,175
Payables	5,203	2,826	-	1,213	3,076	-	1,476	4,415
Non-current liabilities								
Loans and borrowings	-	-	-	66,238	-	-	-	25,719
Finance lease	-	-	-	8,686	-	-	-	9,323
Other non-current liabilities	3,674	-	-	-	1,925	-	-	-

The following exchange rates applied at 31 December:

	RUR 2007	**Euro 2007**	**GBP 2007**	**RUR 2006**	**Euro 2006**	**GBP 2006**
1 USD dollar equals	24.5	0.68	0.50	26.3	0.76	0.51

Management estimate that a 10% strengthening/(weakening) of the USD against the abovementioned currencies, based on the Group's exposure as at the balance sheet date would have decreased/(increased) the Group's equity and net profit for the year by $14,519 thousand, before any tax effect (31 December 2006: $8,213 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

The Group uses derivative financial instruments to manage its exposure to changes in foreign exchange rates. At the balance sheet date the derivatives were not designated as hedging instruments and were recorded as trading instruments through profit and loss. The following exchange rate financial derivatives are held by the Group at 31 December 2007:

Type of instrument	**Notional amount**	**Strike/Barrier**	**Expiry date**
Forward	EUR 100,000/weekly	1.350/1.405	2008
Forward	GBP 50,000/monthly	1.992/1.900	2008
Option	EUR 100,000/monthly	1.378/1.353	2008

The fair value of the derivatives at the balance sheet date is $68 thousand. Management estimated that 5% increase in the fair value of the derivatives would not have a material impact on Group's equity or net profit for the year.

25.4.2 Interest rate risk

Changes in interest rates impact primarily loans by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management has a formal policy of determining how much of the Group's exposure should be to fixed or variable rates, and trades in interest rate derivative instruments in managing its exposure in accordance with that policy. In 2007 interest rate derivative instruments were not designated as cash flow hedges,

with the exception of the swaps held by the Groups joint venture (see below), and have been recognised as trading instruments at fair value through the profit and loss.

The following interest rate financial derivatives, which are accounted for as trading instruments at fair value through the profit and loss are held by the Group at 31 December 2007:

Type of instrument	Notional amount	Interest rate	Expiry date
100% owned:			
Collar and sold Cap	$50 million	4.5%/5.9% and 6.78%	2011
Callable	$50 million	4.3%	2010
Callable	$50 million	3.65%	2010
Swaption	$50 million	4.65%	2013
Swaption	$50 million	4.6%	2013
Swaption	$50 million	4.4%	2013
Collar and Knock out	$50 million	4.1%/5.9% and 7%	2011
50% owned:			
Swaption	$71.25 million	3.65-4.035%	2010

The following interest rate hedging instruments were held by the Group's joint venture at the balance sheet date:

Type of instrument	Notional amount	Interest rate	Expiry date
Interest rate swap	$20.6 million	2.43%-2.97%	2008
Swaption	$39.75 million	4.03%	2008
Swaption	$50 million	3.65%	2008

At 31 December 2007 the fair value of interest rate derivative instruments based on broker quotes is a liability of $7,902 thousand (31 December 2006: $2,213 thousand). Management estimated that a 5% change in the fair value of derivatives would not have a material impact on the Group's equity or profit for the year.

The Company estimated that a one percentage point increase/(decrease) in Libor, based on Group's exposure at the balance sheet date, would result in a decrease/(increase) in the Group's equity and profit for the year by $7,365 thousand (2006: $7,425 thousand), without consideration of the derivative financial instruments.

25.4.3. Price risk

The Group's price risk relates primarily to the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of foreign currency and interest rate derivative instruments (see notes 24.4.1 and 24.4.2).

25.5. Fair values

Management believe that the fair value of its financial assets and liabilities approximate their carrying amounts. In assessing fair values, management used the following methods and assumptions:

Quoted securities: Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Trade and other receivables/payables: For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Financial liabilities: Fair value is based on broker and bank quotes.

Loans and borrowings and all other financial instruments: Fair value is calculated based on discounted expected future principal and interest cash flows.

25.6. Capital management

The management board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The management board monitors profitability and leverage ratios and compliance with the minimum capital requirements. The management board uses a return on capital ratio which the Group defines as net operating income divided by total shareholders equity. There were no changes in the Group's approach to capital management during the year.

26. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to ordinary and to preference shareholders (see note 13) by the weighted average number of ordinary and preference shares outstanding respectively during the year. The Company has no dilutive potential ordinary shares.

The following is a reconciliation of the weighted average number of shares:

In Thousands of Shares	**Preference shares**	**Ordinary shares**	**Preference shares**	**Ordinary shares**
	2007	**2007**	**2006**	**2006**
Issued shares at 1 January	125,280,000	375,840,500	125,280,000	375,840,500
Effect of own shares held	(34,369,000)	(87,246,219)	(34,369,000)	(87,246,219)
Weighted average number of shares for the year ended 31 December	90,911,000	288,594,281	90,911,000	288,594,281

In Thousands of United States Dollar	**2007**	**2006**
Dividends declared on outstanding shares:		
Preference shares	3,276	1,712
Ordinary shares	10,363	5,436
Profit remaining undistributed:		
Preference shares	56,024	41,651
Ordinary shares	177,885	132,221
Profit for the year:	247,548	181,020
Attributable to preference shareholders	59,300	43,363
Attributable to ordinary shareholders	188,248	137,657

27. COMMITMENTS

Capital commitment

The Group has outstanding capital commitments in respect of the following contracts:

The construction of two oil/chemical carriers of 40,000 dwt at the shipyards of SLS Ltd, Korea for $65 million. Payment terms for these vessels are 20% upon signing of the contract, another instalment of 20% at the defined stage of construction and 60% on delivery. The vessels are due for delivery in 2008. The outstanding commitment under these contracts together with additional work ordered at 31 December 2007 is $39 million.

The construction of four crude oil carriers of 115,000 dwt at the shipyards of Samsung Heavy Industries Co. Ltd, Korea for $220.4 million. Payment terms for these vessels are 20% upon signing of the contract, a further three instalments of 20% each at the defined stages of construction and 20% on delivery. Three of four vessels have been delivered to the Group during 2007. The fourth has been delivered in January 2008. The outstanding commitment under these contracts together with additional work ordered at 31 December 2007 is $11 million.

The construction of six crude oil carriers of 156,000 dwt at the shipyards of Jiangsu Rongsheng Heavy Industries Group Co., Ltd, China for $431.1 million. Payment terms for these vessels are 20% upon signing of the contract and presentation of refund guarantee by the builder, a further three instalments of 20% each at the defined stages of construction and 20% on delivery. The outstanding commitment under these contracts together with additional work ordered at 31 December 2007 is $373.5 million. Vessels are due for delivery in 2008 and 2009.

The construction of four product oil carriers of 112,000 dwt at the shipyards of Hyundai Heavy Industries Co., Ltd, Korea for $271.2 million. Payment terms for these vessels are 25% upon signing of the contract, a further three instalments of 20%, 15% and 20% at defined stages of the construction and 20% on delivery. The outstanding commitment under these contracts together with additional work ordered at 31 December 2007 is $108.4 million. Vessels are due for delivery in 2009.

The construction of four asphalt tankers of 6,000 dwt at the shipyards of GEO Marine Engineering & Shipbuilding Co. Ltd., Korea for $71,280 thousand. Payment terms for these vessels are 20% upon signing of the contract and presentation of refund guarantee by the builder, a further three instalments of 20% each at the defined stages of construction and 20% on delivery. The outstanding commitment under these contracts at 31 December 2007 is $64 million. Vessels are due for delivery in 2010 and 2011.

Other commitments

The joint venture of the Group has entered into long term time charters with aggregate hires receivable of $38.9 million (2006: $124.5 million) expiring after more than five years which include various charterers' extension options.

28. CONTINGENCIES

Tax contingencies

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions.

29. RELATED PARTY TRANSACTIONS

The party with the ultimate control over the Company is the government of the Russian Federation.

Transactions and balances with other government-controlled entities

(In Thousands of United States Dollars)	**31 December 2007**	**31 December 2006**
Cash in government-controlled banks	51,927	9,025
Short-term investments (deposits) in government-controlled banks	-	33,362

	2007	**2006**
Interest income from the government-controlled banks	3,569	3,172

Management remuneration

(In Thousands of United States Dollars)	**2007**	**2006**
Compensation of key management personnel of Parent company	3,617	2,031

Transactions with related parties take place on normal commercial terms.

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