# JSC “Novoship” and its subsidiaries

# Consolidated Financial Statements for the year ended 31 December 2008

## Contents

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## Independent Auditors' Report

To the Board of Directors of JSC "Novoship"

### 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 2008, 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 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

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10 March 2009

| *(In Thousands of United States Dollars)* | Note | As at 31 December 2008 | As at 31 December 2007 Restated |
|---|---|---|---|
| **ASSETS** | | | |
| Vessels and other property, plant and equipment | 7 | 1,707,125 | 1,671,072 |
| Assets under construction | 7 | 438,270 | 310,440 |
| Investment property | 9 | 1,330 | 1,723 |
| Goodwill | 10 | - | 6,055 |
| Investment in associate | | 1,008 | - |
| Other investments | | 1,475 | 1,181 |
| Other non-current assets | | 4,044 | - |
| **Total non-current assets** | | **2,153,252** | **1,990,471** |
| Inventories | 11 | 17,726 | 23,197 |
| Assets held for sale | 8 | 5,175 | 12,367 |
| Trade and other receivables | 12 | 62,054 | 68,300 |
| Income tax receivable | | 2,774 | 4,269 |
| Investments | 13 | 7,503 | 3,016 |
| Cash and cash equivalents | 14 | 140,178 | 195,637 |
| **Total current assets** | | **235,410** | **306,786** |
| **Total assets** | | **2,388,662** | **2,297,257** |
| **SHAREHOLDERS' EQUITY** | 15 | | |
| Share capital | | 17,795 | 17,795 |
| Treasury shares | | (6,022) | (4,316) |
| Foreign currency translation reserve | | 873 | 7,370 |
| Fair value reserve | | 141 | 710 |
| Hedging reserve | | (1,896) | - |
| Retained earnings | | 1,455,872 | 1,299,200 |
| **Total equity attributable to shareholders of the Company** | | **1,466,763** | **1,320,759** |
| Minority interest | | 194 | - |
| **Total equity** | | **1,466,957** | **1,320,759** |
| **LIABILITIES** | | | |
| Loans and borrowings | 16 | 623,705 | 798,350 |
| Deferred tax liabilities | 17 | 12,093 | 16,801 |
| Defined benefit obligations | 18 | 7,805 | 4,344 |
| Other non-current liabilities | | 2,045 | 2,045 |
| **Total non-current liabilities** | | **645,648** | **821,540** |
| Trade and other payables | 19 | 143,517 | 60,442 |
| Loans and borrowings | 16 | 132,540 | 94,516 |
| **Total current liabilities** | | **276,057** | **154,958** |
| **Total liabilities** | | **921,705** | **976,498** |
| **Total shareholders’ equity and liabilities** | | **2,388,662** | **2,297,257** |

Approved by the Management Board on __________ 2009

and signed on its behalf by the President, Kostyk E.V. ______________________________



The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

| *(In Thousands of United States Dollars)* | **Note** | **2008** | **2007 Restated** |
|---|---|---|---|
| **Revenues** | 20 | 749,144 | 615,256 |
| Voyage expenses | 21 | (193,523) | (142,097) |
| Direct vessel expenses | 22 | (129,644) | (117,301) |
| General and administrative expenses | 23 | (27,697) | (29,306) |
| Non-fleet operating profit | | 3,571 | 5,697 |
| **Operating profit before depreciation and disposal of assets** | | 401,851 | 332,249 |
| Depreciation expense and impairment | | (105,637) | (83,678) |
| Gain on disposal of vessels | | 26,737 | 53,092 |
| **Operating profit** | | 322,951 | 301,663 |
| Taxes, other than on profit | | (4,580) | (2,318) |
| Financial income | 24 | 28,452 | 32,014 |
| Financial expenses | 25 | (107,106) | (66,392) |
| Gain/(loss) on disposal of assets other than vessels | | 190 | 2,588 |
| Impairment of goodwill | 10 | (5,719) | - |
| Other expenses | | (9,469) | (6,096) |
| **Profit before income tax** | | 224,719 | 261,459 |
| Income tax expense | 26 | (7,496) | (12,114) |
| **Profit for the year** | | **217,223** | **249,345** |
| Attributable to: | | | |
| Shareholders of the Company | | **217,203** | **249,345** |
| Minority interest | | **20** | **-** |
| | | | |
| **Earnings per share:** | 29 | | |
| Basic and diluted earnings per preference share | | **$0.86** | **$0.66** |
| Basic and diluted earnings per ordinary share | | **$0.49** | **$0.66** |



The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

| *(In Thousands of United States Dollars)* | **Share capital** | **Treasury shares** | **Foreign currency translation reserve** | **Retained Earnings** | **Fair value reserve** | **Hedging reserve** | **Attributable to shareholders of the Company** | **Minority interest** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | **17,795** | **(4,316)** | **448** | **1,063,494** | **423** | **-** | **1,077,844** | **-** | **1,077,844** |
| Net change in fair value of available-for-sale financial assets | - | - | - | - | 287 | - | 287 | **-** | **287** |
| Foreign currency translation differences | - | - | 6,922 | - | - | - | 6,922 | **-** | **6,922** |
| **Total income and expense recognised directly in equity** | - | - | 6,922 | - | 287 | - | 7,209 | - | **7,209** |
| Net profit for the year (as previously presented) | - | - | - | 247,548 | - | - | 247,548 | **-** | **247,548** |
| Prior period error | - | - | - | 1,797 | - | - | 1,797 | - | **1,797** |
| Net profit for the year (as restated) | - | - | - | 249,345 | - | - | 249,345 | **-** | **249,345** |
| **Total recognised income and expense** | | | 6,922 | 249,345 | 287 | - | 256,554 | | **256,554** |
| Dividends | - | - | - | (13,639) | - | - | (13,639) | **-** | **(13,639)** |
| **Balance at 31 December 2007** | **17,795** | **(4,316)** | **7,370** | **1,299,200** | **710** | **-** | **1,320,759** | **-** | **1,320,759** |
| Net change in fair value of available-for-sale financial assets | - | - | - | - | (569) | | (569) | - | **(569)** |
| Foreign currency translation differences | - | - | (6,497) | - | - | - | (6,497) | - | **(6,497)** |
| Gain and losses on hedging instruments | - | - | - | - | - | (1,896) | (1,896) | - | **(1,896)** |
| **Total income and expense recognised directly in equity** | - | - | (6,497) | - | (569) | (1,896) | (8,962) | - | **(8,962)** |
| Net profit for the year | - | - | - | 217,203 | - | - | 217,203 | 20 | **217,223** |
| Sale of share in subsidiary | - | - | - | - | - | - | - | 174 | **174** |
| **Total recognised income and expense** | | | (6,497) | 217,203 | (569) | (1,896) | 208,241 | 194 | **208,435** |
| Dividends | - | - | - | (25,292) | - | - | (25,292) | | **(25,292)** |
| Shares buy-back, see note 15 | - | (1,706) | - | (35,239) | - | - | (36,945) | | **(36,945)** |
| **Balance at 31 December 2008** | **17,795** | **(6,022)** | **873** | **1,455,872** | **141** | **(1,896)** | **1,466,763** | **194** | **1,466,957** |



The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

| *(In Thousands of United States Dollars)* | **2008** | **2007** |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from freights and hire of vessels | 737,470 | 611,323 |
| Other cash received | 25,463 | 26,246 |
| Cash payments for voyage and direct vessel expenses | (329,350) | (272,410) |
| Other cash payments | (42,192) | (56,237) |
| Income taxes paid | (8,500) | (20,265) |
| Other taxes paid | (3,017) | (4,849) |
| **Net cash inflow from operating activities** | **379,874** | **283,808** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Expenditure on fleet | (262,053) | (313,109) |
| Expenditure on dry-docking | (18,623) | (10,710) |
| Expenditure on other fixed assets | (19,397) | (16,407) |
| Proceeds from sales of vessels | 47,373 | 114,939 |
| Proceeds from sale/acquisition of investments | (942) | 3,399 |
| Proceed from sale of assets other than vessels | 6,599 | 8,410 |
| Repayment of finance lease liabilities | (681) | (638) |
| Increase / (decrease) in term deposits | (6,446) | 45,470 |
| Reimbursement received | 20,225 | - |
| **Net cash used in investing activities** | **(233,945)** | **(168,646)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term borrowing | 11,625 | 280,813 |
| Repayment of long-term borrowing | (147,547) | (217,807) |
| Financial instrument cash inflow | 6,016 | - |
| Financial instrument cash outflow | (5,457) | - |
| Dividends paid | (24,889) | (12,958) |
| Interest received | 9,734 | 10,242 |
| Other borrowing costs paid | (1,237) | (202) |
| Interest paid | (38,472) | (53,799) |
| **Net cash from financing activities** | **(190,227)** | **6,289** |
| **Net increase/(decrease) in cash and cash equivalents** | **(44,298)** | **121,451** |
| **Cash and cash equivalents at beginning of year** | **195,637** | **74,186** |
| Effect of exchange rate fluctuations on cash held | **(11,161)** | **-** |
| **Cash and cash equivalents at end of year** | **140,178** | **195,637** |



The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 8 to 38.

## 1 GENERAL

### Organisation and Operations

JSC "Novoship" (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies and companies with limited liability 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 majority of the Company's voting shares are owned by JSC "Sovcomflot" (the Parent company). The ultimate controlling party is the Government of Russian Federation.

### 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. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. 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 5 – Valuation of financial instruments.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3.1 to 3.16. These accounting policies have been consistently applied.

### 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.

**Associates (equity accounted investees)**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**Transactions eliminated on consolidation**

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

Translation 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 3.16.

*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 derecognised, 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 recognised 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***

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

***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. Dividends thereon are recognised as distributions within equity upon approval by company’s shareholders.

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. Land is not depreciated.

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 | 3 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 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property.

Investment property comprises freehold land, freehold buildings and land and buildings held under operating lease.

Investment property held under operating lease is recognised on the Group’s balance sheet at cost less accumulated depreciation and impairment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### 3.9 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.

### 3.10 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. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

### 3.11 Impairment

***Financial assets***

The carrying amounts of the Group’s financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

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 independent internationally recognised valuer at the balance sheet date.

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.

### 3.12 Employee benefits

***Defined contribution plans***

Obligations for contributions to defined contribution pension plans, including Russia's State pension fund and the 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 is deducted. The discount rate is the yield at the reporting date on government 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 as an expense 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.

***Long-term service benefits other than pensions***

The 's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government 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. All actuarial gains and losses are recognised in full as they arise in the income statement.

***Short-term benefits***

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

### 3.13 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.

***Onerous contracts***

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### 3.14 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.

### 3.15 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.

### 3.16 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 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 the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for 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. Additional income tax that arise from the distribution of dividends are recognised at the same time that the liability to pay the relevant dividend is recognised.

### 3.17 New Standards and Interpretations not yet adopted

A number of following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these standards the following potentially will have an impact on presentation of financial statements. The Group plans to adopt these pronouncements when they become effective.

*IFRS 8 Operating Segments introduces the “management approach” to segment reporting.* IFRS 8 Operating Segments, which becomes mandatory for the Group’s 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. The Group has not analysed the impact of the new standard on the disclosures yet.

*Revised IAS 1 Presentation of Financial Statements (2007)* which becomes mandatory for the Group’s 2009 consolidated financial statements is expected to have an impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

*Revised IFRS 3 Business Combinations (2008) and amended IAS 27 (2008) Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group’s 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be the accounted for by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.

*IFRIC 17 Distributions of Non-cash Assets to Owners* addresses the accounting of non-cash dividend distributions to owners. The interpretation clarifies when and how the non-cash dividend should be recognised and how the differences between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009.

Various improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

## 4 DETERMINATION OF FAIR VALUE

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***Property, plant and equipment***

The fair value of vessels for assessment of impairment is based on market values determined by internationally recognised valuers. The market value of vessels is based on quoted market prices for similar items in normal condition. The market value is the estimated amount for which an asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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.

***Investments available for sale***

The fair value of financial assets available-for-sale is determined by reference to their quoted closing bid price at the reporting date.

***Derivatives***

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual exercise and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The fair value of interest rate swaps is based on broker quotes.

## 5 FINACIAL RISK MANAGEMENT

### 5.1 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.

### 5.2 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 2008** | **31 December 2007** |
| Other investments | 1,475 | 1,181 |
| Trade and other receivables | 62,054 | 68,300 |
| Income tax receivable | 2,774 | 4,269 |
| Current investments | 7,503 | 3,016 |
| Cash and cash equivalents | 140,178 | 195,637 |
| | **213,984** | **272,403** |

At the end of the reporting period there were no significant receivable balances past due. Based on historic default rates, the Group recognised an allowance for trade and other receivables in the amount of USD 927 thousand (31 December 2007: USD 437 thousand).

### 5.3 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 2008 the Group had a balance of cash and cash equivalents of USD 140,178 thousand (31 December 2007: USD 195,637 thousand). As at the balance sheet date USD 353,535 thousand (31 December 2007: USD 313,910 thousand) of revolving credits were available to the Group to draw.

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

| | 31-December-08 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(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 | 747,562 | 830,984 | 150,247 | 93,559 | 91,462 | 89,374 | 133,709 | 272,633 |
| Finance lease liabilities | 8,683 | 10,703 | 1,310 | 1,257 | 1,256 | 1,257 | 5,623 | - |
| Trade and other payables | 143,517 | 143,517 | 143,517 | - | - | - | - | - |
| Pension liabilities | 7,805 | 13,200 | 1,012 | 1,000 | 1,000 | 1,000 | 1,000 | 8,188 |
| Other non-current liabilities | 2,045 | 2,045 | - | 2,045 | - | - | - | - |
| | **909,612** | **1,000,449** | **296,086** | **97,861** | **93,718** | **91,631** | **140,332** | **280,821** |

| | 31-December-07 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(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 | - | - | - | - | - |
| Pension liabilities | 4,344 | 4,530 | 842 | 800 | 800 | 800 | 800 | 488 |
| Other non-current liabilities | 2,045 | 2,045 | 545 | 500 | 500 | 500 | - | - |
| | **959,697** | **1,202,910** | **207,385** | **176,303** | **129,920** | **110,941** | **105,883** | **472,478** |

### 5.4 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.

### 5.5 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)* | **31 Dec 2008 RUR** | **31 Dec 2008 Euro** | **31 Dec 2008 GBP** | **31 Dec 2008 USD** | **31 Dec 2007 RUR** | **31 Dec 2007 Euro** | **31 Dec 2007 GBP** | **31 Dec 2007 USD** |
|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | |
| Cash and cash equivalents | 60,355 | 16,035 | 1,531 | 4,885 | 69,267 | 14,319 | 1,094 | 5,722 |
| Trade and other receivables | 10,600 | 96 | - | 374 | 11,583 | - | - | 1,009 |
| Current investments | - | - | - | - | - | - | - | - |
| **Current liabilities** | | | | | | | | |
| Current portion of bank loan | - | - | - | 5,211 | - | - | - | 5,364 |
| Payables | 8,524 | - | 7 | 548 | 5,203 | 2,826 | - | 1,213 |
| Finance lease | - | - | - | 733 | - | - | - | 631 |
| Other liabilities | - | - | - | 2,230 | - | - | - | - |
| **Non-current liabilities** | | | | | | | | |
| Loans and borrowings | - | - | - | 61,177 | - | - | - | 66,238 |
| Finance lease | - | - | - | 7,950 | - | - | - | 8,055 |
| Defined benefit obligations | 3,493 | - | - | 1,802 | 3,674 | - | - | - |

The following exchange rates applied at 31 December:

| | **RUR 2008** | **Euro 2008** | **GBP 2008** | **RUR 2007** | **Euro 2007** | **GBP 2007** |
|---|---|---|---|---|---|---|
| 1 USD dollar equals | 29.4 | 0.7 | 0.7 | 24.5 | 0.68 | 0.50 |

Management estimate that a 10% strengthening/(weakening) of the USD against the abovementioned currencies, based on the Group's exposure as at the end of the reporting period would have decreased/(increased) the Group's equity and net profit for the period by USD13,497 thousand, before any tax effect (31 December 2007: USD 14,519 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

At the end of the period the Group did not have any open derivatives for managing exposure to change in foreign exchange rates.

### 5.6 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 recognized 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 profit and loss are held by the Group at 31 December 2008:

| Type of instrument | Notional amount | Interest rate | Expiry date |
|---|---|---|---|
| **100% owned:** | | | |
| Swaption | USD 50 million | 4.17%/Libor | 2012 |
| Swaption | USD 50 million | 4.17%/Libor | 2009 |
| Swaption | USD 55 million | 4.4%/Libor | 2012 |
| Swaption | USD 55 million | 4.4%/Libor | 2009 |
| Swaption | USD 50 million | 4.59%/Libor | 2012 |
| Swaption | USD 50 million | 4.59%/Libor | 2009 |
| Floor | USD 50 million | 4.48%/Libor | 2014 |
| Floor and Cap | USD 50 million | 3,62%/Libor | 2013 |
| Swaption | USD 50 million | 4.0%/Libor | 2013 |
| Swaption | USD 50 million | 4.0%/Libor | 2012 |
| Swaption | USD 50 million | 4.0%/Libor | 2011 |
| Swaption | USD 50 million | 4.0%/Libor | 2010 |
| Floor | USD 50 million | 4.5%/Libor | 2014 |
| Cap | USD 50 million | 5.0%/Libor | 2013 |
| Swaption | USD 50 million | 3.5%/Libor | 2010 |
| Swaption | USD 50 million | 3.8%/Libor | 2010 |
| IRS | USD 50 million | 3.8%/Libor | 2010 |
| IRS | USD 50 million | 2.7%/Libor | 2011 |
| Swaption | USD 50 million | 2.87%/Libor | 2009 |
| Cap | USD 50 million | 5.9%/Libor | 2011 |
| Swaption | USD 50 million | 2.89%/Libor | 2010 |
| IRS | USD 50 million | 2.89%/Libor | 2010 |

If interest rates had been 100 basis points higher / lower and all other variables held constant, the group's equity and profit for the year ended 31 December 2008 would have increased/decreased by approximately USD 19.9 million and USD 17.9 million respectively due to the change in the fair value of the derivative financial instruments.

The following interest rate hedging instruments were held by the Group's joint venture at the end of the reporting period:

| Type of instrument | Notional amount | Interest rate | Expiry date |
|---|---|---|---|
| Swaption | USD27.6 million | 4.035% | 2010 |
| Swaption | USD18.4 million | 3.65% | 2010 |
| Swaption | USD27.6 million | 2.4% | 2013 |

At 31 December 2008 the fair value of interest rate derivative instruments based on broker quotes is a liability of USD 46,989 thousand (31 December 2007: USD 7,902 thousand).

The Company estimated that a 100 basis points 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 period by USD 6,507 thousand (2007: USD 7,365 thousand), without consideration of the derivative financial instruments.

### 5.7 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.

### 5.8 Fair values

Management believe that the fair value of its financial assets and liabilities approximate their carrying amounts.

### 5.9 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 profit divided by total shareholders equity. There were no changes in the Group's approach to capital management during the year.

## 6 PRIOR PERIOD ADJUSTMENTS

During 2008 the Company received USD 20,225 thousand as a settlement of a claim initiated in 2005. The settlement includes compensation of legal costs and interest costs in the amount of USD 6,219 thousand, which were recognised in the current year income statement. The remaining part of the settlement relates to shipbuilding contracts, where the cost of the vessels was overstated. In accordance with IAS 8, the Company corrected the cost of the vessels retrospectively which resulted in the following changes in the consolidated financial statements as at and for the year ended 31 December 2007:

| | As previously reported | As restated |
|---|---|---|
| Vessels | 1,626,073 | 1,613,864 |
| Other receivables | 11,027 | 25,033 |
| Retained earnings | 1,297,403 | 1,299,200 |
| Profit for the year | 247,548 | 249,345 |

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## 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 2007 as previously reported** | **1,823,268** | **66,176** | **36,826** | **34,559** | **1,960,829** |
| Settlement of claims | (14,006) | - | - | - | (14,006) |
| **Cost at 1 January 2007 (Restated)** | **1,809,262** | **66,176** | **36,826** | **34,559** | **1,946,823** |
| 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 | (60,774) | (6,031) | (154) | (1,073) | (68,032) |
| 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 |
| Transfer to Investment Property | - | - | (6,554) | - | (6,554) |
| **Cost at 31 December 2007 (Restated)** | **1,984,354** | **69,802** | **33,076** | **39,642** | **2,126,874** |
| Additions | 2,615 | 18,623 | 443 | 549 | 22,230 |
| Fully depreciated dry docking costs | - | (11,067) | - | - | (11,067) |
| Transfers from assets under construction | 128,605 | 4,160 | 4,209 | 3,068 | 140,042 |
| Disposal of assets | (20,116) | (2,210) | (2,381) | (3,421) | (28,128) |
| Transfer to assets held for sale | - | - | (7,388) | (4,526) | (11,914) |
| Transfer from Investment Property | - | - | 1,216 | - | 1,216 |
| Transfer to Investment Property | - | - | (1,459) | (150) | (1,609) |
| Effect of movements in exchange rates | (8,054) | (276) | 172 | (5,905) | (14,063) |
| **Cost at 31 December 2008** | **2,087,404** | **79,032** | **27,888** | **29,257** | **2,223,581** |
| **Depreciation** | | | | | |
| **Accumulated depreciation at 1 January 2007** | **368,598** | **25,833** | **25,237** | **26,357** | **446,025** |
| Charge for the year | 60,956 | 19,170 | 1,017 | 2,535 | 83,678 |
| 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 | 2,367 | - | 344 | 3,671 |
| Transfer to Investment Property | - | - | (4,831) | - | (4,831) |
| **Accumulated depreciation at 31 December 2007** | **370,490** | **35,658** | **21,298** | **28,356** | **455,802** |
| Charge for the year | 75,401 | 18,353 | 2,283 | 3,318 | 99,355 |
| Fully depreciated dry docking costs | - | (11,067) | - | - | (11,067) |
| Disposals of assets | (12,646) | (1,334) | (2,377) | (3,276) | (19,633) |
| Impairment | 6,096 | - | - | - | 6,096 |
| Transfer from Investment Property | - | - | 874 | - | 874 |
| Transfer to Investment Property | - | - | (1,445) | (50) | (1,495) |
| Transfer to assets held for sale | - | - | (5,146) | (1,592) | (6,738) |
| Effect of movements in exchange rates | (1,339) | (314) | 191 | (5,276) | (6,738) |
| **Accumulated depreciation at 31 December 2008** | **438,002** | **41,296** | **15,678** | **21,480** | **516,456** |
| **Net book value at 31 December 2007** | **1,613,864** | **34,144** | **11,778** | **11,286** | **1,671,072** |
| **Net book value at 31 December 2008** | **1,649,402** | **37,736** | **12,210** | **7,777** | **1,707,125** |

| **Vessels** *(In Thousands of United States Dollars)* | **31 December 2008** **Total** | **Pledged as security under bank loans** | **Assets under finance leases** |
|---|---|---|---|
| No. of vessels | 64 | 57 | 2 |
| Net book value (incl. dry dock costs) | 1,687,138 | 1,589,359 | 11,389 |
| Market value | 2,549,000 | 2,437,250 | 11,250 |
| | **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 |

As at the end of the reporting period twelve of the Group's vessels were held by the joint venture of which ten were pledged as security for loans and two were held as a security under finance lease agreements. The Group's proportionate share in the carrying value of these vessels is USD 115,137 thousand.

For some of the vessels, held by the Group's joint venture, the market value was lower than their carrying value as at the balance sheet date. The Company estimated the recoverable amount by discounting future cash flows expected to be obtained from the continuing use and sale of the vessel, to their present value. The following key assumptions were used in the cash flow forecast:

- Discount rate: 8%

- Revenue: for the period, when the vessels are fixed in long-term time charter (2009-2011)- actual time-charter rates. Beyond that period: revenue for the last year adjusted for the long-term growth of 1.5%.

As a result of the testing, the Company recognised its share in the impairment loss in the amount of $ 5,355 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 end of the reporting period, the residual values of the vessels were determined by applying the scrap values of USD 280 per lightweight ton (31 December 2007: USD 505 per lightweight ton). The change was accounted for prospectively and resulted in an increase in depreciation charge for the period by USD 6,539 thousand.

*Change in the estimated useful life of vessels*
In 2007 the Joint Venture estimated the useful life of vessels to be 20 years. As of 1 January 2008 the useful life of the vessels has been reassessed to 25 which is consistent with Parent's accounting policy. The change was accounted for prospectively and resulted in a reduction of the depreciation charge for the year by $1,310 thousand.

**Assets under construction**

| *(In Thousands of United States Dollars)* | Vessels | Buildings, plant and equipment | Total |
|---|---|---|---|
| **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 capitalised | 996 | - | 996 |
| Other costs capitalised | 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** |
| Additions | 255,239 | 18,405 | 273,644 |
| Disposals | - | (6,519) | (6,519) |
| Finance costs capitalised | 406 | - | 406 |
| Other costs capitalised | 3,793 | - | 3,793 |
| Transfers to vessels, property, plant and equipment | (132,765) | (7,277) | (140,042) |
| Impairment | (1,025) | - | (1,025) |
| Exchange difference | - | (2,427) | (2,427) |
| **Balance at 31 December 2008** | **426,047** | **12,223** | **438,270** |

**Insurance policies**

JSC Novorossiysk Shipping Company, Novoship Holdings Ltd. and Intrigue Shipping Inc. are members of the West of England P&I Club and North 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 ASSET HELD FOR SALE

| *(In Thousands of United States Dollars)* | 31 December 2008 | 31 December 2007 |
|---|---|---|
| **Vessels** | | |
| Number of vessels | - | 3 |
| Net book value | - | 12,367 |
| **Other property, plant and equipment** | | |
| Net book value | 5,175 | - |

## 9 INVESTMENT PROPERTY

Investment property includes real estate properties in the surrounding area of the Group's headquarters, which are held to earn rentals and capital appreciation.

Current active market prices were available for the determination of fair value. The market value of the assets at 31 December 2008 owned by the Group as estimated by independent professional valuations was USD 38,743 thousand.

Depreciation charge of investment property for the year was USD 186 thousand.

## 10 GOODWILL

Goodwill arose on the acquisition of W.W. Marpetrol S.A., a joint venture.

| | **2008** | **2007** |
|---|---|---|
| Balance at 1 January | 6,055 | 5,275 |
| Impairment | (5,719) | - |
| Effect of movements in exchange rates | (336) | 780 |
| Balance at 31 December | **-** | **6,055** |

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. As a result of the test, goodwill impairment was recognized for the full amount.

## 11 INVENTORIES

| *(In Thousands of United States Dollars)* | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Bunkers | 8,535 | 14,281 |
| Lubricants | 6,651 | 5,825 |
| Raw materials, spares and finished goods | 2,540 | 3,091 |
| | **17,726** | **23,197** |

## 12 TRADE AND OTHER RECEIVABLES

| *(In Thousands of United States Dollars)* | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Accounts receivable and accrued income | 39,182 | 33,767 |
| Prepayments | 3,367 | 5,855 |
| Other taxes receivable | 1,602 | 4,082 |
| Other receivables | 18,830 | 25,033 |
| | **62,981** | **68,737** |
| Impairment loss on trade and other receivable | (927) | (437) |
| | **62,054** | **68,300** |

## 13 INVESTMENTS

| *(In Thousands of United States Dollars)* | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Short-term bank deposits held to maturity | 6,446 | - |
| Short-term equity investments available for sale, at fair value | 1,057 | 2,645 |
| Other investments | - | 371 |
| | **7,503** | **3,016** |

## 14 CASH AND CASH EQUIVALENTS

| *(In Thousands of United States Dollars)* | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Cash at banks and in hand | 139,866 | 195,356 |
| Cash on board and petty cash | 312 | 281 |
| | **140,178** | **195,637** |

At 31 December 2008, cash amounting to USD 2,783 thousand is deposited in retention accounts and is retained to cover future principal and interest payments (31 December 2007: USD 11,095 thousand).

## 15 SHAREHOLDERS' EQUITY

### Share capital

Authorised, issued and fully paid share capital:

| | 31 December 2008 | | 31 December 2007 | |
|---|---|---|---|---|
| | **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 2008 the Group held 87,246,219 ordinary and 84,490,031 preference shares, which comprise 23% and 67% of all issued outstanding shares of each class (31 December 2007: 87,246,219 ordinary shares and 34,377,981 preference shares).

### Dividends

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

Russian Accounting Principles. As at 31 December 2008 the Company had retained earnings, including the profit for the current year, of USD 139,102 thousand (2007: USD 155,010 thousand).

A dividend of USD 0.07/Roubles 1.5 per share (2007: USD 0.04/Roubles 0.9 per share) on both the ordinary and preference share was declared and paid during the period.

**Buy back of shares**

In December 2008, the Board of Directors of the Company took a decision to buy back 50,112,050 preference shares of the Company (10% of share capital). A public offer was announced for the holders of the preferred shares to put them back to the Company until 16 February 2009. The purchase price was established at RUR 21.66/share (USD 0.74/share). Based on the results of the agreements received, the Company plans to repurchase the whole amount of shares declared for buy-back. As at the balance sheet date, the Company recognised a liability for the redemption value of preferred shares in the amount of USD 36,945 thousand.

## 16 LOANS AND BORROWINGS

| *(In Thousands of United States Dollars)* | **Contractual interest rate** | **31 December 2008** | **31 December 2007** |
|---|---|---|---|
| ***Current portion of long term debt*** | | | |
| Secured bank loans: | | | |
| USD-denominated | Variable at LIBOR+ 0.68-1% | 120,583 | 82,609 |
| USD-denominated | Fixed at 5.25% | 11,224 | 11,228 |
| *Finance lease liabilities* | | | |
| Euro-denominated | Fixed at 6.79% | 733 | 679 |
| | | **132,540** | **94,516** |
| ***Non-current portion of long term debt*** | | | |
| Secured bank loans: | | | |
| USD-denominated | Variable at LIBOR+ 0.68-1% | 526,738 | 689,426 |
| USD-denominated | Fixed at 5.25% | 89,017 | 100,238 |
| *Finance lease liabilities* | | | |
| Euro-denominated | Fixed at 6.79% | 7,950 | 8,686 |
| | | **623,705** | **798,350** |
| **Total** | | **756,245** | **892,866** |

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 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 2008 of USD 2,448 million (31 December 2007: USD 2,783 million.

The Group's debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the years ended 31 December 2008 and 2007.

### 16.1 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 USD 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 USD 7.75 million to USD 2.75 million.

| *(In Thousands of United States Dollars)* | **2008 Minimum lease payments** | **2008 Interest** | **2008 Principal** |
|---|---|---|---|
| Less than one year | 1,310 | 577 | 733 |
| Between one and five years | 9,393 | 1,443 | 7,950 |
| More than five years | - | - | - |
| | **10,703** | **2,020** | **8,683** |

| *(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** |

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 5.

## 17 DEFERRED TAX ASSETS AND LIABILITIES

**Recognised deferred tax assets and liabilities**

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| *(In Thousands of United States Dollars)* | **31 Dec 2008** | **31 Dec 2007** | **31 Dec 2008** | **31 Dec 2007** | **31 Dec 2008** | **31 Dec 2007** |
| Vessels | - | - | (11,601) | (13,563) | (11,601) | (13,563) |
| Other assets/(liabilities) | 1,048 | 778 | (1,540) | (4,016) | (492) | (3,238) |
| Net tax assets/(liabilities) | **1,048** | **778** | **(13,141)** | **(17,579)** | **(12,093)** | **(16,801)** |

The movement of temporary differences were as follows:

| *(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)** |

| *(In Thousands of United States Dollars)* | 1-Jan-2008 | Recognised in income | Recognised in equity | Effect of change in exchange rates | 31-Dec-2008 |
|---|---|---|---|---|---|
| Vessels | (13,563) | 1,020 | | 942 | (11,601) |
| Other assets/(liabilities) | (3,238) | 2,262 | 315 | 169 | (492) |
| | **(16,801)** | **3,282** | **315** | **1,111** | **(12,093)** |

## 18 DEFINED BENEFIT OBLIGATIONS

| *(In Thousands of United States Dollars)* | 2008 | 2007 |
|---|---|---|
| Pension obligations- long-term | 1,587 | 2,066 |
| Long-term service benefits other than pensions | 6,218 | 2,278 |
| | **7,805** | **4,344** |

Defined pension benefit plans stipulate payment of a fixed amount of monthly pension for all retired employees, who have a specified period of service in the Group. The pension is paid over the remaining life of the pensioners. In addition, the Group has a defined benefit plan stipulating payment of a lump sum to employees who have a specified period of service in Company upon their retirement. All defined benefit plans are unfunded.

Movement in the present value of the defined benefit obligation is as follows:

| *(In Thousands of United States Dollars)* | Pension obligation | Post-retirement obligation other than pension |
|---|---|---|
| Present value of the defined benefit obligation at 1 January 2008 | 2,066 | 2,278 |
| Current service cost and interest | 134 | 270 |
| Benefit paid | (780) | (416) |
| Exchange rate difference | (290) | (414) |
| Actuarial (gains) losses | 457 | 178 |
| Past-service costs | - | 4,322 |
| Present value of defined benefit obligation at 31 December 2008 | **1,587** | **6,218** |

The key actuarial assumptions used in measurement of the defined benefit obligation are as follows:

| Discount rates: | 31 December 2008 | 31 December 2007 |
|---|---|---|
| - for USD cash flows | 4.5% | - |
| - for RUR cash flows | 9.95% | 6.65% |
| Future salary increase: | | |
| - for USD flows | 2% | - |
| - for RUR flows | 10% | 7% |
| Future pension increases: | 3% | 3% |

## 19 TRADE AND OTHER PAYABLES

| *(In Thousands of United States Dollars)* | 31 December 2008 | 31 December 2007 |
|---|---|---|
| Trade creditors | 19,783 | 15,897 |
| Advances received | 29,361 | 18,576 |
| Interest payable | 3,428 | 4,572 |
| Derivatives not designated for hedging | 46,989 | 7,902 |
| Other taxes payable | 1,367 | 2,284 |
| Dividends payable | 1,711 | 1,308 |
| Profit tax payable | 472 | 308 |
| Liability to buy back shares | 36,945 | - |
| Other liabilities | 3,461 | 9,595 |
| | **143,517** | **60,442** |

## 20 REVENUE

| *(In Thousands of United States Dollars)* | 2008 | 2007 |
|---|---|---|
| Freight | 465,032 | 351,270 |
| Hire-third party sales | 272,771 | 248,356 |
| Other income | 11,341 | 15,630 |
| | **749,144** | **615,256** |

## 21 VOYAGE EXPENSES

| *(In Thousands of United States Dollars)* | 2008 | 2007 |
|---|---|---|
| Port expenses | (55,891) | (45,992) |
| Bunker | (119,206) | (82,196) |
| Commission | (18,426) | (13,909) |
| | **(193,523)** | **(142,097)** |

## 22 DIRECT VESSEL EXPENSES

| *(In Thousands of United States Dollars)* | 2008 | 2007 |
|---|---|---|
| Crew cost | (73,413) | (67,050) |
| Technical | (40,596) | (33,013) |
| Insurance | (11,399) | (11,528) |
| State social contributions | (954) | (1,358) |
| Communication | (1,202) | (1,444) |
| Other | (2,080) | (2,908) |
| | **(129,644)** | **(117,301)** |

## 23 GENERAL AND ADMINISTRATIVE EXPENSES

| *(In Thousands of United States Dollars)* | **2008** | **2007** |
|---|---|---|
| Wages and salaries | (17,723) | (18,341) |
| State social contributions | (1,534) | (1,709) |
| Rent | (819) | (1,095) |
| Other | (7,621) | (8,161) |
| | **(27,697)** | **(29,306)** |

## 24 FINANCIAL INCOME

| *(In Thousands of United States Dollars)* | **2008** | **2007** |
|---|---|---|
| Interest income | 11,973 | 10,275 |
| Foreign exchange gain | 16,259 | 21,739 |
| Other financial income | 220 | - |
| | **28,452** | **32,014** |

## 25 FINANCIAL EXPENSES

| *(In Thousands of United States Dollars)* | **2008** | **2007** |
|---|---|---|
| Interest expense and swap cost | (37,328) | (53,801) |
| Bank fees and charges | (1,519) | (104) |
| Foreign exchange loss | (31,006) | (7,739) |
| Impairment of investments | (1,065) | - |
| Change in fair value of derivatives | (36,188) | (4,748) |
| | **(107,106)** | **(66,392)** |

## 26 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)* | **2008** | **2007** |
|---|---|---|
| Profit before tax | 224,719 | 261,459 |
| Income tax using the domestic corporation tax rate of 24% | (53,933) | (62,750) |
| Non-deductible costs, net | (605) | (3,544) |
| Effect of change in tax rates | 452 | 1,664 |
| Effect of different tax rates in other tax jurisdictions: | | |
| - Liberia, Malta, Marshall Islands and Spain | 48,464 | 51,620 |
| Corrections in respect of prior periods | (1,874) | 896 |
| Income tax expense | **(7,496)** | **(12,114)** |

Income tax expense is comprised of:

| *(In Thousands of United States Dollars)* | **2008** | **2007** |
|---|---|---|
| Current tax expense | (10,778) | (21,414) |
| Deferred tax income/(expense) | 3,282 | 9,300 |
| Income tax expense | **(7,496)** | **(12,114)** |

The income tax rate in the Russian Federation has changed from 1 January 2009, from 24% to 20%.

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.

The temporary difference associated with investments in subsidiaries in the amount of USD 1,276,682 thousand (2007: USD 1,165,663) has not been recognised because the Company is able to control the timing of reversal of the temporary difference and the difference is not expected to reverse in the foreseeable future.

## 27 PERSONNEL COSTS

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

| *(In Thousands of United States Dollars)* | **2008** | **2007** |
|---|---|---|
| Crew costs, wages and salaries | 91,136 | 85,391 |
| State social contributions | 2,488 | 3,067 |
| | **93,624** | **88,458** |

## 28 JOINT VENTURES

| **Name** | **Country of incorporation** | **31 Dec 2008 Ownership / voting** | **31 Dec 2007 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 (a 50% portion attributable to the Company):

| *(In Thousands of United States Dollars)* | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Current assets | 6,293 | 7,169 |
| Non-current assets, excluding goodwill | 114,725 | 139,232 |
| Goodwill | - | 6,055 |
| Total assets | **121,018** | **152,456** |
| | | |
| Current liabilities | 12,933 | 9,252 |
| Non-current liabilities | 80,635 | 90,319 |
| Total liabilities | **93,568** | **99,571** |
| | | |
| Revenue | 29,736 | 28,641 |
| Profit/(loss) for the period | **(15,121)** | **6,740** |

## 29 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to ordinary and to preference shareholders 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 2008** | **Ordinary shares 2008** | **Preference shares 2007** | **Ordinary shares 2007** |
|---|---|---|---|---|
| Issued shares at 1 January | 125,280,000 | 375,840,500 | 125,280,000 | 375,840,500 |
| Effect of own shares held | (38,553,985) | (87,246,219) | (34,377,981) | (87,246,219) |
| Weighted average number of shares for the year ended 31 December | 86,726,015 | 288,594,281 | 90,902,019 | 288,594,281 |

| *In Thousands of United States Dollar* | **2008** | **2007** |
|---|---|---|
| Dividends declared on outstanding shares: | | |
| Preference shares | 3,002 | 3,276 |
| Ordinary shares | 22,290 | 10,363 |
| Excess of the repurchase price for preference shares over their nominal value | 35,239 | - |
| | | |
| Profit remaining undistributed: | | |
| Preference shares | 36,162 | 56,455 |
| Ordinary shares | 120,510 | 179,251 |
| Profit for the year: | 217,203 | 249,345 |
| | | |
| Attributable to preference shareholders | 74,403 | 59,891 |
| | | |
| Attributable to ordinary shareholders | 142,800 | 189,454 |

## 30 COMMITMENTS

**Capital commitment**

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

The construction of six crude oil carriers of 156,000 dwt at the shipyards of Jiangsu Rongsheng Heavy Industries Co., Ltd, China for USD 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 2008 is USD 246 million. Vessels are due for delivery in 2009 and 2010.

The construction of four product oil carriers of 112,000 dwt at the shipyards of Hyundai Heavy Industries Co., Ltd, Korea for USD 278 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 2008 is USD 58 million. Vessels are due for delivery in 2009.

The Group entered into the following shipbuilding contracts:

The construction of two asphalt tankers of 6,000 dwt at the shipyards of GEO Marine Engineering & Shipbuilding Co. Ltd., Korea for USD 38,2 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 2008 is USD 20,2 million. Vessels are due for delivery in 2010.

## 31 CONTINGENCIES

**Tax contingencies**

The Group operates in several jurisdictions with significantly different taxation systems (Russian Federation, UK, Malta, Liberia). The Group's major shipping and holding companies are incorporated in relatively low tax jurisdictions and a significant portion of the Group's profit is realised by these companies. Generally, in most high tax rate jurisdictions the foreign legal entity may be required to pay income tax if it is a tax resident of such jurisdiction or if its activities constitute a permanent establishment in such a jurisdiction. Management believes that the Group's shipping and holding companies incorporated in low-tax jurisdictions are not subject to taxes outside their countries of incorporation. However, the concept of permanent establishment and tax residency for legal entities introduced by domestic and international law is subject to interpretation. As a result, there is a risk that the taxation authorities of higher tax jurisdictions may attempt to subject the Group's earnings to income taxes of a particular jurisdiction. Should the taxation authorities be successful in claiming additional taxes, penalties and fines on this basis, the impact on these financial statements could be significant.

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.

## 32 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 | 80% |
| 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% |

## 33 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 2008 | 31 December 2007 |
|---|---|---|
| Cash in government-controlled banks | 47,402 | 51,927 |
| Interest income from the government-controlled banks | 3,011 | 3,569 |
| Revenue from Parent company | 720 | - |
| Commissions paid to Parent company | 1,266 | - |

**Management remuneration**

| *(In Thousands of United States Dollars)* | **31 December 2008** | **31 December 2007** |
|---|---|---|
| Compensation of key management personnel | 3,523 | 3,617 |

Transactions with related parties take place on normal commercial terms.

## 34 SUBSEQUENT EVENTS

Subsequent to the balance sheet date the charter rates and market prices for vessels continued to experience significant volatility with an overall declining trend. Should this trend be sustained in the future, this may have a negative impact on the Company's operations, including, but not limited to, impairment of the Company's fleet and a decline in the earnings.

See also note 15 disclosing finalisation of the shares buy-back transaction.

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